



CAPITAL ESTATE LIMITED
冠中地產有限公司
(Incorporated in Hong Kong with limited Liability)



2005

Annual Report

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Chu Nin Yiu, Stephen (*Executive Chairman*)
Chu Nin Wai, David (*Deputy Chairman*)
Lau Chi Kan, Michael

Independent Non-Executive Directors

Li Sze Kuen, Billy
Wong Kwong Fat
Leung Kam Fai

COMPANY SECRETARY

Hung Yat Ming

AUTHORISED REPRESENTATIVES

Chu Nin Yiu, Stephen
Hung Yat Ming

AUDIT COMMITTEE

Li Sze Kuen, Billy
Wong Kwong Fat
Leung Kam Fai

REMUNERATION COMMITTEE

Chu Nin Yiu, Stephen
Li Sze Kuen, Billy
Wong Kwong Fat
Leung Kam Fai

LEGAL ADVISERS

Richards Butler

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants, Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation
Limited
Wing Hang Bank, Limited

SHARE REGISTRARS AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Rooms 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wan Chai, Hong Kong

REGISTERED OFFICE

Unit 1901, 19th Floor
Asia Orient Tower, Town Place
33 Lockhart Road
Wan Chai, Hong Kong

STOCK CODE

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CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board"), I am pleased to present the annual report of Capital Estate Limited (the "Company") and its subsidiaries (together the "Group") for the financial year ended 31st July, 2005.

REVIEW OF THE RESULTS

The Group reported a turnover of approximately HK\$25.7 million for the year ended 31st July, 2005, representing an increase of approximately 13.7% from HK\$22.6 million recorded in the last year. The increase in turnover was mainly due to the increase in sales generated from financial investment of approximately HK\$2.6 million, property sale of approximately HK\$5.6 million and estate agency of approximately HK\$2.9 million. The increase in turnover, however, was partly offset by the decrease in revenue of approximately HK\$7.8 million from sale of silk products, which was discontinued and disposed of in March 2004.

Net profit after tax for the year ended 31st July, 2005 amounted to HK\$5.9 million (2004: loss of HK\$2.86 million). The improvement of results was mainly due to the upward revaluation of investment properties and the unrealised holding gain on investment in securities.

DIVIDEND

The Directors do not recommend the payment of any dividends for the year ended 31st July, 2005.

LIQUIDITY AND FINANCIAL RESOURCES

The cash balance of the Group increased by 190.5% from approximately HK\$24.3 million at 31st July, 2004 to approximately HK\$70.6 million at 31st July, 2005, and the total bank borrowings of the Group decreased by 13.7% from approximately HK\$9.5 million at 31st July, 2004 to approximately HK\$8.2 million at 31st July, 2005. The gearing ratio of the Group, expressed as the percentage of the Group's total liabilities over the shareholders' fund of approximately HK\$159.2 million was decreased from 19.6% to 14.2%. All bank borrowings were denominated in HK dollars and were on a floating rate basis at Hong Kong best lending rates. The maturity profile spreads over a period of 8 years with approximately HK\$1.4 million repayable within one year, HK\$4.1 million repayable within two to five years, and HK\$2.7 million over five years.

EXCHANGE RATE EXPOSURE

Except for certain properties held for sale in Japan, all assets, liabilities and transactions of the Group are denominated in Hong Kong dollars. The fluctuation of foreign currencies did not have a significant impact on the performance of the Group.

BUSINESS REVIEW

The year under review saw the continuing improvement in the local economy, surges in local property prices and transaction volume, and the continuing benefit to the retail sectors brought about by expanded tourism from Mainland China. Accompanied by such economic recovery and improved market sentiment, the Group has managed to turnaround its loss into a profit, achieving a net profit after tax of HK\$5.9 million for the year (2004: loss of HK\$2.86 million).

The principal activities of the Group remain to be financial investment, property investment, development, estate agency and related activities.

CHAIRMAN'S STATEMENT

During the year under review, the Group disposed of a prime commercial unit held for sale and realised a profit of approximately HK\$1.36 million. The Group also sold a commercial unit held for investment and generated a profit of approximately HK\$1.38 million.

The Group had looked into several potential property investments, but none of them met the Group's investment criteria in terms of risks and return. The Group will continue to seek appropriate investment opportunities that may arise from these areas.

As for the businesses carried on by the Group's subsidiary, Century 21 Hong Kong Limited, namely those of franchising estate agency work, real estate project management and related undertakings, they have remained stable during the year under review, with the number of franchisees of the "Century 21" name growing from 70 as at 1st August, 2004 to 120 currently with 4 franchisee shops in Macau.

PROSPECTS

The management will continue to look for genuine investment opportunities which will provide growth, capital appreciation, stable revenue and profits to the Group. Mindful of its corporate goals, the Group is determined to grow and expand, and increase its presence in the property sector.

Looking ahead, Hong Kong is facing uncertainties and challenges such as rising oil prices and higher interest rates, but overall, the management is confident and positive with the economic outlook and business prospects in Hong Kong and Macau.

Since its gaming industry opened up, Macau has achieved a rapid growth and a bloom in its property sector. Its hospitality industry and show business flourish, accompanied by an ever increasing demand of new hotels and amusement centres, transportation facilities, infrastructure development and amenities.

In view of the promising economy in Macau, the Group is prepared to explore actively investment opportunities in Macau, including property, hotel operations and related businesses.

The Group has recently raised approximately HK\$210.2 million through a rights issue successfully completed in October 2005. The rights issue has significantly strengthened the Group's financial resources and enables the Group to participate in larger scale projects with greater flexibility in its investment decision making. The Group is now in a better position to realize its vision and accomplish its goals, maximizing the investment return for the Group and for its shareholders.

REWARD FOR EMPLOYEES

The Group offers its employees competitive remuneration packages.

CHAIRMAN'S STATEMENT

APPRECIATION

I would like to extend my heart felt appreciation to my fellow directors and staff for their dedication and contribution during the year.

By order of the Board
Chu Nin Yiu, Stephen
Executive Chairman

18th November, 2005

DIRECTORS' PROFILES

EXECUTIVE DIRECTORS

Chu Nin Yiu, Stephen, aged 48, is an executive Director, Chairman of the Company. He was appointed to the Board in May 2005. He has over 25 years business and management experience in the electronics industry in Hong Kong, and was a director and shareholder of a company listed overseas principally engaged in the manufacture and distribution of electronic products. During the past 5 years, he has been focusing on property investment and development in Macau. Mr. Stephen Chu was a 1994 Awardee Member of Hong Kong Young Industrialists Council Limited, and a director of Tung Wah Group of Hospitals for the year 2001/02.

Chu Nin Wai, David, aged 51, is an executive Director, Deputy Chairman of the Company. He was appointed to the Board in May 2005. He has over 20 years' extensive experience in the electronic industry in Hong Kong an overseas, and also has experience in property development and investment. He is the elder brother of the Executive Chairman and the substantial shareholder of the Company, Mr. Chu Nin Yiu, Stephen.

Lau Chi Kan, Michael, aged 49, graduated from Simon Frasier University, Vancouver, Canada in 1980 with a Bachelor of Arts degree in Economics. Mr. Lau jointed the Board in May 2005 and has over 20 years' business and management experience in the clothing industry. He owns and manages a garment merchandising and trading company in Hong Kong and an apparel importing company in the U.S. with annual turnover of approximately HKD220 million and USD80 million respectively. Mr. Lau is also the major shareholder of a number of companies in Hong Kong and overseas, which are engaged in garment manufacturing, importing, warehousing, apparel design or merchandizing.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Li Sze Kuen, Billy, aged 58, was appointed to the Board in May 2005. He has extensive professional experience in audit and accounting, and is currently a director of a CPA firm in Hong Kong. Mr. Li is a member of the Canadian Institute of Chartered Accountants, and the Hong Kong Institute of Certified Public Accountants. He graduated from the University of Manitoba, Canada, with a Bachelor of Arts degree.

Wong Kwong Fat, aged 50, was appointed to the Board in June 2005. He is a seasoned manager of an insurance broking company in Hong Kong. He is responsible for staff management and training, the provision of individual financial advice to clients and the marketing of a wide range of products including life and general insurance, package fund and mandatory provident fund. Mr. Wong has over 20 years' specialized knowledge and experience in the insurance industry, and is a Fellow Chartered Financial Practitioner of the Life Underwriter Association of Hong Kong.

Leung Kam Fai, aged 44, was appointed to the Board in June 2005. He is a solicitor of the High Court of Hong Kong. Mr. Leung currently is a partner solicitor in civil and criminal practice with Messrs. Patrick Wong & Co., Solicitors, and has extensive experience in litigation, conveyancing, commercial and probate matters. Mr. Leung graduated from the University of Hong Kong with a Bachelor of Laws degree, and was awarded the Sir Man Kam Lo/Jardine Scholarship and Downey Book Prize in 1989. He also holds a Bachelor of Arts degree in Economics & Political Science from the University of Washington in the U.S.A. and a postgraduate certificate in laws from the University of Hong Kong.

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements of the Company for the year ended 31st July, 2005.

PRINCIPAL ACTIVITIES

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

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st July, 2005, the aggregate amount of turnover attributable to the Group's largest customer represented approximately 39% of the Group's total turnover. The aggregate amount of turnover attributable to the Group's five largest customers represented approximately 93% of the Group's total turnover.

The aggregate amount of the purchase attributable to the Group's largest supplier represented approximately 40% of the Group's total purchase. The aggregate amount of the purchase attributable to the Group's five largest suppliers represented approximately 95% of the Group's total purchases.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors own more than 5% of the Company's share capital) have an interest in any of the Group's five largest customers and suppliers.

RESULTS

The results of the Group for the year are set out in the consolidated income statement on page 15.

No dividend was paid during the year.

INVESTMENT PROPERTIES

The Group's and the Company's investment properties were revalued at 31st July, 2005 by independent firms of professional valuers on an open market value basis.

Details of the movements during the year in the investment properties of the Group and the Company are set out in note 12 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements during the year in property, plant and equipment of the Group are set out in note 13 to the financial statements.

MAJOR PROPERTIES

Particulars of the major properties of the Group as at 31st July, 2005 are set out on page 58.

DIRECTORS' REPORT

SHARE CAPITAL

Details of the movements during the year in the share capital of the Company are set out in note 24 to the financial statements.

SHARE OPTIONS

Pursuant to a resolution passed on 30th December, 2002, the existing share option scheme was adopted (the "Scheme").

Particulars of the Scheme are set out in note 25 to the financial statements.

The following table discloses movements in the Scheme of the Company during the year:

	Date of Grant	Exercisable period	Exercise price HK\$	Outstanding at 1.8.2004	Cancelled during the year	Outstanding at 31.7.2005
Category 1: Directors *						
Ng Kai Man, Luke	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	6,500,000	—	6,500,000
Ma Wai Man, Catherine	17.3.2004	17.3.2004 - 29.12.2012	0.0240	27,300,000	—	27,300,000
Chow Hou Man	17.3.2004	17.3.2004 - 29.12.2012	0.0240	27,300,000	—	27,300,000
				<u>81,900,000</u>	<u>—</u>	<u>81,900,000</u>
Category 2: Employees						
Other employees	20.11.2003	20.11.2003 - 29.12.2012	0.0234	20,800,000	—	20,800,000
Other employees	17.3.2004	17.3.2004 - 29.12.2012	0.0240	22,500,000	(1,000,000)	21,500,000
				<u>43,300,000</u>	<u>(1,000,000)</u>	<u>42,300,000</u>
Total all categories				<u>125,200,000</u>	<u>(1,000,000)</u>	<u>124,200,000</u>

* The options will lapse in November 2005 and January 2006 after the relevant directors resigned during the year.

DIRECTORS' REPORT

DIRECTORS

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

Executive Chairman:

Chu Nin Yiu, Stephen	(appointed on 17th May, 2005)
Choo Yeow Ming	(resigned on 17th May, 2005)

Executive Directors:

Chu Nin Wai, David (<i>Deputy Chairman</i>)	(appointed on 26th May, 2005)
Lau Chi Kan, Michael	(appointed on 26th May, 2005)
Ng Kai Man, Luke (<i>Deputy Chairman</i>)	(resigned on 6th July, 2005)
Ma Wai Man, Catherine	(resigned on 26th May, 2005)
Chow Hou Man	(resigned on 17th May, 2005)

Independent Non-Executive Directors:

Leung Kam Fai	(appointed on 15th June, 2005)
Wong Kwong Fat	(appointed on 8th June, 2005)
Li Sze Kuen, Billy	(appointed on 26th May, 2005)
Ng Yuk Yee, Feona	(appointed on 23rd March, 2005 and resigned on 15th June, 2005)
Sin Chi Fai	(appointed on 27th September, 2004 and resigned on 8th June, 2005)
Miu, Frank H.	(resigned on 13th June, 2005)
Li Chok Sun, Sean	(resigned on 29th December, 2004)

In accordance with Article 94 of the Company's Articles of Association, all remaining directors retire and, being eligible, offer themselves for re-election.

The term of office of each independent non-executive director is the period up to his retirement by rotation in accordance with the Company's Articles of Association.

No directors proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

The Company has received from each independent non-executive director an annual confirmation of his independence pursuant to the new independence guidelines under the Rules Governing the listing of securities on the Stock Exchange of Hong Kong Limited ("the Listing Rules") and that the Company still considers the independent non-executive directors to be independent.

DIRECTORS' REPORT

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31st July, 2005, the interests of the directors and chief executive and their associates in the shares, and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long positions

Ordinary shares of HK\$0.01 each of the Company

Name of director	Capacity	Number of shares held	Percentage of the issued share capital of the Company
Chu Nin Yiu, Stephen ("Mr. Chu")	Held by controlled corporation (<i>Note</i>)	859,864,000	16.36%

Note: The 859,864,000 shares were held by Supervalve Holdings Limited ("Supervalve"), which is in turn wholly owned by Mr. Chu. Mr. Chu is therefore deemed to be interested in 859,864,000 shares of the Company.

Other than as disclosed above, none of the directors, chief executive nor their associates had any interests or short position in any shares and underlying shares of the Company or any of its associated corporations as at 31st July, 2005.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed in the section "Share options", at no time during the year was the Company or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the directors nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Other than as disclosed under the heading "Related Party Disclosure" as set out in note 34 to the financial statements, there were no other contract of significance to which the Company, or any of its subsidiaries, was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS

As at 31st July, 2005, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO showed that the following shareholder had notified the Company of relevant interests and short positions in the issued share capital of the Company:

Long positions

Ordinary shares of HK\$0.01 each of the Company

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Supervalve	Beneficial owner	859,864,000	16.36%
Mr. Chu	Held by controlled corporation (<i>Note</i>)	859,864,000	16.36%

Note: The 859,864,000 shares were held by Supervalve, which is in turn wholly owned by Mr. Chu. Mr. Chu is therefore deemed to be interested in 859,864,000 shares of the Company.

Short positions

The Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31st July, 2005.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31st July, 2005 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules which was in force prior to 1st January, 2005, except that the independent non-executive directors of the Company are not appointed for specific terms as they are subject to retirement by rotation and re-election at the annual general meeting in accordance with Articles 94 and 103(A) of the Company's Articles of Association.

On 1st January, 2005, the Code of Best Practice was replaced by the new "Code on Corporate Governance Practices", and "Corporate Governance Report" was introduced in Appendix 23 of the Listing Rules. The Company's compliance of the new Appendix 14 and 23 will come into effect in the year ending 31st July, 2006.

DIRECTORS' REPORT

AUDIT COMMITTEE

The audit committee comprising Messrs. Sin Chi Fai, Miu, Frank H. and Li Chok Sun, Sean and Ms. Ng Yuk Yee, Feona resigned during the year. At the 31st July, 2005, the audit committee comprises Messrs. Leung Kam Fai, Wong Kwong Fat and Li Sze Kuen, Billy, all of whom are independent non-executive directors.

During the year, the audit committee held two meetings and performed the following duties:

1. reviewed and commented on the Company's draft annual and interim financial reports;
2. reviewed and commented on the Group's internal controls; and
3. met with the external auditors and participated in the re-appointment and assessment of the performance of the external auditors.

The audit committee has reviewed the audited results of the Group for the year ended 31st July, 2005.

EMOLUMENT POLICY

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

The emoluments of the Company are decided by the board of directors, having regard to the Company's operating results, individual performance and comparable market statistics.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st July, 2005.

AUDITORS

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

On behalf of the Board
Chu Nin Yiu, Stephen
Executive Chairman

18th November, 2005

AUDITORS' REPORT

Deloitte.
德勤

德勤•關黃陳方會計師行
香港中環干諾道中111號
永安中心26樓

Deloitte Touche Tohmatsu
26/F Wing On Centre
111 Connaught Road Central
Hong Kong

TO THE MEMBERS OF CAPITAL ESTATE LIMITED

冠中地產有限公司

(incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 15 to 56 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion solely to you, as a body, in accordance with section 141 of the Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

AUDITORS' REPORT

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st July, 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

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18th November, 2005

CONSOLIDATED INCOME STATEMENT

For the year ended 31st July, 2005

	NOTES	2005 HK\$'000	2004 HK\$'000
Turnover	4	25,713	22,622
Cost of sales		—	(1,589)
Direct cost on property rental		(1,557)	(1,589)
Direct cost of sales of properties		(8,808)	(4,024)
Direct cost on estate agency services		(2,437)	(1,015)
Direct cost on trading securities sold		(9,580)	(7,141)
Reversal of allowance for properties held for sale		487	3,954
Gross profit		3,818	11,218
Other operating income		1,320	1,882
Surplus on revaluation of investment properties		8,860	1,615
Administrative expenses		(12,371)	(14,369)
Gain (loss) on disposal of investment properties		1,383	(620)
Amortisation of goodwill		(226)	(494)
Unrealised holding gain (loss) on trading securities		4,958	(739)
Unrealised holding loss on derivatives		(854)	—
Profit (loss) from operations	5	6,888	(1,507)
Finance costs	6	(535)	(577)
Loss on disposal of discontinuing operations		—	(734)
Loss on disposal of subsidiaries		—	(62)
Profit (loss) before taxation		6,353	(2,880)
Taxation	10	(210)	(2)
Profit (loss) before minority interests		6,143	(2,882)
Minority interests		(241)	21
Net profit (loss) for the year		5,902	(2,861)
Earnings (loss) per share	11		
Basic		14.84 cents	(11.30 cents)
Diluted		14.08 cents	N/A

CONSOLIDATED BALANCE SHEET

At 31st July, 2005

	NOTES	2005 HK\$'000	2004 HK\$'000
Non-current assets			
Investment properties	12	27,160	19,780
Property, plant and equipment	13	399	104
Deferred tax assets	27	6	17
Goodwill	14	4,193	4,419
Investment in securities	16	8,932	—
		40,690	24,320
Current assets			
Properties held for sale	17	27,382	35,580
Derivatives		660	—
Trade and other receivables	18	9,636	6,281
Investment in securities	16	24,054	8,392
Promissory note receivables	19	10,000	22,000
Bank balances and cash		70,571	24,269
		142,303	96,522
Current liabilities			
Trade and other payables	20	10,435	7,124
Derivatives		775	—
Taxation payable		87	20
Bank borrowings — due within one year	21	1,371	1,234
		12,668	8,378
Net current assets			
		129,635	88,144
Total assets less current liabilities			
		170,325	112,464
Minority interests			
		1,126	885
Non-current liabilities			
Bank borrowings — due after one year	21	6,793	8,243
Convertible note payables	23	3,220	3,000
		10,013	11,243
		159,186	100,336
Capital and reserves			
Share capital	24	52,544	32,694
Reserves		106,642	67,642
		159,186	100,336

The financial statements on pages 15 to 56 were approved and authorised for issue by the Board of Directors on 18th November, 2005 and are signed on its behalf by:

Chu Nin Yiu, Stephen
DIRECTOR

Chu Nin Wai, David
DIRECTOR

BALANCE SHEET

At 31st July, 2005

	NOTES	2005 HK\$'000	2004 HK\$'000
Non-current assets			
Investment properties	12	—	1,480
Interests in subsidiaries	15	139,349	74,386
		139,349	75,866
Current assets			
Properties held for sale	17	206	206
Other receivables		3	1,567
Promissory note receivables	19	10,000	22,000
Bank balances and cash		1	141
		10,210	23,914
Current liabilities			
Other payables		627	799
Bank borrowings — due within one year	21	—	67
		627	866
Net current assets		9,583	23,048
Total assets less current liabilities		148,932	98,914
Non-current liabilities			
Amount due to a subsidiary	22	700	700
Bank borrowings — due after one year	21	—	571
Convertible note payables	23	3,220	3,000
		3,920	4,271
		145,012	94,643
Capital and reserves			
Share capital	24	52,544	32,694
Reserves	26	92,468	61,949
		145,012	94,643

Chu Nin Yiu, Stephen
DIRECTOR

Chu Nin Wai, David
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st July, 2005

	Share capital HK\$'000	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
THE GROUP							
At 31st July, 2003	20,814	7,824	157	170,583	268	(119,763)	79,883
Conversion of convertible notes (note 24a)	2,500	2,500	—	—	—	—	5,000
Issue of shares on private placements (note 24b)	9,380	9,380	—	—	—	—	18,760
Expenses incurred in connection with issue of shares	—	(446)	—	—	—	—	(446)
Net loss for the year	—	—	—	—	—	(2,861)	(2,861)
At 31st July, 2004	32,694	19,258	157	170,583	268	(122,624)	100,336
Conversion of convertible notes (note 24c)	13,350	22,830	—	—	—	—	36,180
Issue of shares on private placement (note 24d)	6,500	10,725	—	—	—	—	17,225
Expenses incurred in connection with issue of shares	—	(457)	—	—	—	—	(457)
Net profit for the year	—	—	—	—	—	5,902	5,902
Balance at 31st July, 2005	<u>52,544</u>	<u>52,356</u>	<u>157</u>	<u>170,583</u>	<u>268</u>	<u>(116,722)</u>	<u>159,186</u>

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st July, 2005

NOTES	2005 HK\$'000	2004 HK\$'000
OPERATING ACTIVITIES		
Profit (loss) from operations	6,888	(1,507)
Adjustments for:		
Amortisation of goodwill	226	494
Allowance for bad and doubtful debts	40	—
Interest income	(993)	(1,529)
Surplus on revaluation of investment properties	(8,860)	(1,615)
Depreciation	87	38
Loss on disposal of property, plant and equipment	—	2
(Gain) loss on disposal of investment properties	(1,383)	620
Reversal of allowance for properties held for sale	(487)	(3,954)
Unrealised holding (gain) loss on trading securities	(4,958)	739
Unrealised holding loss on derivatives	854	—
Operating cash flows before movements in working capital	(8,586)	(6,712)
Decrease (increase) in properties held for sale	8,685	(8,685)
(Increase) decrease in trade and other receivables	(3,395)	6,935
Decrease in inventories	—	371
Increase in trading securities	(10,704)	(7,179)
Increase (decrease) in trade and other payables	3,174	(1,898)
Cash used in operations	(10,826)	(17,168)
Hong Kong Profits Tax paid	(132)	—
NET CASH USED IN OPERATING ACTIVITIES	(10,958)	(17,168)
INVESTING ACTIVITIES		
Proceeds from repayment of promissory note receivables	12,000	—
Proceeds from disposal of investment properties	2,863	4,380
Interest received	993	1,529
Net cash inflow from disposal of interests in subsidiaries	—	2,793
Purchase of property, plant and equipment	(382)	(68)
Purchase of other securities	(8,932)	—
Deposits paid for options	(739)	—
Acquisition of subsidiaries	—	(5,899)
NET CASH FROM INVESTING ACTIVITIES	5,803	2,735

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st July, 2005

	2005 HK\$'000	2004 HK\$'000
FINANCING ACTIVITIES		
Proceeds from issue of convertible notes	36,400	8,000
Proceeds from issue of shares	17,225	18,760
Repayment of bank loans	(1,531)	(5,097)
Interest paid	(398)	(577)
Expenses paid in connection with the issue of shares	(457)	(446)
Repayment of promissory note payables	—	(3,051)
NET CASH FROM FINANCING ACTIVITIES	51,239	17,589
INCREASE IN CASH AND CASH EQUIVALENTS	46,084	3,156
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	24,003	20,847
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	70,087	24,003
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	70,571	24,269
Bank overdrafts	(484)	(266)
	70,087	24,003

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2005

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. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

The Hong Kong Institute of Certified Public Accountants (the “HKICPA”) issued a number of new or revised Hong Kong Accounting Standards (“HKAS(s)”) and Hong Kong Financial Reporting Standards (“HKFRS(s)”) (hereinafter collectively referred to as “new HKFRSs”) which are effective for accounting periods beginning on or after 1st January, 2005 except for HKFRS 3 “Business Combinations”, which is applicable to business combinations for which the agreement date is on or after 1st January, 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st July, 2005. The adoption of HKFRS 3 has not had any material impact on the Group for the year ended 31st July, 2005.

For those new HKFRSs that the Group has not early adopted in the financial statements for the year ended 31st July, 2005, the Group is in the process of making an assessment of the potential impact of these new HKFRSs.

The application of the new HKFRSs may result in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests and convertible notes will be applied retrospectively. The adoption of the new HKFRSs may result in changes to the Group’s accounting policies in the following areas that may have an effect on how the result and financial position for the future or prior accounting periods are prepared and presented:

Investment properties

Under HKAS 40, the Group can choose to use the fair value model or the cost model. Under the fair value model, the gains or losses arising from changes in the fair value of investment properties is recognised directly in the income statement for the period in which they arise. Under the cost model, investment properties carry at cost less accumulated depreciation and accumulated impairment losses (if any).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2005

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS *(continued)*

Convertible notes

Under HKAS 32 “Financial Instruments: Disclosure and Presentation”, an issuer of a compound financial instrument (that contains both financial liability and equity components) is required to separate the compound financial instrument into its liability and equity components on its initial recognition and to account for these components separately. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. The principle impact of HKAS 32 on the Group is in relation to convertible loan notes issued by the Company that contain both liability and equity components. In the current year, convertible loan notes were classified as liabilities on the balance sheet. As HKAS 32 requires retrospective application, comparative figures will be restated.

Classification and measurement of financial assets and financial liabilities

Under HKAS 39, financial assets are classified as “financial assets at fair value through profit or loss”, “available-for-sale financial assets”, “loans and receivables”, or “held-to-maturity financial assets”. “Financial assets at fair value through profit or loss” and “available-for-sale financial assets” are carried at fair value, with changes in fair values recognised in profit or loss and equity, respectively. “Loans and receivables” and “held-to-maturity financial assets” are measured at amortised cost using the effective interest method. Under the transitional provisions of HKAS 39, the impact from adoption of this standard is generally applied on a prospective basis.

Deferred taxes related to investment properties

HKAS Interpretation 21 “Income Taxes — Recovery of Revalued Non-Depreciable Assets” removes the presumption set out in Interpretation 20 “Income Taxes — Recovery of Revalued Non-Depreciable Assets” that the carrying amount of investment properties are to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HKAS Interpretation 21, this change in accounting policy will be applied retrospectively.

Share-based payments

Under HKFRS 2, an expense is required to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares (“equity-settled transactions”), or in exchange for other assets equivalent in value to a given number of shares or rights over shares (“cash-settled transactions”). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors’ and employees’ share options of the Company determined at the date of grant of the share options over the vesting period. In the current year, the Group did not recognise the financial effect of share-based payments until they were exercised.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2005

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

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

Goodwill

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

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, 2005

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.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2005

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derivatives

The derivatives which represent futures and options held for trading purposes are re-measured to their fair value. Fair values are obtained by reference to quoted market prices or independently sourced rates, using valuation models. The gain or loss arising is recognized in the profit and loss account. Unrealised gains and losses on trading derivatives that are marked to market are included under current assets and current liabilities respectively.

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.

Revenue recognition

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

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

Commissions and service charges are recognised when services are provided.

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 expenses 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2005

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

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 expenses as they fall due.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2005

4. TURNOVER, BUSINESS AND GEOGRAPHICAL SEGMENTS

Turnover and business segments

For management purposes, the Group is currently organised into four operating divisions — property rental, financial investment, property sale and estate agency. 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

In March 2004, the sale of silk products business and the tourist business was discontinued and disposed of (see note 29).

Segment information about these businesses is presented below:

	Continuing operations					
	Property rental	Financial investment	Property sale	Estate agency	Unallocated	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000

INCOME STATEMENT

For the year ended 31st July, 2005

TURNOVER

External sales	<u>472</u>	<u>10,251</u>	<u>10,050</u>	<u>4,940</u>	<u>—</u>	<u>25,713</u>
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SEGMENT RESULT

	<u>6,387</u>	<u>1,421</u>	<u>(786)</u>	<u>862</u>	<u>—</u>	<u>7,884</u>
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Unallocated corporate income						105
Unallocated corporate expenses						<u>(1,101)</u>

Profit from operations						6,888
Finance costs						<u>(535)</u>

Profit before taxation						6,353
Taxation						<u>(210)</u>

Profit before minority interests						6,143
Minority interests						<u>(241)</u>

Net profit for the year						<u>5,902</u>
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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2005

4. TURNOVER, BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Turnover and business segments (continued)

	Continuing operations				Unallocated HK\$'000	Consolidated HK\$'000
	Property rental HK\$'000	Financial investment HK\$'000	Property sale HK\$'000	Estate agency HK\$'000		
BALANCE SHEET						
At 31st July, 2005						
ASSETS						
Segment assets	27,353	41,168	27,382	10,650	—	106,553
Unallocated corporate assets						76,440
Consolidated total assets						<u>182,993</u>
LIABILITIES						
Segment liabilities	5,197	775	2,500	3,159	—	11,631
Unallocated corporate liabilities						11,050
Consolidated total liabilities						<u>22,681</u>
OTHER INFORMATION						
For the year ended 31st July, 2005						
Capital additions	—	—	—	124	258	382
Depreciation	—	—	—	79	8	87
Write back of allowance for properties held for sale	—	—	487	—	—	487
Gain on disposal of investment property	1,383	—	—	—	—	1,383
Allowance for bad and doubtful debts	40	—	—	—	—	40
Amortisation of goodwill arising on acquisition of subsidiaries	—	—	—	226	—	226

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2005

4. TURNOVER, BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Turnover and business segments (continued)

	Continuing operations				Discontinuing operation	Unallocated HK\$'000	Consolidated HK\$'000
	Property rental HK\$'000	Financial investment HK\$'000	Property sale HK\$'000	Estate agency HK\$'000	Sale of silk products HK\$'000		
INCOME STATEMENT							
For the year ended 31st July, 2004							
TURNOVER							
External sales	767	7,645	4,380	1,981	7,849	—	22,622
SEGMENT RESULT	(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)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2005

4. TURNOVER, BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Turnover and business segments (continued)

	Continuing operations				Discontinuing operation	Unallocated HK\$'000	Consolidated HK\$'000
	Property rental HK\$'000	Financial investment HK\$'000	Property sale HK\$'000	Estate agency HK\$'000	Sale of silk products HK\$'000		
BALANCE SHEET							
At 31st July, 2004							
ASSETS							
Segment assets	21,822	8,874	35,623	10,522	—	—	76,841
Unallocated corporate assets							44,001
Consolidated total assets							<u>120,842</u>
LIABILITIES							
Segment liabilities	3,934	—	323	4,073	—	—	8,330
Unallocated corporate liabilities							11,291
Consolidated total liabilities							<u>19,621</u>
OTHER INFORMATION							
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
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, 2005

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.

Segment information about these geographic markets is presented below:

	Turnover by geographical market		Profit (loss) from operations	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Hong Kong	25,713	22,615	9,912	(1,125)
The People's Republic of China	—	7	—	—
Japan	—	—	(2,028)	3,940
	<u>25,713</u>	<u>22,622</u>	<u>7,884</u>	<u>2,815</u>
Unallocated corporate income			105	106
Unallocated corporate expenses			(1,101)	(4,428)
Profit (loss) from operations			<u>6,888</u>	<u>(1,507)</u>

Revenue from the Group's discontinued sale of silk products operations of HK\$7,849,000 for the year ended 31st July, 2004 was derived principally from Hong Kong.

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	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Hong Kong	155,817	89,944	382	4,600
Japan	27,176	26,688	—	—
Overseas	—	4,210	—	—
	<u>182,993</u>	<u>120,842</u>	<u>382</u>	<u>4,600</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2005

5. PROFIT (LOSS) FROM OPERATIONS

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Profit (loss) from operations has been arrived at after charging (crediting):		
Directors' remuneration (<i>note 7</i>)	2,342	1,781
Other staff costs	3,526	3,745
Retirement benefit scheme contributions, excluding directors	204	255
Total staff costs	<u>6,072</u>	<u>5,781</u>
Auditors' remuneration:		
Current year	680	631
Underprovision in prior years	49	80
Allowance for bad and doubtful debts	40	—
Depreciation	87	38
Loss on disposal of property, plant and equipment	—	2
Bank and other interest income	(616)	(79)
Interest income on promissory note receivables	(93)	(1,103)
Interest income on trading securities	(284)	(347)
	<u><u> </u></u>	<u><u> </u></u>

6. FINANCE COSTS

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Interest on:		
Borrowings wholly repayable within five years:		
Bank borrowings	23	85
Promissory notes	—	6
Convertible notes	164	77
	<u>187</u>	168
Borrowings not wholly repayable within five years:		
Bank borrowings	348	409
	<u><u>535</u></u>	<u><u>577</u></u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2005

7. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the fourteen (2004: eight) directors are as follows:

2005

	Mr. Chu Nin Yiu, Stephen	Mr. Choo Yeow Ming	Mr. Chu Nin Wai, David	Mr. Lau Chi Kan, Michael	Mr. Ng Kai Man, Luke	Ms. Ma Wai Man, Catherine	Mr. Chow Hou Man	Mr. Leung Kam Fai	Mr. Wong Kwong Fat	Mr. Li Sze Kuen, Billy	Ms. Ng Yuk Yee, Feona	Mr. Sin Chi Fai	Mr. Mui, Frank H.	Mr. Li Chok Sun, Sean	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fees	—	500	—	—	—	—	—	—	—	—	25	75	100	—	700
Other emoluments															
— Salaries and other benefits	750	—	—	—	288	396	165	—	—	—	—	—	—	—	1,599
— Retirement benefit scheme contributions	3	—	—	—	12	20	8	—	—	—	—	—	—	—	43
	<u>753</u>	<u>500</u>	<u>—</u>	<u>—</u>	<u>300</u>	<u>416</u>	<u>173</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>25</u>	<u>75</u>	<u>100</u>	<u>—</u>	<u>2,342</u>

2004

	Mr. Choo Yeow Ming	Mr. Ng Kai Man, Luke	Ms. Ma Wai Man, Catherine	Mr. Chow Hou Man	Mr. Ding Chung Keung, Vincent	Mr. Mui, Frank H.	Mr. Li Chok Sun, Sean	Mr. Sin Chi Fai	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fees	—	100	—	—	—	100	100	—	300
Other emoluments									
— Salaries and other benefits	560	138	504	209	—	—	—	—	1,411
— Retirement benefit scheme contributions	28	6	25	11	—	—	—	—	70
	<u>588</u>	<u>244</u>	<u>529</u>	<u>220</u>	<u>—</u>	<u>100</u>	<u>100</u>	<u>—</u>	<u>1,781</u>

During the years ended 31st July, 2005 and 2004, no directors waived any emoluments.

8. EMPLOYEES' EMOLUMENTS

Of the five highest paid individuals in the Group, three (2004: four) were directors of the Company whose emoluments are included in note 7 above. The emoluments of the remaining two (2004: one) employees are as follows:

	2005 HK\$'000	2004 HK\$'000
Salaries and other benefits	810	150
Retirement benefit scheme contributions	12	—
	<u>822</u>	<u>150</u>

During the year, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office (2004: Nil).

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2005

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
Turnover	7,849
Cost of sales	<u>(1,589)</u>
	6,260
Other operating income	91
Administrative expenses	<u>(6,849)</u>
Loss for the period up to date of discontinuance	<u><u>(498)</u></u>

During the year ended 31st July, 2004, Marcello had a net cash inflow of HK\$218,000 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 are as follows:

	At 30th March, 2004 HK\$'000
Total assets	<u><u>1,684</u></u>
Total liabilities	<u><u>180</u></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 29.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2005

10. TAXATION

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
The charge comprises:		
Current tax	199	19
Deferred tax (<i>note 27</i>)	11	(17)
	<u>210</u>	<u>2</u>

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

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

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Profit (loss) before taxation	<u>6,353</u>	<u>(2,880)</u>
Tax at the Hong Kong Profits Tax rate of 17.5%	1,112	(504)
Tax effect of expenses not deductible for tax purpose	1,464	2,615
Tax effect of income not taxable for tax purpose	(2,872)	(2,908)
Tax effect of tax losses not recognised	776	804
Tax effect of deferred tax assets not recognised	—	94
Utilisation of tax loss previously not recognised	(270)	(99)
Tax effect	<u>210</u>	<u>2</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2005

11. EARNINGS (LOSS) PER SHARE

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

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Earnings:		
Net profit (loss) for the year and earnings (loss) for the purpose of basic earnings (loss) per share	5,902	<u>(2,861)</u>
Effect of dilutive potential ordinary shares in respect of convertible notes	<u>135</u>	
Earnings for the purpose of diluted earnings per share	<u><u>6,037</u></u>	
<hr/>		
	2005	2004
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings (loss) per share	39,763,137	<u>25,310,489</u>
Effect of dilutive potential ordinary shares in respect of convertible notes	<u>3,121,261</u>	
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u><u>42,884,398</u></u>	

The weighted average number of ordinary shares for both years for the purpose of basic and diluted earnings (loss) per share has been adjusted for the share consolidation on 29th September, 2005 as set out in note 35.

The computation of diluted earnings per share does not assume the exercise of the Company's outstanding share options as the exercise price of those options is higher than the average market price of shares during the year ended 31st July, 2005.

No diluted loss per share for the year ended 31st July, 2004 had 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 convertible notes would result in a decrease in net loss per share.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2005

12. INVESTMENT PROPERTIES

	THE GROUP		THE COMPANY	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
VALUATION				
At 1st August	19,780	23,165	1,480	1,340
Disposals	(1,480)	(5,000)	(1,480)	—
Surplus arising on revaluation	8,860	1,615	—	140
At 31st July	<u>27,160</u>	<u>19,780</u>	<u>—</u>	<u>1,480</u>
Comprising:				
Investment properties held in Hong Kong under:				
Long leases	1,530	1,440	—	—
Medium-term leases	25,630	18,340	—	1,480
	<u>27,160</u>	<u>19,780</u>	<u>—</u>	<u>1,480</u>

The investment properties of the Group are held for rental purposes under operating leases and were revalued at 31st July, 2005 on an open market value basis by independent firm of professional valuers, CS Surveyors Limited, chartered surveyors.

The surplus arising on revaluation of the Group's investment properties at 31st July, 2005 amounted to HK\$8,860,000 (2004: HK\$1,615,000) has been credited to the income statement.

The surplus arising on revaluation of the Company's investment property at 31st July, 2004 amounted to HK\$140,000 had been credited to the income statement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2005

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Total HK\$'000
THE GROUP			
COST			
At 1st August, 2004	376	220	596
Additions	140	242	382
Disposals	(376)	—	(376)
At 31st July, 2005	140	462	602
DEPRECIATION			
At 1st August, 2004	364	128	492
Provided for the year	23	64	87
Eliminated on disposals	(376)	—	(376)
At 31st July, 2005	11	192	203
NET BOOK VALUES			
At 31st July, 2005	129	270	399
At 31st July, 2004	12	92	104

14. GOODWILL

	THE GROUP HK\$'000
COST	
At 1st August, 2004 and 31st July, 2005	4,532
AMORTISATION AND IMPAIRMENT	
At 1st August, 2004	113
Provided for the year	226
At 31st July, 2005	339
NET BOOK VALUES	
At 31st July, 2005	4,193
At 31st July, 2004	4,419

The amortisation period adopted for goodwill is 20 years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2005

15. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2005 HK\$'000	2004 HK\$'000
Unlisted investments, at cost	16,997	31,539
Amounts due from subsidiaries	276,558	224,373
	293,555	255,912
Allowance	(154,206)	(181,526)
	139,349	74,386

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.

At 31st July, 2005, the directors had reviewed and examined the current operations of the subsidiaries and were of the opinion that the carrying amount of the Company's interests in subsidiaries had declined below their carrying value. Accordingly, impairment losses of HK\$1,416,048 (2004: HK\$7,274,791) had been recognised in the income statement for the year.

Details of the Company's subsidiaries at 31st July, 2005 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 ("Century 21")	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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2005

15. INTERESTS IN SUBSIDIARIES (continued)

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 %	
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 and trading of securities
Top Mount Limited	Hong Kong	HK\$2	—	100	Investment holding
Top Universal Management Limited	Hong Kong	HK\$2	100	—	Investment holding
Shiny Rising Limited	Hong Kong	HK\$1	100	—	Provision of corporate treasury services
Fame Asset Limited	Hong Kong	HK\$1	100	—	Provision of corporate management services

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, 2005

16. INVESTMENTS IN SECURITIES

	THE GROUP							
	Held-to-maturity securities		Trading securities		Other securities		Total	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Equity securities:								
Listed								
At cost	—	—	19,754	4,840	—	—	19,754	4,840
Unrealised holding gain (loss)	—	—	4,300	(658)	—	—	4,300	(658)
At fair value	—	—	24,054	4,182	—	—	24,054	4,182
Unlisted								
At cost	—	—	—	—	—	701	—	701
Unrealised holding loss	—	—	—	—	—	(701)	—	(701)
At fair value	—	—	—	—	—	—	—	—
	—	—	24,054	4,182	—	—	24,054	4,182
Debt securities:								
Listed								
At cost	—	—	—	4,291	—	—	—	4,291
Unrealised holding loss	—	—	—	(81)	—	—	—	(81)
At fair value	—	—	—	4,210	—	—	—	4,210
Unlisted								
At cost	8,932	—	—	—	—	—	8,932	—
Unrealised holding loss	—	—	—	—	—	—	—	—
At fair value	8,932	—	—	—	—	—	8,932	—
	8,932	—	—	4,210	—	—	8,932	4,210
Total:								
Listed								
Hong Kong	—	—	24,054	4,182	—	—	24,054	4,182
Elsewhere	—	—	—	4,210	—	—	—	4,210
Unlisted								
Hong Kong	8,932	—	—	—	—	—	8,932	—
	8,932	—	24,054	8,392	—	—	32,986	8,392
Market value of listed securities	—	—	24,054	8,392	—	—	24,054	8,392
Carrying amount analysed for reporting purposes as:								
Current	—	—	24,054	8,392	—	—	24,054	8,392
Non-current	8,932	—	—	—	—	—	8,932	—
	8,932	—	24,054	8,392	—	—	32,986	8,392

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2005

16. INVESTMENTS IN SECURITIES (continued)

	THE COMPANY	
	2005	2004
	HK\$'000	HK\$'000
Other securities		
Unlisted equity securities:		
At cost	—	700
Unrealised holding loss	—	(700)
At fair value	—	—

17. PROPERTIES HELD FOR SALE

	THE GROUP		THE COMPANY	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Properties in Hong Kong	206	8,892	206	206
Properties in Japan	27,176	26,688	—	—
	27,382	35,580	206	206

Included above of the Group are properties in Japan of HK\$27,176,000 (2004: HK\$26,688,000) carried at net realisable value.

18. TRADE AND OTHER RECEIVABLES

At 31st July, 2005, the balance of trade and other receivables included trade receivables of HK\$3,043,000 (2004: HK\$4,450,000). An aged analysis of trade receivables is as follows:

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
0 to 60 days	756	2,402
61 to 90 days	242	146
91 days or above	2,045	1,902
	3,043	4,450

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2005

19. PROMISSORY NOTE RECEIVABLES

	THE GROUP AND THE COMPANY	
	2005 HK\$'000	2004 HK\$'000
Principal	<u>10,000</u>	<u>22,000</u>

The promissory note receivables are unsecured, bear interest at 5% per annum.

20. TRADE AND OTHER PAYABLES

At 31st July, 2005, the balance of trade and other payables included trade payables of HK\$1,182,000 (2004: HK\$2,382,000). An aged analysis of trade payables is as follows:

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
0 to 60 days	282	1,589
61 to 90 days	98	491
91 days or above	<u>802</u>	<u>302</u>
	<u>1,182</u>	<u>2,382</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2005

21. BANK BORROWINGS

	THE GROUP		THE COMPANY	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Unsecured bank overdrafts	484	266	—	—
Secured bank loans	7,680	9,211	—	638
	8,164	9,477	—	638
The maturity profile of the above loans and overdrafts is as follows:				
Within one year or on demand	1,371	1,234	—	67
More than one year but not exceeding two years	939	1,008	—	70
More than two years but not exceeding five years	3,135	3,263	—	226
More than five years	2,719	3,972	—	275
	8,164	9,477	—	638
Less: Amount due within one year shown as current liabilities	(1,371)	(1,234)	—	(67)
Amount due after one year	6,793	8,243	—	571

22. 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2005

23. CONVERTIBLE NOTE PAYABLES

	THE GROUP AND THE COMPANY	
	2005 HK\$'000	2004 HK\$'000
Principal	<u>3,220</u>	<u>3,000</u>

On 7th March, 2005, the Company issued HK\$36.4 million 2% unsecured redeemable convertible notes due 2006 at conversion price of HK\$0.028 per share (subject to adjustment). The convertible notes carry interest at 2% per annum, will mature on 7th September, 2006 and are freely transferable. 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 7th March, 2005 to 7th September, 2006. During the year, HK\$33,180,000 2% unsecured redeemable convertible notes due 2006 were converted into 1,185,000,000 ordinary shares of HK\$0.01 each of the Company at conversion price of HK\$0.028 per share as set out in note 24(c). The remaining HK\$3,220,000 2% unsecured redeemable convertible notes due 2006 were outstanding at 31st July, 2005.

At 31st July, 2004, the convertible note payables represented the HK\$3,000,000 2% unsecured redeemable convertible notes due 2005. The convertible notes carried interest at 2% per annum and were redeemable on 15th October, 2005. The holders of the convertible notes had 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. The convertible notes were fully converted into 150,000,000 ordinary shares of HK\$0.01 each of the Company during the year ended 31st July, 2005 as set out in note 24(c).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2005

24. SHARE CAPITAL

	Number of ordinary shares	Amount HK\$'000
Ordinary shares		
Authorised:		
At 1st August, 2003, 31st July, 2004 and 31st July, 2005 at HK\$0.01 each	<u>12,250,000,000</u>	<u>122,500</u>
Issued and fully paid:		
At 1st August, 2003, at HK\$0.01 each	2,081,398,668	20,814
Conversion of convertible notes (note a)	250,000,000	2,500
Issue of shares on private placements on:		
— 13th February, 2004 (note b)	400,000,000	4,000
— 29th April, 2004 (note b)	<u>538,000,000</u>	<u>5,380</u>
At 31st July, 2004, at HK\$0.01 each	3,269,398,668	32,694
Conversion of convertible notes (note c)	1,335,000,000	13,350
Issue of shares on private placement on 19th January, 2005 (note d)	<u>650,000,000</u>	<u>6,500</u>
At 31st July, 2005, at HK\$0.01 each	<u>5,254,398,668</u>	<u>52,544</u>

Notes:

- (a) On 30th January, 2004, 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.
- (b) 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 had 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 ranked pari passu with other shares in issue in all respects.
- (c) On 30th January 2005, the HK\$3,000,000 2% unsecured redeemable convertible notes due 2005 were converted into 150,000,000 ordinary shares of HK\$0.01 each of the Company at a conversion price of HK\$0.02 per share. The new shares ranked pari passu with the existing shares in all respects.

In April and June 2005, HK\$33,180,000 2% unsecured redeemable convertible notes due 2006 were converted into 1,185,000,000 ordinary shares of HK\$0.01 each of the Company at a conversion price of HK\$0.028 per share. The new shares ranked pari passu with the existing shares in all aspects.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2005

24. SHARE CAPITAL *(continued)*

- (d) On 5th January, 2005, arrangement was made for private placements to independent investors of 650,000,000 new shares of the Company at HK\$0.01 each at placing price of HK\$0.0265 per share, representing a discount of approximately 14.52% to the closing market price of HK\$0.0310 per share on 30th December, 2004. The net proceeds will be used to finance the Group's general working capital for operating activities, property investments and real estate franchising and agency business. The 650,000,000 new shares were issued under the general mandate granted to the directors at the annual general meeting of the Company held on 16th December, 2004. The new shares ranked *pari passu* with other shares in issue in all respects.

Details of the changes in the share capital of the Company after the balance sheet date are disclosed in note 35.

25. SHARE OPTIONS

Pursuant to a resolution passed on 30th December, 2002, the existing share option scheme was adopted (the "Scheme") for the primary purpose of providing incentives to directors, employees and eligible participants. The Scheme will expire on 29th December, 2012.

Under the Scheme, the Board of Directors of the Company (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 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 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 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 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, 2005, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 124,200,000, representing 2.4% of the shares of the Company in issue at that date. There was no option granted during the year ended 31st July, 2005. Total consideration of HK\$15 was received by the Company during the year ended 31st July, 2004 on acceptance of the grants.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2005

25. SHARE OPTIONS (continued)

The following table discloses movements in such holdings during the year:

Date of grant	Exercisable period	Exercise price HK\$	Outstanding at 1.8.2004	Granted during the year	Cancelled during the year	Outstanding at 31.7.2005
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	—	(1,000,000)	82,600,000
			<u>125,200,000</u>	<u>—</u>	<u>(1,000,000)</u>	<u>124,200,000</u>

Date of grant	Exercisable period	Exercise price HK\$	Outstanding at 1.8.2003	Granted during the year	Cancelled 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
			<u>—</u>	<u>125,200,000</u>	<u>—</u>	<u>125,200,000</u>

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 1.8.2004	Granted during the year	Cancelled during the year	Outstanding at 31.7.2005
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>81,900,000</u>	<u>—</u>	<u>—</u>	<u>81,900,000</u>

Date of grant	Exercisable period	Exercise price HK\$	Outstanding at 1.8.2003	Granted during the year	Cancelled 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>—</u>	<u>81,900,000</u>

The above options will lapse in November 2005 and January 2006 after the relevant directors resigned during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2005

25. SHARE OPTIONS (continued)

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.

26. 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
THE COMPANY						
At 1st August, 2003	7,824	2,127	170,583	268	(121,735)	59,067
Conversion of convertible notes (note 24a)	2,500	—	—	—	—	2,500
Issue of shares on private placements (note 24b)	9,380	—	—	—	—	9,380
Expenses incurred in connection with issue of shares	(446)	—	—	—	—	(446)
Net loss for the year	—	—	—	—	(8,552)	(8,552)
At 31st July, 2004	19,258	2,127	170,583	268	(130,287)	61,949
Conversion of convertible notes (note 24c)	22,830	—	—	—	—	22,830
Issue of shares on private placement (note 24d)	10,725	—	—	—	—	10,725
Expenses incurred in connection with issue of shares	(457)	—	—	—	—	(457)
Net loss for the year	—	—	—	—	(2,579)	(2,579)
At 31st July, 2005	52,356	2,127	170,583	268	(132,866)	92,468

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, 2005 and 2004, the Company had no reserve available for distribution to the shareholders.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2005

27. 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 <i>HK\$'000</i>	Tax losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP			
At 1st August, 2003	1,132	(1,132)	—
Charge (credit) to income statement	116	(133)	(17)
At 31st July, 2004	1,248	(1,265)	(17)
Charge (credit) to income statement	102	(91)	11
At 31st July, 2005	1,350	(1,356)	(6)
THE COMPANY			
At 1st August, 2003	48	(48)	—
Charge (credit) to income statement	8	(8)	—
At 31st July, 2004	56	(56)	—
Charge (credit) to income statement	(56)	56	—
At 31st July, 2005	—	—	—

At 31st July, 2005, the Group and the Company had unused tax losses of HK\$51,064,000 (2004: HK\$47,648,000) and HK\$10,809,000 (2004: HK\$9,562,000), respectively, available for offset against future profits and deductible temporary differences of HK\$258,000 (2004: HK\$232,000) and HK\$15,000 (2004: HK\$19,000), respectively, in respect of depreciation. A deferred tax asset of the Group has been recognised in respect of HK\$7,751,000 (2004: HK\$7,229,000) of such losses. At 31st July, 2004, a deferred tax asset of the Company had been recognised in respect of HK\$324,000 of such losses. No deferred tax assets of the Group and the Company have been recognised in respect of the remaining unused losses of HK\$43,313,000 (2004: HK\$40,419,000) and HK\$10,809,000 (2004: HK\$9,238,000), respectively, and the deductible temporary differences due to unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

In addition, certain deductible temporary differences relating to properties held for sale have not been recognised as it is not probable that such deductible temporary differences will be reversed in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2005

28. 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
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/>
Net assets	1,468
Goodwill arising on acquisition	4,532
	<hr/>
	6,000
	<hr/>
Satisfied by:	
Cash consideration paid	6,000
	<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/>
Net outflow of cash and cash equivalents	(5,899)
	<hr/>

The subsidiaries acquired during the year ended 31st July, 2004 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, 2005

29. 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 31st July, 2004 were as follows:

	2004 <i>HK\$'000</i>
<hr/>	
Net assets disposed of:	
Property, plant and equipment	74
Properties held for sale	2,400
Inventories	889
Trade and other receivables	605
Bank balances and cash	300
Trade and other payables	(309)
	<hr/>
	3,959
Goodwill released	381
Minority interests	(451)
Loss on disposal of discontinuing operations	(734)
Loss on disposal of subsidiaries	(62)
	<hr/>
	3,093
	<hr/>
Satisfied by:	
Cash consideration received	<hr/> <u>3,093</u>

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

	2004 <i>HK\$'000</i>
<hr/>	
Cash consideration received	3,093
Bank balances and cash disposed of	(300)
	<hr/>
Net inflow of cash and cash equivalents	<hr/> <u>2,793</u>

The subsidiaries disposed of did not contribute significantly to the Group's cash flows or operating results for the year ended 31st July, 2004.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2005

30. PLEDGE OF ASSETS

At 31st July, 2005, investment properties of the Group amounting to HK\$25,000,000 (2004: HK\$17,780,000), had been pledged to a bank to secure credit facilities to the extent of HK\$10,000,000 (2004: HK\$10,750,000) granted to the Group of which HK\$7,644,000 (2004: HK\$9,163,000) was utilised by the Group.

At 31st July, 2004, the investment property of the Company amounting to HK\$1,480,000 had been pledged to a bank to secure credit facilities to the extent of HK\$750,000 granted to the Company of which HK\$638,000 was utilised by the Company. The pledge has been released during the year ended 31st July, 2005.

31. 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, 2005, contributions of the Group under the MPF Scheme amounted to HK\$247,000 (2004: HK\$325,000).

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. The Group did not have forfeited contributions for both years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2005

32. OPERATING LEASE ARRANGEMENTS

The Group as lessee

Minimum lease payments paid under operating leases for premises during the year was HK\$446,000 (2004: HK\$850,000).

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	
	2005 HK\$'000	2004 HK\$'000
Within one year	1,237	151
In the second to fifth year inclusive	1,066	—
	<u>2,303</u>	<u>151</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 two years (2004: one year).

At 31st July, 2005, the Company had no commitments under non-cancellable operating leases (2004: Nil).

The Group as lessor

Property rental income earned by the Group during the year was HK\$472,000 (2004: HK\$767,000) before deduction of outgoings of HK\$205,000 (2004: HK\$275,000). Certain of the Group's properties are held for rental purposes and are expected to generate rental yields of 2% (2004: 3%), on an ongoing basis. The properties of the Group held for rental purposes have committed tenants for an average term of one year (2004: two years).

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	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Within one year	203	368	—	120
In the second to fifth year inclusive	84	229	—	220
	<u>287</u>	<u>597</u>	<u>—</u>	<u>340</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2005

33. CONTINGENT LIABILITIES

At 31st July, 2005, the Group has outstanding commitment in respect of foreign currency futures held for trading purpose with notional amount of Yen 1,250 million (equivalent to HK\$86.6 million) (2004: Nil).

At 31st July, 2005, the Company has outstanding guarantees issued in favour of a bank in respect of banking facilities made available to a subsidiary amounting to HK\$7,644,000 (2004: HK\$8,525,000).

34. RELATED PARTY DISCLOSURES

- (a) During the year, the Group reimbursed HK\$2,578,000 (2004: HK\$2,630,000) for administrative expenses with CSI Investment Limited (“CSI”). During the year ended 31st July, 2004, the Group also reimbursed HK\$599,000 for administrative expenses with Mark Well Investment Limited (“Mark Well”). Mr. Choo Yeow Ming, Ms. Ma Wai Man, Catherine and Mr. Chow Hou Man, the directors of the Company who resigned as directors during the year ended 31st July, 2005, are also directors of these companies. CSI and Mark Well are subsidiaries of Capital Strategic Investment (BVI) Limited, which is a subsidiary of Capital Strategic Investment Limited (“Capital Strategic”), a listed company of the Stock Exchange and was a former substantial shareholder of the Company. The amounts were negotiated by reference to prevailing market rates.
- (b) At 31st July, 2004 and 2005, Capital Strategic has given a corporate guarantee to a bank in respect of banking facilities granted by the bank to Century 21, a wholly owned subsidiary of the Company.
- (c) 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. 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 was 82.5% equity interest in Century 21. Mr. Ng Kai Man, Luke, the deputy chairman and an executive director of the Company, was the minority shareholder who owned the remaining 20% of the issued share capital of CPL. Mr. Ng Kai Man, Luke resigned as the deputy chairman and the executive director of the Company during the year ended 31st July, 2005.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2005

35. POST BALANCE SHEET EVENTS

- (a) Pursuant to a circular dated 12th September, 2005, a prospectus dated 30th September, 2005 and resolutions passed on 29th September, 2005, a capital reorganisation (the “Capital Reorganisation”) was approved and with effect from 29th September, 2005 which involved:
- (i) every 100 issued and unissued shares of HK\$0.01 each in the share capital of the Company were consolidated into one new ordinary share of HK\$1.00 each (the “Consolidated Share(s)”) in the share capital of the Company (the “Share Consolidation”). As at 9th September, 2005, the authorised share capital of the Company was HK\$122,500,000 comprising 12,250,000,000 shares of HK\$0.01 each, of which approximately HK\$52,543,986 comprising 5,254,398,668 shares were issued and fully paid. On this basis, immediately after the Share Consolidation, the authorised share capital of the Company comprised 52,543,986 issued Consolidated Shares and 69,956,014 unissued Consolidated Shares of HK\$1.00 each; and
 - (ii) immediately after the Share Consolidation, the authorised share capital of the Company was increased to HK\$2,000,000,000 divided into 2,000,000,000 Consolidated Shares of HK1.00 each, in which 1,877,500,000 Consolidated Shares were created.

In addition, the Company raised approximately HK\$210.2 million before expenses by way of a rights issue on the basis of four rights shares for every Consolidated Share held on 29th September, 2005 after the Capital Reorganisation became effective. The transaction was completed on 20th October, 2005. The net proceeds of approximately HK\$205.8 million will be used as to approximately HK\$200 million for investments in the property sector in general, both in Hong Kong and Macau, in order to expand the property portfolio; and as to the balance of approximately HK\$5.8 million as general working capital of the Company.

- (b) Pursuant to an announcement dated 9th November, 2005 (the “Announcement”), the board of directors of the Company proposed that each of the existing issued and unissued shares of HK\$1.00 each in the share capital of the Company would be subdivided into five share of HK\$0.20 each (the “Subdivided Shares”) (the “Share Subdivision”). The Share Subdivision is conditional upon the passing of an ordinary resolution by the holders of the shares at an extraordinary general meeting of the Company to be convened for approving the Share Subdivision and the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Subdivided Shares.

FINANCIAL SUMMARY

RESULTS

	Year ended 31st July,				
	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover	25,713	22,622	41,273	37,580	33,500
Profit (loss) before taxation	6,353	(2,880)	(46,008)	(98,764)	(157,019)
Taxation	(210)	(2)	(24)	(52)	(216)
Profit (loss) before minority interests	6,143	(2,882)	(46,032)	(98,816)	(157,235)
Minority interests	(241)	21	2,078	—	47
Net profit (loss) for the year	5,902	(2,861)	(43,954)	(98,816)	(157,188)

ASSETS AND LIABILITIES

	At 31st July,				
	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
Total assets	182,993	120,842	101,168	139,924	195,228
Total liabilities	(22,681)	(19,621)	(20,684)	(37,331)	(17,355)
Minority interests	(1,126)	(885)	(601)	(2,570)	—
Shareholders' funds	159,186	100,336	79,883	100,023	177,873

MAJOR PROPERTIES

Particulars of major properties held by the Group at 31st July, 2005 are as follows:

(a) **Investment properties:**

Location	Use	Term of the lease
Car parks no. 14 and 22-29 on ground floor Cherry Court, 10-12 Consort Rise Hong Kong	Carparking spaces	Long lease
Car parks no. 18, 19 and 22-26 on ground floor Berkeley Bay Villa Lot No. 836 in DD214 Sai Kung, New Territories	Carparking spaces	Medium-term lease
Shops no. 303, 310, 314, 316, 317, 320, 327 and 329-332 on third floor Shops no. 201, 203-205, 208-211, 214-218, 220, 222, 224, 225, 227, 229, 230 and 232 on second floor Shops no. 101-106, 108-110, 112, 113, 115-117 and 119-131 on first floor Shops no. 1-8, 10-11, 76, 76A, 78, 80, 82 and 82A on ground floor Shops no. 1-10 on lower ground floor Time Plaza, 76-82 Castle Peak Road Shamshuipo, Kowloon	Shops	Medium-term lease

(b) **Properties held for sale:**

Location	Use	Stage of completion	Expected date of completion	Site/Floor Area (approx.) sq. ft.	Group interest
DD248, Tseung Kwan O Sai Kung, New Territories	Vacant land	Not applicable	Not applicable	6,500	100%
9293 ban 1, 9294 ban 1 & 3 Aza Gogami, Hiyoshi-cho Mizunami-shi Japan	Vacant land	Not applicable	Not applicable	2,344,161	100%
9459 ban 5, 9460 ban 1, 12-17 Aza Yubira, Hiyoshi-cho Mizunami-shi Japan	Vacant land	Not applicable	Not applicable	3,021,816	100%
9380 ban 2 Aza Nishigahora, Hiyoshi-cho Mizunami-shi Japan	Vacant land	Not applicable	Not applicable	840,653	100%