

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31st July, 2004*

## 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 Hong Kong Financial Reporting Standards ("HKFRS(s)")

In the current year, the Group has adopted for the first time, the revised Statement of Standard Accounting Practice ("SSAP") 12 "Income Taxes", which is one of HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The term of HKFRS is inclusive of SSAPs and Interpretations approved by 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 amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The adoption of this revised SSAP has had no material effect on the results for the current or prior accounting periods.

## 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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2004

## 3. Significant accounting policies (continued)

### 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 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 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.

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.

### 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 twenty years or less.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2004

## 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%

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.

### 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. Net realisable value is determined by reference to estimated sales proceeds less selling expenses.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2004

## 3. Significant accounting policies *(continued)*

### Revenue recognition

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

Revenue from estate agency services is recognised when the services are rendered.

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.

### 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

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 years and it further excludes items that are never taxable or deductible.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2004

## 3. Significant accounting policies *(continued)*

### **Taxation** *(continued)*

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in 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 foreign currencies 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 foreign operations 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 translation 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, 2004

## 3. Significant accounting policies *(continued)*

### Operating leases

Rentals expenses under operating leases are charged to the income statement on a straight line basis over the term of the relevant lease.

### 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 currently organised into five operating divisions — property rental, financial investment, property sale, estate agency 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 and provision of financial services
Property sale	—	sale of properties held for sale
Estate agency	—	provision of estate agency services
Other investment	—	investment in other securities

In March 2004 and June 2003, the sale of silk products business and the tourist business, respectively, were discontinued and disposed of (see notes 9 and 31).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2004

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

### Turnover and business segments (continued)

An analysis of the Group's turnover and contribution to operating results by business segments is as follows:

	Continuing operations					Discontinuing operations		
	Property rental HK\$'000	Financial investment HK\$'000	Property sale HK\$'000	Estate agency HK\$'000	Other investment HK\$'000	Sale of silk products HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
<b>INCOME STATEMENT</b>								
For the year ended 31st July, 2004								
<b>TURNOVER</b>								
External sales	767	7,645	4,380	1,981	—	7,849	—	22,622
<b>SEGMENT RESULT</b>								
	(1,563)	749	3,747	380	—	(498)	—	2,815
Unallocated corporate income								106
Unallocated corporate expenses								(4,428)
Loss from operations								(1,507)
Finance costs								(577)
Loss on disposal of discontinuing operations	—	—	—	—	—	(734)	—	(734)
Loss on disposal of subsidiaries	(62)	—	—	—	—	—	—	(62)
Loss before taxation								(2,880)
Taxation								(2)
Loss before minority interests								(2,882)
Minority interests								21
Net loss for the year								(2,861)
<b>BALANCE SHEET</b>								
At 31st July, 2004								
<b>ASSETS</b>								
Segment assets	21,822	8,874	35,623	10,522	—	—	—	76,841
Unallocated corporate assets								44,001
Consolidated total assets								120,842
<b>LIABILITIES</b>								
Segment liabilities	3,934	—	323	4,073	—	—	—	8,330
Unallocated corporate liabilities								11,291
Consolidated total liabilities								19,621
<b>OTHER INFORMATION</b>								
For the year ended 31st July, 2004								
Capital additions	—	—	—	68	—	—	—	68
Depreciation	—	—	2	35	—	—	1	38
Reversal of allowance for properties held for sale	—	—	3,954	—	—	—	—	3,954
Surplus on revaluation of investment properties	1,615	—	—	—	—	—	—	1,615
Loss on disposal of investment properties	620	—	—	—	—	—	—	620
Additions of goodwill	—	—	—	4,532	—	—	—	4,532
Amortisation of goodwill arising on acquisition of subsidiaries	—	—	—	494	—	—	—	494
Unrealised holding loss on trading securities	—	739	—	—	—	—	—	739

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2004

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

### Turnover and business segments (continued)

	Continuing operations				Discontinuing operations			
	Property rental HK\$'000	Financial investment HK\$'000	Property sale HK\$'000	Other investment HK\$'000	Sale of silk products HK\$'000	Tourism HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
<b>INCOME STATEMENT</b>								
For the year ended 31st July, 2003								
<b>TURNOVER</b>								
External sales	1,914	—	19,854	—	18,910	595	—	41,273
<b>SEGMENT RESULT</b>								
	(13,236)	(15,528)	(1,395)	(160)	(6,241)	(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)	(411)
Gain on disposal of discontinuing operations	—	—	—	—	—	261	—	261
Loss on disposal of subsidiaries	—	—	—	—	—	—	(3,519)	(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)
<b>BALANCE SHEET</b>								
At 31st July, 2003								
<b>ASSETS</b>								
Segment assets	23,528	1,990	25,341	—	3,333	—	—	54,192
Unallocated corporate assets								46,976
Consolidated total assets								101,168
<b>LIABILITIES</b>								
Segment liabilities	1,879	—	9	—	569	—	—	2,457
Unallocated corporate liabilities								18,227
Consolidated total liabilities								20,684
<b>OTHER INFORMATION</b>								
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
Allowance for bad and doubtful debts	—	—	65	—	659	—	—	724
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, 2004

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

### Geographical segments

The Group's current operations are mainly located in Hong Kong and Japan. The Group's property rental businesses are carried out in Hong Kong. Financial investment is located in Hong Kong and property sale division is located in Hong Kong and Japan. Estate agency division is located in Hong Kong. Other investment is located in Hong Kong.

In prior year, the Group's property rental businesses were carried out in the People's Republic of China, other than Hong Kong (the "PRC") and Hong Kong.

Segment information about geographic markets is presented below:

	Turnover by geographical market		Loss from operation	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Hong Kong	22,615	20,678	(1,125)	(35,857)
The PRC	7	20,595	—	354
Japan	—	—	3,940	(1,749)
	<u>22,622</u>	<u>41,273</u>	<u>2,815</u>	<u>(37,252)</u>
Unallocated corporate income			106	131
Unallocated corporate expenses			<u>(4,428)</u>	<u>(3,932)</u>
Loss from operations			<u>(1,507)</u>	<u>(41,053)</u>

Revenue from the Group's discontinued sale of silk products operations of HK\$7,849,000 (2003: HK\$18,910,000) was derived principally from Hong Kong.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2004

## 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	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Hong Kong	89,944	72,859	4,600	29
The PRC	—	5,575	—	—
Japan	26,688	22,734	—	—
Overseas	4,210	—	—	—
	<u>120,842</u>	<u>101,168</u>	<u>4,600</u>	<u>29</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2004

## 5. Loss from operations

	2004 HK\$'000	2003 HK\$'000
Loss from operations has been arrived at after charging (crediting):		
Directors' remuneration (note 7)	1,781	1,285
Other staff costs	3,745	4,257
Retirement benefit scheme contributions, excluding directors	255	150
Total staff costs	5,781	5,692
Auditors' remuneration:		
Current year	631	525
Underprovision in prior years	80	192
Depreciation	38	890
Allowance for bad and doubtful debts	—	724
Loss on disposal of property, plant and equipment	2	176
Bank and other interest income	(79)	(33)
Release of negative goodwill arising on acquisition of an associate (included in other operating income)	—	(187)
Interest income on promissory note receivables	(1,103)	(1,142)
Interest income on trading securities	(347)	—
Interest income on loan receivables	—	(509)

## 6. Finance costs

	2004 HK\$'000	2003 HK\$'000
Interest on:		
Borrowings wholly repayable within five years:		
Bank borrowings	85	—
Promissory notes	6	779
Convertible notes	77	—
	168	779
Borrowings not wholly repayable within five years:		
Bank borrowings	409	507
	577	1,286

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2004

## 7. Directors' emoluments

	2004 HK\$'000	2003 HK\$'000
Fees:		
Executive directors	100	100
Non-executive	—	—
Independent non-executive directors	200	200
	<u>300</u>	<u>300</u>
Other emoluments paid to executive directors:		
Salaries and other benefits	1,411	979
Retirement benefit scheme contributions	70	6
	<u>1,481</u>	<u>985</u>
	<u>1,781</u>	<u>1,285</u>

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

## 8. Employees' emoluments

Of the five highest (2003: seven) individuals with the emoluments in the Group, four (2003: five) were directors of the Company whose emoluments are included in note 7 above. The emoluments of the remaining one employee (2003: two employees) are as follows:

	2004 HK\$'000	2003 HK\$'000
Salaries and other benefits	150	448
Retirement benefit scheme contributions	—	16
	<u>150</u>	<u>464</u>

During the year, no emoluments were paid by the Group to the five (2003: seven) 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 31st July, 2004 and 2003, 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, 2004

## 9. Discontinuing operations

In March 2004, the Group ceased its operations in the provision of sale of silk products after the disposal of a subsidiary, Marcello Asia Limited ("Marcello").

The results of the discontinuing operations are as follows:

	Period ended 30th March, 2004 HK\$'000	2003 HK\$'000
Turnover	7,849	18,910
Cost of sales	(1,589)	(8,345)
	<u>6,260</u>	<u>10,565</u>
Other operating income	91	58
Administrative expenses	(6,849)	(16,864)
	<u>(498)</u>	<u>(6,241)</u>
Loss for the period up to date of discontinuance		

During the year, Marcello had a net cash inflow of HK\$218,000 (2003: outflow of HK\$69,000) attributable to the Group's net cash used in operating activities.

The carrying amounts of the assets and liabilities of Marcello at the date of disposal and at 31st July, 2003 are as follows:

	At 30th March, 2004 HK\$'000	At 31st July, 2003 HK\$'000
Total assets	<u>1,684</u>	<u>2,571</u>
Total liabilities	<u>180</u>	<u>569</u>

Loss on disposal of discontinuing operations of HK\$734,000 arose on the disposal of Marcello, being the proceeds of disposal less the carrying amount of the subsidiary's net assets as referred to note 31.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2004

### 9. Discontinuing operations (continued)

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

The results of the discontinuing operations were as follows:

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

During the year ended 31st July, 2003, Great Prospect had a net cash outflow of HK\$692,000 attributable 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 were as follows:

	At 30th June, 2003 HK\$'000
Total assets	<u><u>1</u></u>
Total liabilities	<u><u>372</u></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 31.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2004

## 10. Taxation

	2004 HK\$'000	2003 HK\$'000
The charge comprises:		
Current tax:		
Hong Kong	19	—
The PRC	—	24
	<u>19</u>	<u>24</u>
Deferred tax (note 29)	(17)	—
	<u>2</u>	<u>24</u>

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the year.

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

The tax charge for the year can be reconciled to the loss per the income statement as follows:

	2004 HK\$'000	2003 HK\$'000
Loss before taxation	<u>(2,880)</u>	<u>(46,008)</u>
Tax at the Hong Kong Profits Tax rate of 17.5%	(504)	(8,050)
Tax effect of expenses not deductible for tax purpose	2,615	8,120
Tax effect of income not taxable for tax purpose	(2,908)	(4,806)
Tax effect of tax losses not recognised	804	2,913
Tax effect of deferred tax assets not recognised	94	1,802
Effect of different tax rate of a subsidiary operating in other jurisdictions	—	69
Utilisation of tax loss previously not recognised	<u>(99)</u>	<u>(24)</u>
Tax effect	<u>2</u>	<u>24</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2004

## 11. Loss per share

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

	2004 HK\$	2003 HK\$
Net loss for the year	<u>2,861,000</u>	<u>43,954,000</u>
Weighted average number of shares for the purpose of basic loss per share	<u>2,531,048,941</u>	<u>821,427,141</u>

No diluted loss per share for the year ended 31st July, 2004 has been presented as the exercise price of the Company's options was higher than the average market price of shares during the year and the conversion of the Company's outstanding convertibles notes would result in a decrease in net loss per share.

There was no dilutive potential shares outstanding during the year ended 31st July, 2003.

## 12. Investment properties

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
<b>VALUATION</b>				
At 1st August, 2003	23,165	32,980	1,340	1,450
Disposals	(5,000)	(930)	—	—
Surplus (deficit) arising on revaluation	<u>1,615</u>	<u>(8,885)</u>	<u>140</u>	<u>(110)</u>
<b>At 31st July, 2004</b>	<b><u>19,780</u></b>	<b><u>23,165</u></b>	<b><u>1,480</u></b>	<b><u>1,340</u></b>
Comprising:				
Investment properties held in Hong Kong under:				
Long leases	1,440	1,300	—	—
Medium-term leases	<u>18,340</u>	<u>21,865</u>	<u>1,480</u>	<u>1,340</u>
	<b><u>19,780</u></b>	<b><u>23,165</u></b>	<b><u>1,480</u></b>	<b><u>1,340</u></b>

The investment properties of the Group and the Company are held for rental purposes under operating leases and were revalued at 31st July, 2004 on an open market value basis by independent firms of professional valuers, Chung, Chan & Associates and CS Surveyors Limited, chartered surveyors.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2004

## 12. Investment properties (continued)

The surplus arising on revaluation of the Group's and the Company's investment properties at 31st July, 2004 amounted to HK\$1,615,000 (2003: deficit of HK\$8,885,000) and HK\$140,000 (2003: deficit of HK\$110,000), respectively, have been credited to the income statement.

## 13. Property, plant and equipment

	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Total HK\$'000
<b>THE GROUP</b>			
<b>COST</b>			
At 1st August, 2003	3,094	649	3,743
Additions	—	68	68
Upon acquisition of subsidiaries	376	152	528
Disposals	—	(3)	(3)
Disposal of subsidiaries	(3,094)	(646)	(3,740)
<b>At 31st July, 2004</b>	<b>376</b>	<b>220</b>	<b>596</b>
<b>DEPRECIATION</b>			
At 1st August, 2003	3,094	570	3,664
Provided for the year	10	28	38
Upon acquisition of subsidiaries	354	103	457
Eliminated on disposals	—	(1)	(1)
Eliminated on disposal of subsidiaries	(3,094)	(572)	(3,666)
<b>At 31st July, 2004</b>	<b>364</b>	<b>128</b>	<b>492</b>
<b>NET BOOK VALUES</b>			
<b>At 31st July, 2004</b>	<b>12</b>	<b>92</b>	<b>104</b>
At 31st July, 2003	—	79	79

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2004

## 14. Goodwill

	THE GROUP
	HK\$'000
<b>COST</b>	
At 1st August, 2003	1,143
Arising on acquisitions of subsidiaries	4,532
Disposals	(1,143)
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<b>At 31st July, 2004</b>	<b>4,532</b>
	<hr/>
<b>AMORTISATION AND IMPAIRMENT</b>	
At 1st August, 2003	381
Provided for the year	494
Eliminated on disposals	(762)
	<hr/>
<b>At 31st July, 2004</b>	<b>113</b>
	<hr/>
<b>NET BOOK VALUES</b>	
<b>At 31st July, 2004</b>	<b>4,419</b>
	<hr/> <hr/>
At 31st July, 2003	762
	<hr/> <hr/>

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

## 15. Interests in subsidiaries

	THE COMPANY	
	2004	2003
	HK\$'000	HK\$'000
Unlisted investments, at cost	31,539	31,539
Amounts due from subsidiaries	224,373	195,955
	<hr/>	<hr/>
	255,912	227,494
Allowance	(181,526)	(174,251)
	<hr/>	<hr/>
	74,386	53,243
	<hr/> <hr/>	<hr/> <hr/>

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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2004

## 15. Interests in subsidiaries (continued)

Details of the Company's principal subsidiaries at 31st July, 2004 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
Ahead Company Limited	Hong Kong	HK\$2	100	—	Trading of securities and investment holding
Century 21 Hong Kong Limited	Hong Kong	HK\$3,880,000	—	82.5	Provision of estate agency services
Chadbury International Limited	British Virgin Islands/Japan	US\$1	—	100	Property investment
Consecutive Profits Limited ("CPL")	British Virgin Islands	US\$10	—	80	Investment holding
Evergood Management Limited	Hong Kong	HK\$2	100	—	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
Silver Tower Limited	Hong Kong	HK\$2	—	100	Property investment
Top Mount Limited	Hong Kong	HK\$2	—	100	Investment holding
Top Universal Management 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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2004

## 16. Investments in securities

	THE GROUP					
	Trading securities		Other securities		Total	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Equity securities:						
Listed						
At cost	4,840	5,587	—	—	4,840	5,587
Unrealised holding loss	(658)	(3,635)	—	—	(658)	(3,635)
At fair value	4,182	1,952	—	—	4,182	1,952
Unlisted						
At cost	—	—	701	701	701	701
Unrealised holding loss	—	—	(701)	(701)	(701)	(701)
At fair value	—	—	—	—	—	—
	4,182	1,952	—	—	4,182	1,952
Listed debt securities:						
At cost	4,291	—	—	—	4,291	—
Unrealised holding loss	(81)	—	—	—	(81)	—
At fair value	4,210	—	—	—	4,210	—
Total:						
Listed						
Hong Kong	4,182	1,952	—	—	4,182	1,952
Elsewhere	4,210	—	—	—	4,210	—
	8,392	1,952	—	—	8,392	1,952
Market value of listed securities, reported as current	8,392	1,952	—	—	8,392	1,952

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2004

## 16. Investments in securities (continued)

	THE COMPANY	
	Other securities	
	2004	2003
	HK\$'000	HK\$'000
Unlisted equity securities:		
At cost	700	700
Unrealised holding loss	(700)	(700)
	<u>          </u>	<u>          </u>
At fair value	<u>          </u>	<u>          </u>

## 17. Promissory note receivables

	THE GROUP AND THE COMPANY	
	2004	2003
	HK\$'000	HK\$'000
Principal	22,000	22,000
Less: Amount due within one year shown under current assets	(22,000)	—
	<u>          </u>	<u>          </u>
Amount due after one year	<u>          </u>	<u>22,000</u>

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

## 18. Properties held for sale

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Properties in Hong Kong	8,892	206	206	206
Properties in Japan	26,688	22,735	—	—
Properties in the PRC	—	2,400	—	—
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	<u>35,580</u>	<u>25,341</u>	<u>206</u>	<u>206</u>

Included above of the Group are properties in Japan of HK\$26,688,000 (2003: in Japan and in the PRC of HK\$25,135,000) carried at net realisable value.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2004

## 19. Trade and other receivables

At 31st July, 2004, the balance of trade and other receivables included trade receivables of HK\$4,450,000 (2003: of HK\$714,000). An aged analysis of trade receivables is as follows:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
0 to 60 days	2,402	52
61 to 90 days	146	3
91 days or above	1,902	659
	<u>4,450</u>	<u>714</u>

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

## 20. Loan receivables

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Principal	10,500	10,500
Interest receivables	503	503
Less: Allowance	(11,003)	(11,003)
	<u>—</u>	<u>—</u>

The loans were unsecured and bore interest at prevailing market rate.

## 21. Trade and other payables

At 31st July, 2004, the balance of trade and other payables included trade payables of HK\$2,382,000 (2003: of HK\$446,000). An aged analysis of trade payables is as follows:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
0 to 60 days	1,589	2
61 to 90 days	491	—
91 days or above	302	444
	<u>2,382</u>	<u>446</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2004

## 22. Promissory note payables

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Principal	<u>—</u>	<u>3,051</u>

At 31st July, 2003, the promissory note payables were unsecured and bore interest at Hong Kong best lending rate. The amount was fully settled during the year ended 31st July, 2004.

## 23. Bank borrowings

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unsecured bank overdrafts	266	259	—	—
Secured bank loans	<u>9,211</u>	<u>14,254</u>	<u>638</u>	<u>703</u>
	<u>9,477</u>	<u>14,513</u>	<u>638</u>	<u>703</u>

The maturity profile of the above loans and overdrafts is as follows:

Within one year or upon demand	1,234	1,546	67	65
More than one year but not exceeding two years	1,008	1,343	70	67
More than two years but not exceeding five years	3,263	4,386	226	218
More than five years	<u>3,972</u>	<u>7,238</u>	<u>275</u>	<u>353</u>
	9,477	14,513	638	703
Less: Amount due within one year shown as current liabilities	<u>(1,234)</u>	<u>(1,546)</u>	<u>(67)</u>	<u>(65)</u>
Amount due after one year	<u>8,243</u>	<u>12,967</u>	<u>571</u>	<u>638</u>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2004

### 24. Amount due to a subsidiary

The amount is unsecured, interest free and has no fixed repayment terms. The subsidiary agreed that the amount will not be repayable within twelve months from the balance sheet date and accordingly, the amount is classified as non-current.

### 25. Convertible note payables

	THE GROUP AND THE COMPANY	
	2004	2003
	HK\$'000	HK\$'000
Principal	<u>3,000</u>	<u>—</u>

The convertible note payables represents the HK\$3,000,000 2% redeemable convertible notes due 2005. The convertible notes carry interest at 2% per annum and are redeemable on 15th October, 2005. The holders of the convertible notes have the options to convert the convertible notes into shares of HK\$0.01 each of the Company at any time during the period from 16th October, 2003 to 15th October, 2005 at a conversion price of HK\$0.02 per share.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2004

## 26. Share capital

	Number of ordinary shares	Amount HK\$'000
Ordinary shares		
Authorised:		
At 1st August, 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
<b>At 31st July, 2003 and 31st July, 2004, at HK\$0.01 each</b>	<b><u>12,250,000,000</u></b>	<b><u>122,500</u></b>
Issued and fully paid:		
At 1st August, 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 July, 2003, at HK\$0.01 each	2,081,398,668	20,814
Conversion of convertible notes (note d)	250,000,000	2,500
Issue of shares on private placements on:		
— 13th February, 2004 (note e)	400,000,000	4,000
— 29th April, 2004 (note e)	538,000,000	5,380
<b>At 31st July, 2004, at HK\$0.01 each</b>	<b><u>3,269,398,668</u></b>	<b><u>32,694</u></b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2004

## 26. 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 had 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.
- (d) On 30th January, 2004, the HK\$5,000,000 2% redeemable convertible notes due 2005 were converted into 250,000,000 ordinary shares of HK\$0.01 each of the Company at a conversion price of HK\$0.02 per share. The new shares rank pari passu with the existing shares in all respects.
- (e) On 13th February, 2004 and 29th April, 2004, arrangements were made for private placements to independent investors of 400,000,000 and 538,000,000 new shares of the Company of HK\$0.01 each at placing prices of HK\$0.02 per share, representing a discount of approximately 13.04% to the closing market price of the Company's shares on 6th February, 2004 and 24th March, 2004, respectively. The net proceeds have been used to finance the Group's general working capital for operating activities, property investments and real estate franchising and agency business. The 400,000,000 and 538,000,000 new shares were issued under the general mandates granted to the directors at the annual general meeting and extraordinary general meeting of the Company held on 18th December, 2003 and 22nd April, 2004, respectively. The new shares rank pari passu with other shares in issue in all respects.

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31st July, 2004*

## 27. 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 to 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, 2004 and 2003. At 31st July, 2004 and 2003, there was no option outstanding under the 1997 Scheme.

### **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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2004

## 27. Share options (continued)

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

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.

At 31st July, 2004, the number of shares in respect of which options had been granted and remained outstanding under the 2002 Scheme was 125,200,000, representing 3.8% of the shares of the Company in issue at that date. Total consideration of HK\$15 (2003: Nil) was received by the Company during the year on acceptance of the grants.

No share option of the 2002 Scheme was granted or exercised during the year ended 31st July, 2003. At 31st July, 2003, there was no option outstanding under the 2002 Scheme.

The following table discloses details of the 2002 Scheme and movements in such holdings during the year ended 31st July, 2004:

Date of grant	Exercisable period	Exercise price HK\$	Outstanding at 1.8.2003	Granted during the year	Outstanding at 31.7.2004
20.11.2003	20.11.2003 — 29.12.2012	0.0234	—	41,600,000	41,600,000
17.3.2004	17.3.2004 — 29.12.2012	0.0240	—	83,600,000	83,600,000
			—	125,200,000	125,200,000

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2004

## 27. Share options (continued)

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

Details of the options held by the directors included in the above table are as follows:

Date of grant	Exercisable period	Exercise price HK\$	Outstanding at 1.8.2003	Granted during the year	Outstanding at 31.7.2004
20.11.2003	20.11.2003 — 29.12.2012	0.0234	—	20,800,000	20,800,000
17.3.2004	17.3.2004 — 29.12.2012	0.0240	—	61,100,000	61,100,000
			<u>—</u>	<u>81,900,000</u>	<u>81,900,000</u>

No share option was exercised by the above directors to subscribe for shares in the Company during the year.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2004

## 28. Reserves

	Share premium HK\$'000	Capital reserve HK\$'000	Capital reduction reserve HK\$'000	Capital redemption reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
<b>THE COMPANY</b>						
At 1st August, 2002	250,952	2,127	—	268	(346,303)	(92,956)
Capital reduction (note 26a)	(250,952)	—	170,583	—	268,505	188,136
Issue of shares on private placements (note 26b)	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	7,824	2,127	170,583	268	(121,735)	59,067
Conversion of convertible notes (note 26d)	2,500	—	—	—	—	2,500
Issue of shares on private placements (note 26e)	9,380	—	—	—	—	9,380
Expenses incurred in connection with issue of shares	(446)	—	—	—	—	(446)
Net loss for the year	—	—	—	—	(8,552)	(8,552)
<b>At 31st July, 2004</b>	<b>19,258</b>	<b>2,127</b>	<b>170,583</b>	<b>268</b>	<b>(130,287)</b>	<b>61,949</b>

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, 2004 and 2003, the Company had no reserve available for distribution to the shareholders.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2004

## 29. Deferred taxation

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

	Accelerated tax depreciation HK\$'000	Tax losses HK\$'000	Total HK\$'000
<b>THE GROUP</b>			
At 1st August, 2002			
— as previously reported	—	—	—
— adjustment on adoption of SSAP 12 (Revised)	913	(913)	—
— as restated	913	(913)	—
Charge (credit) to income statement	219	(219)	—
At 31st July, 2003	1,132	(1,132)	—
Charge (credit) to income statement	116	(133)	(17)
At 31st July, 2004	<u>1,248</u>	<u>(1,265)</u>	<u>(17)</u>
<b>THE COMPANY</b>			
At 1st August, 2002			
— as previously reported	—	—	—
— adjustment on adoption of SSAP 12 (Revised)	37	(37)	—
— as restated	37	(37)	—
Charge (credit) to income statement	11	(11)	—
At 31st July, 2003	48	(48)	—
Charge (credit) to income statement	8	(8)	—
At 31st July, 2004	<u>56</u>	<u>(56)</u>	<u>—</u>

At 31st July, 2004, the Group and the Company had unused tax losses of HK\$47,648,000 (2003: HK\$53,579,000) and HK\$9,562,000 (2003: HK\$8,842,000), respectively, available for offset against future profits and deductible temporary differences of HK\$232,000 (2003: HK\$2,634,000) and HK\$19,000 (2003: HK\$24,000), respectively, in respect of accelerated tax depreciation. A deferred tax assets of the Group and the Company have been recognised in respect of HK\$7,229,000 (2003: HK\$6,468,000) and HK\$324,000 (2003: HK\$276,000) of such losses, respectively. No deferred tax assets of the Group and the Company have been recognised in respect of the remaining unused losses of HK\$40,419,000 (2003: HK\$47,111,000) and HK\$9,238,000 (2003: HK\$8,566,000), respectively, and the deductible temporary differences due to unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2004

## 30. Acquisition of subsidiaries

On 30th January, 2004, the Group acquired 80% interest in CPL and its subsidiaries for a consideration of HK\$6,000,000. This acquisition has been accounted for by the acquisition method of accounting. The amount of goodwill arising as a result of the acquisition was HK\$4,532,000.

	2004 HK\$'000	2003 HK\$'000
Net assets acquired:		
Property, plant and equipment	71	—
Trade and other receivables	8,318	—
Bank balances and cash	115	—
Trade and other payables	(6,212)	—
Bank overdrafts	(14)	—
Bank borrowings	(54)	—
Minority interests	(756)	—
	<hr/>	<hr/>
Net assets	1,468	—
Goodwill arising on acquisition	4,532	—
	<hr/>	<hr/>
	6,000	—
	<hr/>	<hr/>
Satisfied by:		
Cash consideration paid	6,000	—
	<hr/>	<hr/>
Analysis of net outflow of cash and cash equivalents in connection with the purchase of subsidiaries:		
Cash consideration paid	(6,000)	—
Bank balances and cash acquired	115	—
Bank overdrafts acquired	(14)	—
	<hr/>	<hr/>
Net outflow of cash and cash equivalents	(5,899)	—
	<hr/>	<hr/>

The subsidiaries acquired during the year contributed HK\$1,981,000 to the Group's turnover, and HK\$380,000 to the Group's profit from operations.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2004

## 31. Disposal of subsidiaries

In August, 2003, the Group disposed of its subsidiary, Kan Hock Investment and Developments Limited ("Kan Hock"). As referred to in note 9 in March 2004, the Group discontinued its operations in the provision of sale of silk products at the time of disposal of its subsidiary, Marcello. The net assets of Kan Hock and Marcello at the dates of disposal and at 31st July, 2004 were as follows:

	2004 HK\$'000	2003 HK\$'000
Net assets disposed of:		
Property, plant and equipment	74	—
Other securities	—	4,005
Properties held for sale	2,400	—
Inventories	889	—
Trade and other receivables	605	912
Bank balances and cash	300	116
Trade and other payables	(309)	(1,486)
	<u>3,959</u>	<u>3,547</u>
Goodwill released	381	7,603
Minority interests	(451)	109
(Loss) gain on disposal of discontinuing operations	(734)	261
Loss on disposal of subsidiaries	<u>(62)</u>	<u>(3,519)</u>
	<u><u>3,093</u></u>	<u><u>8,001</u></u>

Satisfied by:

Cash consideration received	<u><u>3,093</u></u>	<u><u>8,001</u></u>
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Analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries:

	2004 HK\$'000	2003 HK\$'000
Cash consideration received	3,093	8,001
Bank balances and cash disposed of	<u>(300)</u>	<u>(116)</u>
Net inflow of cash and cash equivalents	<u><u>2,793</u></u>	<u><u>7,885</u></u>

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, 2004*

### 32. 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.

### 33. Pledge of assets

At 31st July, 2004, investment properties of the Group and the Company amounting to HK\$17,780,000 (2003: HK\$23,165,000) and HK\$1,480,000 (2003: HK\$1,340,000), respectively, had been pledged to banks to secure credit facilities to the extent of HK\$10,750,000 (2003: HK\$16,665,000) and HK\$750,000 (2003: HK\$750,000) granted to the Group and the Company of which HK\$9,163,000 (2003: HK\$14,254,000) and HK\$638,000 (2003: HK\$703,000) were utilised by the Group and the Company, respectively.

### 34. 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, 2004, contributions of the Group under the MPF Scheme amounted to HK\$325,000 (2003: HK\$156,000).

Forfeited contributions in respect of unvested benefits of employees leaving the Group under the Defined Contribution Schemes cannot be used to reduce ongoing contributions after their termination. At 31st July, 2003, the Group had forfeited contributions of HK\$176,000 arising upon employees leaving the Defined Contribution Schemes.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2004

## 35. Operating lease arrangements

### The Group as lessee

Minimum lease payments paid under operating leases for premises during the year was HK\$850,000 (2003: HK\$994,000).

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	
	2004 HK\$'000	2003 HK\$'000
Within one year	151	720
In the second to fifth year inclusive	—	720
	<u>151</u>	<u>1,440</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 one year (2003: two and half years).

At 31st July, 2004, the Company had no commitments under non-cancellable operating leases (2003: Nil).

### The Group as lessor

Property rental income earned by the Group during the year was HK\$767,000 (2003: HK\$1,914,000) before deduction of outgoings of HK\$275,000 (2003: HK\$441,000). Certain of the Group's properties are held for rental purposes and are expected to generate rental yields of 3% (2003: 6%), on an ongoing basis. The properties of the Group held for rental purposes have committed tenants for an average term of two years (2003: one year).

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	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Within one year	368	618	120	100
In the second to fifth year inclusive	<u>229</u>	<u>65</u>	<u>220</u>	<u>—</u>
	<u>597</u>	<u>683</u>	<u>340</u>	<u>100</u>

## NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31st July, 2004*

### 36. Contingent liabilities

At 31st July, 2004, the Company has outstanding guarantees issued in favour of a bank in respect of banking facilities made available to a subsidiary amounting to HK\$8,525,000 (2003: HK\$9,380,000).

At 31st July, 2003, the Company had also given guarantees to promissory note holders to secure the payment of outstanding principal and interest of promissory note payables of HK\$3,051,000 issued by its subsidiaries. The promissory note was fully repaid by its subsidiaries and the guarantees were released during the year ended 31st July, 2004.

### 37. Related party disclosures

- (a) During the year, the Group reimbursed HK\$2,630,000 (2003: HK\$210,000) and HK\$599,000 (2003: HK\$189,000) for administrative expenses with CSI Investment Limited ("CSI") and Mark Well Investment Limited ("Mark Well"), respectively. During the year ended 31st July, 2003, the Group also reimbursed HK\$649,000 for administrative expenses with Capital Strategic Investment (BVI) Limited ("CSI (BVI)"). Mr. Choo Yeow Ming, Ms. Ma Wai Man, Catherine and Mr. Chow Hou Man, the directors of the Company, are also directors of these companies. CSI, Mark Well and CSI (BVI) are subsidiaries of Capital Strategic Investment Limited ("Capital Strategic"), a listed company of the Stock Exchange. The amounts were negotiated by reference to prevailing market rates.
- (b) On 5th September, 2003, High Cheong, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with On Glory Holdings Limited (the "Agreement"), a wholly-owned subsidiary of Capital Strategic which is listed on the Stock Exchange and is a substantial shareholder of the Company. Pursuant to the Agreement, High Cheong acquired from On Glory Holdings Limited the entire 80% of the issued share capital of CPL, at a cash consideration of HK\$6,000,000. The principal asset of CPL is 82.5% equity interest in Century 21 Hong Kong Limited. Mr. Ng Kai Man, Luke, the deputy chairman and an executive director of the Company, is the minority shareholder who owns the remaining 20% of the issued share capital of CPL.
- (c) During the year ended 31st July, 2003, the Group reimbursed a sum of HK\$560,000 for administrative expenses with Cheung Tai Hong, Limited ("CTH"), a company in which Mr. Ding Chung Keung, Vincent was also a director. Ms. Lin Fung Yi and Mr. Tse Cho Tseung, ex-directors of the Company, were directors of CTH. CTH was 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.