

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2003

1. General

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company acts as a property and investment holding company. The activities of its principal subsidiaries are set out in note 15.

2. Adoption of statements of standard accounting practice

In the current year, the Group adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice ("SSAP(s)") issued by the Hong Kong Society of Accountants. The adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement and an inclusion of the statement of changes in equity. These changes have had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

Cash Flow Statements

In the current year, the Group adopted SSAP 15 (Revised) "Cash Flow Statements". Under SSAP 15 (Revised), cash flows are classified under three headings — operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under a separate heading, are classified as operating or investing cash flows. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities.

Foreign Currencies

The revisions to SSAP 11 "Foreign Currency Translation" have eliminated the choice of translating the income statements of operations/subsidiaries outside Hong Kong at the closing rate for the period, the policy previously followed by the Group. They are now required to be translated at an average rate. This change in accounting policy has not had any material effect on the results for the current or prior accounting periods.

Employee Benefits

In the current year, the Group adopted SSAP 34 "Employee Benefits", which introduces measurement rules for employee benefits, including retirement benefit plans. Because the Group participates only in defined contribution retirement benefit schemes, the adoption of SSAP 34 has no material impact on the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2003

3. Significant accounting policies

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

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st July each year.

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

All significant inter-company transactions and balances between group enterprises are eliminated on consolidation.

Goodwill

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

Goodwill arising on acquisitions is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisitions prior to 1st August, 2001 remained in reserves continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary or associate.

Negative goodwill arising on acquisitions after 1st August, 2001 is presented as deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2003

3. Significant accounting policies *(continued)*

Negative goodwill *(continued)*

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identified non-monetary assets, it is recognised in income immediately.

Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets. Negative goodwill arising on the acquisition of an associate is deducted from the carrying value of that associate.

Investment properties

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

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

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

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

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For the year ended 31st July, 2003

3. Significant accounting policies *(continued)*

Property, plant and equipment

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

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

Leasehold improvements	Over the term of the relevant lease
Furniture, fixtures and equipment	20%
Motor vehicles	20%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in first-out method.

Investments in subsidiaries

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

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates less any negative goodwill on acquisition in so far as it has not already been released to income, less any identified impairment loss.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2003

3. Significant accounting policies *(continued)*

Investments in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

All securities other than held-to-maturity debt securities are measured at subsequent reporting dates at fair value.

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the period. For other securities, unrealised gains and losses are dealt with in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in net profit or loss for the year.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost includes professional fees and other direct costs attributable to such properties until they reach a marketable condition. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Revenue recognition

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

Sales of trading securities are recognised when the related bought and sold notes are executed.

Commissions and service charges are recognised when services are provided.

For completed properties which were acquired for resale, revenue is recognised on the execution of a binding agreement.

Rental income from properties under operating leases is recognised on a straight-line basis over the term of the relevant lease.

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

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2003

3. Significant accounting policies *(continued)*

Impairment

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

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, 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.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rate of exchange prevailing on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in such currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are included in the net profit or loss for the year.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2003

3. Significant accounting policies *(continued)*

Retirement benefit scheme contributions

Payments to defined contribution scheme and the Mandatory Provident Fund Scheme ("MPF Scheme") are charged as an expense as they fall due.

4. Turnover, business and geographical segments

Turnover and business segments

For management purposes, the Group is organised into six operating divisions — property rental, financial investment, property sale, tourism, sale of silk products and other investment. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Property rental	—	leasing of properties
Financial investment	—	trading of listed securities
Property sale	—	sale of properties held for sale
Tourism	—	provision of tourist services
Sale of silk products		
Other investment	—	investment in other securities

In June 2003, the tourist services business was disposal of (see notes 9 and 30).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2003

4. Turnover, business and geographical segments (continued)

Turnover and business segments (continued)

Segment information about these businesses is presented below:

	Continuing operations					Discontinuing operations			
	Property rental HK\$'000	Financial investment HK\$'000	Property sale HK\$'000	Sale of silk products HK\$'000	Other investment HK\$'000	Others HK\$'000	Tourism HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
INCOME STATEMENT									
For the year ended 31st July, 2003									
REVENUE									
External sales	1,914	—	19,854	18,910	—	—	595	—	41,273
SEGMENT RESULT	(13,236)	(15,528)	(1,395)	(6,241)	(160)	—	(692)	—	(37,252)
Unallocated corporate income									131
Unallocated corporate expenses									(3,932)
Loss from operations									(41,053)
Finance costs									(1,286)
Share of result of an associate									(411)
Gain on disposal of discontinuing operations									261
Loss on disposal of subsidiaries									(3,519)
Loss before taxation									(46,008)
Taxation									(24)
Loss before minority interests									(46,032)
Minority interests									2,078
Net loss for the year									(43,954)
BALANCE SHEET									
At 31st July, 2003									
ASSETS									
Segment assets	23,528	1,990	25,341	3,333	—	—	—	—	54,192
Unallocated corporate assets									46,976
Consolidated total assets									101,168
LIABILITIES									
Segment liabilities	1,879	—	9	569	—	—	—	—	2,457
Unallocated corporate liabilities									18,227
Consolidated total liabilities									20,684
OTHER INFORMATION									
For the year ended 31st July, 2003									
Capital additions	2	—	—	—	—	—	—	27	29
Depreciation	48	97	—	745	—	—	—	—	890
Allowance for properties held for sale	—	—	2,225	—	—	—	—	—	2,225
Deficit on revaluation of investment properties	8,885	—	—	—	—	—	—	—	8,885
Loss on disposal of other securities	—	—	—	—	160	—	—	—	160
Loss on disposal of property, plant and equipment	—	136	40	—	—	—	—	—	176
Loss on disposal of investment properties	567	—	—	—	—	—	—	—	567
Allowance for loan receivables	—	11,003	—	—	—	—	—	—	11,003
Amortisation of goodwill arising on acquisition of subsidiaries	—	—	—	—	—	—	—	2,071	2,071
Unrealised holding loss on trading securities	—	3,635	—	—	—	—	—	—	3,635

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2003

4. Turnover, business and geographical segments (continued)

Turnover and business segments (continued)

	Continuing operations					Discontinuing operations			
	Property rental	Financial investment	Property sale	Sale of silk products	Other investment	Others	Tourism	Unallocated	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
INCOME STATEMENT									
<i>For the year ended 31st July, 2002</i>									
REVENUE									
External sales	1,340	36,240	—	—	—	—	—	—	37,580
SEGMENT RESULT	(6,013)	755	(29,773)	(449)	(21,174)	(3)	—	—	(56,657)
Unallocated corporate income									2,084
Unallocated corporate expenses									(43,861)
Loss from operations									(98,434)
Finance costs									(381)
Share of result of an associate									15
Gain on disposal of subsidiaries									36
Loss before taxation									(98,764)
Taxation									(52)
Loss before minority interests									(98,816)
Minority interests									—
Net loss for the year									(98,816)
BALANCE SHEET									
<i>At 31st July, 2002</i>									
ASSETS									
Segment assets	33,693	—	47,307	10,295	4,005	7,934	876	—	104,110
Interests in associates									224
Unallocated corporate assets									35,590
Consolidated total assets									139,924
LIABILITIES									
Segment liabilities	757	—	106	908	—	946	554	—	3,271
Unallocated corporate liabilities									34,060
Consolidated total liabilities									37,331
OTHER INFORMATION									
<i>For the year ended 31st July, 2002</i>									
Capital additions	—	—	—	—	—	—	—	700	700
Depreciation	2	—	—	—	—	—	—	12	14
Allowance for properties held for sale	—	—	29,627	—	—	—	—	—	29,627
Deficit on revaluation of investment properties	7,610	—	—	—	—	—	—	—	7,610
Impairment losses recognised in income statement	—	—	33	448	21,174	3	—	35,691	57,349
Amortisation of goodwill arising on acquisition of subsidiaries	—	—	—	—	—	—	—	4,089	4,089

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2003

4. Turnover, business and geographical segments *(continued)*

Geographical segments

The Group's current operations are mainly located in Hong Kong, the People's Republic of China, other than Hong Kong (the "PRC") and Japan. The Group's property rental businesses are carried out in the PRC and Hong Kong. Financial investment is located in Hong Kong and property sale division is located in Hong Kong, Japan and the PRC. Tourism and sale of silk products are carried out in Hong Kong. Other investment is located in Hong Kong.

In prior year, the Group's other investment was located in Malaysia.

Segment information about these geographic markets is presented below:

	Turnover by geographical market		Loss from operations	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	20,678	37,567	(35,857)	(5,854)
PRC	20,595	13	354	(45)
Japan	—	—	(1,749)	(29,740)
Malaysia	—	—	—	(21,018)
	<u>41,273</u>	<u>37,580</u>	<u>(37,252)</u>	(56,657)
Unallocated corporate income			131	2,084
Unallocated corporate expenses			(3,932)	(43,861)
Loss from operations			<u>(41,053)</u>	<u>(98,434)</u>

Revenue from the Group's discontinued tourism operations of HK\$595,000 (2002: Nil) was derived principally from Hong Kong.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2003

4. Turnover, business and geographical segments *(continued)*

Geographical segments *(continued)*

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and goodwill, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment and goodwill	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	72,859	77,841	29	51,401
PRC	5,575	23,264	—	—
Japan	22,734	24,401	—	—
Malaysia	—	14,418	—	—
	<u>101,168</u>	<u>139,924</u>	<u>29</u>	<u>51,401</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2003

5. Loss from operations

	2003	2002
	HK\$'000	HK\$'000
Loss from operations has been arrived at after charging (crediting):		
Directors' remuneration (note 7)	1,285	1,284
Other staff costs	4,257	84
Retirement benefit scheme contributions, excluding directors	150	2
Total staff costs	5,692	1,370
Auditors' remuneration:		
Current year	525	275
Underprovision in prior years	192	88
Depreciation	890	14
Allowance for bad and doubtful debts	724	—
Loss on disposal of property, plant and equipment	176	—
Bank and other interest income	(33)	(3)
Release of negative goodwill arising on acquisition of an associate (included in other operating income)	(187)	(93)
Dividend income from listed trading securities	—	(174)
Interest income on promissory note receivables	(1,142)	(748)
Interest income on loan receivables	(509)	—

6. Finance costs

	2003	2002
	HK\$'000	HK\$'000
Interest on:		
Borrowings wholly repayable within five years:		
Bank borrowings	507	349
Promissory notes	779	32
	1,286	381

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2003

7. Directors' emoluments

	2003	2002
	HK\$'000	HK\$'000
Fees:		
Executive directors	100	55
Non-executive and independent non-executive directors	200	301
	300	356
Other emoluments (executive directors):		
Salaries and other benefits	979	890
Retirement benefit scheme contributions	6	11
Other emoluments (non-executive directors):		
Salaries and other benefits	—	27
	985	928
	1,285	1,284

The emoluments of each of the directors were below HK\$1,000,000 for both years.

8. Employees' emoluments

Of the seven individuals with the highest emoluments in the Group, five (2002: all) were directors of the Company whose emoluments are included in note 7 above. The emoluments of the remaining two employees for the year ended 31st July, 2003 are as follows:

	2003	2002
	HK\$'000	HK\$'000
Salaries and other benefits	448	—
Retirement benefit scheme contributions	16	—
	464	—

During the years ended 31st July, 2003 and 2002, 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 of office. During the years ended 30th July, 2003 and 2002, no directors waived any emoluments.

The emoluments of each of these employees were below HK\$1,000,000.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2003

9. Discontinuing operations

In June 2003, the Group ceased its operations in the provision of tourist services after the disposal of a subsidiary, Great Prospect Travel Limited ("Great Prospect").

The results of the discontinuing operations are as follows:

	Period ended 30th June, 2003	2002
	HK\$'000	HK\$'000
Turnover	595	—
Cost of sales	(601)	—
	(6)	—
Administrative expenses	(686)	—
Loss for the period up to date of discontinuance	<u>(692)</u>	<u>—</u>

During the year, Great Prospect had a net cash outflow of HK\$692,000 (2002: Nil) to the Group's net cash used in operating activities.

The carrying amounts of the assets and liabilities of Great Prospect at the date of disposal and at 31st July, 2002 are as follows:

	At 30th June, 2003	At 31st July, 2002
	HK\$'000	HK\$'000
Total assets	<u>1</u>	<u>876</u>
Total liabilities	<u>372</u>	<u>554</u>

Gain on disposal of discontinuing operations of HK\$261,000 arose on the disposal of Great Prospect, being the proceeds of disposal less the carrying amount of the subsidiary's net assets as referred to note 30.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2003

10. Taxation

	2003	2002
	HK\$'000	HK\$'000
The charge comprises:		
The PRC Income Tax	24	1
Share of taxation on results of associates	—	51
	24	52

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group had no assessable profit for the year.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdiction.

Details of the deferred tax asset not recognised are set out in note 28.

11. Loss per share

The calculation of basic loss per share is based on the following data:

	2003	2002
	HK\$	HK\$
Net loss for the year	43,954,000	98,816,000
Weighted average number of shares for the purposes of basic loss per share	821,427,141	595,908,172

The adjustment to comparative basic loss per share, arising from the rights issue shown in note 25(c), is as follows:

	HK cents
Reconciliation of 2002 loss per share:	
Reported figures before adjustment	20.48
Adjustment arising from the rights issue	(3.90)
Restated	16.58

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2003

11. Loss per share *(continued)*

There were no dilution on the Group's loss per share for the year ended 31st July, 2003 as there were no dilutive potential shares outstanding during the year.

No diluted loss per share had been presented for the year ended 31st July, 2002 because the exercise price of the Company's options was higher than the average market price of shares during that year.

12. Investment properties

	THE GROUP		THE COMPANY	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
VALUATION				
At 1st August, 2002	32,980	40,590	1,450	1,650
Disposals	(930)	—	—	—
Deficit arising on revaluation	(8,885)	(7,610)	(110)	(200)
At 31st July, 2003	<u>23,165</u>	<u>32,980</u>	<u>1,340</u>	<u>1,450</u>
Comprising:				
Investment properties held in Hong Kong under:				
Long leases	1,300	1,400	—	—
Medium-term leases	21,865	31,580	1,340	1,450
	<u>23,165</u>	<u>32,980</u>	<u>1,340</u>	<u>1,450</u>

The investment properties of the Group and the Company are held for rental purposes under operating leases and were revalued at 31st July, 2003 on an open market value basis by independent firms of professional valuers, Chung, Chan & Associates and CS Surveyors Limited, chartered surveyors.

The deficit arising on revaluation of the Group's and the Company's investment properties at 31st July, 2003 amounted to HK\$8,885,000 (2002: HK\$7,610,000) and HK\$110,000 (2002: HK\$200,000), respectively, have been charged to the income statement.

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For the year ended 31st July, 2003

13. Property, plant and equipment

	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP				
COST				
At 1st August, 2002	3,118	941	700	4,759
Additions	—	5	24	29
Disposals	(24)	(297)	(724)	(1,045)
At 31st July, 2003	3,094	649	—	3,743
DEPRECIATION				
At 1st August, 2002	2,404	708	12	3,124
Provided for the year	693	101	96	890
Eliminated on disposals	(3)	(239)	(108)	(350)
At 31st July, 2003	3,094	570	—	3,664
NET BOOK VALUES				
At 31st July, 2003	—	79	—	79
At 31st July, 2002	714	233	688	1,635

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14. Goodwill

THE GROUP	
	HK\$'000
COST	
At 1st August, 2002	50,701
Eliminated on disposals	(49,558)
At 31st July, 2003	1,143
AMORTISATION AND IMPAIRMENT	
At 1st August, 2002	40,265
Provided for the year	2,071
Eliminated on disposals	(41,955)
At 31st July, 2003	381
NET BOOK VALUES	
At 31st July, 2003	762
At 31st July, 2002	10,436

The amortisation period adopted for goodwill ranges from 3 to 20 years.

15. Interests in subsidiaries

	THE COMPANY	
	2003	2002
	HK\$'000	HK\$'000
Unlisted investments, at cost	31,539	31,539
Amounts due from subsidiaries	195,955	178,363
Allowance	227,494 (174,251)	209,902 (165,421)
	53,243	44,481

The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment. In the opinion of the directors, the amounts will not be repayable within twelve months from the balance sheet date.

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For the year ended 31st July, 2003

15. Interests in subsidiaries *(continued)*

Details of the Company's principal subsidiaries at 31st July, 2003 are as follows:

Name of subsidiary	Place of incorporation/ operation	Issued and paid up share capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly %	Indirectly %	
Adrian Realty Limited	Hong Kong	HK\$1,000,000	100	—	Property investment
Chadbury International Limited	British Virgin Islands/Japan	US\$1	—	100	Property investment
Evergood Management Limited	Hong Kong	HK\$2	100	—	Property right holding and investment holding
Hegel Trading Limited	Hong Kong	HK\$2	100	—	Property investment
High Cheong Developments Limited ("High Cheong")	British Virgin Islands	US\$1	100	—	Investment holding
Kan Hock Investment and Developments Limited ("Kan Hock")	Hong Kong	HK\$2	—	100	Property investment
Marcello Asia Limited	Hong Kong	HK\$14,500,000	—	70	Sale of silk products
Silver Tower Limited	Hong Kong	HK\$2	—	100	Investment holding

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

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

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16. Interest in an associate

	2003	2002
	HK\$'000	HK\$'000
THE GROUP		
Share of net asset of an associate	—	1,252
Negative goodwill arising on acquisition of the associate (Note)	—	(1,028)
	<u>—</u>	<u>224</u>

Note:

	Negative goodwill THE GROUP
	HK\$'000
GROSS AMOUNT	
At 1st August, 2002	1,122
Eliminated on disposal	(1,122)
At 31st July, 2003	—
AMORTISATION	
At 1st August, 2002	94
Released for the year	187
Eliminated on disposal	(281)
At 31st July, 2002	—
CARRYING AMOUNTS	
At 31st July, 2003	<u>—</u>
At 31st July, 2002	<u>1,028</u>

The negative goodwill is released to other operating income on a straight-line basis over 20 years.

During the year ended 31st July, 2003, the Group disposed of its entire 20% interest in Vistanet (M) Sdn. Bhd. upon the disposal of a wholly-owned subsidiary, Smart Hero Developments Limited as referred to in note 30.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2003

17. Other securities

	THE GROUP		THE COMPANY	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted equity securities				
At cost	1,700	25,979	700	955
Unrealised holding loss	(1,700)	(21,974)	(700)	(955)
At fair value	<u>—</u>	<u>4,005</u>	<u>—</u>	<u>—</u>

18. Promissory note receivables

	THE GROUP AND THE COMPANY	
	2003	2002
	HK\$'000	HK\$'000
Principal	<u>22,000</u>	<u>22,000</u>

The promissory note receivables are unsecured, bear interest at 5% per annum and receivable on 27th February, 2005.

19. Properties held for sale

	THE GROUP		THE COMPANY	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Properties in Hong Kong	206	206	206	206
Properties in Japan	22,735	24,401	—	—
Properties in the PRC	2,400	22,700	—	—
	<u>25,341</u>	<u>47,307</u>	<u>206</u>	<u>206</u>

Included above are properties in Japan and in the PRC of HK\$25,135,000 (2002: HK\$47,101,000) carried at net realisable value.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2003

20. Trade and other receivables

At 31st July, 2003, the balance of trade and other receivables included trade receivables of HK\$714,000 (2002: of HK\$974,000). An aged analysis of trade receivables is as follows:

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
0 to 60 days	52	637
61 to 90 days	3	100
91 days or above	659	237
	714	974

The Group allows an average credit period of 30 days to its trade customers.

21. Loan receivables

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Principal	10,500	1,000
Interest receivables	503	—
Less: Allowance	(11,003)	—
	—	1,000

The loans are unsecured, bear interest at prevailing market rate and repayable within twelve months from the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2003

22. Trade and other payables

At 31st July, 2003, the balance of trade and other payables included trade payables of HK\$446,000 (2002: of HK\$1,165,000). An aged analysis of trade payables is as follows:

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
0 to 60 days	2	758
91 days or above	444	407
	446	1,165

23. Promissory note payables

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Principal	3,051	30,272

At 31st July, 2003, the promissory note payables are unsecured and bear interest at Hong Kong best lending rate. The amount is fully settled subsequent to the balance sheet date.

At 31st July, 2002, the promissory note payables were unsecured. An amount of HK\$22,700,000 bore interest at Hong Kong best lending rate and was repayable on 21st July, 2003 and the remaining HK\$7,572,000 bore interest at 5% per annum.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2003

24. Bank borrowings

	THE GROUP		THE COMPANY	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unsecured bank overdrafts	259	—	—	—
Secured bank loans	14,254	2,561	703	2,561
	14,513	2,561	703	2,561
The maturity profile of the above loans and overdrafts is as follows:				
Within one year or upon demand	1,546	557	65	557
More than one year but not exceeding two years	1,343	591	67	591
More than two years but not exceeding five years	4,386	1,413	218	1,413
More than five years	7,238	—	353	—
	14,513	2,561	703	2,561
Less: Amount due within one year shown as current liabilities	(1,546)	(557)	(65)	(557)
Amount due after one year	12,967	2,004	638	2,004

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2003

25. Share capital

	Number of ordinary shares	Amount
		HK\$'000
Ordinary shares		
Authorised:		
At 1st August, 2001 and 31st July, 2002, at HK\$0.40 each	2,250,000,000	900,000
Capital reduction (note a)	—	(877,500)
Increase in authorised share capital (note a)	10,000,000,000	100,000
At 31st July, 2003, at HK\$0.01 each	12,250,000,000	122,500
Issued and fully paid:		
At 1st August, 2001 and 31st July, 2002 at HK\$0.40 each	482,399,556	192,960
Capital reduction (note a)	—	(188,136)
Issue of shares on private placements on:		
— 6th December, 2002 (note b)	96,400,000	964
— 24th March, 2003 (note b)	115,000,000	1,150
Issue of shares on rights issue (note c)	1,387,599,112	13,876
At 31st August, 2003, at HK\$0.01 each	2,081,398,668	20,814

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2003

25. Share capital *(continued)*

Notes:

- (a) On 10th October, 2002, an order of petition (the "Order") was granted by the High Court of Hong Kong Special Administrative Region (the "High Court"). Pursuant to the Order, the reduction of the share capital and the cancellation of the share premium account of the Company as resolved and effected by a special resolution passed at an extraordinary general meeting of the Company held on 2nd September, 2002, be and the same was confirmed in accordance with the provisions of Section 59 of the Companies Ordinance.

The High Court approved the minute set forth in the schedule 2 of the Order (the "Minute"). Pursuant to the Minute, the capital of the Company was by virtue of special resolutions of the Company with the sanction of the Order reduced from HK\$900,000,000 divided into 2,250,000,000 ordinary shares of HK\$0.40 each (of which 482,399,556 shares had been issued and were fully paid up or credited as fully paid) to HK\$22,500,000 divided into 2,250,000,000 ordinary shares of HK\$0.01 each. The Company further by ordinary resolution provided that forthwith upon such reduction of capital taking effect, the authorised share capital of the Company would be increased from HK\$22,500,000 to HK\$122,500,000 by the creation of additional 10,000,000,000 shares of HK\$0.01 each. Accordingly, on the registration of the Minute, the authorised share capital of the Company was HK\$122,500,000 divided into 12,250,000,000 shares of HK\$0.01 each, of which 482,399,556 shares had been issued and were fully paid up or credited as fully paid and the remaining shares are unissued. The sum of HK\$250,952,000 standing to the credit of the share premium account of the Company was reduced and cancelled against the accumulated losses of the Company.

In addition, the Company gave the undertaking set forth in the schedule 1 of the Order (the "Undertaking"). Pursuant to the Undertaking, the Company undertook that out of the capital by which the Company sought to be reduced, a sum of HK\$170,583,000 would be credited to a capital reduction reserve in the books of account of the Company to be designated as capital reduction reserve account (the "Capital Reduction Reserve Account") which would not be treated as realised profits and should be treated as a reserve of the Company, which should not be distributable until or unless the creditors of the Company as at the date of the sanction of the reduction of capital (the "Creditors") were fully settled, provided for by the Company or the remaining Creditors and each of them did consent by which time the Capital Reduction Reserve Account would be cancelled and provided that prior to the cancellation of the Capital Reduction Reserve Account, the Company might apply it in paying up unissued shares of the Company to be issued to members as fully paid bonus shares and the audited accounts of the Company would contain a note recording this undertaking.

- (b) On 6th December, 2002 and 24th March, 2003, arrangements were made for private placements to independent investors of 96,400,000 and 115,000,000 new shares of the Company of HK\$0.01 each at placing prices of HK\$0.059 and HK\$0.04 per share, representing a discount of approximately 19.2% and 21.57% to the closing market price of the Company's shares on 20th November, 2002 and 28th February, 2003, respectively. The net proceeds have been used to finance the Group's general working capital for operating activities. These shares were issued under the general mandates granted to the directors at the extraordinary general meeting of the Company held on 2nd September, 2002 and 30th December, 2002, respectively, and rank pari passu with other shares in issue in all respects.
- (c) In order to finance the Group's operating activities of property investment, the Company issued 1,387,599,112 rights shares of HK\$0.01 each, at a subscription price of HK\$0.01 per share. The allocation was made on 6th June, 2003 to existing shareholders, on the basis of two rights shares for every one ordinary share then held. The new shares rank pari passu with the existing shares in all respects.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2003

26. Share options

Scheme adopted on 7th March, 1997 (the "1997 Scheme")

The 1997 Scheme was adopted on 7th March, 1997 for the primary purpose of providing incentives to directors and eligible employees and would expire on 6th March, 2007. Under the 1997 Scheme, the Board of Directors of the Company (the "Board") might grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company for a consideration of HK\$1 per lot of share options granted. Options granted should be accepted within 28 days from the date of offer of the options.

The exercise price was determined by the directors of the Company, and should be equal to the higher of the nominal value of the Company's shares or 80 percent of the average closing price of the shares for the five business days immediately preceding the date of grant. The maximum number of shares in respect of which options might be granted under the 1997 Scheme should not exceed 10 percent of the issued share capital of the Company from time to time.

No option shall be granted by any one person which if exercised in full would result in the total number of shares already issued and issuable to him under all the options previously granted to him and the said option exceeding 25 percent of the number of shares issued and issuable under all the options which might be granted under the 1997 Scheme at the time it is proposed to grant the said option to that person.

An option may be exercised in accordance with the terms of the 1997 Scheme at any time after the date upon which the option is granted and prior to the expiry of ten years from that date. The period during which an option might be exercised would be determined by the Board in its absolute discretion, save that no option might be exercised more than 10 years after it has been granted or 10 years from the date of the adoption of the 1997 Scheme, whichever is earlier. No option might be granted more than 10 years after the date of approval of the 1997 Scheme.

Pursuant to a resolution passed on 30th December, 2002, the 1997 Scheme was terminated.

No share options of the 1997 Scheme were granted or exercised during the year ended 31st July, 2003. At 31st July, 2003, there was no option outstanding under the 1997 Scheme.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2003

26. Share options *(continued)*

The following discloses details of the Company's share options held by an employee, who was a director of the Company and movements in such holding during the year ended 31st July, 2002:

Date of grant	Exercisable period	Exercise price per share subject to adjustment	Outstanding at 1.8.2001	Lapsed during the year	Outstanding at 31.7.2002
		HK\$	(note)	(note)	
8th April, 1997	8th April, 1997 to 6th March, 2007	0.5712	<u>3,000,000</u>	<u>(3,000,000)</u>	<u>—</u>

Note: These options were lapsed upon resignation of the grantee.

Scheme adopted on 30th December, 2002 (the "2002 Scheme")

Following the termination of the 1997 Scheme in December 2002, the 2002 Scheme was adopted pursuant to a resolution passed on 30th December, 2002 for the primary purpose of providing incentives to directors, employees and eligible participants and will expire on 29th December, 2012.

Under the 2002 Scheme, the Board may grant options to executive directors, employees of the Company and its subsidiaries and such eligible participants at the discretion of the Board pursuant to the terms of the 2002 Scheme, to subscribe for shares of the Company at a price per share not less than the highest of i) the closing price of a share of the Company listed on the Stock Exchange at the date of grant of the option; ii) the average of the closing price of a share of the Company on the Stock Exchange for the five trading days immediately preceding the date of grant of the option; and iii) the nominal value of a share of the Company. The maximum number of shares in respect of which options shall be granted under the 2002 Scheme shall not exceed 10% in aggregate of the issued share capital of the Company at the date of its adoption. No director, employee or eligible participant may be granted options under the 2002 Scheme which will enable him or her if exercise in full to subscribe for exceeding 1% of the issued share capital of the Company in any 12-month period. The option period for which the options granted can be exercisable, shall be such period as notified by the Board, save that it shall not be more than 10 years from the date of grant subject to the terms of the 2002 Scheme. Nominal consideration of HK\$1 is payable on acceptance of each grant and the share options granted shall be accepted within 28 days from the date of grant.

There was no option granted under the 2002 Scheme since its adoption.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2003

27. Reserves

	Share premium	Capital reserve	Capital reduction reserve	Capital redemption reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE COMPANY						
At 1st August, 2001	250,952	2,127	—	268	(268,504)	(15,157)
Net loss for the year	—	—	—	—	(77,799)	(77,799)
At 31st July, 2002	250,952	2,127	—	268	(346,303)	(92,956)
Capital reduction (note 25a)	(250,952)	—	170,583	—	268,505	188,136
Issue of shares on private placements (note 25b)	8,174	—	—	—	—	8,174
Expenses incurred in connection with issue of shares	(350)	—	—	—	—	(350)
Net loss for the year	—	—	—	—	(43,937)	(43,937)
At 31st July, 2003	<u>7,824</u>	<u>2,127</u>	<u>170,583</u>	<u>268</u>	<u>(121,735)</u>	<u>59,067</u>

Under the capital reduction exercise carried out in October 2002, the Company undertook to maintain a capital reduction reserve account. This account would not be treated as realised profits and should be treated as reserve of the Company, which should not be distributable until or unless the creditors of the Company as at the date of the sanction of the reduction of capital (the "Creditors") were fully settled, provided for by the Company or the remaining Creditors and each of them did consent by which time the account would be cancelled and provided that prior to the cancellation of the account, the Company might apply it in paying up unissued shares of the Company to be issued to members as fully paid bonus shares.

At 31st July, 2003, the Company had no reserve available for distribution to the shareholders.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2003

28. Deferred taxation

Deferred tax asset in respect of tax losses available to set off future profits has not been recognised in the financial statements as it is not certain that the asset will crystallise in the foreseeable future.

At 31st July, 2003, the unrecognised deferred tax assets of the Group and the Company in respect of unutilised tax losses are approximately HK\$7,962,000 (2002: HK\$5,265,000) and HK\$1,585,000 (2002: HK\$1,148,000), respectively.

The amount of unrecognised deferred tax credit (charge) for the year is as follows:

	THE GROUP		THE COMPANY	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Tax effect of timing differences because of:				
Tax losses incurred (utilised)	2,203	22	329	(232)
Effect of change in tax rate	494	—	108	—
	<u>2,697</u>	<u>22</u>	<u>437</u>	<u>(232)</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2003

29. Acquisition of subsidiaries

	2003	2002
	HK\$'000	HK\$'000
Net assets acquired:		
Properties held for sale	—	5,500
Property, plant and equipment	—	949
Other securities	—	25,023
Inventories	—	6,547
Trade and other receivables	—	3,388
Bank balances and cash	—	546
Trade and other payables	—	(2,673)
Taxation payable	—	(318)
Minority interests	—	(2,570)
Net assets	—	36,392
Goodwill arising on acquisition	—	50,701
	<u>—</u>	<u>87,093</u>
Satisfied by:		
Cash consideration paid	—	21
Promissory note receivables offset (note 31a)	—	74,000
Promissory note payables (note 31a)	—	13,072
Total consideration	<u>—</u>	<u>87,093</u>
Analysis of net inflow of cash and cash equivalents in connection with the purchase of subsidiaries:		
Cash consideration paid (note 31a)	—	(21)
Bank balances and cash acquired	—	546
Net inflow of cash and cash equivalents	<u>—</u>	<u>525</u>

The subsidiaries acquired during the year ended 31st July, 2002 did not contribute significantly to the Group's cash flows or operating results for that year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2003

30. Disposal of subsidiaries

	2003	2002
	HK\$'000	HK\$'000
Net assets (liabilities) disposed of:		
Interests in associates	—	(36)
Other securities	4,005	—
Trade and other receivables	912	—
Bank balances and cash	116	—
Trade and other payables	(1,486)	—
	3,547	(36)
Goodwill released	7,603	—
Minority interests	109	—
Gain on disposal of discontinuing operations	261	—
(Loss) gain on disposal of subsidiaries	(3,519)	36
	8,001	—
Satisfied by:		
Cash consideration received	8,001	—

Analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries:

	2003	2002
	HK\$'000	HK\$'000
Cash consideration received	8,001	—
Bank balances and cash disposed of	(116)	—
Net inflow of cash and cash equivalents	7,885	—

The subsidiaries disposed of did not contribute significantly to the Group's cash flows or operating results for both years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2003

31. Major non-cash transactions

During the year ended 31st July, 2003, the Group disposed of certain properties held for sale of HK\$14,650,000 for a total consideration of HK\$14,576,000. The consideration was satisfied by the transfer of portion of the promissory note payables, accrued promissory note interest, rental deposits and rental receivables of HK\$14,743,000, HK\$168,000, HK\$281,000 and HK\$616,000, respectively. A loss on disposal of HK\$74,000 was resulted and included in the income statement.

During the year ended 31st July, 2002, the Group had the following major non-cash transactions:

- (a) the Group acquired interests in subsidiaries for a total consideration of HK\$87,093,000, of which HK\$21,000 was settled by cash, HK\$74,000,000 was satisfied by the transfer of portion of the promissory note receivables and the remaining portion was satisfied by the issue of promissory note payable of HK\$13,072,000.
- (b) The Group issued promissory note payable of HK\$17,200,000 to acquire properties held for sale.
- (c) The Group disposed of its entire 15.33% interest in Mutual Luck Investment Limited at a consideration of HK\$120,000,000. The consideration was settled by cash of HK\$12,000,000 and promissory note receivables of HK\$108,000,000.

32. Pledge of assets

At 31st July, 2003, investment properties of the Group and the Company amounting to HK\$23,165,000 (2002: HK\$32,650,000) and HK\$1,340,000 (2002: HK\$1,450,000), respectively, had been pledged to banks to secure credit facilities to the extent of HK\$16,665,000 (2002: HK\$26,000,000) and HK\$750,000 (2002: HK\$4,000,000) granted to the Group and the Company of which HK\$14,254,000 (2002: HK\$2,561,000) and HK\$703,000 (2002: HK\$2,561,000) were utilised by the Group and the Company, respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2003

33. Retirement benefit scheme

Prior to 1st December, 2000, the Group operated defined contribution retirement benefit schemes ("Defined Contribution Schemes") for its qualifying employees in Hong Kong. The assets of the schemes were held separately from those of the Group in funds under the control of independent trustees. Where there are employees who leave the Defined Contribution Schemes prior to vesting fully in the contributions, the amount of the forfeited contributions would be used to reduce future contributions payable by the Group. The Defined Contribution Schemes were terminated on 1st December, 2000.

Effective on 1st December, 2000, the Group has joined the MPF Scheme for all of its employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme.

The retirement benefit scheme contributions arising from the MPF Scheme charged to the income statement represent contributions payable to the scheme by the Group at rates specified in the rules of the scheme. For the year ended 31st July, 2003, contributions of the Group under the MPF Scheme amounted to HK\$150,000 (2002: HK\$13,000).

Forfeited contributions in respect of unvested benefits of employees leaving the Group under the Deferred Contribution Schemes cannot be used to reduce ongoing contributions after their termination. At the balance sheet date, the Group had forfeited contributions of HK\$176,000 (2002: HK\$70,000) arising upon employees leaving the Defined Contribution Schemes.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2003

34. Operating lease arrangements

The Group as lessee

Minimum lease payments paid under operating leases for premises during the year was HK\$994,000 (2002: Nil).

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Within one year	720	235
In the second to fifth year inclusive	720	1,031
	<u>1,440</u>	<u>1,266</u>

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated and rentals are fixed for an average term of 2.5 years.

At 31st July, 2003, the Company had no commitments under non-cancellable operating leases (2002: Nil).

The Group as lessor

Property rental income earned by the Group during the year was HK\$1,914,000 (2002: HK\$1,340,000) before deduction of outgoings of HK\$441,000 (2002: HK\$520,000). Certain of the Group's properties are held for rental purposes and are expected to generate rental yields of 6% (2002: 7%), on an ongoing basis. The properties of the Group held for rental purposes have committed tenants for an average term of one year (2002: two years).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2003

34. Operating lease arrangements *(continued)*

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

	THE GROUP		THE COMPANY	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	618	2,094	100	120
In the second to fifth year inclusive	65	2,125	—	97
	683	4,219	100	217

35. Contingent liabilities

At 31st July, 2003, the Company has outstanding guarantees issued in favour of a bank in respect of banking facilities made available to a subsidiary amounting to HK\$9,380,000 (2002: HK\$22,000,000).

In addition, the Company has given guarantees to promissory note holders to secure the payment of outstanding principal and interest of promissory note payables of HK\$3,051,000 (2002: HK\$30,272,000) issued by its subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2003

36. Post balance sheet events

Subsequent to 31st July, 2003, the Group had the following post balance sheet events:

- (a) The Group entered into a sale and purchase agreement dated 15th August, 2003 to dispose of Kan Hock, a wholly owned subsidiary of the Company, at a consideration of HK\$2,400,000.
- (b) High Cheong, a wholly owned subsidiary of the Company entered into a sale and purchase agreement dated 5th September, 2003 (the "Agreement") with On Glory Holdings Limited ("On Glory"), a wholly-owned subsidiary of Capital Strategic Investment Limited ("Capital Strategic"), under which High Cheong has conditionally agreed to acquire 80% of the entire issued share capital of Consecutive Profits Limited ("CPL") from On Glory, at a cash consideration of HK\$6,000,000, subject to the adjustment as stated in the Agreement (the "Acquisition"). The principal asset of CPL is 82.5% equity interest in Century 21 Hong Kong Limited. Given that On Glory is a wholly-owned subsidiary of Capital Strategic, a substantial shareholder of the Company, and that Mr. Ng Kai Man, Luke ("Mr. Ng") an executive director and the Deputy Chairman of the Company, is also a substantial shareholder of CPL, the Acquisition will constitute a connected transaction for the Company pursuant to the Rules Governing the Listing of Securities on the Stock Exchange. Pursuant to the Agreement, the completion will take place on such date on or before 28th November, 2003 or such other date as may be agreed by High Cheong and On Glory in writing. Upon the completion, CPL will become an 80% indirectly owned subsidiary of the Company, with the remaining 20% continued to be owned by Mr. Ng.

On 5th September, 2003, the Company also entered into a conditional placing agreement (the "Placing Agreement") with a placing agent in relation to the placing of the HK\$8,000,000, 2% redeemable convertible notes to the independent investors on a fully underwritten basis, which is due in 2005 (the "Convertible Notes"). The Convertible Notes can be converted into ordinary shares of the Company at a conversion price of HK\$0.02 per share, subject to adjustments. Net proceeds of HK\$6,000,000 will be used for the Acquisition and the remaining balance will be used as general working capital for the Group.

- (c) On 14th November, 2003, the Group entered into a provisional sale and purchase agreement to dispose of certain investment properties at an aggregate consideration of HK\$4,380,000.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2003

37. Related party disclosures

- (a) During the year, the Group reimbursed a sum of HK\$560,000 (2002: Nil) for administrative expenses with Cheung Tai Hong, Limited ("CTH"), a company in which Mr. Ding Chung Keung, Vincent is also a director. Ms. Lin Fung Yi and Mr. Tse Cho Tseung, ex-directors of the Company, were directors of CTH. CTH is a subsidiary of Cheung Tai Hong Holdings Limited, a listed company of the Stock Exchange. The amount was negotiated by reference to prevailing market rates.
- (b) During the year, the Group reimbursed HK\$649,000 (2002: Nil), HK\$210,000 (2002: Nil) and HK\$189,000 (2002: Nil) for administrative expenses with Capital Strategic Investment (BVI) Limited ("CSI (BVI)"), CSI Investment Limited ("CSI") and Mark Well Investment Limited ("Mark Well"), respectively, in which Mr. Choo Yeow Ming, Ms. Ma Wai Man, Catherine and Mr. Chow Hou Man, are also directors of these companies. CSI and Mark Well are subsidiaries of CSI (BVI), which is a subsidiary of Capital Strategic Investment Limited, a listed company of the Stock Exchange. The amounts were negotiated by reference to prevailing market rates.