

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

## 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In preparing the financial statements, the directors have given careful consideration to the future liquidity of the Group in light of its net current liabilities of HK\$183,970,000 and deficit in shareholders' funds of HK\$50,880,000 as at 30 June 2004. The Group is dependent upon the financial support of its bankers and other lenders. As explained in note 18, in September 2004, the Group obtained a commitment letter for a term loan facility from other banks to refinance the HK\$ term loan of HK\$623 million and other loan of HK\$155 million (both together with the accrued interest and other bank charges). The HK\$ term loan of HK\$623 million and other loan of HK\$155 million are due on 31 December 2004 and 1 October 2004 respectively. In addition, the Group is now in the process of soliciting new bankers to refinance the overdue US\$ term loan of HK\$78 million and the Additional Amount of HK\$134 million, as explained in note 19(c). The Additional Amount shall be due for payment on 1 November 2004. Provided that the above term loan facility can be successfully obtained by the Group and the Group can successfully solicit new bankers to refinance the US\$ term loan and the Additional Amount within a short period of time, the directors estimate the properties under development will be available for sale or pre-sale by 30 November 2004 and will be completed by 30 April 2005. Against this background, the directors consider that, with the continuing support of the Group's bankers and other lenders, the Group will be able to complete the development and to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

## 3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, the Hong Kong Financial Reporting Standards ("HKFRS") – Statement of Standard Accounting Practice ("SSAP") 12 (Revised) "Income taxes" ("SSAP 12 (Revised)") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The term of HKFRS is inclusive of SSAPs and Interpretations approved by the HKICPA.

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The adoption of SSAP 12 (Revised) has no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

#### **4. SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

##### **Basis of consolidation**

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

The results of the 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 within the Group are eliminated on consolidation.

##### **Revenue recognition**

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

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

##### **Property, plant and equipment**

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

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

Leasehold land and buildings	Over the estimated useful lives of 50 years or the period of the lease, if shorter
Leasehold improvements	Over the estimated useful lives of 10 years or the period of the lease, if shorter
Office equipment, furniture and fixtures	15% – 25%

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.

**4. SIGNIFICANT ACCOUNTING POLICIES** (Cont'd)**Investments in subsidiaries**

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

**Investments in securities**

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

Investment securities, which are securities held for an identified long term strategic purpose, are measured at subsequent reporting dates at cost less any identified impairment loss.

**Club debentures**

Club debentures, which are held for long term investment purposes, are stated at cost less any identified impairment loss.

**Properties under development**

Properties under development are stated at the lower of cost and net realisable value.

**Capitalisation of 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 capitalised as part of the cost of those assets. Capitalisation of such borrowing costs is suspended during extended periods in which active development is interrupted. Capitalisation ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

**4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)****Impairment**

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

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

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 net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods, and it further excludes income statement items that are never taxable or deductible.

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

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

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

**4. SIGNIFICANT ACCOUNTING POLICIES** (Cont'd)**Taxation** (Cont'd)

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

**Foreign currencies**

Transactions in currencies other than Hong Kong dollars are translated into Hong Kong dollars at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated into Hong Kong dollars at the rates ruling on the balance sheet date. Gains and losses arising on translation are dealt with in the income statement.

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

**Retirement benefits scheme**

Payments to retirement benefit schemes are charged as expenses as they fall due.

**5. TURNOVER**

Turnover represents the amounts received and receivable for goods sold, net of returns and allowances, during the year.

**6. BUSINESS AND GEOGRAPHICAL SEGMENTS**
**Business segments**

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

Segment information about these businesses is presented below:

**Year 2004**
**(i) Income statement**

	<b>General trading</b> <i>HK\$'000</i>	<b>Property development</b> <i>HK\$'000</i>	<b>Consolidated</b> <i>HK\$'000</i>
TURNOVER			
External sales	<u>10,808</u>	<u>–</u>	<u>10,808</u>
RESULT			
Segment result	(10,169)	(17,721)	(27,890)
Reversal of impairment loss previously recognised in respect of leasehold land and buildings	40,991		40,991
Gain on disposal of leasehold land and buildings	8,891		8,891
Impairment loss recognised in respect of investment securities			<u>(5,300)</u>
Profit from operations			16,692
Finance costs			<u>(5,780)</u>
Net profit for the year			<u>10,912</u>

**(ii) Balance sheet**

	<b>General trading</b> <i>HK\$'000</i>	<b>Property development</b> <i>HK\$'000</i>	<b>Consolidated</b> <i>HK\$'000</i>
ASSETS			
Segment assets	126,613	1,121,434	1,248,047
Unallocated corporate assets			<u>18,971</u>
Consolidated total assets			<u>1,267,018</u>
LIABILITIES			
Segment liabilities	3,639	135,995	139,634
Unallocated corporate liabilities			<u>1,178,264</u>
Consolidated total liabilities			<u>1,317,898</u>

**6. BUSINESS AND GEOGRAPHICAL SEGMENTS** (Cont'd)

**Year 2004**
**(iii) Other information**

	<b>General trading</b> <i>HK\$'000</i>	<b>Property development</b> <i>HK\$'000</i>	<b>Consolidated</b> <i>HK\$'000</i>
Capital additions	1	214,327	214,328
Depreciation	2,579	–	2,579
Reversal of impairment loss previously recognised in respect of leasehold land and buildings	(40,991)	–	(40,991)
Gain on disposal of leasehold land and buildings	(8,891)	–	(8,891)
	<u>          </u>	<u>          </u>	<u>          </u>

**Year 2003**
**(i) Income statement**

	<b>General trading</b> <i>HK\$'000</i>	<b>Property development</b> <i>HK\$'000</i>	<b>Consolidated</b> <i>HK\$'000</i>
<b>TURNOVER</b>			
External sales	10,338	–	10,338
	<u>          </u>	<u>          </u>	<u>          </u>
<b>RESULT</b>			
Segment result	(10,493)	(2,350)	(12,843)
Impairment loss recognised in respect of leasehold land and buildings	(36,601)		(36,601)
Impairment loss recognised in respect of club debenture			(1,100)
Impairment loss recognised in respect of investment securities			(800)
			<u>          </u>
Loss from operations			(51,344)
Finance costs			(12,841)
			<u>          </u>
Net loss for the year			(64,185)
			<u>          </u>

**6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)**
**(ii) Balance sheet**

	<b>General trading</b> <i>HK\$'000</i>	<b>Property development</b> <i>HK\$'000</i>	<b>Consolidated</b> <i>HK\$'000</i>
<b>ASSETS</b>			
Segment assets	116,919	911,202	1,028,121
Unallocated corporate assets			<u>13,571</u>
Consolidated total assets			<u><u>1,041,692</u></u>
<b>LIABILITIES</b>			
Segment liabilities	3,964	41,199	45,163
Unallocated corporate liabilities			<u>1,058,321</u>
Consolidated total liabilities			<u><u>1,103,484</u></u>

**(iii) Other information**

	<b>General trading</b> <i>HK\$'000</i>	<b>Property development</b> <i>HK\$'000</i>	<b>Consolidated</b> <i>HK\$'000</i>
Capital additions	4	86,869	86,873
Depreciation	3,941	–	3,941
Impairment loss recognised in respect of leasehold land and buildings	<u>36,601</u>	<u>–</u>	<u>36,601</u>

**Geographical segments**

More than 90% of the Group's turnover for the years ended 30 June 2004 and 2003 were attributable to operations carried out in Hong Kong. Also, almost all of the Group's assets are located in Hong Kong. Therefore, no geographical segment information are presented.



For the year ended 30 June 2004

## 7. PROFIT (LOSS) FROM OPERATIONS

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Profit (loss) from operations has been arrived at after charging:		
Directors' remuneration ( <i>note 9</i> )	286	217
Other staff costs, including retirement benefits scheme contributions	<u>913</u>	<u>1,603</u>
Total staff costs	<u>1,199</u>	<u>1,820</u>
Allowance for doubtful debts	–	91
Auditors' remuneration	300	300
Depreciation	2,579	3,941
and after crediting:		
Interest income	<u>–</u>	<u>10</u>

## 8. FINANCE COSTS

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Interest on bank borrowings:		
– wholly repayable within five years	37,770	38,989
– not wholly repayable within five years	360	473
Other borrowing costs ( <i>note</i> )	<u>103,054</u>	<u>4,123</u>
Total borrowing costs	141,184	43,585
Less: Amount capitalised in respect of properties under development	<u>(135,404)</u>	<u>(30,744)</u>
	<u>5,780</u>	<u>12,841</u>

*Note:* The amount of other borrowing costs includes the Additional Amount to a lender of HK\$94,185,000 (2003: nil) (see note 19(c)).

**9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS**

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

**(a) Directors' emoluments**

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Directors' fees:		
Executive	–	–
Non-executive	–	–
Independent non-executive	<u>50</u>	<u>–</u>
	50	–
Other emoluments to executive directors:		
Salaries and other benefits	<u>236</u>	<u>217</u>
	<u><u>286</u></u>	<u><u>217</u></u>

The emoluments of each of the directors were less than HK\$1,000,000.

**(b) Employees' emoluments**

The five highest paid individuals of the Group included one (2003: one) executive director, details of whose emoluments are set out in (a) above. The emoluments of the remaining four (2003: four) individuals are as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Salaries and other benefits	519	733
Retirement benefits scheme contributions	<u>26</u>	<u>35</u>
	<u><u>545</u></u>	<u><u>768</u></u>

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

## 10. TAXATION

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

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

	<b>2004</b>	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net profit (loss) for the year	<b><u>10,912</u></b>	<b><u>(64,185)</u></b>
Tax at Hong Kong Profits Tax rate of 17.5% (2003: 17.5%)	<b>1,910</b>	(11,232)
Tax effect of income not taxable for tax purpose	<b>(8,729)</b>	(2)
Tax effect of expenses not deductible for tax purpose	<b>1,219</b>	7,220
Tax effect of tax losses not recognised	–	10,475
Utilisation of tax losses previously not recognised	<b>(2,455)</b>	–
Tax effect of other deductible temporary differences not recognised	<b><u>8,055</u></b>	<b><u>(6,461)</u></b>
Taxation for the year	<b><u>–</u></b>	<b><u>–</u></b>

## 11. EARNINGS (LOSS) PER SHARE

The calculation of the basic earnings (loss) per share is based on the net profit (loss) for the year of HK\$10,912,000 (2003: net loss of HK\$64,185,000) and on 528,271,615 (2003: 528,271,615) ordinary shares in issue during the year.

For the year ended 30 June 2004

**12. PROPERTY, PLANT AND EQUIPMENT**

	<b>Leasehold land and buildings</b>	<b>Leasehold improvements</b>	<b>Office equipment, furniture and fixtures</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>THE GROUP</b>				
<b>COST</b>				
At 1 July 2003	249,500	14,832	10,682	275,014
Additions	–	–	1	1
Disposals	(38,000)	(277)	(2,669)	(40,946)
	<u>211,500</u>	<u>14,555</u>	<u>8,014</u>	<u>234,069</u>
At 30 June 2004	<u>211,500</u>	<u>14,555</u>	<u>8,014</u>	<u>234,069</u>
<b>DEPRECIATION AND IMPAIRMENT</b>				
At 1 July 2003	133,971	14,721	10,514	159,206
Provided for the year	2,494	28	57	2,579
Reversal of impairment loss previously recognised	(40,991)	–	–	(40,991)
Eliminated on disposals	(8,974)	(194)	(2,669)	(11,837)
	<u>86,500</u>	<u>14,555</u>	<u>7,902</u>	<u>108,957</u>
At 30 June 2004	<u>86,500</u>	<u>14,555</u>	<u>7,902</u>	<u>108,957</u>
<b>NET BOOK VALUES</b>				
At 30 June 2004	<u>125,000</u>	<u>–</u>	<u>112</u>	<u>125,112</u>
At 30 June 2003	<u>115,529</u>	<u>111</u>	<u>168</u>	<u>115,808</u>

During the year, the Group reviewed the carrying amounts of leasehold land and buildings and identified that the estimated recoverable amounts of the leasehold land and buildings are greater than their carrying amounts. Due to prevailing property market condition, the carrying amounts are increased to their recoverable amounts.

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

The Company did not have any property, plant and equipment at the balance sheet date.

For the year ended 30 June 2004

## 13. INTERESTS IN SUBSIDIARIES

	<b>THE COMPANY</b>	
	<b>2004</b>	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	<b>160,811</b>	160,811
Amounts due from subsidiaries	<b>966,964</b>	968,474
	<b>1,127,775</b>	1,129,285
Less: Allowance for amounts due from subsidiaries	<b>(482,405)</b>	(482,405)
	<b>645,370</b>	646,880

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment. In the opinion of the directors of the Company, repayment will not be made by the subsidiaries within the twelve months from the balance sheet date. Accordingly, the amounts are shown as non-current.

Particulars of the Company's principal subsidiaries as at 30 June 2004 are set out in note 31.

None of the subsidiaries had any debt securities outstanding as at 30 June 2004 or at any time during the year.

## 14. INVESTMENT SECURITIES

	<b>THE GROUP</b>	
	<b>2004</b>	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted equity investments, at cost	<b>23,353</b>	23,353
Less: Impairment loss recognised	<b>(20,375)</b>	(15,075)
	<b>2,978</b>	8,278

At 30 June 2004, the Group held 40% (2003: 40%) of the registered capital of Harbin Zheng Hua Real Estate Developing Company Limited ("Zheng Hua"), a company which is established in the People's Republic of China and is engaged in property development. The investment in Zheng Hua is not classified as an associate as, in the opinion of the directors of the Company, the Group is not able to exercise significant influence over its financial and operating policy decisions.

**14. INVESTMENT SECURITIES (Cont'd)**

During the year, the Group reviewed the carrying amount of investment securities and identified that the estimated recoverable amount of the investment securities is less than its recoverable amount. Accordingly, the carrying amount is reduced to its recoverable amount, which represents its net selling price.

**15. CLUB DEBENTURE**

	<b>THE GROUP</b> <b>2004 &amp; 2003</b> <i>HK\$'000</i>
Club debenture, at cost	8,000
Less: Impairment loss recognised	<u>(3,000)</u>
	<u><u>5,000</u></u>

**16. PROPERTIES UNDER DEVELOPMENT****THE GROUP**

The properties under development are situated in Hong Kong and are held under long leases. They were pledged to a bank to secure the credit facilities granted to the Group.

At 30 June 2004, borrowing costs capitalised in respect of properties under development amounted to HK\$209,390,000 (2003: HK\$73,986,000).

The directors of the Company estimate that the property development will be available for sale or pre-sale by 30 November 2004 and will be completed by 30 April 2005.

**17. AMOUNTS DUE TO DIRECTORS OF SUBSIDIARIES****THE GROUP**

The amounts are unsecured, non-interest bearing and repayable on demand.

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**18. SECURED BANK LOANS**

	<b>THE GROUP</b>	
	<b>2004</b>	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
The bank loans comprise:		
HK\$ term loan	<b>623,351</b>	613,424
US\$ term loan	<b>78,000</b>	78,000
Instalment loan	–	18,169
	<u>701,351</u>	<u>709,593</u>
Less: Amount due within one year shown under current liabilities	<u>(701,351)</u>	<u>(692,219)</u>
Amount due after one year	<u>–</u>	<u>17,374</u>
The bank loans are repayable as follows:		
Within one year or on demand	<b>701,351</b>	692,219
Between one to two years	–	816
Between two to five years	–	2,574
After five years	–	13,984
	<u>701,351</u>	<u>709,593</u>

The HK\$ term loan of HK\$613,424,000 as at 30 June 2003 (the “Old HK\$ Term Loan”) was secured by a first legal charge over the Group’s properties under development and a floating charge over all other assets of Holyrood Limited (“Holyrood”), a wholly-owned subsidiary of the Company. Deposits, rental proceeds and sales proceeds regarding the properties under development were also assigned to the bank. The Old HK\$ Term Loan borne interest at the prevailing market rates.

The Old HK\$ Loan and US\$ term loan were repayable in full by April 2003 and May 2003 respectively. While the Group was discussing with the bankers to extend the repayment dates of these loans, on 30 June 2003 the bank (i) appointed Joint and Several Receivers and Managers (the “Receivers”) to take over, among others, all the assets and property of Holyrood, including the Group’s properties under development with a carrying amount of approximately HK\$907 million as at 30 June 2003 (the “Property”), which were pledged to secure the Old HK\$ Term Loan; and (ii) served the Group a statutory demand letter regarding the US\$ term loan. Holyrood is a wholly-owned subsidiary of the Company through which the Group carries out the property development project.

**18. SECURED BANK LOANS (Cont'd)**

In November 2003, the Group entered into a loan agreement with another bank and obtained term loan facilities in the aggregate principal amount of HK\$660,000,000 (the "New HK\$ Term Loan") comprising (i) HK\$600,000,000 for refinancing the Old HK\$ Term Loan (together with the accrued interest and other bank charges); and (ii) HK\$60,000,000 for refinancing the then estimated construction costs yet to be expended in completing construction of the Property. The maturity date of the New HK\$ Term Loan is the earlier of (i) the date falling six months from the date of issuance of the occupation permit of the Property; and (ii) 30 September 2004. The New HK\$ Term Loan is secured by a first legal charge over the Group's properties under development and a floating charge over all other assets of Holyrood. Deposits, rental proceeds and sales proceeds regarding the properties under development are also assigned to the bank. The New HK\$ Term Loan bears interest at the prevailing market rates.

In November 2003, the Group also entered into a loan agreement with a new lender and obtained a term loan of HK\$155,000,000 for the sole purpose of funding repayment in part of the Old HK\$ Term Loan (together with the accrued interest and other bank charges) (see also note 19(c)).

Upon the full repayment of the Old HK\$ Term Loan (together with the accrued interest and other bank charges) in November 2003, the Group redeemed all the assets and property of Holyrood charged. The Receivers then ceased to act as the Holyrood's and the Property's receivers and managers.

In March 2004, the aggregate principal amount of the New HK\$ Term Loan was extended to HK\$700,000,000 and the maturity date of this loan has been postponed to the earlier of (i) the date falling one month from the date of issuance of the certificate of compliance of the Property; and (ii) 31 December 2004.

In September 2004, the Group obtained a commitment letter for a term loan facility from other banks to refinance the New HK\$ Term Loan and the other loan of HK\$155,000,000 (both together with the accrued interest and other bank charges) as well as provide additional funding to the Group to finance the then estimated construction costs yet to be expended in completing construction of the Property. The maturity date of this term loan facility is eighteen months from the date of signing the loan agreement.

At the date of this report, the Group is in the process of soliciting new bankers to refinance the US\$ term loan. The directors of the Company are of the opinion that the Group can solicit the new bankers within a short period of time.



## 19. OTHER LOANS

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other loans from:				
– related companies ( <i>note a</i> )	253,512	198,711	756	588
– an unrelated company ( <i>note b</i> )	34,589	34,589	–	–
– an unrelated company ( <i>note c</i> )	155,000	–	–	–
	<u>443,101</u>	<u>233,300</u>	<u>756</u>	<u>588</u>

*Notes:*

- (a) The loans are owed to companies in which a director of subsidiaries and/or Messrs. Oung Shih Hua, James, Chen Te Kuang Mike and Law Fong, directors of the Company, have controlling interests. The loans are unsecured, non-interest bearing and repayable on demand.
- (b) The loan is unsecured, non-interest bearing and repayable on demand.
- (c) The loan is secured, interest bearing at 2% per annum and repayable on the earlier of (i) the date falling the last date of the six months period after the date of the issuance of the occupation permit of the Property; and (ii) 1 October 2004 (the “Maturity Date”). Repayment of this loan is subordinated to the New HK\$ Term Loan obtained from a bank (together with the accrued interest and other bank charges) referred to note 18 above being repaid in full.

In addition, the Group agreed to pay the lender an amount equivalent to 10% of the excess of the value of the properties under development as of 30 September 2004 performed by an independent professional valuer on an open market value basis over HK\$660,000,000 (the “Additional Amount”). The Additional Amount shall be due for payment on the expiration of 31 days after the Maturity Date (i.e. 1 November 2004). The directors of the Company estimated that the Additional Amount would be HK\$134,000,000. As at 30 June 2004, the Group has recognised a portion of the Additional Amount on a time basis, amounting to HK\$94,185,000, as liability and such amount was included in other payable.

In September 2004, the Group obtained a commitment letter for a term loan facility from other banks to refinance this loan (see note 18). Also, the Group is now in the process of soliciting new bankers to refinance the Additional Amount of HK\$134 million which shall be due for repayment on 1 November 2004. The directors of the Company are of the opinion that the Group can solicit the new bankers within a short period of time to refinance the Additional Amount of HK\$134 million.

For the year ended 30 June 2004

**20. SHARE CAPITAL**

	<b>Number of ordinary shares</b>	<b>Amount HK\$'000</b>
Ordinary shares of HK\$0.50 each		
Authorised:		
At 1 July 2002, 30 June 2003 and 30 June 2004	<u>1,000,000,000</u>	<u>500,000</u>
Issued and fully paid:		
At 1 July 2002, 30 June 2003 and 30 June 2004	<u>528,271,615</u>	<u>264,136</u>

**21. SHARE OPTION SCHEME**

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

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

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

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

## 22. RESERVES

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>THE COMPANY</b>					
At 1 July 2002	279,617	132,176	16,410	(688,380)	(260,177)
Net loss for the year	—	—	—	(62,360)	(62,360)
At 30 June 2003	279,617	132,176	16,410	(750,740)	(322,537)
Net loss for the year	—	—	—	(1,901)	(1,901)
At 30 June 2004	<u>279,617</u>	<u>132,176</u>	<u>16,410</u>	<u>(752,641)</u>	<u>(324,438)</u>

The investment property revaluation reserve of the Group represents the balance of the surplus arising in previous years on revaluation of certain of the Group's existing properties which were formerly held for investment purposes.

The contributed surplus of the Group and the Company represents the surplus arising on the acquisition of subsidiaries.

The capital reserve of the Company represents the revaluation of an investment property of a subsidiary prior to the formation of the Group.

Under the Companies Act, the contributed surplus account of the Company is available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if there are reasonable grounds for believing that:

- (a) the Company, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the directors of the Company, the Company had no reserves available for distribution to shareholders as at 30 June 2004 and 30 June 2003.

**23. DEFERRED TAXATION**

The following are the major deferred tax liabilities and assets recognised and the movements thereon during the current and prior reporting periods:

	<b>THE GROUP</b>		
	<b>Accelerated tax depreciation</b> <i>HK\$'000</i>	<b>Tax losses</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
At 1 July 2002			
– as previously reported	–	–	–
– adjustment on adoption of SSAP 12 (Revised)	14,979	(14,979)	–
– as restated	14,979	(14,979)	–
Effect of change in tax rate			
– charge (credit) to the consolidated income statement	1,404	(1,404)	–
(Credit) charge to consolidated income statement for the year	(6,824)	6,824	–
At 30 June 2003	9,559	(9,559)	–
Charge (credit) to consolidated income statement for the year	7,731	(7,731)	–
At 30 June 2004	<u>17,290</u>	<u>(17,290)</u>	<u>–</u>

## 23. DEFERRED TAXATION (Cont'd)

For the purposes of balance sheet presentation, the above deferred tax liabilities and assets have been offset in accordance with the conditions set out in SSAP 12 (Revised).

At the balance sheet date, the Group has unused tax losses of approximately HK\$464,272,000 (2003: HK\$434,126,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK\$98,800,000 (2003: HK\$54,623,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$365,472,000 (2003: HK\$379,503,000) due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward indefinitely.

## 24. CAPITAL COMMITMENTS

	<b>THE GROUP</b>	
	<b>2004</b>	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital expenditure relating to properties under development:		
– contracted for but not provided in the financial statements	<b>1,306</b>	37,686
– authorised but not contracted for	–	2,261
	<u>1,306</u>	<u>39,947</u>

The Company did not have any significant capital commitments at the balance sheet date.

## 25. CONTINGENT LIABILITIES

	<b>THE COMPANY</b>	
	<b>2004</b>	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Guarantee given to banks in respect of credit facilities granted to subsidiaries	<u>997,260</u>	<u>875,900</u>

## 26. PLEDGE OF ASSETS

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

	<b>THE GROUP</b>	
	<b>2004</b>	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Properties under development	<b>1,121,099</b>	906,772
Leasehold land and buildings	<b>125,000</b>	115,529
Bank deposits	<b>10,631</b>	–
	<b><u>1,256,730</u></b>	<b><u>1,022,301</u></b>

The issued ordinary shares of Holyrood were also pledged to a bank to secure credit facilities granted to the Group (also see note 18).

## 27. RETIREMENT BENEFITS 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 2004 dealt with in the income statement of the Group amounted to HK\$43,000 (2003: HK\$70,000).

## 28. MAJOR NON-CASH TRANSACTIONS

During the year, the Group capitalised the Additional Amount of HK\$94,185,000 (2003: nil), as explained in note 19(c), as the cost of the Group's properties under development and the amount was included in other payables as at 30 June 2004.

## 29. RELATED PARTY TRANSACTIONS/CONNECTED TRANSACTIONS

(a) Details of the amounts due to directors of subsidiaries and the other loans obtained from related parties/companies are set out in notes 17 and 19 respectively.

(b) A director of subsidiaries has provided personal guarantees in respect of the followings:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Credit facilities granted to the Group	840,400	875,900
The Group's payment obligation of amount owed to a former main contractor of the Group's property development project	<u>15,919</u>	<u>15,919</u>
	<u><b>856,319</b></u>	<u><b>891,819</b></u>

(c) Five Star Investments Limited, a controlling shareholder of the Company, pledged its interest in 50.7% of the issued share capital of the Company, representing 267,815,017 shares in the Company, to a bank to secure credit facilities to the extent of HK\$700,000,000 (2003: nil) granted to the Group.

(d) During the year ended 30 June 2003, the Group made purchases amounting to HK\$10,288,000 from a company in which certain directors of subsidiaries have controlling interests. The transaction amounts were determined on a cost plus basis.

(e) As at 30 June 2003, the entire issued capital of a company in which certain directors of subsidiaries have controlling interests were pledged to a bank to secure credit facilities to the extent of HK\$735,500,000 granted to the Group.

**30. POST BALANCE SHEET EVENT**

Subsequent to 30 June 2004, the Group obtained a commitment letter for a term loan facility from other banks to refinance the New HK\$ Term Loan and the other loan of HK\$155,000,000 (both together with the accrued interest and other bank charges) as well as provide additional funding to the Group to finance the then estimated construction costs yet to be expended in completing construction of the Property.

**31. PARTICULARS OF PRINCIPAL SUBSIDIARIES**

Particulars of the principal subsidiaries of the Company as at 30 June 2004 are as follows:

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



**31. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Cont'd)**

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

All the above subsidiaries operate in Hong Kong.

The above lists the subsidiaries of the Company which, in the opinion of the directors, 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, result in particulars of excessive length.