Paladin Limited

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

ANNUAL REPORT

2010

Contents

DIRECTORS

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

COMPANY SECRETARY

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

Appleby Management (Bermuda) 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. 13 apartment units have been sold in previous years. During the year, the Group sold 2 apartment units and 2 car parks for approximately HK$172 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 approximately HK$2 million.

Research and development

Sensors Integration Technology Limited, a wholly-owned subsidiary of the Group has planned to conduct research and development of digital camera, camcorder, surveillance, video capturing and processing technology. The plan is on early stage and did not generate any revenue to the Group at this moment.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2010, net current assets of the Group were approximately HK$357 million. The current ratio was 1.76. The pledged bank deposits, bank balances and cash were approximately HK$38 million.

As at 30 June 2010, the Group has outstanding liabilities of approximately HK$1,080 million comprising (i) secured bank borrowings and bank overdrafts of approximately HK$897 million, (ii) amount due to a director of subsidiaries of approximately HK$10 million, (iii) taxation payable of approximately HK$43 million, (iv) provision for litigations of approximately HK$28 million, and (v) other payables and bills payables of approximately HK$102 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 were secured by investment properties, leasehold properties, bank deposits and properties held for sales of approximately HK$1,059 million.

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

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

During the year ended 30 June 2010, the Group had no material acquisitions and disposals of subsidiaries.

As at 30 June 2010, the Group had no material investment.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2010, the Group employed total of 122 employees. They were remunerated according to market conditions.

CONTINGENT LIABILITIES

As at 30 June 2010, there were contingent liabilities in respect of certain legal proceedings against certain subsidiaries of the Company. The aggregate of amount of claims was approximately HK$54 million. In the opinion of the directors, the liabilities were remote and only a provision of approximately HK$28 million has been made in the consolidated financial statements.

DIVIDEND

The Directors of the Company do not recommend the payment of a final dividend (2009: 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
25 October 2010

EXECUTIVE DIRECTORS

Mr. Law Fong, aged 85, joined the Group in 1994. He has over 25 years of experience in the textile industry and 10 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 32, joined the Group in 2004. He has more than 8 years' management and production experience in electronics industry.

NON-EXECUTIVE DIRECTOR

Mr. Oung Shih Hua, James, aged 35, 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 73, 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 49, joined the Group in 2003. She graduated from Mining Chuan University in Taiwan with a bachelor degree in management and has over 20 years of experience in manufacturing, accounting and financial management.

Mr. Kwok Wai Chi, aged 33, 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 2010 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 2010.

BOARD OF DIRECTORS

The Board comprises two executive directors, one non-executive director and three independent non-executive 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 2010.

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	3/4
Chen Te Kuang Mike	3/4
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	3/4

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.

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.

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 2010, fees payable to the auditor of the Group for audit and non-audit services amounted to HK$820,000 and HK$290,000 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 2010. 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 2010, the Audit Committee met mainly to review the Company's annual report for the year ended 30 June 2009 and the Company's interim report for the six months ended 31 December 2009.

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.

During the financial year under review, the Board has reviewed operational and financial report, budgets and business plans in order to ensure the effectiveness and adequacy of the system through the Audit Committee.

The directors present their annual report and the audited consolidated financial statements for the year ended 30 June 2010.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Company's subsidiaries are set out in note 35 to the consolidated financial statements. During the year under review, there were no significant change in the Group's principal activities.

RESULTS

The results of the Group are set out in the consolidated statement of comprehensive income on page 20.

INVESTMENT PROPERTIES

The Group's investment properties were fair valued as at 30 June 2010 by a firm of independent professional property valuers and the gain arising on change in fair value of investment properties of approximately HK$30,000,000 had been credited directly to consolidated statement of comprehensive income. Details of these are set out in note 14 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in property, plant and equipment of the Group are set out in note 15 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company had no reserves available for distribution as at 30 June 2010.

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. Law Fong and Kwok Wai Chi 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 2010, 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 Issuers (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	0.93%
	Held by a controlled corporation *(Note)*	21,035,000	3.92%
		26,035,000	4.85%
Oung Shih Hua, James	Beneficial owner	5,000,000	0.93%

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	0.98%
	Held by a controlled corporation *(Note)*	9,099,014	3.56%
		11,599,014	4.54%
Oung Shih Hua, James	Beneficial owner	2,500,000	0.98%

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 2010, none of the directors, chief executive of the Company nor their associates 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 2010, 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	49.86%

Name of shareholder	Capacity	Number of issued convertible redeemable preference shares held	Percentage of issued convertible redeemable preference shares held
Five Star	Beneficial owner	133,907,508	52.46%
Oung Da Ming	Beneficial owner	50,000,000	19.59%

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 2010, 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

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 33 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. In April 2010, the terms of loan was revised to 201-months with the facility up to HK$260 million after an early partial repayment of the loan.

CONNECTED TRANSACTIONS

Details of the connected transactions entered into during the year are set out in note 33 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.

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 2010 as required under the Listing Rules.

AUDITOR

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

On behalf of the Board
Law Fong
Chairman

Hong Kong
25 October 2010

Deloitte.
德勤

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

We have audited the consolidated financial statements of Paladin Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 20 to 85, which comprise the consolidated statement of financial position as at 30 June 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows 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 affairs of the Group as at 30 June 2010 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.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
25 October 2010

Consolidated Statement of Comprehensive Income

For the Year ended 30 June 2010

	Notes	2010 HK$'000	2009 HK$'000
Turnover	7	**173,567**	77,501
Cost of sales		**(71,598)**	(36,151)
Gross profit		**101,969**	41,350
Other income		**13,858**	13,972
Administrative expenses		**(56,796)**	(42,839)
Research and development costs		**(12,146)**	(12,076)
Gain (loss) arising from change in fair value of investment properties	14	**30,000**	(47,600)
(Loss) gain arising from change in fair value of derivatives financial instruments	26	**(15,660)**	10,100
Gain on disposal of property, plant and equipment		**–**	100,420
Provision for litigations	30(b) & (g)	**(8,622)**	(4,740)
Finance costs	9	**(26,305)**	(34,947)
Profit before taxation		**26,298**	23,640
Taxation (charge) credit	10	**(48,350)**	6,709
(Loss) profit for the year	11	**(22,052)**	30,349
Other comprehensive income			
Exchange differences arising on translation		**643**	(1,472)
Fair value loss on available-for-sale investments		**–**	(1,000)
Other comprehensive income (expenses) for the year		**643**	(2,472)
Total comprehensive (expenses) income for the year		**(21,409)**	27,877
(LOSS) EARNINGS PER SHARE	13		
Basic		**(4.12) HK cents**	5.70 HK cents
Diluted		**(4.12) HK cents**	4.20 HK cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2010

	Notes	2010 HK$'000	2009 HK$'000
Non-current assets			
Investment properties	14	**198,000**	168,000
Property, plant and equipment	15	**84,987**	87,760
Available-for-sale investments	16	**9,500**	9,500
Deposits for acquisition of property, plant and equipment		**834**	1,510
Pledged bank deposits	17	**21,232**	21,178
		314,553	287,948
Current assets			
Properties held for sale	18	**776,281**	846,161
Trade receivables, deposits and prepayments	19	**34,516**	38,060
Bank balances and cash	20	**17,113**	49,947
		827,910	934,168
Current liabilities			
Bills payable	21	**1,718**	–
Other payables and accrued charges	22	**100,010**	143,893
Amount due to a director of subsidiaries	23	**9,516**	11,300
Provision for litigations	30(g) & (h)	**28,274**	–
Taxation payable		**43,400**	–
Bank overdrafts	24	**54,898**	21,812
Secured bank borrowings – amount due within one year	25	**141,924**	118,332
Derivative financial instruments	26	**91,260**	75,600
		471,000	370,937
Net current assets		**356,910**	563,231
		671,463	851,179

At 30 June 2010

	Notes	2010 HK$'000	2009 HK$'000
Capital and reserves			
Share capital	27	**5,372**	5,337
Reserves		**(74,738)**	(53,637)
		(69,366)	(48,300)
Non-current liabilities			
Secured bank borrowings – amount due after one year	25	**700,103**	866,751
Convertible redeemable preference shares	28	**26,741**	23,693
Deferred tax liabilities	29	**13,985**	9,035
		740,829	899,479
		671,463	851,179

The consolidated financial statements on pages 20 to 85 were approved and authorised for issue by the Board of Directors on 25 October 2010 and are signed on its behalf by:

Law Fong	**Chen Te Kuang Mike**
CHAIRMAN	*DIRECTOR*

Consolidated Statement of Changes In Equity

For the Year ended 30 June 2010

	Attributable to equity holders of the Company							
	Share capital	Share premium	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*
			(note a)	*(note b)*				
At 1 July 2008	5,327	1,049	24,947	21,766	(3,088)	3,000	(129,272)	(76,271)
Profit for the year	–	–	–	–	–	–	30,349	30,349
Other comprehensive expenses for the year	–	–	–	–	(1,472)	(1,000)	–	(2,472)
Total comprehensive income for the year	–	–	–	–	(1,472)	(1,000)	30,349	27,877
Issue of shares on conversion of convertible redeemable preference shares	10	231	(147)	–	–	–	–	94
At 30 June 2009	5,337	1,280	24,800	21,766	(4,560)	2,000	(98,923)	(48,300)
Loss for the year	–	–	–	–	–	–	(22,052)	(22,052)
Other comprehensive income for the year	–	–	–	–	643	–	–	643
Total comprehensive expenses for the year	–	–	–	–	643	–	(22,052)	(21,409)
Issue of shares on conversion of convertible redeemable preference shares	35	846	(538)	–	–	–	–	343
At 30 June 2010	5,372	2,126	24,262	21,766	(3,917)	2,000	(120,975)	(69,366)

Notes:

(a) The capital reserve represents the equity component of convertible redeemable preference shares issued during both years.

(b) 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 Statement of Cash Flows

For the Year ended 30 June 2010

	2010	2009
	HK$'000	*HK$'000*
OPERATING ACTIVITIES		
Profit before taxation	**26,298**	23,640
Adjustments for:		
Depreciation of property, plant and equipment	**3,623**	3,620
Finance costs	**26,305**	34,947
Interest income	**(1,217)**	(534)
(Gain) loss arising from change in fair value of investment properties	**(30,000)**	47,600
Loss (gain) arising from change in fair value of derivative financial instruments	**15,660**	(10,100)
Gain arising from disposal of property, plant and equipment	**–**	(100,420)
Provision for litigations	**8,622**	4,740
Operating cash flows before movements in working capital	**49,291**	3,493
Decrease in properties held for sale	**69,880**	36,152
Decrease in trade receivables, deposits and prepayments	**625**	53,483
Increase in bills payable	**1,718**	–
(Decrease) increase in other payables and accrued charges	**(20,687)**	8,732
Cash from operations	**100,827**	101,860
Income taxes paid	**–**	(1,490)
NET CASH FROM OPERATING ACTIVITIES	**100,827**	100,370
INVESTING ACTIVITIES		
Interest received	**1,217**	534
Purchase of property, plant and equipment	**(167)**	(5,397)
Proceed from disposal of property, plant and equipment	**–**	176,430
(Increase) decrease in pledged bank deposits	**(54)**	3,806
NET CASH FROM INVESTING ACTIVITIES	**996**	175,373
FINANCING ACTIVITIES		
Interest paid	**(22,914)**	(31,980)
Bank borrowings raised	**–**	145,000
Repayment of bank borrowings	**(143,056)**	(246,218)
Repayment of other loans	**–**	(65,563)
Repayment to a director of subsidiaries	**(1,784)**	(56,987)
NET CASH USED IN FINANCING ACTIVITIES	**(167,754)**	(255,748)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(65,931)**	19,995
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**28,135**	8,313
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**11**	(173)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**(37,785)**	28,135
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	**17,113**	49,947
Bank overdrafts	**(54,898)**	(21,812)
	(37,785)	28,135

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 consolidated financial statements are presented in Hong Kong dollars ("HK$" or "HKD") which is the same as the functional currency of the Company.

The Company is an investment holding company. Its principal subsidiaries are engaged in investment holding, property development and investment, and indent trading of yarn and copper.

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$69,366,000 as at 30 June 2010 and the contingent liabilities for the outstanding litigations as disclosed in note 30.

Taking into account the available unutilised bank credit facility of HK$94,944,000 (2009: HK$233,994,000) as at 30 June 2010 and the estimated proceeds from sales of developed properties, 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 and accordingly, the consolidated financial statements have been prepared on a going concern basis.

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

In the current year, the Group has applied the following new and revised standards, amendments and interpretations ("New and Revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendments to HKFRS 2, HKAS 38, paragraph 80 of HKAS 39, HK(IFRIC*) – INT 9 and HK(IFRIC) – INT 16
HKAS 1 (Revised 2007)	Presentation of financial statements
HKAS 23 (Revised 2007)	Borrowing costs
HKAS 27 (Revised)	Consolidated and separate financial statements
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation
HKAS 39 (Amendment)	Eligible hedged items
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate
HKFRS 2 (Amendment)	Vesting conditions and cancellations
HKFRS 3 (Revised)	Business combinations
HKFRS 7 (Amendment)	Improving disclosures about financial instruments
HKFRS 8	Operating segments
HK(IFRIC) – INT 9 & HKAS 39 (Amendments)	Embedded derivatives
HK(IFRIC) – INT 15	Agreements for the construction of real estate
HK(IFRIC) – INT 16	Hedges of a net investment in a foreign operation
HK(IFRIC) – INT 17	Distributions of non-cash assets to owners
HK(IFRIC) – INT 18	Transfers of assets from customers

* IFRIC represents the International Financial Reporting Interpretations Committee.

The Group applies HKFRS 3 (Revised) "Business combinations" prospectively to business combinations for which the acquisition date is on or after 1 July 2009. The requirements in HKAS 27 (Revised) "Consolidated and separate financial statements" in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 July 2009.

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

As there was no transaction during the year in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs are applicable.

Except as described below, the adoption of the New and Revised HKFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

New and Revised HKFRSs affecting presentation and disclosure only

HKAS 1 (Revised 2007) Presentation of financial statements

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the consolidated financial statements) and changes in the format and content of the consolidated financial statements.

HKFRS 8 Operating segments

In the year, the Group has adopted HKFRS 8 "Operating segments". HKFRS 8 requires the presentation of operating segments in a manner consistent with the internal reports that are regularly reviewed by the Group's chief operating decision maker. HKFRS 8 replaces HKAS 14 "Segment reporting" which required an entity to identify two sets of segments (business and geographical). The adoption of HKFRS 8 has not resulted in redesignation of the Group's reportable segments (see note 8 for details).

Improving disclosures about financial instruments (Amendments to HKFRS 7 Financial instruments: Disclosures)

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

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

The Group has not early applied the following New and Revised HKFRSs that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs 2009[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2010[2]
HKAS 24 (Revised)	Related party disclosures[6]
HKAS 32 (Amendment)	Classification of rights issues[4]
HKFRS 1 (Amendment)	Additional exemptions for first-time adopters[3]
HKFRS 1 (Amendment)	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters[5]
HKFRS 2 (Amendment)	Group cash-settled share-based payments transactions[3]
HKFRS 9	Financial instruments[7]
HK(IFRIC) – INT 14 (Amendment)	Prepayments to a minimum funding requirement[6]
HK(IFRIC) – INT 19	Extinguishing financial liabilities with equity instruments[5]

1 Amendments that are effective for annual periods beginning on or after 1 January 2010.

2 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.

3 Effective for annual periods beginning on or after 1 January 2010.

4 Effective for annual periods beginning on or after 1 February 2010.

5 Effective for annual periods beginning on or after 1 July 2010.

6 Effective for annual periods beginning on or after 1 January 2011.

7 Effective for annual periods beginning on or after 1 January 2013.

HKFRS 9 "Financial Instruments" introduces new requirements for the classification and measurement of financial assets and will be effective from the Group's annual reporting period beginning 1 July 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 "Financial instruments: recognition and measurement" to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flow and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The directors of the Company anticipate that the application of the other New and Revised HKFRSs will have no material impact on the consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). 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 statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and properties sold, rental income and services rendered in the normal course of business, net of discounts and sales related taxes.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue recognition (Cont'd)

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 on initial recognition.

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.

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 profit or loss in the period 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 profit or loss in the period in which the item is derecognised.

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Properties held for sale

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

Financial instruments

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

Financial assets

The Group's financial assets are classified into two categories including loans and receivables and available-for-sale financial assets.

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 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 to the net carrying amount on initial recognition.

Interest 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. 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).

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Available-for-sale financial assets

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

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in investment revaluation reserve is reclassified to profit or loss (see accounting policy on impairment loss on financial assets below).

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 the end of the reporting period (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 the end of the reporting period. 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 an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Impairment of financial assets (Cont'd)

For certain categories of financial asset, such as trade 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.

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 loss 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

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.

The Group's financial liabilities are generally classified into other financial liabilities.

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 (including all fees 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 liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

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).

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial liabilities and equity (Cont'd)

Convertible redeemable preference shares (Cont'd)

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.

Other financial liabilities

Other financial liabilities (including bills payable, other payables, amount due to a director of subsidiaries, bank overdrafts, secured bank borrowings and other loans) are subsequently measured at amortised cost, using the effective interest method.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Equity instruments

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

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

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 in other comprehensive income 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 loss on tangible assets

At the end of the reporting period, 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 any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. 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.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

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 the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Foreign currencies (Cont'd)

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period, 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 in other comprehensive income and accumulated in equity (the translation reserve).

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 statement of comprehensive income 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 end of the reporting period.

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 statement of financial position 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 associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Taxation (Cont'd)

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

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 statement of comprehensive income 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 except for those that are classified and accounted for as investment properties under the fair value model.

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.

5. 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 and secured bank borrowings as disclosed in notes 23, 24 and 25, 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.

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2010	2009
	HK$'000	*HK$'000*
Financial assets		
Loans and receivables (including cash and cash equivalents)		
– trade receivables and deposits	**33,864**	37,528
– pledged bank deposits	**21,232**	21,178
– bank balances and cash	**17,113**	49,947
	72,209	108,653
Available-for-sale financial assets		
– available-for-sale investments	**9,500**	9,500
Financial liabilities		
At amortised cost		
– bills payable	**1,718**	–
– other payables	**15,036**	14,523
– amount due to a director of subsidiaries	**9,516**	11,300
– bank overdrafts	**54,898**	21,812
– bank borrowings	**842,027**	985,083
– convertible redeemable preference shares	**26,741**	23,693
	949,936	1,056,411
Fair value through profit or loss		
– derivative financial instruments	**91,260**	75,600

6. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies

The Group's financial instruments include available-for-sale investments, trade receivables and deposits, pledged bank deposits, bank balances and cash, bills payable, other payables, amount due to a director of subsidiaries, bank overdrafts, secured bank borrowings, derivative financial instruments 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.

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:

	2010	2009
	HK$'000	*HK$'000*
Assets		
United States Dollars ("USD")	**12,206**	23,850
Liabilities		
USD	**1,718**	–

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 on USD has been prepared.

6. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Market risk (Cont'd)

Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to floating-rate bank overdrafts and secured bank borrowings (see notes 24 and 25 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 exposed to fair value interest rate risk in relation to fixed-rate pledged bank deposits. The directors of the Company consider the Group's exposure of the fixed-rate pledged bank deposits to fair value interest rate risk is not significant as the interest rates are repriced every three months.

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. Accordingly, no sensitivity analysis on short-term bank deposits is presented.

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") and Hong Kong dollars Prime Rate 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 and secured bank borrowings at the end of the reporting period 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 end of the reporting period was outstanding for the whole year. A 50 basis point (2009: 50 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates on floating-rate bank overdrafts and secured bank borrowings had been 50 basis points (2009: 50 basis points) higher/lower and all other variables were held constant, the loss for the year ended 30 June 2010 would increase/decrease by approximately HK$3,745,000 (2009: profit would decrease/increase by approximately HK$4,204,000). This is mainly attributable to the Group's exposure to interest rates on floating-rate bank overdrafts and secured bank borrowings.

6. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Market risk (Cont'd)

Other price risk

The Group's available-for-sale investments and derivative financial instruments exposed the Group to other price risks. Details of the available-for-sale investments and derivative financial instruments are set out in notes 16 and 26 respectively.

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

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to other price risks at the end of the reporting period. 5% (2009: 5%) increase or decrease is used when reporting exposure to other price risk internally to key management personnel and represents management's assessment of the reasonably possible change in price.

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

If the prices of the available-for-sale debt investment had been 5% (2009: 5%) higher/lower, investment revaluation reserve for the year ended 30 June 2010 would increase/decrease by HK$475,000 (2009: increase/decrease by HK$475,000) as a result of the changes in fair value of available-for-sale investments.

(ii) Price risk of derivative financial instruments

If the market price of the underlying leasehold property interests had been 5% higher/lower and other inputs were held constant, loss for the year ended 30 June 2010 would increase/decrease by HK$4,563,000 (2009: profit for the year would decrease/increase by HK$3,780,000) as a result of the changes in fair value of the derivatives.

6. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at the end of the reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. 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 the end of the reporting period 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.

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$12,041,000 (2009: HK$23,685,000) was from a few customers. In order to minimise the credit risk, the management of the Group has reviewed the recoverable amount of each individual trade receivable regularly 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.

Available-for-sale debt investments with carrying value of approximately HK$9,500,000 (2009: HK$9,500,000) was the debenture issued by The Hong Kong Golf Club. However, having consider the strong financial background of the debenture issuer, the management believes there is no significant risk.

6. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

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 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. 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.

6. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Liquidity risk (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 2010									
Non-derivative financial liabilities									
Bills payable	N/A	–	1,718	–	–	–	–	1,718	1,718
Other payables	N/A	15,036	–	–	–	–	–	15,036	15,036
Amount due to a director of subsidiaries	N/A	9,516	–	–	–	–	–	9,516	9,516
Bank overdrafts	5.25%	54,898	–	–	–	–	–	54,898	54,898
Secured bank borrowings	4.56%	75,013	27,864	75,695	80,758	266,279	468,353	993,962	842,027
Convertible redeemable preference shares	N/A	–	–	–	–	–	63,819	63,819	26,741
		154,463	29,582	75,695	80,758	266,279	532,172	1,138,949	949,936
Derivative financial instruments	N/A	91,260	–	–	–	–	–	91,260	91,260
As at 30 June 2009									
Non-derivative financial liabilities									
Other payables	N/A	14,523	–	–	–	–	–	14,523	14,523
Amount due to a director of subsidiaries	N/A	11,300	–	–	–	–	–	11,300	11,300
Bank overdrafts	5.38%	21,812	–	–	–	–	–	21,812	21,812
Secured bank borrowings	4.36%	10,099	20,199	128,984	156,414	268,760	615,064	1,199,520	985,083
Convertible redeemable preference shares	N/A	–	–	–	–	–	64,701	64,701	23,693
		57,734	20,199	128,984	156,414	268,760	679,765	1,311,856	1,056,411
Derivative financial instruments	N/A	75,600	–	–	–	–	–	75,600	75,600

6. FINANCIAL INSTRUMENTS (Cont'd)

Fair value

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

- the fair value of club debentures and available-for-sale debt investments are determined with reference to market price;
- the fair value of loans and receivables and financial liabilities (excluding derivative financial instruments) 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 derivative financial instruments are estimated with reference to market price of the underlying leasehold property. Details are set out in note 26.

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.

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

6. FINANCIAL INSTRUMENTS (Cont'd)

Fair value (Cont'd)

Fair value measurements recognised in the consolidated statement of financial position (Cont'd)

	30 June 2010		
	Level 1	**Level 2**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Available-for-sale financial assets			
Club debenture	9,500	–	9,500
Financial liabilities at FVTPL			
Derivative financial instruments	–	91,260	91,260

There were no transfers between Level 1 and 2 in the current year.

7. TURNOVER

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

	2010	2009
	HK$'000	*HK$'000*
Sales of properties held for sale	**171,800**	77,462
Service income from indent trading of merchandise	**1,767**	39
	173,567	77,501

8. SEGMENT INFORMATION

The Group has adopted HKFRS 8 Operating Segments with effect from 1 July 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker ("CODM") for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor Standard (HKAS 14, Segment Reporting) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach, with the entity's "system of internal financial reporting to key management personnel" serving only as the starting point for the identification of such segments.

Under HKFRS 8, reported segment information is based on internal management reporting information that is regularly reviewed by the chairman of board of directors. The chairman of board of directors assesses segment profit or loss using a measure of operating profit.

The Group's operating and reportable segments under HKFRS 8 are: (a) property development; (b) property investment and (c) indent trading of merchandise. The adoption of HKFRS 8 has not resulted in designation or change in the measurement of the segment result, assets and liabilities of the Group's reportable operating segments.

8. SEGMENT INFORMATION (Cont'd)

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable operating segment:

For the year ended 30 June 2010

	Property development	Property investment	Indent trading of merchandise	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover					
External	**171,800**	**–**	**1,767**	**–**	**173,567**
Segment result	**101,920**	**29,184**	**49**	**–**	**131,153**
Other income					**13,858**
Loss arising on changes in fair value of derivative financial instruments					**(15,660)**
Provision for litigations					**(8,622)**
Research and development costs					**(12,146)**
Unallocated corporate expenses					**(55,980)**
Finance costs					**(26,305)**
Profit before taxation					**26,298**

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment result represents the result incurred by each segment without allocation of loss arising on changes in fair value of derivative financial instruments, provision for litigations, research and development costs, corporate income and expenses, finance costs and taxation. This is the measure reported to the chairman of board of directors, the Group's chief operating decision maker, for the purposes of resource allocation and performance assessment.

8. SEGMENT INFORMATION (Cont'd)

Segment revenue and results (Cont'd)

For the year ended 30 June 2009

	Property development *HK$'000*	Property investment *HK$'000*	Indent trading of merchandise *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
Turnover					
External	77,462	–	39	–	77,501
Segment result	33,220	(47,994)	(753)	–	(15,527)
Other income					534
Gain arising on fair value change of derivative financial instruments					10,100
Gain on disposal of property, plant and equipment					100,420
Provision for litigations					(4,740)
Research and development costs					(12,076)
Unallocated corporate expenses					(20,124)
Finance costs					(34,947)
Profit before taxation					23,640

8. SEGMENT INFORMATION (Cont'd)

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable operating segment:

	2010	2009
	HK$'000	*HK$'000*
Segment assets		
Property development	**859,529**	933,077
Property investment	**198,339**	168,497
Indent trading of merchandise	**12,041**	23,685
Total segment assets	**1,069,909**	1,125,259
Available-for-sale investments	**9,500**	9,500
Pledged bank deposits	**21,232**	21,178
Bank balances and cash	**17,113**	49,947
Unallocated	**24,709**	16,232
Consolidated assets	**1,142,463**	1,222,116
Segment liabilities		
Property development	**132,450**	133,170
Property investment	**5,174**	1,834
Indent trading of merchandise	**2,824**	1,104
Total segment liabilities	**140,448**	136,108
Bank overdrafts	**54,898**	21,812
Secured bank borrowings	**842,027**	985,083
Derivative financial instruments	**91,260**	75,600
Taxation payable	**43,400**	–
Unallocated	**39,796**	51,813
Consolidated liabilities	**1,211,829**	1,270,416

8. SEGMENT INFORMATION (Cont'd)

Segment assets and liabilities (Cont'd)

For the purposes of monitoring segment performances and allocating resources between segments:

– all assets are allocated to reportable segments other than available-for-sale investments, pledged bank deposits, bank balances and cash and assets used jointly by reportable segments.

– all liabilities are allocated to reportable segments other than deferred tax liabilities, secured bank borrowings, derivative financial instruments and liabilities for which reportable segments are jointly liable.

Other segment information

For the year ended 30 June 2010

	Property development *HK$'000*	**Property investment** *HK$'000*	**Indent trading of merchandise** *HK$'000*	**Unallocated** *HK$'000*	**Consolidated** *HK$'000*
Amounts included in the measure of segment asset or segment result:					
Capital additions	**843**	**–**	**–**	**–**	**843**
Depreciation	**3,088**	**110**	**–**	**425**	**3,623**

For the year ended 30 June 2009

	Property development *HK$'000*	Property investment *HK$'000*	Indent trading of merchandise *HK$'000*	Unallocated *HK$'000*	Consolidated *HK$'000*
Amounts included in the measure of segment asset or segment result:					
Capital additions	4	–	–	3,883	3,887
Depreciation	3,290	110	–	220	3,620

8. SEGMENT INFORMATION (Cont'd)

Other entity-wide information

The Group's operations are located in Hong Kong and People's Republic of China ("PRC").

The Group's revenue from external customers based on the location of customers and information about its non-current assets by geographical location of the assets are detailed below:

	2010	
	Revenue from external customers	**Non-current assets**
	HK$'000	***HK$'000***
Hong Kong (Place of domicile)	**171,800**	**283,821**
PRC	**1,767**	**–**
	173,567	**283,821**

Note: Non-current assets excluded available-for-sale investments and pledged bank deposits.

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2010	2009
	HK$'000	*HK$'000*
Customer A[1]	**171,800**	–
Customer B[1]	**–**	77,472
	171,800	77,472

[1] Revenue from property development.

9. FINANCE COSTS

	2010	2009
	HK$'000	*HK$'000*
Interest on bank borrowings:		
– wholly repayable within five years	**5,923**	2,955
– not wholly repayable within five years	**14,664**	28,430
Interest on other loans	**2,327**	595
Finance costs on convertible redeemable preference shares *(note 28)*	**3,391**	2,967
	26,305	34,947

10. TAXATION (CHARGE) CREDIT

The credit (charge) comprises:

	2010	2009
	HK$'000	*HK$'000*
Current tax:		
Hong Kong Profits Tax for the year	**–**	(1,000)
Other jurisdictions	**–**	(490)
	–	(1,490)
(Underprovision)/overprovision in prior years:		
Hong Kong Profits Tax	**(43,400)**	345
Deferred taxation *(note 29)*		
(Charge) credit for the year	**(4,950)**	7,854
Tax (charge) credit attributable to the Company and its subsidiaries	**(48,350)**	6,709

10. TAXATION (CHARGE) CREDIT (Cont'd)

In August 2007, January 2009 and February 2010, a subsidiary of the Company received the Assessment Demanding Final Tax (the "Assessments") for the year of assessments of 2006/2007, 2007/2008 and 2008/2009 from Hong Kong Inland Revenue Department ("IRD") respectively. By issuing the Assessments, the IRD disagreed the basis adopted by this subsidiary for computation of Hong Kong Profits Tax liability. In addition, the IRD disagreed the tax losses brought forward of this subsidiary for the year of assessments from 1997/1998 to 1999/2000 and 2004/2005 to 2005/2006 with aggregated amount of approximately HK$279,990,000 as at 30 June 2010.

The Group has lodged objections against the Assessments received from IRD in September 2007, January 2009 and March 2010 respectively. The IRD has agreed to holdover the tax in dispute of approximately HK$136,154,000 unconditionally during the year ended 30 June 2010. The IRD has advised that the case is submitted to the commissioner for determination which means the profits assessed could be adjusted upward or downward depending on the exact basis and calculation that are to be adopted in the determination.

As at 30 June 2009, the directors of the Company considered that, the Group had grounds to appeal against the above determinations. Also, the amount and timing of potential tax liabilities, if any, could not be readily and reliably ascertained at that stage due to insufficient information. As a result, except for the tax provision made amounting to HK$1,000,000, no provision for Hong Kong Profits Tax has been made in 2009. During the year ended 30 June 2010, the Group has submitted further information to the IRD and IRD has issued revised assessment for the year 2008/2009. As the directors of the Company have now obtained more relevant information, a further tax provision of HK$43,400,000 has been made in the current year. In any event, the directors of the Company reiterated that they considered that the Group had grounds to appeal against the above assessments.

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

	2010	2009
	HK$'000	*HK$'000*
Profit before taxation	**26,298**	23,640
Tax charge at Hong Kong Profits Tax rate of 16.5% (2009: 16.5%)	**(4,339)**	(3,900)
Tax effect of income not taxable for tax purpose	**5,921**	18,556
Tax effect of expenses not deductible for tax purpose	**(19,470)**	(22,218)
Tax effect of unrealised intragroup profits on properties held for sale not recognised	**10,580**	5,024
Utilisation of tax losses previously not recognised	**2,358**	8,902
Underprovision in respect of prior years	**(43,400)**	–
Overprovision in respect of prior years	**–**	345
Tax (charge) credit for the year	**(48,350)**	6,709

11. (LOSS) PROFIT FOR THE YEAR

	2010	2009
	HK$'000	*HK$'000*
(Loss) profit for the year has been arrived at after charging:		
Directors' emoluments *(note 12)*	**980**	1,260
Other staff costs, including retirement benefit scheme contributions	**8,377**	7,653
Total staff costs	**9,357**	8,913
Auditor's remuneration	**820**	820
Cost of properties sold	**69,880**	36,151
Depreciation of property, plant and equipment	**3,623**	3,620
Legal and professional fee (included in administrative expenses)	**11,996**	10,061
Net exchange loss	**156**	–
and after crediting:		
Gross rental income from investment properties	**–**	–
Less: Direct expenses that generated rental income during the year	**–**	–
Less: Direct expenses not generated rental income during the year	**(816)**	(394)
	(816)	(394)
Net exchange gain	**–**	2,367
Interest income	**1,217**	534

12. 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 (2009: six) directors were as follows:

	2010						
	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**	**60**	**144**	**382**
Other emoluments:							
Salaries and other benefits	**118**	**240**	**240**	**–**	**–**	**–**	**598**
Retirement benefit scheme contributions	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	118	**240**	**240**	**–**	**–**	**–**	**598**
Total	**236**	**240**	**240**	**60**	**60**	**144**	**980**

	2009						
	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	–	–	30	40	144	332
Other emoluments:							
Salaries and other benefits	118	380	400	30	–	–	928
Retirement benefit scheme contributions	–	–	–	–	–	–	–
	118	380	400	30	–	–	928
Total	236	380	400	60	40	144	1,260

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

(b) Employees' emoluments

During the year, the five highest paid individuals of the Group included three (2009: two) directors, details of whose emoluments are set out in (a) above. The emoluments of the remaining two (2009: three) individuals are as follows:

	2010	2009
	HK$'000	*HK$'000*
Salaries and other benefits	**213**	343
Retirement benefit scheme contributions	**10**	17
	223	360

The emoluments of these employees fall within the following band:

	Number of employees	
	2010	2009
Nil to HK$1,000,000	**2**	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.

13. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share attributable to the owners of the Company is based on the following data:

	For the year ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
(Loss) earnings		
(Loss) earnings for the purposes of basic (loss) earnings per share	**(22,052)**	30,349
Effect of dilutive potential ordinary shares:		
Interest on convertible redeemable preference shares	**–**	2,967
(Loss) earnings for the purposes of diluted (loss) earnings per share	**(22,052)**	33,316

	2010	2009
Number of share		
Weighted average number of shares for the purpose of calculating basic (loss) earnings per share	**535,017,924**	532,722,896
Effect of dilutive potential ordinary shares:		
Convertible preference shares	**–**	259,763,430
Weighted average number of shares for the purpose of calculating diluted (loss) earnings per share	**535,017,924**	792,486,326

The calculation of diluted loss per share for the year ended 30 June 2010 has not assumed the conversion of the Company's outstanding convertible redeemable preference shares which would reduce the loss per share.

14. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1 July 2008	215,600
Decrease in fair value recognised in profit or loss	(47,600)
At 30 June 2009	168,000
Increase in fair value recognised in profit or loss	30,000
At 30 June 2010	198,000

The fair value of the Group's investment properties as at 30 June 2010 has been arrived at on the basis of a valuation carried out on that day by Messrs. Savills Valuation and Professional Services Limited, the independent qualified professional property valuers not connected with the Group. Messrs. Savills Valuation and Professional Services Limited are members of the Hong Kong Institute of Surveyors, and have appropriate qualification. The valuation was 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. They were pledged to secure banking facilities granted to the Group.

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold properties *HK$'000*	Leasehold improvements *HK$'000*	Office equipment, furniture and fixtures *HK$'000*	Total *HK$'000*
COST				
At 1 July 2008	211,500	14,555	12,025	238,080
Additions	–	1,296	2,591	3,887
Disposal	(98,421)	(14,555)	(1,759)	(114,735)
Exchange realignment	–	–	(69)	(69)
At 30 June 2009	113,079	1,296	12,788	127,163
Additions	–	726	115	841
Exchange realignment	–	–	1	1
At 30 June 2010	113,079	2,022	12,904	128,005
DEPRECIATION				
At 1 July 2008	51,272	14,555	8,686	74,513
Provided for the year	3,014	110	496	3,620
Eliminated on disposal	(24,166)	(14,555)	(4)	(38,725)
Exchange realignment	–	–	(5)	(5)
At 30 June 2009	30,120	110	9,173	39,403
Provided for the year	2,632	292	699	3,623
Exchange realignment	–	–	(8)	(8)
At 30 June 2010	32,752	402	9,864	43,018
CARRYING VALUES				
At 30 June 2010	80,327	1,620	3,040	84,987
At 30 June 2009	82,959	1,186	3,615	87,760

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.

15. 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.

On 21 October 2008, the Group disposed of certain of the Group's leasehold properties and furniture to an independent third party at a consideration of HK$176,376,000. The carrying value of the Group's leasehold properties disposed of at the disposal date was approximately HK$75,956,000. A gain of disposal of HK$100,420,000 has been recognised in profit or loss during the year ended 30 June 2009.

16. AVAILABLE-FOR-SALE INVESTMENTS

	2010	2009
	HK$'000	*HK$'000*
Club debenture, at market value	**9,500**	9,500
Unlisted equity investment, at cost	**15,777**	15,777
Less: Impairment loss recognised	**(15,777)**	(15,777)
	9,500	9,500

At 30 June 2010, the above unlisted investments comprised (i) 40% equity 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$9,500,000 (2009: HK$9,500,000).

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

The unlisted equity investment is measured at cost less impairment at the end of the reporting period 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.

17. 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 0.14% (2009: 0.85%) per annum.

18. PROPERTIES HELD FOR SALE

At 30 June 2010 and 2009, the properties held for sale are stated at cost. The amounts of properties held for sale that are expected by the management to be realised after more than twelve months after the end of the reporting period are HK$706,795,000 (2009: HK$776,675,000)

19. TRADE RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2010	2009
	HK$'000	*HK$'000*
Receivables of service rendered in indent trading	**12,041**	23,685
Security deposit paid to court (note 30(b))	**975**	7,260
Deposits and prepayments	**21,500**	7,115
	34,516	38,060

The following is an aged analysis of receivables of service rendered in indent trading at the end of the reporting periods:

	2010	2009
	HK$'000	*HK$'000*
0 to 60 days	**1,766**	–
61 to 120 days	**–**	–
121 days to 1 year	**–**	23,685
Over 1 year	**10,275**	–
	12,041	23,685

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

The Group allows a 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$10,275,000 (2009: HK$23,685,000) 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 end of the reporting periods.

	2010	2009
	HK$'000	*HK$'000*
Past due 1 to 90 days	**–**	23,685
Past due 91 days to 1 year	**–**	–
Past due over 1 year	**10,275**	–
	10,275	23,685

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, all of the receivables of service rendered in indent trading as at 30 June 2010 and 2009 which are past due but not impaired are generally collectable.

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

	2010	2009
	HK$'000	*HK$'000*
USD	**12,041**	23,685

20. 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 0.001% to 0.4% (2009: 0.02% to 3.94%) 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.

	2010	2009
	HK$'000	*HK$'000*
USD	**2,168**	2,323

21. BILLS PAYABLE

At 30 June 2010, the bills payable are aged within 60 days (2009: nil) and dominated in USD.

22. OTHER PAYABLES AND ACCRUED CHARGES

	2010	2009
	HK$'000	*HK$'000*
Rental deposits received	**3,262**	2,960
Sales deposits received	**858**	25,898
Accruals	**36,517**	30,249
Accrued construction costs	**44,337**	70,274
Other payables	**15,036**	14,523
	100,010	143,904

The Group's other payable are all denominated in Hong Kong dollars.

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, i.e. 5.25% (2009: 5.25% to 5.5%) per annum and secured by certain apartments of the Group's properties held for sale.

25. SECURED BANK BORROWINGS

	2010	2009
	HK$'000	*HK$'000*
Mortgage loans	**767,027**	910,083
Bank loan	**75,000**	75,000
	842,027	985,083
Less: Amount due within one year shown under current liabilities	**(141,924)**	(118,332)
Amount due after one year	**700,103**	866,751

At the end of the reporting period, the Group's bank borrowings are repayable as follows:

	2010	2009
	HK$'000	*HK$'000*
Within one year	**141,924**	118,332
In more than one year but not more than two years	**40,598**	44,247
In more than two years but not more than three years	**113,995**	45,150
In more than three years but not more than four years	**85,447**	118,420
In more than four years but not more than five years	**31,092**	89,449
Over five years	**428,971**	569,485
	842,027	985,083

25. SECURED BANK BORROWINGS (Cont'd)

At 30 June 2009, the mortgage loans comprised (i) a mortgage loan with a principal amount of HK$260,000,000 that shall be repayable by 201 monthly instalments and carries interest at a rate of 2.35% per annum below the Hong Kong dollars Prime Rate; (ii) a mortgage loan with a principal amount of HK$30,000,000 that shall be repayable by 300 monthly instalments and carries interest at a rate of 2.65% per annum below the Hong Kong dollars Prime Rate; (iii) a mortgage loan with a principal amount of HK$32,000,000 that shall be repayable by 300 monthly instalments and carries interest at a rate of 2.5% per annum below the Hong Kong dollars Prime Rate; (iv) a mortgage loan with a principal amount of HK$70,000,000 that shall be repayable by 300 monthly instalments and carries interest at a rate of 2.6% per annum below the Hong Kong dollars Prime Rate; (v) a mortgage loan with a principal amount of HK$69,300,000 that shall be repayable by 240 monthly instalments and carries interest at a rate of 1.25% per annum above HIBOR; (vi) a mortgage loan with a principal amount of HK$61,100,000 that shall be repayable by 240 monthly instalments and carries interest at a rate of 1.25% per annum above HIBOR; and (vii) a mortgage loan with a principal amount of HK$32,000,000 that shall be repayable by 300 monthly instalments and carries interest at a rate of 2.5% per annum below the Hong Kong dollars Prime Rate; (viii) a mortgage loan with a principal amounting to HK$110,000,000 that shall be repayable by 60 monthly instalments and carries interest at a rate of 1.2% per annum over HIBOR; (ix) a mortgage loan with a principal amount HK$100,000,000 that shall be repayable by 234 monthly instalments and carries interest at a rate of 2.25% per annum below the Hong Kong dollars Prime Rate; and (x) a mortgage loan with a principal of HK$70,000,000 that shall be repayable by 60 monthly instalments and carries interest at a rate of 1.2% per annum over HIBOR.

The Group did not obtain additional bank loan or mortgage loan during the year ended 30 June 2010.

The range of effective interest rates of the Group's bank borrowings were 0.84% to 5.31% (2009: 1.30% to 6.17%) 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.

The Group's bank borrowings are all denominated in Hong Kong dollars.

26. DERIVATIVE FINANCIAL INSTRUMENTS

	2010	2009
	HK$'000	*HK$'000*
Derivative financial instruments – fair value	**91,260**	75,600

On 5 April 2006, Banhart Company Limited ("Banhart"), a subsidiary of the Company, entered into a loan agreement with Fine Chiffon Corporation Limited ("Fine Chiffon") to obtain a non-interest bearing loan facility of HK$42,000,000. The loan is unsecured, non-interest bearing and non-revolving in nature. The loan shall be repayable on or before 6 September 2008.

In addition, Banhart also granted two options to Fine Chiffon for purchasing (i) part of the Company's investment property 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 non-interest bearing loan at the end of the loan period. Fine Chiffon is entitled to exercise the options at any time prior to the maturity date and the options are non-transferable.

On 6 September 2008, Fine Chiffon exercised the options. Accordingly, a derivative is recognized at the amount expected to be settled at the transfer date, which is estimated with reference to the market price of the underlying leasehold property. Upon the exercise of the two options, the loan from Fine Chiffon of HK$42,000,000 and the fair value of the two options of HK$43,700,000 at the exercise date were derecognised and became the initial cost of the derivative financial instruments. A fair value gain of HK$ 10,100,000 was recognised in profit or loss during the period from 6 September 2008 to 30 June 2009.

In the current year, a fair value loss of HK$15,660,000 was recognised in profit or loss during the year ended 30 June 2010.

Up to present, Banhart is in negotiation with Fine Chiffon in relation to the timing for transferring the benefits of those assets to Fine Chiffon.

27. SHARE CAPITAL

	Nominal value per share *HK$*	Numbers of shares	Amount *HK$'000*
Authorised:			
At 1 July 2008, 30 June 2009 and 30 June 2010	0.01	50,000,000,000	500,000
Issued and fully paid:			
At 1 July 2008	0.01	532,643,992	5,327
Issue of shares on conversion of convertible redeemable preference shares		960,000	10
At 30 June 2009 and 1 July 2009	0.01	533,603,992	5,337
Issue of shares on conversion of convertible redeemable preference shares		3,527,500	35
At 30 June 2010	0.01	537,131,492	5,372

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

28 CONVERTIBLE REDEEMABLE PREFERENCE SHARES

	Number of preference shares	Amount of par value *HK$'000*
Authorised:		
At 1 July 2008, 30 June 2009 and 30 June 2010	1,270,000,000	12,700
Issued and fully paid:		
At 1 July 2008	259,763,430	2,597
Conversion of issued convertible redeemable preference shares into ordinary shares	(960,000)	(10)
At 30 June 2009	258,803,430	2,587
Conversion of issued convertible redeemable preference shares into ordinary shares	(3,527,500)	(35)
At 30 June 2010	255,275,930	2,552

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*
At 1 July 2008	20,820	24,947	45,767
Conversion of convertible redeemable preference shares	(94)	(147)	(241)
Interest charged for the year	2,967	–	2,967
At 30 June 2009	23,693	24,800	48,493
Conversion of convertible redeemable preference shares	(343)	(538)	(881)
Interest charged for the year	3,391	–	3,391
At 30 June 2010	26,741	24,262	51,003

28 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.

28 CONVERTIBLE REDEEMABLE PREFERENCE SHARES (Cont'd)

The principal terms of the convertible redeemable preference shares at 30 June 2009 and 2010 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 million 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 a 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.

28 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 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.

28 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":

(i) 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 13.83% per annum of the debt component for the period since the convertible redeemable preference shares were issued.

(ii) 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.

29. DEFERRED TAXATION

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

	Investment properties	**Total**
	HK$'000	*HK$'000*
At 1 July 2008	16,889	16,889
Credit for the year	(7,854)	(7,854)
At 30 June 2009	9,035	9,035
Charge for the year	4,950	4,950
At 30 June 2010	13,985	13,985

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

	2010	2009
	HK$'000	*HK$'000*
Tax losses	**342,269**	356,561
Unrealised intragroup profits on properties held for sale	**429,235**	493,355
Accelerated tax depreciation	**686**	884
	772,190	850,800

At 30 June 2010, the Group has unused tax losses of approximately HK$342,269,000 (2009: HK$356,561,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses of approximately HK$342,269,000 (2009: HK$356,561,000) 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$429,921,000 (2009: HK$494,239,000) as at 30 June 2010 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.

30. CONTINGENT LIABILITIES

The Group had the following outstanding litigations as at 30 June 2010 that the directors of the Company are of the opinion that the estimated contingent liabilities arising from the litigations cannot be reasonably ascertained at the current stage.

(a) On 26 July 2005, Brightland Corporation Limited ("Brightland") issued a writ against Banhart, a subsidiary of the Company, 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.

(b) On 27 February 2006, Crowning Success Limited ("Crowning Success"), 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 under HCA 1540 of 2005. On 13 April 2006, the court ordered that Banhart be joined as the second defendant in the action (hereinafter collectively referred to as the "Consolidated Actions"). 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 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 filed a Notice of Appeal to appeal such decision. The appeal was dismissed by the court on 22 April 2008 with costs to Brightland. On 29 September 2008, the Group paid HK$12,000,000 as a security deposit according to the court order. On 4 April 2009, the Court has ordered Banhart (i) to return the outstanding sales deposits of HK$858,000 to Brightland with interest; (ii) to pay damages to Brightland in the sum of HK$4,740,000 and (iii) to bear the legal costs of Crowning Success and Brightland both of the Consolidated Actions and costs incurred prior to the consolidation. In August 2010, Crowning Success and Brightland claims HK$3,093,000 and HK$3,192,000 respectively for their legal costs incurred. The Company filed an objections on September 2010.

The security deposit paid, after deduction of the damages and legal costs set out in (ii) and (iii) above, is included in other receivables as at 30 June 2009 and 30 June 2010 (see note 19). The sales deposits of HK$858,000 stated in (i) above is included in other payables as at 30 June 2009 and 30 June 2010. The damages of HK$4,740,000 stated in (ii) above is debited directly to the consolidated statement of comprehensive income during year ended 30 June 2009. The legal costs of HK$6,285,000 stated in (iii) above is debited directly to the consolidated statement of comprehensive income during year ended 30 June 2010.

30. CONTINGENT LIABILITIES (Cont'd)

(c) On 17 May 2006, Chinese Regency Limited (of which the beneficial owners are independent third parties) issued a writ of summons against Holyrood Limited ("Holyrood"), a subsidiary of the Company, 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 ("Gateway") (of which the beneficial owners are independent third parties) issued a writ of summons against Holyrood a total sum of amount not less than HK$5,048,000, 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, breach of the Deed of Mutual Covenant and nuisance on the development. Gateway and Holyrood attended the office of the Deputy Clerk of Court of the High Court on 15 September 2010 to fix the trial dates.

(e) On 1 June 2007, Sun Crown Trading Limited ("Sun Crown") (of which the beneficial owners are independent third parties) issued a writ of summons against Holyrood a total sum of amount not less than HK$5,154,000, 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, breach of the Deed of Mutual Covenant and nuisance on the development. Sun Crown and Holywood attended the office of the Deputy Clerk of Court of the High Court on 15 September 2010 to fix the trial dates.

(f) On 1 June 2007, Trillion Holdings Limited ("Trillion") (of which the beneficial owners are independent third parties) issued a writ of summons against Holyrood a total sum of amount not less than HK$4,085,000, 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, breach of the Deed of Mutual Covenant and nuisance on the development. Trillion and Holywood attended the office of the Deputy Clerk of Court of the High Court on 15 September 2010 to fix the trial dates.

30. CONTINGENT LIABILITIES (Cont'd)

(g) On 22 January 2009, Woon Lee (HK) Company Limited ("Woon Lee HK"), an independent third party, issued a writ against Holyrood under HCCT 4 of 2009 in relation to outstanding balances on decoration costs of residential development at Inland Lot No.7878, Nos. 10-12 Peak Road, Hong Kong, claiming against Holyrood a total sum of HK$17,316,000 together with interest thereon at the rate of 8.192% per annum from 22 January 2009 to the date of judgment and thereafter at the judgment rate until full payment, and fixed costs of HK$1,550. Final and interlocutory judgement was entered by Woon Lee HK against Holyrood on 12 February 2009. On 25 February 2009, Holyrood issued a summons to apply for an order to set aside the said judgement and have filed affirmation and expert report in support. The trial for the action was completed in June 2010 and the judgement was given on 6 August 2010 in favour of Woon Lee HK. On 21 September 2010, the judge ordered Holyrood to pay the decoration cost of HK$17,316,000 plus simple interest of 1% over Hong Kong and Shanghai Banking Corporation best lending rate running from 20 March 2008 to date of judgment. The Company is currently seeking legal advice regarding to the appeal of the case.

The decoration cost of HK$17,316,000 was included in accrued construction cost as at 30 June 2009 (see note 22). The amount was reclassified to provision of litigations as at 30 June 2010. The interest of HK$2,337,000 is debited directly to the consolidated statement of comprehensive income during the year ended 30 June 2010.

(h) On 12 June 2009, Woon Lee Construction Company ("Woon Lee Construction") Limited, an independent third party, filed a Statement of Claim against Holyrood under Arbitration in relation to outstanding balances on construction costs of residential development at Inland Lot No.7878, Nos. 10-12 Peak Road, Hong Kong, claiming against Holyrood a total sum of HK$8,621,000 together with interest and fixed costs. On 3 March 2010, Holyrood has filed expert report in support of the defense. On 18 June 2010, the arbitrator has, in respect of one of the claim amounting to HK$4,800,000, published a partial award directing Holyrood to pay the construction costs of HK$4,800,000 to Woon Lee Construction.

The total sum of HK$8,621,000 claims by Woon Lee Construction was included in accrued construction cost as at 30 June 2009 (see note 22). The amount was reclassified to provision of litigations as at 30 June 2010.

The Company is currently seeking legal advice regarding to the appeal of the case.

Based on the legal advice obtained by the Group, except for the legal costs, damage, construction costs and interest stated in (b), (g) and (h) above, the Board is of the opinion that the above mentioned claims have no merit and the lawsuits will not have a material adverse effect on the consolidated financial statements of the Group. Accordingly, no further provision is considered necessary.

31. PLEDGE OF ASSETS

At the end of the reporting period, the following assets of the Group were pledged to secure credit facilities granted to the Group:

	2010	2009
	HK$'000	*HK$'000*
Properties held for sale	**759,107**	828,986
Investment properties	**198,000**	168,000
Leasehold properties	**80,327**	82,959
Bank deposits	**21,232**	21,178
	1,058,666	1,101,123

32. 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 2010 recognised in the consolidated statement of comprehensive income of the Group amounted to HK$402,000 (2009: HK$232,000).

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

	2010	2009
	HK$'000	*HK$'000*
Credit facilities granted to the Group	**1,021,113**	1,027,190

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

(c) During the year ended 30 June 2010, the Group paid interest of HK$375,000 (2009: nil) to related companies in which the directors of the Company and Lilian Oung have controlling interests.

(d) Compensation of key management personnel

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

	2010	2009
	HK$'000	*HK$'000*
Short-term employee benefits	**811**	1,271
Post employment benefits	**10**	17
	821	1,288

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.

34. OPERATING LEASE ARRANGEMENTS

At the end of the reporting period, for certain of the Group's properties held for sale the Group had contracted with tenants for the following future minimum lease payments.

The Group as lessor

	2010	2009
	HK$'000	*HK$'000*
Within one year	**11,344**	7,887
In the second year	**5,000**	3,621
	16,344	11,508

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.

The Group as lessee

	2010	2009
	HK$'000	*HK$'000*
Within one year	**409**	–
In the second year to fifth years, inclusive	**338**	–
	747	–

Operating lease payments represent rentals payable by the Group for certain of its office properties, leases are negotiated for a term of 27 months.

35. 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 2009 and 2010 Directly	Indirectly	Principal activities
Banhart Company Limited	Hong Kong	Ordinary HK$9,998 Non-voting deferred* HK$2	–	100%	Property holding
Bowen Hill Limited	British Virgin Islands#	US$1	–	100%	Investment holding
Holyrood Limited	Hong Kong	Ordinary HK$999,998 Non-voting deferred* HK$2	99.9%	0.1%	Property holding
Homjade Trading Limited	British Virgin Islands/ Hong Kong	US$1	100%	–	General trading
Paladin Trading Limited	British Virgin Islands#	US$1	100%	–	Investment holding
Six Gain Investments Limited	Hong Kong#	Ordinary HK$2	100%	–	Investment holding
Alpard Limited	Hong Kong	Ordinary HK$10	–	100%	Property investment and holding

35. 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 2009 and 2010		Principal activities
			Directly	Indirectly	
Wayguard Limited	Hong Kong	Ordinary HK$1	–	100%	Property holding
World Modern International Limited	Hong Kong	Ordinary HK$1	–	100%	Property holding
Sensors Integration Technology Limited	Hong Kong#	Ordinary HK$0.01	–	100%	Investment holding

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

\# 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 2010 or at any time during the year.

RESULTS

	Year ended 30 June				
	2006	2007	2008	2009	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Turnover	3,110	48,298	88,594	77,501	**173,567**
(Loss) profit before taxation	(39,770)	(98,164)	(45,114)	23,640	**26,298**
Taxation (charge) credit	–	(10,895)	(5,994)	6,709	**(48,350)**
(Loss) profit for the year attributable to equity holders of the Company	(39,770)	(109,059)	(51,108)	30,349	**(22,052)**

ASSETS AND LIABILITIES

	At 30 June				
	2006	2007	2008	2009	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Total assets	1,327,114	1,308,991	1,454,015	1,222,116	**1,142,463**
Total liabilities	(1,294,024)	(1,357,725)	(1,530,286)	(1,270,416)	**(1,211,829)**
Balance (deficiency) of shareholders' funds	33,090	(48,734)	(76,271)	(48,300)	**(69,366)**

Particulars of the properties held by the Group as at 30 June 2010 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	12 units	39,407	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	31 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
Room 4501, 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	8,260	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 A, 2/F Block A2 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