PALADIN LIMITED

(incorporated in Bermuda with limited liability)
Stock Code : 495 and 642 (Preference Shares)

ANNUAL REPORT

2008

Contents

DIRECTORS

Law Fong *(Chairman)*
Chen Te Kuang Mike
Oung Shih Hua, James
Zhu Pei Qing
Lu Ti Fen
Kwok Wai Chi

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Chan Chi Ho

AUDITOR

Deloitte Touche Tohmatsu

PRINCIPAL BANKERS

CITIC Ka Wah Bank Limited
Wing Lung Bank Limited

SOLICITORS

Richards Butler
Holman, Fenwick & Willan

PRINCIPAL REGISTRARS

Reid Management Limited
Argyle House
41A Cedar Avenue
Hamilton HM12
Bermuda

REGISTRARS IN HONG KONG

Computershare Hong Kong Investor Services Limited
17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL OFFICE

45th Floor, Office Tower
Convention Plaza
1 Harbour Road
Wanchai
Hong Kong

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

MANAGEMENT DISCUSSION AND ANALYSIS

The principal activities of the Group are re-development of a property project at Nos. 8, 10 and 12 Peak Road (the "Peak Road Project") investment holding and indent trading.

BUSINESS REVIEW AND PROSPECT

Re-development

The Peak Road Project located at Nos. 8, 10 and 12 Peak Road, Hong Kong consists of 34 apartment units and a 3-storey private house and the gross floor area is approximately 119,000 square feet. 11 apartment units have been sold in previous years. During the year, the Group sold 1 apartment unit and 2 car parks for approximately HK$85 million.

The returns from the Peak Road Project will significantly improve the Group's financial position.

General and indent trading

The management of the Company is currently focusing the resources of the Group on the development and marketing of the Peak Road Project. As a result, turnover in this sector was only HK$140,000.

Property investment

This sector has generated rental income of approximately HK$4 million for the year ended 30 June 2008.

Investment

During the year, the Group has intended to expand its activities into high technology sector to develop a manufacturing facility at Wuhan East Lake high Technology Development Zone. However, because of open offer terminated in January 2008, the Group will not have sufficient funds for financing the proposed development. The Group is still looking for new investment opportunities.

Disposal of leasehold properties

In August 2008, the Group entered into an agreement to sell part of the office of the Group at a consideration of approximately HK$176 million. The Group would recognise a gain of disposal of approximately HK$99 million. The transaction would significantly improve the Group's financial position.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2008, net current assets of the Group were approximately HK$1,064 million. The current ratio was 2.04. The pledged bank deposits, bank balances and cash were approximately HK$84 million.

As at 30 June 2008, the Group has outstanding liabilities of approximately HK$1,530 million comprising (i) secured bank borrowings and bank overdrafts of approximately HK$1,137 million, (ii) other loans and amount due to a director of subsidiaries of approximately HK$176 million and (iii) other payables and accrued charge of approximately HK$135 million. The bank borrowings are on floating interest rates basis.

The majority of the Group's assets and borrowings are denominated either in Hong Kong dollars or US dollars thereby avoiding exposure to undesirable exchange rate fluctuations. In view of the stability of the exchange rate of HK dollars and US dollars, the directors consider that the Group has no significant exposure to exchange fluctuation and does not pledge against foreign exchange risk.

The Group's bank loans and other loans were secured by investment properties, leasehold properties, bank deposits and properties held for sales of approximately HK$1,266 million.

The Directors consider that it is not meaningful to publish a gearing ratio of the Group until such time as the Group is in a positive shareholders equity position.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

During the year ended 30 June 2008, the Group had no material acquisitions and disposals of subsidiaries.

As at 30 June 2008, the Group had no material investment.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2008, the Group employed total of 10 employees. They were remunerated according to market conditions.

CONTINGENT LIABILITIES

As at 30 June 2008, the Company has contingent liabilities of approximately HK$80 million relating to corporate guarantees given in respect of bank credit facilities granted to an independent third party. In addition, there were contingent liabilities in respect of certain legal proceedings against certain subsidiaries of the Company. As the amount of claims are to be assessed, the estimated liabilities arising from the litigations cannot be reasonably assestained at the current stage. In the opinion of the directors, the liabilities were remote and no provision has been made in the consolidated financial statements.

DIVIDEND

The Directors of the Company do not recommend the payment of a final dividend (2007: nil).

ACKNOWLEDGEMENT

On behalf of my fellow directors, I wish to thank all staff and employees for their diligence and loyal support during the year under review.

By order of the Board
Law Fong
CHAIRMAN

Hong Kong, 23 October 2008

EXECUTIVE DIRECTORS

Mr. Law Fong, aged 83, joined the Group in 1994. He has over 23 years of experience in the textile industry and 9 years of experience in property development. He retired from his textile and property development businesses in 1985. He is currently a resident of Hong Kong.

Mr. Chen Te Kuang Mike, aged 30, joined the Group in 2004. He has more than 6 years' management and production experience in electronics industry.

NON-EXECUTIVE DIRECTOR

Mr. Oung Shih Hua, James, aged 33, joined the Group in 1995. He holds a bachelor degree in Science from New York University. He is engaging in textile trading and electronic business. He is currently a president of a private electronic company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Zhu Pei Qing, aged 71, joined the Group in 2000. He previously worked for the Ministry of Foreign Affairs of the People's Republic of China, and was the ambassador of Lebanon for the People's Republic of China before his retirement.

Ms. Lu Ti Fen, aged 47, joined the Group in 2003. She graduated from Mining Chuan University in Taiwan with a bachelor degree in management and has over 18 years of experience in manufacturing, accounting and financial management.

Mr. Kwok Wai Chi, aged 31, joined the Group in 2004. He holds a bachelor degree in Business Administration from the Hong Kong University of Science and Technology and is an associate member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He is currently a principal of a wealth management and financial planning company.

The board of directors of the Company (the "Board") believes that corporate governance is essential to the success of the Company. The Company has applied the principles in and complied with the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 30 June 2008 except for certain deviations disclosed herein.

The Company periodically reviews its corporate governance practices to ensure that they continuous meeting the requirements of the Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its code of conduct regarding directors' securities transactions. Having made specific enquiry of all directors, the directors have confirmed compliance with the required standard set out in the Model Code as provided in Appendix 10 of the Listing Rules for the year ended 30 June 2008.

BOARD OF DIRECTORS

The Board comprises two executive directors, one non-executive director and three independent nonexecutive directors.

Regular Board meetings are held at least four times a year to approve annual and interim results, and to review the business operation and the internal control system of the Group. Apart from these regular meetings, Board meetings are also held to approve major or special issues.

4 Board meetings were held during the year ended 30 June 2008.

Members of the Board, number of Board meetings held and the attendance of each member during the year are set out as follows:

	Number of meetings attended/ Number of Board meetings held
Executive directors	
Law Fong	4/4
Chen Te Kuang Mike	2/4
Non-executive director	
Oung Shih Hua, James	2/4
Independent non-executive directors	
Zhu Pei Qing	2/4
Lu Ti Fen	2/4
Kwok Wai Chi	4/4

Mr. Chen Te Kuang Mike is the cousin of Mr. Oung Shih Hua, James.

The Company has received from each independent non-executive director an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rule. The Company considers that all of the independent non-executive directors are independent.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Chairman of the Company is Mr. Law Fong whereas the Chief Executive Officer of the Company is Mr. Chen Te Kuang Mike. Their roles are separated, with a clear division of responsibilities. The Chairman is responsible for the leadership of the Board, ensuring its effectiveness in all aspects of its role and for setting its agenda and taking into account any matters proposed by other directors for inclusion in the agenda. The Chief Executive Officer is responsible for the day-to-day management of the Group's business.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Under the Code provision A.4.1, the non-executive directors should be appointed for a specific term, subject to re-election and under the Code provision A.4.2, all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Currently, the non-executive director and three independent non-executive directors are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the bye-laws of the Company. In addition, under the provisions of the bye-laws of the Company, the Chairman of the Board and/or the Managing Director of the Company are not subject to retirement by rotation or be taken into account in determining the number of directors to retire each year. Finally, new directors appointed to fill casual vacancies are subject to election by shareholders at the first annual general meeting instead of the first general meeting after their appointments and the directors who are subject to retirement by rotation are not explicitly subject to retirement at least once every three years.

The Company will review the current bye-laws as and when it becomes appropriate in future.

REMUNERATION COMMITTEE

The Remuneration Committee was established with a specific written terms of reference. The Remuneration Committee comprises two independent non-executive directors and one non-executive director. The Remuneration Committee is responsible for making recommendations to the Board on, among other things, the Company's policy and structure for the remuneration of all directors and senior management of the Company and is delegated by the Board with the responsibility to determine on behalf of the Board the specific remuneration packages for all Executive directors and senior management of the Company.

Members of the Remuneration Committee are as follows:

Independent non-executive directors

Zhu Pei Qing
Lu Ti Fen

Non-executive director

Oung Shih Hua, James

No Remuneration Committee meeting was held during the year.

NOMINATION OF DIRECTORS

The Company did not establish a Nomination Committee. The duties and functions of the Nomination Committee recommended in the Code are performed by the Board collectively with no director being involved in fixing his/her own terms of appointment and no independent non-executive director being involved in assessing his own independence.

AUDITOR'S REMUNERATION

For the year ended 30 June 2008, fees payable to the auditor of the Group for audit and non-audit services amounted to HK$800,000 and HK$170,000 respectively.

AUDIT COMMITTEE

The Audit Committee was established with a specific written terms of reference. The Audit Committee is responsible for reviewing and supervising the financial reporting process and internal control system of the Group and providing advice and recommendations to the Board.

Two Audit Committee meetings were held during the year ended 30 June 2008. Members of the Audit Committee, number of Audit Committee meetings held and the attendance of each member during the year are set out as follows:

	Number of meetings attended/ Number of meetings held
Non-executive director	
Oung Shih Hua, James	2/2
Independent non-executive directors	
Zhu Pei Qing	2/2
Lu Ti Fen	2/2
Kwok Wai Chi	2/2

During the year ended 30 June 2008, the Audit Committee met mainly to review the Company's annual report for the year ended 30 June 2007, the Company's interim report for the six months ended 31 December 2007.

INTERNAL CONTROL

The Board, recognizing its overall responsibility in ensuring the system of internal controls of the Company and for reviewing its effectiveness, is committed to implementing an effective and sound internal controls system to safeguard the interests of shareholders and the assets of the Group.

The management is responsible for establishing the Group's internal control framework, covering all material controls including financial, operational and compliance controls. The internal control framework also provides for identification and management of risk.

The directors present their annual report and the audited consolidated financial statements of the Group for the year ended 30 June 2008.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are engaged in investment holding, property development and investment, and general and indent trading.

RESULTS

The results of the Group for the year ended 30 June 2008 are set out in the consolidated income statement on page 20.

PRINCIPAL SUBSIDIARIES

The details of the Company's principal subsidiaries are set out in note 39 to the consolidated financial statements.

INVESTMENT PROPERTIES

The Group's investment properties were fair valued as at 30 June 2008 by a firm of independent professional property valuers and the gain arising on change in fair value of investment properties of approximately HK$40,100,000 had been credited directly to consolidated income statement. Details of these are set out in note 16 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the Group's property, plant and equipment during the year are set out in note 17 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 30 June 2008, the Company had no reserves available for distribution.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors

Law Fong *(Chairman)*
Chen Te Kuang Mike

Non-executive director

Oung Shih Hua, James

Independent non-executive directors

Zhu Pei Qing
Lu Ti Fen
Kwok Wai Chi

In accordance with the provisions of the Company's Bye-laws, Messrs. Oung Shih Hua, James and Zhu Pei Qing retire and, being eligible, offer themselves for re-election.

The term of office for each non-executive director or independent non-executive director, is the period up to his/her retirement by rotation in accordance with the Company's Bye-laws.

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

The Company has received annual confirmation from each of the independent non-executive directors as regards their independence to the Company and considers that each of the independent non-executive directors is independent to the Company.

DIRECTOR'S INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2008, the interests and short positions of the directors of the Company and their associates in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), pursuant to the Model Code for Securities Transactions by Directors of the Listed Companies (the "Model Code") were as follows:

Ordinary shares of HK$0.01 each of the Company (long position):

Name of director	**Capacity**	**Number of issued ordinary shares held**	**Percentage of issued ordinary shares of the Company held**
Chen Te Kuang Mike	Beneficial owner	5,000,000	0.94%
	Held by a controlled corporation *(Note)*	21,035,000	3.95%
		26,035,000	4.89%
Oung Shih Hua, James	Beneficial owner	5,000,000	0.94%

Convertible redeemable preference shares of HK$0.01 each of the Company (long position):

Name of director	**Capacity**	**Number of issued convertible redeemable preference shares held**	**Percentage of issued convertible redeemable preference shares held**
Chen Te Kuang Mike	Beneficial owner	2,500,000	0.96%
	Held by a controlled corporation *(Note)*	9,099,014	3.50%
		11,599,014	4.46%
Oung Shih Hua, James	Beneficial owner	2,500,000	0.96%

Note: These shares are held by Goldenfield Equities Limited, a company in which Chen Te Kuang Mike has 40% beneficial interest.

Other than as disclosed above, as at 30 June 2008, none of the directors or chief executive of the Company had any interests or short positions in the shares or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had been recorded in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2008, the persons (other than the directors of the Company) who had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long position:

Name of shareholder	**Capacity**	**Number of issued ordinary shares held**	**Percentage of issued ordinary shares of the Company held**
Five Star Investments Limited ("Five Star") *(Note)*	Beneficial owner	267,815,017	50.28%

Name of shareholder	**Capacity**	**Number of issued convertible redeemable preference shares held**	**Percentage of issued convertible redeemable preference shares held**
Five Star *(Note)*	Beneficial owner	133,907,508	51.55%
Oung Da Ming	Beneficial owner	50,000,000	19.25%

Note: Five Star is owned as to 67% by Oung Chin Liang Fung, grandmother of Oung Shih Hua, James, and 33% by Lilian Oung, mother of Chen Te Kuang Mike.

Other than as disclosed above, as at 30 June 2008, the Company had not been notified of any interests or short positions in the shares and underlying shares of the Company which were required to be recorded in the register kept by the Company under Section 336 of the SFO.

SHARE OPTIONS AND DIRECTORS' RIGHTS TO ACQUIRE SHARES

Details of the Company's share option scheme are set out in note 31 to the consolidated financial statements. No share options have been granted under the scheme since its adoption.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors or chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. None of the spouses or children under the age of 18 of the directors had any right to subscribe for the securities of the Company or had exercised such rights during the year.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Details of the directors' interest in contracts of significance are set out in note 36 to the consolidated financial statements.

Save as disclosed above, there was no other contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DISCLOSURE PURSUANT TO RULES 13.18 AND 13.21 OF THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE

In accordance with the disclosure requirements of Rules 13.18 and 13.21 of The Rules Governing The Listing of Securities on the Stock Exchange (the "Listing Rules"), the following disclosure is included in respect of the Group's loan agreement, which contains covenants requiring performance obligations of the controlling shareholder of the Company.

Pursuant to the loan agreement entered into between the Group and a bank in June 2006 relating to a 300-months loan facility up to HK$550 million, a default event would arise if Five Star ceases to be the beneficial owner of at least 50.5% (in aggregate) of the issued share capital of the Company and the issued convertible redeemable preference shares of the Company.

CONNECTED TRANSACTIONS

Details of the connected transactions entered into during the year are set out in note 36 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws although there are no restrictions against such rights under the laws in Bermuda.

CORPORATE GOVERNANCE

Details of the Company's corporate governance practice are set out in the "Corporate Governance Report" section to the annual report.

PURCHASE, SALE AND REDEMPTION OF SHARES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

AUDIT COMMITTEE

The audit committee comprises one non-executive director and three independent non-executive directors and reports to the board of the directors. The audit committee meets with the Group's senior management regularly to review the effectiveness of the internal control systems and the interim and annual reports of the Company.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the executive directors of the Company on the basis of their merit, qualifications and competence.

The emolument of the directors of the Company is determined by the board of directors of the Company after recommendation from the Remuneration Committee, having regard to the responsibilities of the directors, the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to the directors and eligible employees, details of the scheme is set out in note 31 to the consolidated financial statements.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company, the Company has maintained a sufficient public float throughout the year ended 30 June 2008 as required under the Listing Rules.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events are set out in note 38 to the consolidated financial statements.

AUDITOR

A resolution will be submitted to the annual general meeting to re-appoint Deloitte Touche Tohmatsu as the auditor of the Company.

On behalf of the Board
Law Fong
CHAIRMAN

Hong Kong
23 October 2008

Deloitte.
德勤

TO THE SHAREHOLDERS OF PALADIN LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Paladin Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 20 to 83, which comprise the consolidated balance sheet as at 30 June 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of the Group's affairs as at 30 June 2008 and of its loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Without qualifying our opinion, we draw attention to note 2 to the consolidated financial statements which indicates that the Group had net liabilities of approximately HK$76,271,000 as at 30 June 2008 and incurred a loss of approximately HK$51,108,000 for the year then ended, and explains that the Group is dependent upon the financial support of its bankers and other lenders. Taking into account the estimated proceeds from sales of developed properties and the proceeds from disposal of certain of the Group's leasehold properties subsequent to the year end, as disclosed in note 38 to the consolidated financial statements 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. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
23 October 2008

CONSOLIDATED INCOME STATEMENT

For the Year ended 30 June 2008

	Notes	2008 *HK$'000*	2007 *HK$'000*
Turnover	9	**88,594**	48,298
Cost of sales		**(37,441)**	(28,771)
Gross profit		**51,153**	19,527
Other income		**4,579**	1,308
Administrative expenses		**(44,810)**	(34,583)
Gain arising from change in fair value of investment properties	16	**40,100**	7,600
(Loss) gain arising from change in fair value of option derivatives	27	**(38,220)**	3,630
Loss arising from settlement of litigation claim	28	**–**	(39,081)
Finance costs	11	**(57,916)**	(56,565)
Loss before taxation		**(45,114)**	(98,164)
Taxation charge	12	**(5,994)**	(10,895)
Loss for the year attributable to equity holders of the Company	13	**(51,108)**	(109,059)
Loss per share – basic	15	**(9.60) HK cents**	(20.61) HK cents

Consolidated Balance Sheet

At 30 June 2008

	Notes	2008 *HK$'000*	2007 *HK$'000*
Non-current assets			
Investment properties	16	**215,600**	175,500
Property, plant and equipment	17	**163,567**	167,338
Available-for-sale investments	18	**10,500**	8,800
		389,667	351,638
Current assets			
Properties held for sale	19	**882,313**	919,754
Trade receivables, deposits and prepayments	20	**97,540**	3,762
Pledged bank deposits	21	**24,984**	21,278
Bank balances and cash	22	**59,511**	12,559
		1,064,348	957,353
Current liabilities			
Other payables and accrued charges		**135,183**	135,680
Amount due to a director of subsidiaries	23	**68,287**	24,098
Taxation payable		**345**	345
Bank overdrafts	24	**51,198**	–
Secured bank borrowings – amount due within one year	25	**176,418**	20,787
Other loans – amount due within one year	26	**46,889**	95,561
Option derivatives	27	**43,700**	5,480
Provision for settlement of litigation claim	28	**–**	55,000
		522,020	336,951
Net current assets		**542,328**	620,402
		931,995	972,040

	Notes	2008 *HK$'000*	2007 *HK$'000*
Capital and reserves			
Share capital	29	**5,327**	5,312
Reserves		**(81,598)**	(54,046)
		(76,271)	(48,734)
Non-current liabilities			
Secured bank borrowings – amount due after one year	25	**909,883**	905,568
Other loans – amount due after one year	26	**60,674**	64,573
Convertible redeemable preference shares	30	**20,820**	39,738
Deferred tax liabilities	32	**16,889**	10,895
		1,008,266	1,020,774
		931,995	972,040

The consolidated financial statements on pages 20 to 83 were approved and authorised for issue by the Board of Directors on 23 October 2008 and are signed on its behalf by:

CHAIRMAN *DIRECTOR*

Consolidated Statement of Changes in Equity

For the Year ended 30 June 2008

	Attributable to equity holders of the Company								
	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000 (note a)	Capital reserve HK$'000 (note b)	Other reserve HK$'000 (note c)	Translation reserve HK$'000	Investment revaluation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 July 2006	264,136	279,617	132,176	–	–	(3,088)	–	(639,751)	33,090
Loss for the year	–	–	–	–	–	–	–	(109,059)	(109,059)
Change in fair value of available-for-sale investment and total income recognised directly in equity	–	–	–	–	–	–	1,300	–	1,300
Total recognised income and expenses for the year	–	–	–	–	–	–	1,300	(109,059)	(107,759)
Reduction of share capital, share premium and contributed surplus to offset accumulated losses *(note 29)*	(258,853)	(279,617)	(132,176)	–	–	–	–	670,646	–
Recognition of equity component of convertible redeemable preference shares *(note 30)*	–	–	–	26,968	–	–	–	–	26,968
Issue costs of convertible redeemable preference shares *(note 30)*	–	–	–	(1,458)	–	–	–	–	(1,458)
Issue of shares on conversion of convertible redeemable preference shares	29	689	–	(293)	–	–	–	–	425
	(258,824)	(278,928)	(132,176)	25,217	–	–	–	670,646	25,935
At 30 June 2007 and 1 July 2007	5,312	689	–	25,217	–	(3,088)	1,300	(78,164)	(48,734)

	Attributable to equity holders of the Company								
	Share capital	**Share premium**	**Contributed surplus**	**Capital reserve**	**Other reserve**	**Translation reserve**	**Investment revaluation reserve**	**Accumulated losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
			(note a)	*(note b)*	*(note c)*				
Loss for the year	–	–	–	–	–	–	–	(51,108)	(51,108)
Change in fair value of available-for-sale investment and total income recognised directly in equity	–	–	–	–	–	–	1,700	–	1,700
Total recognised income and expenses for the year	–	–	–	–	–	–	1,700	(51,108)	(49,408)
Transfer from liability component of convertible redeemable preference shares *(note 30)*	–	–	–	–	21,766	–	–	–	21,766
Issue of shares on conversion of convertible redeemable preference shares	15	360	–	(270)	–	–	–	–	105
	15	360	–	(270)	21,766	–	–	–	21,871
At 30 June 2008	5,327	1,049	–	24,947	21,766	(3,088)	3,000	(129,272)	(76,271)

Notes:

(a) The contributed surplus of the Group represents the surplus arising on acquisition of subsidiaries through the group reorganisation in the preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited in 1991.

(b) The capital reserve represents the equity component of convertible redeemable preference shares issued during the year ended 30 June 2007.

(c) The other reserve represents the amount transferred from liability component of convertible redeemable preference shares upon the alteration of the terms of the existing convertible redeemable preference shares during the year ended 30 June 2008.

Consolidated Cash Flow Statement

For the Year ended 30 June 2008

	2008	2007
	HK$'000	*HK$'000*
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before taxation	**(45,114)**	(98,164)
Adjustments for:		
Depreciation of property, plant and equipment	**5,322**	5,010
Finance costs	**57,916**	56,565
Interest income	**(2,603)**	(584)
Gain arising from change in fair value of investment properties	**(40,100)**	(7,600)
Loss (gain) arising from change in fair value of option derivatives	**38,220**	(3,630)
Loss arising from settlement of litigation claim	**–**	39,081
Operating cash flows before movements in working capital	**13,641**	(9,322)
Decrease in properties held for sale	**37,441**	28,771
Increase in trade receivables, deposits and prepayments	**(93,778)**	(1,078)
Decrease in other payables and accrued charges	**(1,543)**	(48,192)
Decrease in provision for settlement of litigation claim	**(55,000)**	–
NET CASH USED IN OPERATING ACTIVITIES	**(99,239)**	(29,821)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	**2,603**	584
Purchase of property, plant and equipment	**(1,551)**	(2,303)
Increase in pledged bank deposits	**(3,706)**	(1,134)
NET CASH USED IN INVESTING ACTIVITIES	**(2,654)**	(2,853)
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest paid	**(53,917)**	(53,142)
Bank borrowings raised	**352,569**	314,401
Repayment of bank borrowings	**(192,623)**	(160,093)
Other loans raised	**–**	24,362
Repayment of other loans	**(52,571)**	(173,749)
Advance from a director of subsidiaries	**44,189**	20,672
Proceeds from issue of convertible redeemable preference shares	**–**	66,034
Share issue expenses paid	**–**	(3,568)
NET CASH FROM FINANCING ACTIVITIES	**97,647**	34,917
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(4,246)**	2,243
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**12,559**	10,316
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**8,313**	12,559
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	**59,511**	12,559
Bank overdrafts	**(51,198)**	–
	8,313	12,559

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 parent company and ultimate holding company is Five Star Investments Limited ("Five Star"), 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 and indent trading.

The consolidated financial statements are presented in Hong Kong dollars ("HK$" or "HKD") 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 in light of the net liabilities of the Group amounting to approximately HK$76,271,000 as at 30 June 2008 and the contingent liabilities for the outstanding litigations as disclosed in note 33.

Taking into account the estimated proceeds from sales of developed properties and the proceeds from disposal of certain of the Group's leasehold properties as disclosed in note 38, 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.

The conditions described above indicate the existence of a material uncertainty relating to the future funding being made available to the Group which may cast significant doubt on the Group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. The consolidated financial statements have been prepared on a going concern basis as, in the opinion of the directors of the Company, the Group will be able to meet in full its financial obligations as they fall due in the foreseeable future.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, the following new standard, amendment of Hong Kong Accounting Standard ("HKAS") and Interpretations ("HK(IFRIC) – INT"s) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") (collectively referred to as "new HKFRSs"), which are effective for the Group's financial year beginning on 1 July 2007.

HKAS 1 (Amendment)	Capital disclosures
HKFRS 7	Financial instruments: Disclosures
HK(IFRIC)* – INT 10	Interim financial reporting and impairment
HK(IFRIC) – INT 11	HKFRS 2: Group and treasury share transactions

* IFRIC represents the International Financial Reporting Interpretations Committee

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 "Financial instruments: Disclosure and Presentation" has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Cont'd)

HKAS 1 (Revised)	Presentation of financial statements [1]
HKAS 23 (Revised)	Borrowing costs [1]
HKAS 27 (Revised)	Consolidated and separate financial statements [2]
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation [1]
HKAS 39 & HKFRS 7 (Amendments)	Reclassification of financial assets[3]
HKFRS 2 (Amendment)	Vesting conditions and cancellations [1]
HKFRS 3 (Revised)	Business combinations [2]
HKFRS 8	Operating segments [1]
HK(IFRIC) – INT 12	Service concession arrangements [4]
HK(IFRIC) – INT 13	Customer loyalty programmes [5]
HK(IFRIC) – INT 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction [4]
HK(IFRIC) – INT 15	Agreements for the construction of real estate [1]
HK(IFRIC) – INT 16	Hedges of a net investment in a foreign operation [6]

1 Effective for annual periods beginning on or after 1 January 2009.

2 Effective for annual periods beginning on or after 1 July 2009.

3 Effective from 1 July 2008.

4 Effective for annual periods beginning on or after 1 January 2008.

5 Effective for annual periods beginning on or after 1 July 2008.

6 Effective for annual periods beginning on or after 1 October 2008.

The adoption of HKFRS 3 (Revised) may effect the accounting treatment for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new or revised standards, amendments or interpretations will have no material impact on the results or financial position of the Group.

4. CHANGE IN PRESENTATION

During the year ended 30 June 2008, the Group has started to engage in providing service for indent trading. In the condensed consolidated financial statements of the Group for the six months ended 31 December 2007, the Group reported turnover of HK$214,041,000 and cost of sales of HK$213,900,000 arising from the services rendered in indent trading.

The directors of the Company had re-evaluated the arrangement with its customers to determine whether to recognise the Group's turnover from services rendered in indent trading on a gross basis or net of cost of purchases. The Group has reconsidered the contractual relationship with the customers and the inventory risk of the Group to assess whether the Group acts as a principal or agent when providing the service. After consideration of the above factors, the directors of the Company considered that it is more appropriate to report the income from indent trading on a "net basis". As a result, the effect of this change in presentation was to decrease the Group's turnover and cost of sales for the six months ended 31 December 2007 by HK$213,900,000, representing the cost of purchases during the six months ended 31 December 2007 and this change in presentation has been consistently applied in the consolidated financial statements of the Group for the year ended 30 June 2008. There is no effect on the results of the Group for the six months ended 31 December 2007 and the year ended 30 June 2008.

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 (the "Listing Rules") and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) up to 30 June each year. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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.

5. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Basis of consolidation (Cont'd)

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 properties sold, rental income and services rendered 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 on the execution of a binding sale agreement.

Rental income, including rental invoiced in advance from properties under operating leases, is recognised on a straight line basis over the terms of the relevant leases.

Income from indent trading represents the handling income for indent trading, which is recognised when services are rendered.

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.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

Property, plant and equipment

Property, plant and equipment including land and buildings held for use in the production or supply of goods or services, or for administrative purposes are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

5. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Property, plant and equipment (Cont'd)

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 consolidated income statement in the year in which the item is derecognised.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair value 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 consolidated income statement in the year in which the item is derecognised.

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 consolidated 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.

5. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

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.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments.

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 trade receivables and deposits, pledged bank deposits, bank balances and cash are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss ("FVTPL"), loans and receivables or held-to-maturity investments.

At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss (see accounting policy on impairment loss on financial assets below).

5. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Available-for-sale financial assets (Cont'd)

For 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 are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as other receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of 120 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, 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.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount 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 loss will not be reversed in subsequent periods.

5. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Impairment of financial assets (Cont'd)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent 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.

For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

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 accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

5. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial liabilities and equity (Cont'd)

Other financial liabilities

Other financial liabilities including other payables, amount due to a director of subsidiaries, bank overdrafts, bank borrowings, other loans and liability component of convertible redeemable preference shares are subsequently measured at amortised cost, using the effective interest method.

Convertible redeemable preference shares

Convertible redeemable preference shares are regarded as compound instruments consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt without the conversion feature. The difference between the proceeds of issue of the convertible redeemable preference shares and the fair value assigned to the liability component, representing the embedded call option for the holder to convert the liability component of the convertible redeemable preference shares into equity of the Company, is included in equity (capital reserve).

In subsequent periods, the liability component of the convertible redeemable preference shares is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in capital reserve until the conversion option is exercised (in which case the balance stated in capital reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in capital reserve will be released to the accumulated losses. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible redeemable preference shares are allocated to the liability and equity components in proportion to the allocation of the proceeds. Issue costs relating to the equity component are charged directly to equity. Issue costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible redeemable preference shares using the effective interest method.

Option derivatives

The Group has written options to a third party to purchase part of the Group's leasehold properties and 20% of the share capital of a wholly-owned subsidiary of the Company (see note 27). These option derivatives are measured at fair value on initial recognition and at each subsequent reporting date and changes in fair values of these derivatives are recognised directly in profit or loss.

5. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (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.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised 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. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

5. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Foreign currencies (Cont'd)

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.

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 or 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 consolidated 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 consolidated 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 consolidated income statement on a straight-line basis over the term of the relevant lease.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, leasehold land which title is not expected to pass to the lessee by the end of the lease term is classified as an operating lease unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is classified as a finance lease.

Retirement benefit scheme

Payments to defined contribution retirement benefit scheme are charged as an expense when employees have rendered service entitling them to the contributions.

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 values of option derivatives are subject to the limitation of the Black-Scholes Option Pricing Model and the Binominal Option Pricing Model that incorporated market data and involved uncertainty in estimates used by 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 27.

7. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities within the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debts, which include amount due to a director of subsidiaries, bank overdrafts, bank borrowings and other loans as disclosed in notes 23, 24, 25 and 26, respectively (net of cash and cash equivalents) and equity attributable to equity holders of the Company, comprising issued share capital and reserves as disclosed in the consolidated statement of changes in equity.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through new share issues as well as issue of new debts.

8. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2008	2007
	HK$'000	*HK$'000*
Financial assets		
Loans and receivables (including cash and cash equivalents)		
– trade receivables and deposits	**97,481**	3,619
– pledged bank deposits	**24,984**	21,278
– bank balances and cash	**59,511**	12,559
	181,976	37,456
Available-for-sale financial assets		
– available-for-sale investments	**10,500**	8,800
Financial liabilities		
At amortised cost		
– other payables	**16,996**	21,279
– amount due to a director of subsidiaries	**68,287**	24,098
– bank overdrafts	**51,198**	–
– bank borrowings	**1,086,301**	926,355
– other loans	**107,563**	160,134
– convertible redeemable preference shares	**20,820**	39,738
	1,351,165	1,171,604
Fair value through profit or loss		
– option derivatives	**43,700**	5,480

Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, trade receivables and deposits, pledged bank deposits, bank balances and cash, other payables, amount due to a director of subsidiaries, bank borrowings, bank overdrafts, other loans, option derivatives and convertible redeemable preference shares. Details of the 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. The Group's overall strategy remains unchanged from prior year.

8. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Market risk

Currency risk

The Group has foreign currency exposure from the handling service which expose the Group to foreign currency risk.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting dates are as follows:

	2008	2007
	HK$'000	*HK$'000*
Assets		
United States Dollars ("USD")	**145,706**	13
Liabilities		
USD	**(67,571)**	–

The management continuously monitors the foreign exchange exposure and will consider hedging foreign currency risk should the need arise.

The Group is mainly exposed to the foreign currency risk on HKD against USD. As HKD is pegged to USD, the financial impact on exchange difference between HKD and USD is expected to be immaterial and therefore no sensitivity analysis has been prepared.

Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to floating-rate bank overdrafts, bank borrowings and other loans (see notes 24, 25 and 26 for details of these borrowings). The management continuously monitors interest rate fluctuation and will consider further hedging interest rate risk should the need arise.

The Group is also exposed to fair value interest rate risk in relation to fixed-rate pledged bank deposits. The management consider the risk is not significant as the fixed-rate pledged bank deposits are within short maturity periods.

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 of the Company 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 period.

8. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Market risk (Cont'd)

Interest rate risk (Cont'd)

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong Interbank Offered Rate ("HIBOR") arising from the Group's HKD borrowings.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for floating-rate bank overdrafts, bank borrowings and other loans at the balance sheet date and the stipulated changes taking place at the beginning of the year and held constant throughout the year. The analysis also assumed the amount outstanding at the balance sheet date was outstanding for the whole year.

If interest rates on floating-rate bank overdrafts, bank borrowings and other loans had been 50 basis points higher/lower and all other variables were held constant, the loss for the year ended 30 June 2008 would increase/decrease by approximately HK$5,023,000 (2007: increase/decrease by approximately HK$4,110,000). This is mainly attributable to the Group's exposure to interest rates on its floating-rate bank overdrafts, bank borrowings and other loans.

In the management's opinion, the above sensitivity analyses are unpresentative of interest rate risk as the year end exposures do not reflect the exposures during the year.

Other price risk

The Group's available-for-sale debt investments and option derivatives exposed the Group to other price risks. Details of the available-for-sale debt investments and option derivatives are set out in notes 18 and 27 respectively.

Management has closely monitor the other price risk and will consider hedging the risk exposure should the need arise.

8. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Market risk (Cont'd)

Other price risk (Cont'd)

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to other price risks at the reporting date.

(i) Price risk of available-for-sale debt investments

If the prices of the available-for-sale debt investments had been 5% higher/lower, investment revaluation reserve for the year ended 30 June 2008 would increase/decrease by HK$525,000 (2007: increase/decrease by HK$440,000) as a result of the changes in fair value of available-for-sale debt investments.

(ii) Price risk of option derivatives

If the fair value of leasehold properties had been 5% higher/lower and other inputs were held constant, loss for the year ended 30 June 2008 would increase/decrease by HK$4,270,000 (2007: increase/decrease by HK$1,290,000) as a result of the changes in fair value of the option derivatives.

In the management's opinion, the above sensitivity analyses are unpresentative of other price risks as the year end exposures do not reflect the exposures during the year.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at each balance sheet date in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the directors of the Company continuously monitor exposure to ensure that follow-up actions and/or corrective actions are taken promptly to lower exposure or even to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

8. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Credit risk (Cont'd)

The Group's credit risk on liquid funds is limited because majority of the counterparties are banks with high credit ratings assigned by international credit-rating agencies and state owned banks with good reputation.

The Group has concentration risk on receivables from handling service and available-for-sale debt investments. Receivables from handling service with approximately HK$93,273,000 (2007: nil) was from a few customers. Available-for-sale debt investments with carrying value of approximately HK$10,500,000 (2007: HK$8,800,000) was the debenture issued by The Hong Kong Golf Club. However, having consider the strong financial background and good creditability of the customers and the debenture issuer, the management believes there is no significant risk.

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. Taking into account the estimated proceeds from sales of developed properties and the proceeds from disposal of certain of the Group's leasehold properties as disclosed in note 38, 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.

The following table details the Group's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

8. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Liquidity and interest risk tables

	Weighted average interest rate	On demand	Less than 3 months	3 months to 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total undiscounted cash flows	Total carrying amounts
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 30 June 2008									
Non-derivative financial liabilities									
Other payables	N/A	16,996	–	–	–	–	–	16,996	16,996
Amount due to a director of subsidiaries	N/A	68,287	–	–	–	–	–	68,287	68,287
Bank overdrafts	5.63%	51,438	–	–	–	–	–	51,438	51,198
Bank borrowings	3.10%	15,157	30,314	136,416	36,372	203,493	996,459	1,418,211	1,086,301
Other loans	3.00%	4,025	8,050	36,225	5,340	16,133	42,896	112,669	107,563
Convertible redeemable preference shares	N/A	–	–	–	–	–	64,941	64,941	20,820
		155,903	38,364	172,641	41,712	219,626	1,104,296	1,732,542	1,351,165
As at 30 June 2007									
Non-derivative financial liabilities									
Other payables	N/A	21,279	–	–	–	–	–	21,279	21,279
Amount due to a director of subsidiaries	N/A	24,098	–	–	–	–	–	24,098	24,098
Bank borrowings	5.41%	1,826	3,652	16,434	35,022	91,488	1,750,866	1,899,288	926,355
Other loans	5.50%	8,366	16,732	75,294	5,885	19,500	69,713	195,490	160,134
Convertible redeemable preference shares	N/A	–	–	–	–	–	65,316	65,316	39,738
		55,569	20,384	91,728	40,907	110,988	1,885,895	2,205,471	1,171,604

8. FINANCIAL INSTRUMENTS (Cont'd)

Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of available-for-sale debt investments is determined with reference to market price;

- the fair value of loans and receivables and financial liabilities (excluding option derivatives) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis, using prices or rates from observable current market transactions as inputs; and

- the fair values of option derivatives are estimated using option pricing models including Black-Scholes Option Pricing Model and Binomial Option Pricing Model.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair value.

9. TURNOVER

Turnover represents the aggregate of the amounts received and receivable for properties sold, rental income and services rendered during the year. An analysis of the Group's turnover is as follows:

	2008	2007
	HK$'000	*HK$'000*
Sales of properties held for sale	**84,500**	48,298
Rental income	**3,954**	–
Income for indent trading	**140**	–
	88,594	48,298

10. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

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

Segment information about these businesses is presented below:

10. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

Business segments (Cont'd)

Year 2008

(i) Income statement

	Property development	Property investment	General and indent trading	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER				
External sales	84,500	3,954	140	88,594
RESULT				
Segment result	20,986	43,746	(856)	63,876
Loss arising from change in fair value of option derivatives				(38,220)
Unallocated corporate income				2,603
Unallocated corporate expenses				(15,457)
Finance costs				(57,916)
Loss before taxation				(45,114)
Taxation charge				(5,994)
Loss for the year				(51,108)

10. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

Business segments (Cont'd)

Year 2008 (Cont'd)

(ii) Balance sheet

	Property development	Property investment	General and indent trading	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS				
Segment assets	883,453	216,020	93,273	1,192,746
Unallocated corporate assets				261,269
Consolidated total assets				1,454,015
LIABILITIES				
Segment liabilities	125,709	1,449	1,155	128,313
Unallocated corporate liabilities				1,401,973
Consolidated total liabilities				1,530,286

(iii) Other information

	Property development	Property investment	General and indent trading	Unallocated	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Capital additions	1,500	51	–	–	1,551
Depreciation of property, plant and equipment	276	110	–	4,936	5,322

10. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

Business segments (Cont'd)

Year 2007

(i) Income statement

	Property development HK$'000	Property investment HK$'000	General and indent trading HK$'000	Consolidated HK$'000
TURNOVER				
External sales	48,298	–	–	48,298
RESULT				
Segment result	1,290	5,577	(7,287)	(420)
Gain arising from change in fair value of option derivatives				3,630
Loss arising from settlement of litigation claim	(39,081)			(39,081)
Unallocated corporate income				637
Unallocated corporate expenses				(6,365)
Finance costs				(56,565)
Loss before taxation				(98,164)
Taxation charge				(10,895)
Loss for the year				(109,059)

(ii) Balance sheet

	Property development HK$'000	Property investment HK$'000	General and indent trading HK$'000	Consolidated HK$'000
ASSETS				
Segment assets	922,802	175,523	–	1,098,325
Unallocated corporate assets				210,666
Consolidated total assets				1,308,991
LIABILITIES				
Segment liabilities	126,198	754	1,363	128,315
Unallocated corporate liabilities				1,229,410
Consolidated total liabilities				1,357,725

10. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

Business segments (Cont'd)

Year 2007 (Cont'd)

(iii) Other information

	Property development	**Property investment**	**General and indent trading**	**Unallocated**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Capital additions	1,571	732	–	–	2,303
Depreciation of property, plant and equipment	–	64	–	4,946	5,010

Geographical segments

More than 90% of the Group's turnover for the years ended 30 June 2008 and 2007 were derived from Hong Kong by location of customers. Also, almost all of the Group's assets are located in Hong Kong. Therefore, no geographical segment information is presented.

11. FINANCE COSTS

	2008	2007
	HK$'000	*HK$'000*
Interest on bank borrowings:		
– wholly repayable within five years	**10,860**	1,393
– not wholly repayable within five years	**39,650**	47,945
Interest on other loans	**4,453**	4,020
Finance costs on convertible redeemable preference shares *(note 30)*	**2,953**	3,207
	57,916	56,565

12. TAXATION CHARGE

The charge comprises:

	2008	2007
	HK$'000	*HK$'000*
Hong Kong Profits Tax for the year	**–**	–
Deferred taxation *(note 32)*		
Charge for the year	**6,617**	10,895
Attributable to a change in tax rate	**(623)**	–
	5,994	10,895
Tax charge attributable to the Company and its subsidiaries	**5,994**	10,895

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which includes the proposed reduction in corporate profit tax rate by 1% to 16.5% effective from the year of assessment 2008/2009. The effect of such decrease has been reflected in measuring the current and deferred taxation for the year ended 30 June 2008.

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the estimated assessable profits of a subsidiary of the Company for both years are wholly absorbed by the tax losses brought forward. The Company and other subsidiaries of the Group have no assessable profit for both years.

In August 2007, a subsidiary of the Company received an Assessment Demanding Final Tax (the "Assessment") for the year of assessment of 2006/2007 from the Hong Kong Inland Revenue Department ("IRD"). By issuing the Assessment, the IRD disagreed the basis adopted by this subsidiary for computation of Hong Kong Profits Tax liability. In addition, the IRD also disagreed the tax losses brought forward of this subsidiary for the year of assessments from 1997/1998 to 1999/2000 and 2004/2005 with aggregated amount of approximately HK$152,347,000. An objection has been lodged by the Group in September 2007 and the IRD has agreed to unconditionally holdover the tax in dispute. On 28 February 2008, the IRD has issued an enquiry letter to the Group and replies have been submitted by the Group to the IRD on 25 April 2008 and 25 July 2008.

In the opinion of the directors of the Company, the Group has grounds to object the IRD's Assessment and the tax losses brought forward from previous years could be used to offset with the assessable profits for the year ended 30 June 2007 and 2008. As a result, no provision for Hong Kong Profits Tax has been made for both years.

12. TAXATION CHARGE (Cont'd)

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

	2008	2007
	HK$'000	*HK$'000*
Loss before taxation	**(45,114)**	(98,164)
Tax credit at Hong Kong Profits Tax rate of 16.5% (2007: 17.5%)	**(7,444)**	(17,179)
Tax effect of income not taxable for tax purpose	**(428)**	(706)
Tax effect of expenses not deductible for tax purpose	**9,143**	8,736
Tax effect of unrealised intragroup profits on properties held for sale not recognised	**20,599**	31,163
Utilisation of tax losses previously not recognised	**(15,253)**	(11,119)
Decrease in opening deferred tax liability resulting from a decrease in applicable tax rate	**(623)**	–
Taxation for the year	**5,994**	10,895

13. LOSS FOR THE YEAR

	2008	2007
	HK$'000	*HK$'000*
Loss for the year has been arrived at after charging:		
Directors' emoluments *(note 14)*	**570**	322
Other staff costs, including retirement benefit scheme contributions	**866**	1,289
Total staff costs	**1,436**	1,611
Auditor's remuneration	**800**	750
Cost of properties sold	**37,441**	28,771
Depreciation of property, plant and equipment	**5,322**	5,010
Legal and professional fee (included in administrative expenses)	**16,021**	10,882
and after crediting:		
Gross rental income	**3,954**	–
Less: direct expenses that generated rental income during the year	**(308)**	–
	3,646	–
Interest income	**2,603**	584

14. 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 (2007: six) directors were as follows:

	2008						
	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**	**–**	**–**	**90**	**–**	**144**	**352**
Other emoluments:							
Salaries and other benefits	**118**	**60**	**40**	**–**	**–**	**–**	**218**
Retirement benefit scheme contributions	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	118	**60**	**40**	**–**	**–**	**–**	**218**
Total	**236**	**60**	**40**	**90**	**–**	**144**	**570**

	2007						
	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	–	–	60	–	144	322
Other emoluments:							
Salaries and other benefits	–	–	–	–	–	–	–
Retirement benefit scheme contributions	–	–	–	–	–	–	–
	–	–	–	–	–	–	–
Total	118	–	–	60	–	144	322

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

(b) Employees' emoluments

During the year, the five highest paid individuals of the Group included two (2007: two) directors, details of whose emoluments are set out in (a) above. The emoluments of the remaining three (2007: three) individuals are as follows:

	2008	2007
	HK$'000	*HK$'000*
Salaries and other benefits	**427**	460
Retirement benefit scheme contributions	**20**	44
	447	504

The emoluments of these employees fall within the following band:

	Number of employees	
	2008	2007
Nil to HK$1,000,000	**3**	3

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.

15. LOSS PER SHARE

The calculation of the basic loss per share attributable to the equity holders of the Company is based on the following data:

	For the year ended 30 June	
	2008	2007
	HK$'000	*HK$'000*
Loss for the year for the purpose of calculating basic loss per share	**(51,108)**	(109,059)

Number of shares

Weighted average number of shares for the purpose of calculating basic loss per share	**532,492,353**	529,072,257

The calculation of diluted loss per share for the year ended 30 June 2007 and 2008 had not been disclosed as assuming the conversion of the Company's outstanding convertible redeemable preference shares would reduce the loss per share for both years.

16. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1 July 2006	167,900
Increase in fair value recognised in the consolidated income statement	7,600
At 30 June 2007 and 1 July 2007	175,500
Increase in fair value recognised in the consolidated income statement	40,100
At 30 June 2008	215,600

The fair value of the Group's investment properties as at 30 June 2008 and 2007 have been arrived at on the basis of valuations carried out by Messrs. LCH (Asia-Pacific) Surveyor Limited and Messrs. AA Property Services Limited, respectively. Both are independent qualified professional property valuers not connected with the Group and have appropriate qualifications. The valuations were arrived at by reference to market evidence of transaction 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.

All the Group's investment properties are situated in Hong Kong with long lease.

17. 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 2006	211,500	14,555	8,171	234,226
Additions	–	–	2,303	2,303
At 30 June 2007 and 1 July 2007	211,500	14,555	10,474	236,529
Additions	–	–	1,551	1,551
At 30 June 2008	211,500	14,555	12,025	238,080
DEPRECIATION AND IMPAIRMENT				
At 1 July 2006	41,648	14,555	7,978	64,181
Provided for the year	4,751	–	259	5,010
At 30 June 2007 and 1 July 2007	46,399	14,555	8,237	69,191
Provided for the year	4,873	–	449	5,322
At 30 June 2008	51,272	14,555	8,686	74,513
CARRYING VALUES				
At 30 June 2008	160,228	–	3,339	163,567
At 30 June 2007	165,101	–	2,237	167,338

Note: Owner-occupied leasehold interest in 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.

17. 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
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 a bank to secure credit facilities granted to the Group.

18. AVAILABLE-FOR-SALE INVESTMENTS

	2008	2007
	HK$'000	*HK$'000*
Unlisted debt investment, at market value	**10,500**	8,800
Unlisted equity investment, at cost	**15,777**	15,777
Less: Impairment loss recognised	**(15,777)**	(15,777)
	10,500	8,800

At 30 June 2008, the above unlisted investments comprised (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 engaged in property development, with zero carrying amount; and (ii) club debenture with market value of HK$10,500,000 (2007: HK$8,800,000).

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 unlisted equity investment is 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 investment cannot be measured reliably.

19. PROPERTIES HELD FOR SALE

At 30 June 2008 and 2007, the properties held for sale are stated at cost.

20. TRADE RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2008	2007
	HK$'000	*HK$'000*
Receivables of service rendered in indent trading	**93,273**	–
Deposits and prepayments	**4,267**	3,762
	97,540	3,762

The following is an aged analysis of receivables of service rendered in indent trading at the balance sheet dates:

	2008	2007
	HK$'000	*HK$'000*
0 to 60 days	**13,649**	–
61 to 120 days	**53,922**	–
Over 121 days	**25,702**	–
	93,273	–

The Group allows an credit period of 120 days to its customers. Before accepting any new customer, the Group will internally assess the credit quality of the potential customer and defines appropriate credit limits.

Included in the Group's receivables of service rendered in indent trading are debtors with a carrying amount of HK$25,702,000 (2007: nil) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

The following is an aged analysis of receivables of service rendered in indent trading which are past due but not yet impaired at the balance sheet dates.

	2008	2007
	HK$'000	*HK$'000*
Past due 1 to 90 days	**25,702**	–

20. TRADE RECEIVABLES, DEPOSITS AND PREPAYMENTS (Cont'd)

The Groups' management closely monitors the credit quality of receivables of service rendered in indent trading and considers the receivables that are neither past due nor impaired to be of a good credit quality. Based on the payment pattern of the customers of the Group, around 72% of receivables of service rendered in indent trading which are neither past due nor impaired are generally collectable.

Included in trade receivables, deposits and prepayments are the following amounts denominated in a currency other than the functional currency of the group entities to which it relates.

	2008	2007
	HK$'000	*HK$'000*
USD	**93,273**	–

21. PLEDGED BANK DEPOSITS

Pledged bank deposits represent deposits pledged to banks to secure banking facilities granted to the Group. The pledged bank deposits carried interest at an average fixed interest rate of 2.15% (2007: 3.53%) per annum.

22. BANK BALANCES AND CASH

The amounts comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less, at prevailing market interest rates ranging from 2.15% to 2.50% (2007: 2.75% to 3.00%) per annum.

Included in bank balances and cash are the following amounts denominated in a currency other than the functional currency of the group entities to which it relates.

	2008	2007
	HK$'000	*HK$'000*
USD	**52,433**	13

23. AMOUNT DUE TO A DIRECTOR OF SUBSIDIARIES

The amount represents amount due to Lilian Oung, who is also one of the shareholders of Five Star, the controlling shareholder of the Company. The amount is unsecured, non-interest bearing and repayable on demand.

24. BANK OVERDRAFTS

Bank overdrafts carry interest at 0.25% over Hong Kong dollars Prime Rate which ranging from 5.50% to 5.75% (2007: nil) per annum.

25. SECURED BANK BORROWINGS

	2008	2007
	HK$'000	*HK$'000*
Mortgage loans	**1,018,730**	906,355
Trust receipt loans	**67,571**	–
Bank loan	**–**	20,000
	1,086,301	926,355
Less: Amount due within one year shown under current liabilities	**(176,418)**	(20,787)
Amount due after one year	**909,883**	905,568

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

	2008	2007
	HK$'000	*HK$'000*
Within one year	**176,418**	20,787
In more than one year but not more than two years	**34,218**	31,519
In more than two years but not more than three years	**34,218**	31,519
In more than three years but not more than four years	**34,218**	21,519
In more than four years but not more than five years	**112,694**	21,519
Over five years	**694,535**	799,492
	1,086,301	926,355

The bank loan of HK$20,000,000 as at 30 June 2007 was secured by a first legal charge over one of the Group's investment properties. Deposits, rental proceeds and sales proceeds regarding the investment property were also assigned to the bank. The bank loan shall be repayable by 24 monthly instalments commencing thirteen months after the bank loan drawdown date with an interest rate of 1% per annum below the Hong Kong dollars Prime Rate. During the year ended 30 June 2008, the bank loan of HK$20,000,000 was repaid in full by the Group.

25. SECURED BANK BORROWINGS (Cont'd)

At 30 June 2007, the mortgage loans comprised (i) a mortgage loan with a principal amount of HK$80,000,000 that shall be repayable by 240 monthly instalments and carry interest at a rate of 2% per annum below the Hong Kong dollars Prime Rate; (ii) a mortgage loan with a principal amount of HK$550,000,000 that shall be repayable by 300 monthly instalments and carry interest at a rate of 2.35% per annum below the Hong Kong dollars Prime Rate; (iii) a mortgage loan with a principal amount of HK$30,000,000 that shall be repayable by 300 monthly instalments and carry interest at a rate of 2.65% per annum below the Hong Kong dollars Prime Rate; (iv) a mortgage loan with a principal amount of HK$32,000,000 that shall be repayable by 300 monthly instalments and carry interest at a rate of 2.5% per annum below the Hong Kong dollars Prime Rate; (v) a mortgage loan with a principal amount of HK$70,000,000 that shall be repayable by 300 monthly instalments and carry interest at a rate of 2.6% per annum below the Hong Kong dollars Prime Rate; (vi) a mortgage loan with a principal amount of HK$69,300,000 that shall be repayable by 240 monthly instalments and carry interest at a rate of 1.25% per annum above HIBOR; (vii) a mortgage loan with a principal amount of HK$61,100,000 that shall be repayable by 240 monthly instalments and carry interest at a rate of 1.25% per annum above HIBOR; and (viii) a mortgage loan with a principal amount of HK$32,000,000 that shall be repayable by 300 monthly instalments and carry interest at a rate of 2.5% per annum below the Hong Kong dollars Prime Rate.

During the year ended 30 June 2008, the Group obtained three new loans from banks in aggregate amount of HK$285,000,000. The new loans comprised (i) a mortgage loan with a principal amount of HK$110,000,000 that shall be repayable by 60 monthly instalments and carry interest at a rate of 1.2% per annum over HIBOR; (ii) a mortgage loan with a principal amount HK$100,000,000 that shall be repayable by 234 monthly instalments and carry interest at a rate of 2.25% per annum below the Hong Kong dollars Prime Rate; and (iii) a short-term loan with a principal amount of HK$75,000,000 that shall be repayable within three months and carry interest at a rate of 2.25% per annum over HIBOR.

The range of effective interest rates of the Group's bank borrowings were 3.45% to 8.50% (2007: 5.09% to 8.50%) per annum.

All bank borrowings are secured by certain apartments of the Group's properties held for sale and all of the Group's investment properties to the banks.

25. SECURED BANK BORROWINGS (Cont'd)

The Group's bank borrowings are all denominated in Hong Kong dollars except for the following amounts denominated in a currency other than the functional currency of the group entities to which it relates.

	2008	2007
	HK$'000	*HK$'000*
USD	**67,571**	–

26. OTHER LOANS

	2008	2007
	HK$'000	*HK$'000*
Other loans from:		
– a third party *(note a)*	**107,563**	111,906
– related companies *(note b)*	**–**	13,489
– unrelated companies *(note c)*	**–**	34,739
	107,563	160,134

At the balance sheet date, the Group's other loans are repayable as follows:

	2008	2007
	HK$'000	*HK$'000*
On demand or within one year	**46,889**	95,561
In more than one year but not more than two years	**5,033**	5,333
In more than two years but not more than three years	**5,069**	5,333
In more than three years but not more than four years	**5,069**	5,333
In more than four years but not more than five years	**5,069**	5,333
Over five years	**40,434**	43,241
	107,563	160,134
Less: Amount due within one year shown under current liabilities	**(46,889)**	(95,561)
Amount due after one year	**60,674**	64,573

26. OTHER LOANS (Cont'd)

Notes:

(a) The loans are owed to Fine Chiffon Corporation Limited ("Fine Chiffon"), an independent third party. At 30 June 2008, the loans comprised (i) an interest bearing instalment loan of approximately HK$65,563,000 (30.6.2007: HK$69,906,000) and (ii) a non-interest bearing loan of approximately HK$42,000,000 (30.6.2007: HK$42,000,000) from Fine Chiffon.

In previous years, 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 shall be repayable by 180 monthly instalments and is at variable interest rate with 2.5% per annum below the Hong Kong dollars Prime Rate. At 30 June 2008, the outstanding interest bearing instalment loan amounted to approximately HK$65,563,000 (30.6.2007: HK$69,906,000).

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 2008, the outstanding non-interest bearing loan amounted to approximately HK$42,000,000 (30.6.2007: HK$42,000,000).

In addition, 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 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 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.

(b) The loans were owed to companies in which Lilian Oung and/or Oung Shih Hua, James and Chen Te Kuang Mike, directors of the Company, have controlling interests. The loans were unsecured, bearing interest at rate of 2% per annum over the Hong Kong dollars Prime Rate (2007: interest-free) and were repaid in full during the year ended 30 June 2008.

(c) The loans were unsecured, non-interest bearing and repaid in full during the year ended 30 June 2008.

27. OPTION DERIVATIVES

	2008	2007
	HK$'000	*HK$'000*
Option derivatives – fair value	**43,700**	5,480

As described in note 26, 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 ("Option 1") 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 ("Option 2"). 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 26(a)).

The fair values of the option derivatives granted by the Group are determined by using the Black-Scholes Option Pricing Model and the Binomial Option Pricing Model, respectively. During the year ended 30 June 2008, the loss arising from change in fair value of option derivatives amounted to HK$38,220,000 (2007: gain arising from change in fair value of option derivatives amounted to HK$3,630,000).

The fair values of the option derivatives for Option 1 and Option 2 are calculated by using the Black-Scholes Option Pricing Model and the Binominal Option Pricing Model, respectively. The inputs into both models are as follows:

Black-Scholes Option Pricing Model – Option 1

	2008	2007
Exercise price	**HK$32,000,000**	HK$32,000,000
Expected volatility	**11.80%**	18.87%
Expected life	**1 year**	2 years
Risk-free rate	**1.7%**	4.3%
Fair value of the leasehold properties at 30 June	**HK$379,300,000**	HK$170,000,000
Fair value of option at 30 June	**HK$43,280,000**	HK$5,480,000

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.

27. OPTION DERIVATIVES (Cont'd)

Binomial Option Pricing Model – Option 2

	2008	2007
Exercise price	**HK$10,000,000**	HK$10,000,000
Expected volatility	**11.80%**	18.87%
Expected life	**1 year**	2 years
Risk-free rate	**1.7%**	4.3%
Fair value of option at 30 June	**HK$420,000**	Nil

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 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 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% (2007: 40%) to the net asset value of Banhart is used in view of the lack of marketability of the shares of Banhart and being a minority shareholder in Banhart.

28. PROVISION FOR SETTLEMENT OF LITIGATION CLAIM

As announced by the Company on 23 October 2007, Holyrood Limited ("Holyrood"), a wholly-owned subsidiary of the Company, reached a settlement agreement with Hip Hing Construction Company Limited ("Hip Hing") in respect of a dispute with Hip Hing on construction work performed by Hip Hing for the redevelopment project located at the Peak Road (the "Peak Road Project"). Hip Hing claimed against Holyrood for approximately HK$69,000,000 for the construction costs of the Peak Road Project. The contracts between Hip Hing and Holyrood incorporate arbitration provisions, and, in 2006, both parties agreed to refer the disputes to the arbitration on 6 January 2006.

On 22 October 2007, a settlement agreement was entered into between Holyrood and Hip Hing. Pursuant to the settlement agreement, Holyrood agreed to pay HK$50,000,000 to Hip Hing together with estimated legal costs of the arbitration amounting to approximately HK$5,000,000.

As a provision of approximately HK$15,919,000 for the construction costs had been made by the Group in previous years, the loss arising from the settlement of the litigation claim from Hip Hing amounted to approximately HK$39,081,000. This loss was recognised in the consolidated income statement for the year ended 30 June 2007 and the provision of HK$55,000,000 was fully settled by Holyrood to Hip Hing during the year ended 30 June 2008.

29. SHARE CAPITAL

	Nominal value per share *HK$*	Numbers of shares	Amount *HK$'000*
Authorised:			
At 1 July 2006	0.50	1,000,000,000	500,000
Effect of the Capital Reorganisation referred to below *(note)*		49,000,000,000	–
At 30 June 2007, 1 July 2007 and 30 June 2008	0.01	50,000,000,000	500,000
Issued and fully paid:			
At 1 July 2006	0.50	528,271,615	264,136
Effect of the Capital Reorganisation referred to below *(note)*		–	(258,853)
Issue of shares on conversion of convertible redeemable preference shares		2,872,377	29
At 30 June 2007 and 1 July 2007	0.01	531,143,992	5,312
Issue of shares on conversion of convertible redeemable preference shares		1,500,000	15
At 30 June 2008	0.01	532,643,992	5,327

All shares issued during both years rank pari passu in all respects with other shares in issue.

29. SHARE CAPITAL (Cont'd)

Note: As announced by the Company on 8 June 2006, the Company proposed to effect a capital reorganisation (the "Capital Reorganisation"). Details of the Capital Reorganisation are set out in the circular of the Company dated 20 July 2006.

At the special general meeting of the Company held on 21 August 2006, a special resolution approving the Capital Reorganisation was passed and the following capital reorganisation became effective on 21 August 2006:

(i) a reduction in the nominal value of issued shares of the Company from HK$0.50 each to HK$0.01 each by cancelling HK$0.49 of the paid up capital on each issued share of the Company and by reducing the nominal value of all issued and unissued shares of the Company from HK$0.50 each to HK$0.01 each;

(ii) the authorised share capital of the Company will be restored to HK$500,000,000 and each authorised but unissued share of HK$0.50 each will be sub-divided into 50 shares of nominal value of HK$0.01 each;

(iii) the cancellation of the amount of approximately HK$279,617,000 standing to the credit of share premium account and the cancellation of the amount of approximately HK$132,176,000 standing to the credit of the contributed surplus account; and

(iv) the use of all of the credit of approximately HK$670,646,000 arising from the reduction of capital and the cancellation of the entire amount standing to the credit of the share premium account and the contributed surplus account to offset in full with the accumulated losses of the Company at 31 December 2005.

30. CONVERTIBLE REDEEMABLE PREFERENCE SHARES

	Number of preference shares	Amount of par value HK$'000
Authorised:		
At 24 November 2006, 30 June 2007 and 1 July 2007	270,000,000	2,700
Increase in authorised convertible redeemable preference shares	1,000,000,000	10,000
At 30 June 2008	1,270,000,000	12,700
Issued and fully paid:		
Issue on 24 November 2006	264,135,807	2,641
Conversion of issued convertible redeemable preference shares into ordinary shares	(2,872,377)	(29)
At 30 June 2007	261,263,430	2,612
Conversion of issued convertible redeemable preference shares into ordinary shares	(1,500,000)	(15)
At 30 June 2008	259,763,430	2,597

The convertible redeemable preference shares with nominal value of HK$0.01 were issued at HK$0.25 per share on 24 November 2006.

Movement of the convertible redeemable preference shares are as follows:

	Liability component HK$'000	Equity component HK$'000	Total HK$'000
Convertible redeemable preference shares issued on 24 November 2006	39,066	26,968	66,034
Issue costs	(2,110)	(1,458)	(3,568)
Net proceeds received	36,956	25,510	62,466
Conversion of convertible redeemable preference shares	(425)	(293)	(718)
Interest charged for the period from 24 November 2006 to 30 June 2007	3,207	–	3,207
At 30 June 2007 and 1 July 2007	39,738	25,217	64,955
Transferred to other reserve *(note)*	(21,766)	–	(21,766)
Conversion of convertible redeemable preference shares	(105)	(270)	(375)
Interest charged for the year	2,953	–	2,953
At 30 June 2008	20,820	24,947	45,767

30. CONVERTIBLE REDEEMABLE PREFERENCE SHARES (Cont'd)

Note: As announced by the Company on 3 July 2007, the alternation of the terms of the existing convertible redeemable preference shares has been duly approved by the holders of convertible redeemable preference shares at the special general meeting held on 3 July 2007. The approved alternation of the terms of the existing convertible redeemable preference shares are summarised as follows:

(i) Cumulative dividend

The right to receive a fixed dividend of HK$0.02 per convertible redeemable preference share payable annually has been revoked and replaced with the right to receive a dividend per convertible redeemable preference share based on the dividend or any other distribution (if any) per ordinary share declared and paid by Sensors Integration Technology Limited, a wholly-owned subsidiary of the Company and engaged in manufacture of optical sensor systems and optical communication products.

(ii) Early redemption at the option of the Company

The early redemption option of the Company in the event that the price of the ordinary share of the Company close on thirty consecutive trading days at a price that is 100% higher that the conversion price of convertible redeemable preference share has been revoked.

(iii) Further issues

The right of the Company to issue convertible redeemable preference shares in priority to the existing convertible redeemable preference shares has been revoked. New issues of convertible redeemable preference shares shall be permitted only if the proceeds of the issues are used solely to subscribe for the same number of ordinary shares in Sensors Integration Technology Limited and at the same price.

As a result of the alternation of the terms of the existing convertible redeemable preference shares, the liability component of the existing convertible redeemable preference shares has been decreased by approximately HK$21,766,000 and, in turn the amount was transferred to other reserve at 3 July 2007.

30. CONVERTIBLE REDEEMABLE PREFERENCE SHARES (Cont'd)

The principal terms of the convertible redeemable preference shares at 30 June 2008 include the following:

(i) Early redemption at the option of the Company

The Company has the option, but not the obligation, to redeem all but not a portion of the convertible redeemable preference shares at face value if there are less than 80 millions convertible redeemable preference shares in issue.

(ii) Conversion rights

Holders of the convertible redeemable preference shares are entitled to convert all or any of their convertible redeemable preference shares into ordinary shares in the Company by paying HK$0.25 per share to the Company for entitling one ordinary share of the Company of HK$0.01 each, subject to anti-dilutive adjustment provisions which are standard terms for convertible securities of similar type. The adjustment events will arise as result of certain changes in share capital of the Company including consolidation or sub-division of shares, capitalisation of profits or reserves, capital distribution in cash or specie or subsequent issue of securities in the Company.

Holders of the convertible redeemable preference shares are not required to pay any extra amount should they convert their convertible redeemable preference shares into ordinary shares in the Company.

(iii) Cumulative dividends

The dividend per convertible redeemable preference share is based on the dividend or any other distribution (if any) per ordinary share declared and paid by Sensors Integration Technology Limited, a wholly-owned subsidiary of the Company and engaged in manufacture of optical sensor systems and optical communication products.

Sensors Integration Technology Limited will declare a dividend to its shareholders only if Sensors Integration Technology Limited has received written confirmation from the Company that the Company is permitted to declare and pay a dividend in the same amount to the holders of the convertible redeemable preference shares and an undertaking to declare and pay such a dividend.

30. CONVERTIBLE REDEEMABLE PREFERENCE SHARES (Cont'd)

(iv) Redemption

A holder of the convertible redeemable preference shares may by notice in writing to the Company requires the Company to redeem all or any of the then outstanding convertible redeemable preference shares, whereupon subject to the requirements of the Companies Act. The Company shall pay to such holder a redemption amount equal to the aggregate initial subscription price of such number of convertible redeemable preference shares so redeemed together with the cumulative dividend that has accrued and payable upon the occurrence of any of the following (whichever is the earliest):

(a) 31 December 2016;

(b) any consolidation, amalgamation or merger of the Company with any other corporation;

(c) listing of the ordinary shares of the Company are revoked or withdrawn (except in connection with the simultaneous listing of the ordinary shares on such other internationally recognised stock exchange);

(d) a directors' resolution is passed for the winding-up, insolvency, administration, reorganisation, reconstruction, dissolution or bankruptcy of the Company; or

(e) an effective resolution is passed for the winding-up, insolvency, administration, reorganisation, reconstruction, dissolution or bankruptcy of the Company or for the appointment of a liquidator, receiver, administrator, trustee or similar officer of the Company.

(v) Priority

The convertible redeemable preference shares rank in priority to the ordinary shares in the Company as to dividends and a return of the capital paid up on the convertible redeemable preference shares. Once the capital paid up has been returned and all the accumulative dividends has been paid, the convertible redeemable preference shares are not entitled to any further payment from or distributions by the Company.

(vi) Voting

The convertible redeemable preference shares do not entitle the holders to attend or vote at meeting of the Company except on resolutions which directly affect their rights or on a winding-up of the Company or a return or repayment of capital.

30. CONVERTIBLE REDEEMABLE PREFERENCE SHARES (Cont'd)

(vii) Further issues

New issues of convertible redeemable preference shares has been permitted only if the proceeds of the issues are used solely to subscribe for the same number of ordinary shares in Sensors Integration Technology Limited and at the same price.

The net proceeds received from the issue of the convertible redeemable preference shares contain the following components that are required to be separately accounted for in accordance with HKAS 32 "Financial Instruments: Presentation":

(a) Debt component represents the present value of the contractually determined stream of future cash flows discounted at the rate of interest at that time by the market to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the conversion option.

The interest charged for the period is calculated by applying effective interest rate of 16.6% per annum of the debt component for the period since the convertible redeemable preference shares were issued.

(b) Equity component represents the difference between the proceeds of issue of the convertible redeemable preference shares and the fair value assigned to the liability component.

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.

31. SHARE OPTION SCHEME (Cont'd)

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 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. The Option Scheme was terminated since 22 September 2006 and no new share option scheme was adopted during the year ended 30 June 2007 and 2008.

32. DEFERRED TAXATION

Major deferred tax liabilities and assets of the Group recognised and movements thereon are as follows:

	Investment properties	**Tax losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 July 2006	9,564	(9,564)	–
Charge for the year	1,331	9,564	10,895
At 30 June 2007 and 1 July 2007	10,895	–	10,895
Charge for the year	6,617	–	6,617
Effect of change in tax rate	(623)	–	(623)
At 30 June 2008	16,889	–	16,889

For the purpose of balance sheet presentation, the above deferred tax liabilities and assets have been offset.

32. DEFERRED TAXATION (Cont'd)

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

	2008	2007
	HK$'000	*HK$'000*
Tax losses	**410,510**	502,952
Unrealised intragroup profits on properties held for sale	**523,804**	398,963
Accelerated tax depreciation	**1,176**	518
	935,490	902,433

At 30 June 2008, the Group has unused tax losses of approximately HK$410,510,000 (2007: HK$502,952,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses of approximately HK$410,510,000 (2007: HK$502,952,000) due to the unpredictability of future profits streams. The unrecognised tax losses may be carried forward indefinitely.

The other deductible temporary difference of approximately HK$524,980,000 (2007: HK$399,481,000) as at 30 June 2008 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 2008, the Group had given guarantee of HK$80,000,000 (2007: HK$80,000,000) to a bank to secure the credit facilities granted to Fine Chiffon that the credit facilities have been granted to the Group for use by Fine Chiffon.

In addition, the Group had the following outstanding litigations as at 30 June 2008 that the directors of the Company are of the opinion that the estimated liabilities arising from the litigations cannot be reasonably ascertained at the current stage.

(a) On 26 July 2005, Brightland Corporation Limited issued a writ against Banhart under HCA 1445 of 2005 claiming various declarations, damages and other relief in relation to the sale and purchase of the Group's leasehold property situated at Unit C on the 45th Floor, Office Tower, Convention Plaza, No. 1 Harbour Road, Hong Kong (the "Office Property"). This action was consolidated with the action mentioned in paragraph (b) below on 9 June 2006.

33. CONTINGENT LIABILITIES (Cont'd)

(b) On 27 February 2006, Crowning Success Limited, a sub-purchaser of the Office Property issued a summons against Banhart for the purpose of joining Banhart as the second defendant in its action against Brightland Corporation Limited under HCA 1540 of 2005. 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. The parties have already filed their pleadings.

On 14 February 2008, Crowning Success Limited issued a summons for an order of the court that the parties do mutually exchange expert valuation report on the market values of the Office Property as at 22 July 2005 and thereafter at 3-months interval until 22 January 2008. The court refused to grant such an order but instead ordered the parties to exchange expert valuation report on the market values of the Office Property as at 22 July 2005 and 22 January 2006. On 6 March 2008, Crowning Success Limited filed a Notice of Appeal to appeal such decision. The appeal was dismissed by the court on 22 April 2008 with costs to the Vendor. Such costs will be taxed by the Court on 13 October 2008.

The matter has already been set down for trial. The pre-trial review has been fixed for 11 November 2008. The trial has been fixed for 16 March 2009 to 25 March 2009.

(c) On 17 May 2006, Chinese Regency Limited (of which the beneficial owners are independent third parties) issued a writ of summons against Holyrood, claiming damages for breach of an agreement for sale and purchase of Flat B on the 5th Floor of Block A1 and the car parking space No. 5 of the Peak Road Project. The pleading stage is completed and the litigation is still ongoing. As the amount of damages and claims are to be assessed, no such details are available.

(d) On 1 June 2007, Gateway International Development Limited (of which the beneficial owners are independent third parties) issued a writ of summons against Holyrood, claiming, among others, damages for breach of an agreement for sale and purchase of Flat A on the 6th Floor of Block A2 and the car parking space No. 51 of the Peak Road Project and breach of the Deed of Mutual Covenant. The pleading stage is underway. As the amount of damages and claims are to be assessed, no such details are available.

(e) On 1 June 2007, Sun Crown Trading Limited (of which the beneficial owners are independent third parties) issued a writ of summons against Holyrood, claiming, among others, damages for breach of an agreement for sale and purchase of Flat B on the 6th Floor of Block A2 and the car parking spaces Nos. 47 and 48 of the Peak Road Project and breach of the Deed of Mutual Covenant. The pleading stage is underway and the parties shall seek directions for trial from the court. As the amount of damages and claims are to be assessed, no such details are available.

33. CONTINGENT LIABILITIES (Cont'd)

(f) On 1 June 2007, Trillion Holdings Limited (of which the beneficial owners are independent third parties) issued a writ of summons against Holyrood, claiming, among others, damages for breach of an agreement for sale and purchase of Flat B on the 8th Floor of Block A2 and the car parking spaces Nos. 41 and 42 of the Peak Road Project and breach of the Deed of Mutual Covenant. The pleading stage is underway. As the amount of damages and claims are to be assessed, no such details are available.

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:

	2008	2007
	HK$'000	*HK$'000*
Properties held for sale	**865,137**	767,579
Investment properties	**215,600**	175,500
Leasehold properties	**160,228**	165,101
Bank deposits	**24,984**	21,278
	1,265,949	1,129,458

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 2008 recognised in the consolidated income statement of the Group amounted to HK$40,000 (2007: HK$42,000).

36. RELATED PARTY TRANSACTIONS/CONNECTED TRANSACTIONS

The Group had the following transactions with parties/persons deemed to be "connected persons" by the Stock Exchange which are also the related parties to the Group under the definition of HKAS 24 "Related Party Disclosures".

(a) During the year ended 30 June 2007, the Group paid underwriting commission fee of approximately HK$502,000 (2008: nil) to Goldenfield Equities Limited, a company in which Mr. Chen Te Keung Mike, a director of the Company, has beneficial interest.

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

	2008	2007
	HK$'000	*HK$'000*
Credit facilities granted to the Group	**979,743**	684,000
The Group's payment obligation of amount owed to a former main contractor of the Group's property development project	**–**	15,919
	979,743	699,919

(c) Details of the amount due to a director of the subsidiaries are set out in note 23.

(d) Details of the other loans from related companies in which the directors of the Company and Lilian Oung have controlling interests were set out in note 26(b).

During the year ended 30 June 2008, the Group paid interest of approximately HK$557,000 (2007: nil) to the related companies in which the directors of the Company and Lilian Oung have controlling interests.

36. RELATED PARTY TRANSACTIONS/CONNECTED TRANSACTIONS (Cont'd)

(e) Compensation of key management personnel

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

	2008	2007
	HK\$'000	*HK\$'000*
Short-term employee benefits	**651**	812

The remuneration of directors and key executives are determined by the board of directors after recommendation from the remuneration committee, having regard to the responsibilities of the directors and key executives, the operating results, individual performance and comparable market statistics.

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

	2008	2007
	HK\$'000	*HK\$'000*
Within one year	**8,652**	–
In the second year	**6,264**	–
	14,916	–

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 tenants for a term of two years.

38. POST BALANCE SHEET EVENTS

The following significant events took place subsequent to 30 June 2008:

(a) On 6 September 2008, Fine Chiffon has exercised the options granted by the Group in relation to 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, at a consideration of HK$10,000,000 in substitution for the repayment of the outstanding loan of HK$42,000,000.

(b) On 13 October 2008, shareholders' resolutions have been duly passed at a special general meeting of the Company in relation to the proposed disposal of certain of the Group's leasehold properties (the "Disposal of Properties") to an independent third party at a consideration of HK$176,375,500. The carrying value of the Group's leasehold properties to be disposed of at 30 June 2008 was approximately HK$74,562,000.

In the opinion of the directors of the Company, the estimated net proceeds from the Disposal of Properties is approximately HK$174,250,000 and approximately HK$120,000,000 will be used to repay the Group's mortgage loans and the balance of approximately HK$54,250,000 will be used as the general working capital of the Group.

Details of the Disposal of Properties are set out, inter alia, in the announcement and the circular of the Company dated 26 August 2008 and 26 September 2008, respectively.

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Company are as follows:

Name of subsidiary	Place of incorporation/ registration and operation	Nominal value of issued share capital	Proportion of nominal value of issued share capital held by the Company at 30 June 2007 and 2008		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

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation/ registration and operation	Nominal value of issued share capital	Proportion of nominal value of issued share capital held by the Company at 30 June 2007 and 2008		Principal activities
			Directly	Indirectly	
Alpard Limited	Hong Kong	Ordinary HK$10	–	100%	Property investment and holding
Wayguard Limited	Hong Kong	Ordinary HK$1	–	100%	Property holding
World Modern International Limited	Hong Kong	Ordinary HK$1	–	100%	Property holding

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

\# 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 2008 or at any time during the year.

RESULTS

	Year ended 30 June				
	2004	2005	2006	2007	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	10,808	497,043	3,110	48,298	**88,594**
Profit (loss) before taxation	10,912	224,543	(39,770)	(98,164)	**(45,114)**
Taxation charge	–	–	–	(10,895)	**(5,994)**
Profit (loss) for the year attributable to equity holders of the Company	10,912	224,543	(39,770)	(109,059)	**(51,108)**

ASSETS AND LIABILITIES

	At 30 June				
	2004	2005	2006	2007	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	1,267,018	1,647,694	1,327,114	1,308,991	**1,454,015**
Total liabilities	(1,317,898)	(1,574,834)	(1,294,024)	(1,357,725)	**(1,530,286)**
(Deficiency) balance of shareholders' funds	(50,880)	72,860	33,090	(48,734)	**(76,271)**

Particulars of the properties held by the Group as at 30 June 2008 are as follows:

(a) *Properties held for sale*

Address	**Purpose**	**Remaining unsold units**	**Approximate gross area** *(Sq. ft.)*	**Attributable interest of the Group**
Block A1 Nos. 8, 10 and 12 Peak Road The Peak Hong Kong	Residential	15 units	48,775	100%
Block A2 Nos. 8, 10 and 12 Peak Road The Peak Hong Kong	Residential	5 units	20,078	100%
Block B Nos. 8, 10 and 12 Peak Road The Peak Hong Kong	Residential	1 house	9,215	100%
Car parking spaces Nos. 8, 10 and 12 Peak Road The Peak Hong Kong	Residential	34 units	–	100%
Motorcycle parking spaces Nos. 8, 10 and 12 Peak Road The Peak Hong Kong	Residential	5 units	–	100%

(b) *Leasehold properties*

Address	Purpose	Approximate saleable area *(Sq. ft.)*	Lease term
45th Floor Office Tower Convention Plaza 1 Harbour Road Wanchai Hong Kong (21,061/4,000,000th shares of and in Inland Lot No. 8595)	Commercial	15,450	Long

(c) *Investment properties*

Address	Purpose	Approximate gross area *(Sq. ft.)*	Lease term
Duplex Unit A G/F and 1/F Block A2 Nos. 8, 10 and 12 Peak Road The Peak Hong Kong	Residential	4,227	Long
Unit B, 9/F Block A1 Nos. 8, 10 and 12 Peak Road The Peak Hong Kong	Residential	2,719	Long
Car parking spaces Nos. 8, 10 and 12 Peak Road The Peak Hong Kong	Residential	2 units	Long