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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in Capital Estate Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee, or to the bank, stockbroker or other agent through whom the sale or the transfer was effected for transmission to the purchaser or the transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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### CAPITAL ESTATE LIMITED

### 冠中地產有限公司

*(Incorporated in Hong Kong with limited liability)*

(Stock code: 193)

## MAJOR TRANSACTION ACQUISITION OF THE ENTIRE INTEREST IN HOTEL FORTUNA (HONG KONG) COMPANY LIMITED

### FINANCIAL ADVISER



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A letter from the Board is set out on pages 5 to 19 of this circular.

A notice convening an extraordinary general meeting of Capital Estate Limited (the “Company”) to be held at Boardroom 3&4, Mezzanine Level, Renaissance Harbour View Hotel, 1 Harbour Road, Wanchai, Hong Kong on Monday, 14 April 2008 at 9:00 a.m. is set out on pages 164 to 165 of this circular. A form of proxy is also enclosed with this circular.

If you are not able to attend the extraordinary general meeting of the Company, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company’s share registrar in Hong Kong, Computershare Investor Hong Kong Services Limited, at Rooms 1806-1807, 18th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, not less than 48 hours before the time fixed for holding of the meeting or any adjournment thereof. Completion and delivery of the form of proxy will not preclude Shareholders from attending and voting in person at the meeting if they so wish.

28 March 2008

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## DEFINITIONS

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*In this document, unless the context otherwise requires, the following expressions have the following meanings:*

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Acquisition”	the proposed acquisition of 100% of the issued share capital of Hotel Fortuna (Hong Kong) from the Vendors by the Purchaser pursuant to the Agreement
“Actual Sale Loans”	the actual amount of loans due and outstanding by the Hotel Fortuna Group to the Vendors and their associates at Completion
“Adjacent Land”	the adjacent land, with a site area of 3,300 sq.m., to Property 3
“Agreement”	the sale and purchase agreement dated 29 February 2008 entered into between the Purchaser, the Vendors and the Warrantors in relation to the Acquisition
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday or a Sunday) on which banks generally are open for business in Hong Kong
“BVI”	British Virgin Islands
the “Company” or the “Purchaser”	Capital Estate Limited, a company incorporated in Hong Kong with limited liability, the Shares of which are listed on the Stock Exchange
“Completion”	completion of the Agreement
“Completion Date”	the date fixed for Completion
“Deposit(s)”	the First Deposit and the Second Deposit
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held on Monday, 14 April 2008 of the purpose of passing the relevant resolution for approving all transactions contemplated under or incidental to the Agreement

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## DEFINITIONS

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“Enlarged Group”	the Group as enlarged as a result of the Completion
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hotel”	佛山市財神酒店, the hotel situated at Le Cong Zhen, Shun De District, Foshan, Guangdong Province, the PRC
“Hotel Fortuna”	佛山市財神酒店有限公司, a company incorporated in the PRC with limited liability
“Hotel Fortuna Group”	Hotel Fortuna (Hong Kong) and Hotel Fortuna
“Hotel Fortuna Group Consolidated Net Liabilities”	the consolidated net liabilities of the Hotel Fortuna Group on Completion
“Hotel Fortuna (Hong Kong)”	Hotel Fortuna (Hong Kong) Company Limited, a company incorporated in Hong Kong with limited liability
“Independent Third Party(ies)”	person who himself is, and (in the case of corporate entity) its ultimate beneficial owners are, to the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, third parties who are not connected persons of the Company and are independent of the Company and its subsidiaries, their directors, chief executives and substantial shareholders or their respective associates (as that term is defined in the Listing Rules)
“Latest Practicable Date”	25 March 2008, being the latest practicable date prior to printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Sio”	Mr. Sio Tak Hong
“Mr. Tang”	Mr. Tang Fung

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## DEFINITIONS

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“PRC”	the People’s Republic of China, which for the purpose of this announcement excludes Hong Kong and Macau
“PRC Legal Advisers”	Hills & Co (君道律師事務所)
“Property 1”	Hotel, Le Cong Zhen, Shun De District, Foshan, Guangdong Province, the PRC. The property comprises an 18-storey (including basement) hotel building and a 3-storey annex building erected on a parcel of land with a site area of approximately 22,671.5 sq.m.
“Property 2”	Levels 1 to 4, No. B89 Zhenhua Road, Le Cong Residential Committee East District, Le Cong Zhen, Shunde, Foshan, Guangdong Province, PRC, a 4-storey residential building with a total gross floor area of the property of approximately 2,512.80 sq.m.
“Property 3”	the undeveloped portion of the Hotel located at Le Cong Zhen, Shun De District, Foshan Guangdong Province, the PRC
“Properties”	Property 1, Property 2 and Property 3
“Sale Loans”	all outstanding liabilities owed by Hotel Fortuna (Hong Kong) to each of the Vendors as at Completion
“Sale Loans Consideration”	consideration (subject to adjustments) payable to the Vendors in respect of the Sale Loans
“Sale Shares”	10,000 shares of HK\$1.00 each in share capital of Hotel Fortuna (Hong Kong), representing the entire issued share capital of Hotel Fortuna (Hong Kong)
“Sale Shares Consideration”	consideration (subject to adjustments) payable to the Vendors in respect of the Sale Shares
“SFO”	the Securities and Futures Ordinance (Chapter 571 of Laws of Hong Kong)
“Share(s)”	share(s) of HK\$0.01 each in the capital of the Company

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## DEFINITIONS

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“Share Charge”	the share charge to be executed by each of the Vendors in favour of the Purchaser in respect of the Sale Shares owned by each of the Vendors as security of the obligations of the Vendors under the Agreement
“Shareholder(s)”	holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Vendors”	Mason Creation Limited (a company incorporated in Hong Kong with limited liability), Upper Way Holdings Limited (a company incorporated in BVI with limited liability) and Mr. Siu Ka Kuen, being the existing shareholders of Hotel Fortuna (Hong Kong)
“Warrantors”	Mr. Sio and Mr. Tang
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“sq.m.”	square metres

*Amounts denominated in HK\$ in this document have been translated into RMB at a rate of HK\$1.00=RMB0.917 for illustration purposes.*

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## LETTER FROM THE BOARD

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### CAPITAL ESTATE LIMITED

### 冠中地產有限公司

*(Incorporated in Hong Kong with limited liability)*

**(Stock code: 193)**

*Execution Directors:*

Mr. Chu Nin Yiu, Stephen (*Executive Chairman*)

Mr. Chu Nin Wai, David (*Deputy Chairman*)

Mr. Lau Chi Kan, Michael

*Independent non-executive Directors:*

Mr. Li Sze Kuen, Billy

Mr. Wong Kwong Fat

Mr. Leung Kam Fai

*Registered office:*

Unit 1901, 19th Floor

Asia Orient Tower, Town Place

33 Lockhart Road

Wanchai

Hong Kong

28 March 2008

*To the Shareholders*

Dear Sir/Madam,

### **MAJOR TRANSACTION ACQUISITION OF THE ENTIRE INTEREST IN HOTEL FORTUNA (HONG KONG) COMPANY LIMITED**

#### **1. INTRODUCTION**

The Board announced that on 29 February 2008, the Company entered into the Agreement with the Vendors and the Warrantors pursuant to which the Company has conditionally agreed to acquire from the Vendors the entire issued share capital of Hotel Fortuna (Hong Kong) and the Sale Loans at an aggregate consideration of HK\$550,000,000 (subject to adjustments).

Hotel Fortuna (Hong Kong) is an investment holding company and its principal asset is its 100% ownership in Hotel Fortuna, which is a PRC company and owns a hotel situated at Le Cong Zhen, Shun De District, Foshan, Guangdong Province, the PRC.

As some of the relevant percentage ratios under Rule 14.07 of the Listing Rules exceed 25% but less than 100%, the Acquisition constitutes a major transaction for the Company under Rule 14.06(3) of the Listing Rules and is therefore subject to reporting, announcement requirements and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

To the best of the Directors' knowledge, information and belief having made all reasonable enquires, none of the Vendors or their associates, hold any Share(s) in the Company and none of the Shareholders or their respective associates has any interest in the transaction contemplated

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## LETTER FROM THE BOARD

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under the Agreement which is different from other Shareholders. Accordingly, no Shareholders are required to abstain from voting on a resolution to approve the Acquisition.

The purpose of this circular is to provide you with the relevant information relating to the Acquisition.

### 2. THE AGREEMENT

#### (i) Date

29 February 2008

#### (ii) Parties

Vendors: Mason Creation Limited, a company incorporated in Hong Kong with limited liability;

Upper Way Holdings Limited, a company incorporated in BVI with limited liability; and

Mr. Siu Ka Kuen

Purchaser: The Company

Warrantors: Mr. Sio; and

Mr. Tang

Mason Creation Limited and Upper Way Holdings Limited are investment holding companies.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Mason Creation Limited, Upper Way Holdings Limited and their respective ultimate beneficial owner(s), Mr. Siu Ka Kuen, Mr. Sio and Mr. Tang are Independent Third Parties.

Based on enquiries with the Vendors, Mr. Sio is the beneficial owner of 50% interest in Mason Creation Limited and Mr. Tang is the beneficial owner of 41.7% interest in Upper Way Holdings Limited.

#### (iii) Subject of the Acquisition

Pursuant to the Agreement, the Purchaser has conditionally agreed to acquire from the Vendors the Sale Shares and the Sale Loans.

As at the Latest Practicable Date, Hotel Fortuna (Hong Kong) is beneficially owned by Mason Creation Limited, Upper Way Holdings Limited and Mr. Siu Ka Kuen as to 60%, 30% and 10%, respectively. Immediately after Completion, Hotel Fortuna (Hong Kong) will be wholly-owned by the Purchaser.

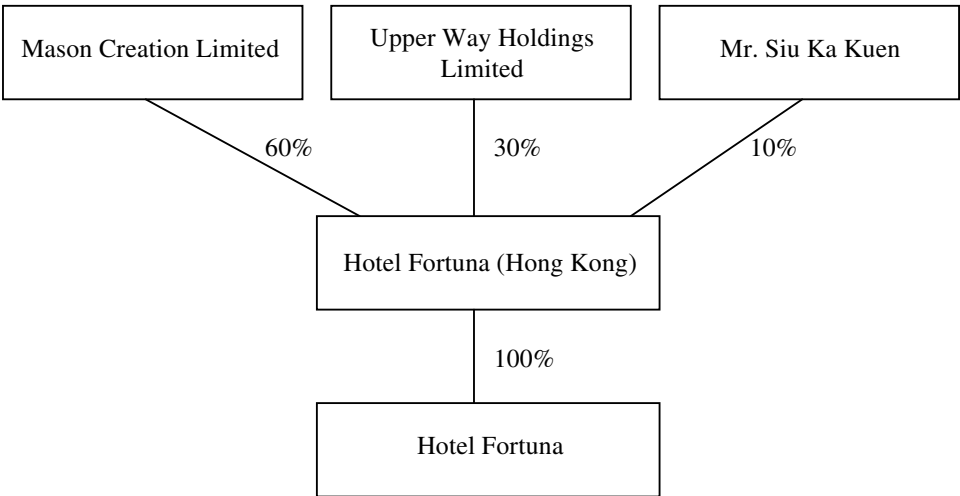


LETTER FROM THE BOARD

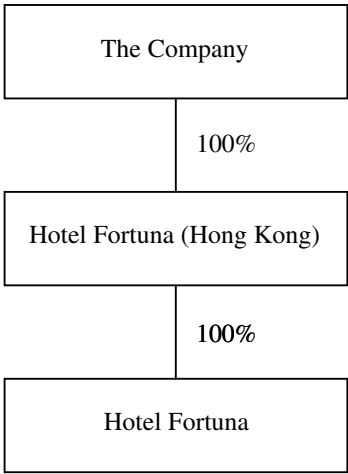
The principal asset of Hotel Fortuna (Hong Kong) is its 100% ownership in Hotel Fortuna, known as “佛山市財神酒店有限公司”, which is a PRC company and owns a hotel situated at Le Cong Zhen, Shun De District, Foshan, Guangdong Province, the PRC. As at the Latest Practicable Date, other than its interest in Hotel Fortuna, Hotel Fortuna (Hong Kong) does not have any other subsidiaries.

Particulars of the Hotel are set out in the section headed “Information on Hotel Fortuna (Hong Kong)” below.

Set out below is the shareholding structure of Hotel Fortuna Group as at the Latest Practicable Date:



Set out below is the shareholding structure of Hotel Fortuna Group immediately following the Completion:



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## LETTER FROM THE BOARD

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### (iv) Consideration

The aggregate consideration for the Sale Shares and Sale Loans is HK\$550,000,000 (subject to adjustments), of which HK\$149,483,000 (subject to adjustments) represents the Sale Shares Consideration and HK\$400,517,000 (subject to adjustments) represents the Sale Loans Consideration.

The aggregate consideration was determined after arm's length negotiations between the parties taking into account (i) the audited financial information on Hotel Fortuna Group as at 30 September 2007; (ii) the unaudited outstanding liabilities owed by Hotel Fortuna (Hong Kong) to the Vendors of HK\$400,517,000 as at 28 February 2008; and (iii) the property valuation on the Properties at RMB694,770,000 as at 31 December 2007, on a market value basis, by an independent professional valuer and an additional market value of RMB100,000,000 should the plot ratio in respect of the Property 1 (together with Property 3) is equal to six is attained.

Details of the adjustments to the aggregate consideration are set out under the headings “(v) Adjustments” below.

The aggregate consideration will be satisfied as follows:

- (a) as to HK\$100,000,000 (representing HK\$40,000,000 as part of the Sales Shares Consideration and HK\$60,000,000 as part of the Sale Loans Consideration) in cash to the Vendors, as refundable deposit (the “First Deposit”) upon signing of the Agreement;
- (b) as to HK\$150,000,000 (representing HK\$60,000,000 as part of the Sales Shares Consideration and HK\$90,000,000 as part of the Sale Loans Consideration) in cash to the Vendors, as refundable deposit (the “Second Deposit”) upon passing a resolution by the Shareholders to approve the Agreement and upon the delivery of the Share Charges by each of the Vendors to the Purchaser;
- (c) as to the remaining balance of HK\$49,483,000 of the Sale Shares Consideration (the “Remaining Sale Shares Consideration”) subject to adjustments, will be satisfied in cash on or before the expiry of the third year after the Completion Date; and
- (d) as to the remaining balance of HK\$250,517,000 of the Sale Loans Consideration (the “Remaining Sale Loans Consideration”) subject to adjustments, will be satisfied in cash on or before the expiry of the third year after the Completion Date.

The Company shall pay interest to each of the Vendors at the rate of 2% per annum on the Remaining Sale Shares Consideration (subject to adjustment) and Remaining Sale Loans Consideration (subject to adjustment) accruing from the Completion Date to the date of payment of the Remaining Sale Shares Consideration and Remaining Sale Loans Consideration.

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## LETTER FROM THE BOARD

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As at the Latest Practicable Date, the Company has paid the First Deposit by internal resources of the Group.

The Company intends to finance the Second Deposit by internal resources of the Group. The Remaining Sales Shares Consideration (subject to adjustment) and the Remaining Sale Loans Consideration (subject to adjustment) will be payable by the Company on or before the third year after the Completion Date, the Company will decide at a later stage on the method of financing for such balances, whether by internal resources or others means of financing, including debt or equity financing, or both, depending on the then market situation.

**(v) Adjustments**

**(a) Sale Shares Consideration related adjustments**

- (I) The Sale Shares Consideration shall be adjusted on a dollar-for-dollar basis by the following formula:

Adjusted Sale Shares Consideration =

Sale Shares Consideration (HK\$149,483,000) – X + Y

where “X” = such amount by which the Hotel Fortuna Group Consolidated Net Liabilities exceeds HK\$159,540,000 (and for the avoidance of doubt, there shall be no adjustments if the Hotel Fortuna Group Consolidated Net Liabilities is less than HK\$159,540,000); and

“Y” = HK\$100,000,000 if the plot ratio in respect of Property 1 (together with Property 3) is equal to or greater than six or HK\$0 if the plot ratio in respect of Property 1 (together with Property 3) is less than six.

The maximum increase of HK\$25 million of the Hotel Fortuna Group Consolidated Net Liabilities without adjustment to Sale Shares Consideration (assuming no further adjustment for Property 1 (together with Property 3) as mentioned above) (i.e. being the difference between the amount of HK\$159,540,000 mentioned above and the net liabilities of Hotel Fortuna Group as at 30 September 2007) was agreed between the parties after arm’s length negotiations. Taking into account the Reference Value of the Hotel Fortuna Group (details of which are set out under the heading “Reasons for and benefits of the Acquisition” below), the Directors are of the view that the Sale Shares Consideration, including the adjustments, is fair and reasonable.

In the event that the Adjusted Sale Shares Consideration is zero or negative, the Purchaser may terminate the Agreement. In such case, each of the Vendors

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## LETTER FROM THE BOARD

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shall forthwith refund their respective portion of the Deposits to the Purchaser together with interest calculated at the rate of 2% per annum from the date of payment of the relevant Deposits to the date of refund of such Deposits.

- (II) Subject to the above mentioned adjustments in (I), the outstanding balance of the Sale Shares Consideration to be paid by the Purchaser to the Vendors shall be adjusted as follows:
- (i) to the extent that the Adjusted Sale Shares Consideration is greater than the Sale Shares Consideration, the outstanding balance of the Sale Shares Consideration shall be increased by an amount equivalent to the amount by which the Adjusted Sale Shares Consideration is greater than HK\$149,483,000;
  - (ii) in the event that the Adjusted Sale Shares Consideration is less than the Sale Shares Consideration, the outstanding balance of the Sale Shares Consideration shall be decreased by an amount equivalent to the amount in which the Adjusted Sale Shares Consideration is less than HK\$149,483,000 (the “Adjusted Amount”).

Subject to the adjustments set out in (I) above, in the event that the Adjusted Amount to be deducted is greater than HK\$49,483,000 (i.e. the Remaining Sale Shares Consideration is negative), the Vendors shall refund to the Purchaser from the Deposits an amount equivalent to the difference between the Adjusted Amount and HK\$49,483,000.

(b) Sale Loans Consideration related adjustments

Provided that the Actual Sale Loans does not exceed the Sale Loans Consideration by HK\$45,000,000, the Sale Loans Consideration shall be adjusted on a dollar-for-dollar basis to be equivalent to the Actual Sale Loans and the Remaining Sale Loans Consideration shall be adjusted accordingly.

For the avoidance of doubt, if the Actual Sales Loans is less than Sale Loans Consideration, then the Remaining Sale Loans Consideration shall be reduced by the amount in which the Actual Sale Loans is less than the Sale Loans Consideration and to the extent that such amount is greater than the Remaining Sale Loans Consideration, the Vendors shall forthwith refund to the Purchaser from the Deposits a sum equivalent to the amount in which the Actual Sale Loans is less than HK\$150,000,000.

In the event that the Actual Sale Loans is greater than HK\$445,517,000, the Purchaser may terminate the Agreement. In such case, each of the Vendors shall forthwith refund their respective portion of the First Deposit and the Second Deposit to the Purchaser together with interest calculated at the rate of 2% per annum from the date of payment of the relevant Deposits to the date of refund of such Deposits.

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## LETTER FROM THE BOARD

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### (vi) Conditions of the Agreement

Completion is conditional upon, inter alias, the followings:

- (a) the passing by the Shareholders to approve the Property Agreement and the transactions contemplated under the Agreement;
- (b) the due diligence review and investigation on Hotel Fortuna Group having been completed to the satisfaction of the Purchaser in its sole discretion including but not limited to the issue of a legal opinion in form and substance satisfactory to the Purchaser by a PRC lawyer appointed by the Purchaser in relation to but not limited to the ownership, due incorporation, valid and continued existence of Hotel Fortuna, the validity of the land use right obtained for Property 1 (together with Property 3), the validity of the real estate ownership certificate(s) (房地產權證) obtained for Property 1 (together with Property 3) and Property 2, or any relevant certificate in respect of the property rights of Property 1 (together with Property 3), Property 2 (as the case may be) to be issued by the relevant PRC government authority, and all consents or approvals of any relevant governmental authorities or other relevant regulatory bodies in PRC which are necessary for the entering into and implementation of the Agreement and the operation of Hotel having been obtained and remain current and valid; and
- (c) all approvals from the governments and relevant authorities in relation to the Property 1 (together with Property 3), Property 2 and the Adjacent Land including but not limited to all those set out in the Agreement having been obtained.

If the conditions set out in (a) above is not fulfilled within 60 Business Days from the date of the Agreement, any of the Vendors may terminate the Agreement. In such case, each of the Vendors shall forthwith refund the First Deposit to the Purchaser without interest.

If the condition set out in (b) above is not fulfilled, or not waived by the Purchaser in writing, within six months (or such later date as may be agreed between the Vendors and the Purchaser in writing) from the date of the Agreement, the Purchaser may terminate the Agreement. In such case, each of the Vendors shall forthwith refund their respective portion of the First Deposit to the Purchaser without interest.

If the condition set out in (c) above is not fulfilled, or not waived by the Company in writing, within six months (or such later date as may be agreed between the Vendors and the Company in writing) from the date of the Agreement, the Purchaser may terminate the Agreement. In such case, each of the Vendors shall forthwith refund their respective portion of the First Deposit and the Second Deposit to Purchaser together with interest calculated at the rate of 2% per annum from the date of payment of the relevant Deposits to the date of refund of such Deposits.

As at the Latest Practicable Date, none of the above conditions has been fulfilled.

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## LETTER FROM THE BOARD

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### (vii) Undertakings

The Company understands from the Vendors that the State-owned Land Use Rights Certificate (國有土地使用証) of Property 1 and Property 3 has been obtained and all land premium have been fully paid.

The Vendors have jointly and severally undertaken to the Purchaser that the Vendors shall use their best endeavours to obtain the relevant real estate ownership licence (房地產權證) of Property 1 (together with Property 3) and the Adjacent Land.

The Vendors have also undertaken to the Purchaser to transfer the Adjacent Land to Hotel Fortuna for zero consideration on or before the Completion Date and shall obtain all necessary governmental approval in respect of the Adjacent Land, including the real estate ownership licence (房地產權證) for the Adjacent Land. As at the Latest Practicable Date, the real estate ownership licence land (房地產權證) for the Adjacent Land has not been obtained.

Pursuant to the Condition of Planning and Design of Construction Land of Shun De Foshan (順德市土地使用規劃設計條件), the planning and design works of Property 1 (including Property 3) has a plot ratio equal to or less than 4. The Vendors have also jointly and severally undertaken to the Purchaser that the Vendors shall use their best endeavours to obtain a plot ratio of Property 1 (together with Property 3) and the Adjacent Land of not less than 6 for the purposes of residential development.

In the event that the real estate ownership licence (房地產權證) of Property 1 (together with Property 3) (and to the extent approved by the relevant PRC authorities, together with Adjacent Land) obtained has a plot ratio of not less than 6, the Vendors have jointly and severally undertaken to the Purchaser to pay, on demand, the Purchaser or the relevant PRC governmental authorities as directed by the Purchaser, the full amount of any land premium/value added tax in respect of such Properties together with the Adjacent Land. To the extent that such amount has not been paid by the Vendors before the payment of the Remaining Sale Shares Consideration or the Remaining Sale Loans Consideration, the Purchaser has the right to elect to set off such amount against the final Remaining Sale Shares Consideration or the Remaining Sale Loans Consideration payable under the Agreement.

In the event that the real estate ownership licence (房地產權證) of Property 1 (together with Property 3) (and to the extent approved by the relevant PRC authorities, together with Adjacent Land) obtained has a plot ratio of above 4 but less than 6, the Vendors have jointly and severally undertaken to the Purchaser to pay, on demand, the Purchaser or the relevant PRC governmental authorities as directed by the Purchaser, the amount of any land premium/value added tax in respect of such Properties together with the Adjacent Land which exceeds HK\$3,000,000. To the extent that such amount has not been paid by the Vendors before the payment of the Remaining Sale Shares Consideration or the Remaining Sale Loans Consideration, the Purchaser has the right to elect to set off such amount against the final Remaining Sale Shares Consideration or the Remaining Sale Loans Consideration payable under the Agreement.

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## LETTER FROM THE BOARD

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The real estate ownership licence (房地產權證) of Property 2 has been obtained and no land premium is required to be paid.

The Company further understands that 佛山市規劃局順德分局 (Planning Department, Shun De District sub branch, Foshan\*) is authorised to determine the plot ratio as mentioned above.

### (viii) Guarantee

The obligations (including payment obligations) of Mason Creation Limited and Upper Way Holdings Limited were guaranteed by Mr. Sio and Mr. Tang respectively.

### 3. INFORMATION ON HOTEL FORTUNA (HONG KONG)

Hotel Fortuna (Hong Kong) was incorporated in 1999 and is an investment holding company. The principal asset of Hotel Fortuna (Hong Kong) is its 100% ownership in Hotel Fortuna, which is a PRC company and owns the Hotel situated at Le Cong Zhen, Shun De District, Foshan, Guangdong Province, the PRC. The Hotel is a 18-storey (including basement) building and a 3-storey annex building erected on a parcel of land with a site area of approximately 22,671.50 sq.m., offering 408 guest rooms, lounge, restaurants, retail shops, multi-function rooms and games rooms. The annex building accommodates a sauna and a night club.

According to the audited consolidated accounts of Hotel Fortuna Group as at 30 September 2007, the total assets of Hotel Fortuna Group were approximately HK\$575.7 million, its total liabilities were approximately HK\$710.3 million and its net liabilities were approximately HK\$134.5 million. Hotel Fortuna Group recorded a net loss of approximately HK\$29.7 million and HK\$71.7 million for each of the two years ended 31 December 2005 and 2006, respectively. For the nine months ended 30 September 2007, Hotel Fortuna Group recorded a turnover of approximately HK\$49.5 million with gross profit of approximately HK\$21.0 million as compared to an unaudited turnover of approximately HK\$22.5 million and an unaudited gross profit of approximately HK\$4.1 million during the same period in 2006, representing an increase of approximately 1.2 times and 4.1 times, respectively.

For the nine months ended 30 September 2007, Hotel Fortuna Group recorded a net loss of approximately HK\$48.0 million as compared to an unaudited net loss of approximately HK\$60.5 million during the same period in 2006.

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## LETTER FROM THE BOARD

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### 4. REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in property rental, financial investment, property development, property sales and investments.

Based on statistics published by the Foshan government, in 2006 Foshan recorded a total of approximately 22.05 million visitor arrivals which represented an increase of 7.1% from 2005. The total spending of visitors was RMB12,947 million, up by 19.1% over 2005. Given the prospects of the tourism industry, the Directors are optimistic on the growth potential for the hotel industry in Foshan.

To be consistent with the unaudited pro forma statement of assets and liabilities of the Enlarged Group as set out in Appendix II, the following calculations are prepared at the exchange rate of HK\$1 = RMB0.96419. Based on the net effect of (i) the net liabilities of approximately HK\$134.5 million in audited consolidated financial information of Hotel Fortuna Group as at 30 September 2007; (ii) the maximum increase of HK\$25 million of the Hotel Fortuna Group Consolidated Net Liabilities without adjustment to Sale Shares Consideration (as mentioned under the heading “(v) Adjustments” above); and (iii) the estimated revaluation surplus of approximately HK\$340.1 million (i.e. being the difference between the carrying amount of property, plant and equipment (including prepaid lease payments) of Hotel Fortuna Group as at 30 September 2007 and the property valuation on the Properties at approximately RMB694.8 million (approximately HK\$720.6 million) as at 31 December 2007 by an independent professional valuer), the reference value of the Hotel Fortuna Group would be approximately HK\$180.6 million (the “Reference Value”).

Accordingly, the Sale Share Consideration (i.e. HK\$149.5 million (subject to adjustments)) represented a discount of approximately 17.2% to the Reference Value.

The Acquisition will allow the Group to further increase the Group’s portfolio of property interests. Taking into account (i) the future prospects and growth potential for the hotel industry in Foshan; (ii) the basis of the consideration as described above; (iii) the internal estimate of the management of the Company on the future prospects of Hotel Fortuna, in particular, comparing with the current selling prices of the peers in the same vicinity; (iv) the improvement in the trading position of the Hotel Fortuna Group (both in terms of revenue and gross profit) for the nine months ended 30 September 2007 as compared to the same period in 2006; (v) the future business potential of Hotel Fortuna with its close proximity to various business centres for wholesaling and retailing of furniture, raw steel materials and raw plastic materials; and (vi) the stated strategy of the Group to expand its property portfolio, the Directors (including the independent non-executive Directors) are of the view that the entering into of the Agreement is in the interests of the Company and the Shareholders as a whole and the terms of the Agreement, including the aggregate consideration, are fair and reasonable.



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## LETTER FROM THE BOARD

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### 5. POSSIBLE FINANCIAL EFFECTS OF THE ACQUISITION

Upon Completion, Hotel Fortuna (Hong Kong) will become a direct wholly-owned subsidiary of the Company and its post-acquisition financial results will be consolidated into the Group's consolidated financial statements.

The unaudited pro forma statement of assets and liabilities of the Enlarged Group following completion of the Acquisition set out in Appendix II to this circular are prepared in accordance with Rules 4.29 of the Listing Rules for the purpose of providing Shareholders and investors information on the effect of the Acquisition. The unaudited pro forma statement of assets and liabilities of the Enlarged Group are prepared for illustrative purpose only, on the assumption that the Acquisition had taken place on 31 July 2007 and because of its nature, it may not give a true picture of the actual financial position of the Enlarged Group had the Acquisition actually been completed as the relevant dates as set out on the basis stated.

#### **Total assets**

The audited total assets of the Group as at 31 July 2007 as extracted from the latest published annual report of the Group for the year ended 31 July 2007 was approximately HK\$929,895,000. Based on the unaudited pro forma statement of assets and liabilities of the Enlarged Group (as set out in Appendix II to this circular), the unaudited pro forma total assets of the Enlarged Group would be approximately HK\$1,739,597,000 (excluding bank overdraft of HK\$89,079,000). The increase in total assets is mainly attributable to the Acquisition and the cash payment of HK\$250 million for partial settlement of the consideration payable under the Acquisition.

#### **Total liabilities**

The audited total liabilities of the Group as at 31 July 2007 as extracted from the latest published annual report of the Group for the year ended 31 July 2007 was approximately HK\$47,460,000. Based on the unaudited pro forma statement of assets and liabilities of the Enlarged Group (as set out in Appendix II to this circular), the unaudited pro forma total liabilities of the Enlarged Group would be approximately HK\$857,162,000 (including bank overdraft of HK\$89,079,000). The increase in total liabilities is mainly due to the total liabilities of the Hotel Fortuna Group taken up.

#### **Earnings**

Taking into account the improvement of the financial position of the Hotel Fortuna Group as evidenced by the substantial increase in turnover and gross profit for the nine months ended 30 September 2007 to approximately HK\$49.5 million and HK\$21.0 million, respectively, as compared to the same period in 2006, the Board considers that the Acquisition will broaden the Group's earnings base in future.

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## LETTER FROM THE BOARD

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### Gearing

The gearing ratio (i.e. total liabilities to total assets) as at 31 July 2007 as extracted from the latest published annual report of the Group for the year ended 31 July 2007 was approximately 5.1%. Based on the unaudited pro forma statement of assets and liabilities of the Enlarged Group (as set out in Appendix II to this circular), the gearing ratio of the Enlarged Group (i.e. unaudited pro forma total liabilities (including bank overdraft of HK\$89,079,000) to unaudited pro forma total assets (excluding bank overdraft of HK\$89,079,000)) would be approximately 49.3%.

### 6. WAIVER FROM STRICT COMPLIANCE OF THE LISTING RULES

Pursuant to Note to Rule 4.06(1)(a) of the Listing Rules, it is required that the accountants' report of the Hotel Fortuna Group to cover three financial years immediately preceding the issue of this circular, which covers the three financial years ended 31 December 2007.

The Company has encountered the following special circumstances which leads to the application for a waiver from strict compliance with Rule 4.06(1) of the Listing Rules to include the financial statements of the Hotel Fortuna Group for the year ended 31 December 2007 ("FY2007"):

1. Pursuant to the Agreement, one of the conditions of the Agreement is to obtain the Shareholders' approval within 60 Business Days from the date of the Agreement (i.e. 29 May 2008). Based on queries by the Company and on the information provided to the Company by the Vendors, the availability of the Hotel Fortuna Group's own audit for FY2007 will only be made ready by early May 2008. Shareholders' attention is drawn to the fact that the Company does not have any control over the audit process of the Hotel Fortuna Group, and it is not within the Company's control to expedite the audit process of Hotel Fortuna Group.

Thereafter, the time required to perform audit work and update and prepare the accountants' report on the Hotel Fortuna Group for the year ended 31 December 2007 will likely to take no less than two months. Accordingly, if the circular to the Shareholders (which under the Listing Rules is required to contain such accountants' report on the Hotel Fortuna Group) is not despatched in time for convening the shareholders' meeting to approve the Agreement and the Company is unable to fulfil this condition within the 60 Business Days period mentioned above, any of the Vendors may terminate the Agreement which the Directors are of the view that it is not beneficial to the Company and the Shareholders as a whole.

2. Based on the experience of the reporting accountants during their audit on the Hotel Fortuna Group for the three years ended 31 December 2006 and the nine months ended 30 September 2007, the preparation of the accountants' report of the Hotel Fortuna Group was extremely time consuming due to, among other factors, prolonged turnaround time in communication and clarification on matters arising from audit work as well as audit confirmations from relevant parties. In light of the above difficulties, it is not practicable to finalise the audit work for the Hotel Fortuna Group for the period ended 31 December 2007 within the 60 Business Days period.

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## LETTER FROM THE BOARD

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3. Based on the communications between the Company and the Vendors, the Vendors have indicated that they are not prepared to re-negotiate on the terms of the Agreement. Accordingly, the Directors are of the view that the chances of the Vendors agreeing to an extension of the date of EGM for the Acquisition remain uncertain and may not be forthcoming. The Directors are also concerned with the risk that in the event that the Company failed to convene the EGM, there may be further disputes with the Vendors including without limitation further credit risk in relation to the deposit paid by the Company. A failure to convene the EGM by the Company would seriously expose the Company to such risk.

In addition there is a risk of liabilities for damages if the Company does not convene and hold the EGM within the time limits to satisfy the conditions of the Agreement before the cut-off time.

4. In addition, the Directors are extremely concern with the risk of losing the unique opportunity to acquire the interest in the Hotel Fortuna Group, which the Directors consider to be an important strategic acquisition, with considerable potential of benefit to be gained by the Company and its shareholders.

Based on the above special circumstances, the Company has applied for the waiver from strict compliance with Rule 4.06(1) of the Listing Rules to have included the financial statements of Hotel Fortuna for FY2007 in the accountants' report contained in the Appendix I to the circular.

Subject to the following conditions, the Company has been granted the waiver from strict compliance with Rule 4.06(1) of the Listing Rules:

- 1) this circular to be despatched on 28 March 2008 and the EGM to be held on or before 14 April 2008;
- 2) the Directors to confirm in this circular that they have performed sufficient due diligence to ensure that, up to the date of this circular, as far as the Directors are aware, there has been no material adverse change in the financial position or prospects of the Hotel Fortuna Group since 30 September 2007, and that there is no event which the Directors are aware of since 30 September 2007 which would materially affect the information shown in the accountants' reports of the Hotel Fortuna Group, and disclose details of the due diligence performed in this circular;
- 3) the Directors to elaborate in this circular the special circumstances leading to the delay in the inclusion of the financial information of the Hotel Fortuna Group for the year ended 31 December 2007 in the accountants' report of the Hotel Fortuna Group in this circular; and
- 4) the Company will include the accountants' report of the Hotel Fortuna Group for the three years ended 31 December 2007 in another supplementary circular to be sent to the Shareholders for information purpose as soon as possible and in any event no later than 15 July 2008.

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## LETTER FROM THE BOARD

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### **Financial position of Hotel Fortuna Group**

The Company has sent a questionnaire to Hotel Fortuna Group enquiring about the latest financial conditions, financial positions, any capital and other commitments made or contingent liabilities, and the trading position of the Hotel Fortuna Group during the period after 30 September 2007 to the date of this circular, and have also discussed and enquired with the management of Hotel Fortuna Group as to their responses to the questionnaire. Based on the responses obtained from Hotel Fortuna Group to the said questionnaire, as to their findings on the events subsequent to the audit for the period ended 30 September 2007, the Directors noted an increase in turnover of the Hotel Fortuna Group during October to December 2007, which is consistent with the seasonal pattern in the previous corresponding period for the year ended 31 December 2006.

The Directors, to their best knowledge and belief, confirmed that they have performed sufficient due diligence on the Hotel Fortuna Group and confirmed that (i) there has been no material adverse change to the financial or trading position of the Hotel Fortuna Group since 30 September 2007 to the date of this circular; and (ii) no material event had taken place since 30 September 2007 to the date of this circular that would have materially affected the financial position of the Hotel Fortuna Group. The Directors confirmed that the information contained in this circular provide sufficient information for the Shareholders to form their view as to how to vote on the resolution proposed at the EGM to approve the Acquisition. In addition, the reporting accountants have conducted a review on the post balance sheet events of the Hotel Fortuna Group as part of the work procedures required for the issuance of the accountants' report.

### **The Supplementary Circular**

The Company will send to Shareholders a supplementary circular (the "Supplementary Circular") containing the accountants' report of the Hotel Fortuna Group for the three years ended 31 December 2007 for reference and information, which is expected to be sent to Shareholders on or before 15 July 2008.

## **7. EGM**

The EGM will be held at Boardroom 3&4, Mezzanine Level, Renaissance Harbour View Hotel, 1 Harbour Road, Wanchai, Hong Kong on Monday, 14 April 2008 at 9:00 a.m., a notice convening the EGM is set out on pages 164 to 165 of this circular. A form of proxy is also enclosed with this circular. The purpose of EGM is to consider and, if thought fit, pass the ordinary resolution to approval the Acquisition.

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## LETTER FROM THE BOARD

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### 8. PROCEDURES FOR DEMANDING A POLL

Pursuant to Article 74 of the Articles, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll (before or on the declaration of the result of the show of hands or on withdrawal of any other demand for a poll) is demanded:

- (a) by the Chairman of the meeting; or
- (b) by at least three Shareholders present in person or by proxy for the time being entitled to vote at the meeting; or
- (c) by any Shareholder or Shareholders present in person or by proxy or in the case of a Shareholder being a corporation by its duly authorised representative representing not less than one-tenth of the total voting rights of all the Shareholders having the right to vote at the meeting; or
- (d) by any Shareholder or Shareholders present in person or by proxy or in the case of a Shareholder being a corporation by its duly authorised representative and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

### 9. RECOMMENDATION

Having taken into account (i) the reasons for and benefits of the Acquisition; (ii) the background of Hotel Fortuna Group; and (iii) the possible financial effects to the Group as a result of the Acquisition, the Directors consider that the terms of the Agreement were agreed on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolution of the ordinary resolution approving the Agreement at the EGM.

### 10. GENERAL

Your attention is drawn to the addition information set out in the Appendices to this circular.

Yours faithfully,  
By Order of the Board  
**Capital Estate Limited**  
**Chu Nin Yiu, Stephen**  
*Executive Chairman*

APPENDIX I

ACCOUNTANTS’ REPORT ON THE  
HOTEL FORTUNA GROUP

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, from the independent reporting accountants, RSM Nelson Wheeler, Certified Public Accountants, Hong Kong.

RSM Nelson Wheeler

羅申美會計師行

Certified Public Accountants

29th Floor,

Caroline Centre, Lee Gardens Two,

28 Yun Ping Road,

Hong Kong

28 March 2008

The Board of Directors  
Capital Estate Limited

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) of Hotel Fortuna (Hong Kong) Company Limited (“Fortuna HK”) and its subsidiary (hereinafter collectively referred to as the “Hotel Group”) for each of the three years ended 31 December 2004, 31 December 2005 and 31 December 2006 and the nine months ended 30 September 2007 (the “Relevant Periods”) for inclusion in the circular dated 28 March 2008 issued by Capital Estate Limited (the “Company”) in connection with the proposed acquisition of the entire equity interest in Fortuna HK (the “Circular”).

Fortuna HK was incorporated on 6 December 1999 in Hong Kong with limited liability under the Hong Kong Companies Ordinance and acts as an investment holding company. As at the date of this report, Fortuna HK has the following subsidiary:

Name of subsidiary	Place and date of registration	Paid up registered capital	Percentage of ownership interest	Principal activities/place of operation
佛山市財神酒店有限公司 (「佛山財神」)	The People’s Republic of China (the “PRC”) 15 November 2001	USD38,920,000	100%	Hotel operations/ The PRC

All the companies of the Hotel Group have adopted 31 December as the financial year end date.

The statutory financial statements of 佛山財神 for the Relevant Periods were prepared in accordance with the relevant accounting principles and financial regulations applicable to companies established in the PRC. The statutory financial statements of 佛山財神 for the three years ended 31 December 2006 were audited by 廣東德正有限責任會計師事務所 (GuangDong Dezheng Certified Public Accountants Ltd.) registered in the PRC in accordance with Independent Auditing Standards for Chinese Certified Public Accountants.

The statutory consolidated financial statements of the Hotel Group for the three years ended 31 December 2006 have been prepared in accordance with accounting principles generally accepted in Hong Kong and were audited by K. W. Lau CPA Limited registered in Hong Kong in accordance with Hong Kong Standards on Auditing/Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). We have audited the consolidated financial statements of the Hotel Group for the nine months ended 30 September 2007 in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

These consolidated financial statements for the Relevant Periods are collectively referred to as the Underlying Financial Statements.

We have examined the Underlying Financial Statements for the Relevant Periods and carried out such additional procedures as are necessary in accordance with Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA.

The Financial Information of the Hotel Group has been prepared from the Underlying Financial Statements in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), after making such adjustments as we considered necessary for the purpose of preparing our report for inclusion in the Circular.

The directors of Fortuna HK are responsible for the preparation of the Underlying Financial Statements. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

For the purpose of this report, the directors of Fortuna HK have prepared the comparative financial information of the Hotel Group for the nine months ended 30 September 2006 (the “Comparative Financial Information”) in accordance with HKFRSs. We have reviewed the Comparative Financial Information in accordance with Statement of Auditing Standard 700 “Engagements to Review Interim Financial Reports” issued by the HKICPA. A review consists principally of making enquires of the Hotel Group’s management and applying analytical procedures to the Comparative Financial Information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the Comparative Financial Information.

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the Comparative Financial Information.

In our opinion, for the purpose of this report, the Financial Information gives a true and fair view of the state of affairs of the Hotel Group and Fortuna HK as at 31 December 2004, 31 December 2005, 31 December 2006 and 30 September 2007 and of the Hotel Group’s results and cash flows for the Relevant Periods.

## I. FINANCIAL INFORMATION

## CONSOLIDATED INCOME STATEMENTS

		Year ended 31 December			Nine months ended	(Unaudited) Nine months ended
		2004	2005	2006	30 September	30 September
	Note	HK\$'000	HK\$'000	HK\$'000	2007	2006
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Turnover</b>	8	—	3,042	36,335	49,481	22,463
Direct costs		—	(2,319)	(26,863)	(28,517)	(18,396)
<b>Gross profit</b>		—	723	9,472	20,964	4,067
Other income	9	1	16	442	2,752	240
Administrative expenses		(3,508)	(15,258)	(50,017)	(41,812)	(42,025)
Other operating expenses		—	—	(232)	(216)	(148)
<b>Loss from operations</b>		(3,507)	(14,519)	(40,335)	(18,312)	(37,866)
Finance costs	10	(4,070)	(15,145)	(31,387)	(29,702)	(22,634)
<b>Loss before tax</b>		(7,577)	(29,664)	(71,722)	(48,014)	(60,500)
Income tax expense	11	—	—	—	—	—
<b>Loss for the year/period</b>	12	<u>(7,577)</u>	<u>(29,664)</u>	<u>(71,722)</u>	<u>(48,014)</u>	<u>(60,500)</u>



## I. FINANCIAL INFORMATION (Continued)

## CONSOLIDATED BALANCE SHEETS

		As at 31 December			As at
		2004	2005	2006	30 September
	Note	HK\$'000	HK\$'000	HK\$'000	2007
					HK\$'000
<b>Non-current assets</b>					
Property, plant and equipment	15	90,219	275,111	356,454	371,046
Prepaid land lease payments	16	6,953	7,047	7,075	9,291
		<u>97,172</u>	<u>282,158</u>	<u>363,529</u>	<u>380,337</u>
<b>Current assets</b>					
Inventories	18	65	1,330	2,127	2,870
Prepaid land lease payments	16	105	108	111	148
Trade and other receivables	19	100	886	2,190	3,284
Prepayments and deposits paid		19,420	4,821	6,457	1,599
Amounts due from directors	20	—	35	392	691
Amounts due from shareholders	21	4	—	—	—
Amounts due from related companies	22	1,000	3,300	505	3
Loan receivable from a related company	23	20,009	55,053	18,816	—
Deposit for proposed investment	35	—	—	—	177,351
Cash and bank balances	24	720	11,583	4,884	9,457
		<u>41,423</u>	<u>77,116</u>	<u>35,482</u>	<u>195,403</u>
<b>Current liabilities</b>					
Bank overdrafts	25	—	33,351	—	—
Bank loans	25	—	60,000	127,000	190,139
Trade and other payables	26	42,025	72,391	72,917	34,487
Accrued expenses		133	2,087	3,076	3,506
Amount due to a director	27	—	43,778	—	—
Amounts due to related companies	28	—	2,745	50,035	80,722
Amounts due to shareholders	29	—	20,403	20,400	20,348
Temporary loan	30	20,418	—	—	—
Finance lease payables	31	—	—	—	110
		<u>62,576</u>	<u>234,755</u>	<u>273,428</u>	<u>329,312</u>
<b>Net current liabilities</b>		<u>(21,153)</u>	<u>(157,639)</u>	<u>(237,946)</u>	<u>(133,909)</u>
<b>Total assets less current liabilities</b>		<u>76,019</u>	<u>124,519</u>	<u>125,583</u>	<u>246,428</u>

## I. FINANCIAL INFORMATION (Continued)

## CONSOLIDATED BALANCE SHEETS (Continued)

		As at 31 December			As at 30 September
		2004	2005	2006	2007
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Non-current liabilities</b>					
Bank loans	25	—	—	—	106,992
Finance lease payables	31	—	—	—	367
Shareholders' loans	32	6,172	6,659	7,313	7,834
Director's loan	33	1,191	1,285	—	—
Loans from related companies	34	79,937	151,419	219,115	265,775
		<u>87,300</u>	<u>159,363</u>	<u>226,428</u>	<u>380,968</u>
<b>NET LIABILITIES</b>		<u>(11,281)</u>	<u>(34,844)</u>	<u>(100,845)</u>	<u>(134,540)</u>
<b>Capital and reserves</b>					
Share capital	36	1	10	10	10
Reserves	37	<u>(11,282)</u>	<u>(34,854)</u>	<u>(100,855)</u>	<u>(134,550)</u>
<b>CAPITAL DEFICIENCY</b>		<u>(11,281)</u>	<u>(34,844)</u>	<u>(100,845)</u>	<u>(134,540)</u>

## I. FINANCIAL INFORMATION (Continued)

## BALANCE SHEETS

		As at 31 December			As at 30 September
		2004	2005	2006	2007
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Non-current assets</b>					
Property, plant and equipment	15	—	—	—	953
Investment in a subsidiary	17	92,706	261,806	285,806	303,006
		<u>92,706</u>	<u>261,806</u>	<u>285,806</u>	<u>303,959</u>
<b>Current assets</b>					
Amount due from a subsidiary	17	5,419	8,982	23,347	16,250
Loan to a subsidiary	17	—	—	45,000	60,000
Amounts due from shareholders	21	4	—	—	—
Amounts due from related companies	22	1,000	3,300	505	3
Loan receivable from a related company	23	—	10,000	10,000	—
Cash and bank balances		128	8,379	905	823
		<u>6,551</u>	<u>30,661</u>	<u>79,757</u>	<u>77,076</u>
<b>Current liabilities</b>					
Bank overdrafts	25	—	33,351	—	—
Bank loans	25	—	60,000	127,000	12,788
Other payables		458	324	369	294
Accrued expenses		132	479	569	625
Amount due to a director	27	—	43,778	—	—
Amount due to a related company	28	—	—	48,076	51,503
Amounts due to shareholders	29	—	20,403	20,400	20,348
Temporary loan	30	20,418	—	—	—
Finance lease payables	31	—	—	—	110
		<u>21,008</u>	<u>158,335</u>	<u>196,414</u>	<u>85,668</u>
<b>Net current liabilities</b>		<u>(14,457)</u>	<u>(127,674)</u>	<u>(116,657)</u>	<u>(8,592)</u>
<b>Total assets less current liabilities</b>		<u>78,249</u>	<u>134,132</u>	<u>169,149</u>	<u>295,367</u>

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**APPENDIX I****ACCOUNTANTS' REPORT ON THE  
HOTEL FORTUNA GROUP**

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**I. FINANCIAL INFORMATION** *(Continued)***BALANCE SHEETS** *(Continued)*

		As at 31 December			As at 30 September
		2004	2005	2006	2007
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Non-current liabilities</b>					
Bank loans	25	—	—	—	106,992
Finance lease payables	31	—	—	—	367
Shareholders' loans	32	6,172	6,659	7,313	7,834
Director's loan	33	1,191	1,285	—	—
Loans from related companies	34	79,937	151,419	219,115	265,775
		<u>87,300</u>	<u>159,363</u>	<u>226,428</u>	<u>380,968</u>
<b>NET LIABILITIES</b>		<u>(9,051)</u>	<u>(25,231)</u>	<u>(57,279)</u>	<u>(85,601)</u>
<b>Capital and reserves</b>					
Share capital	36	1	10	10	10
Reserves	37	<u>(9,052)</u>	<u>(25,241)</u>	<u>(57,289)</u>	<u>(85,611)</u>
<b>CAPITAL DEFICIENCY</b>		<u>(9,051)</u>	<u>(25,231)</u>	<u>(57,279)</u>	<u>(85,601)</u>

## I. FINANCIAL INFORMATION (Continued)

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital HK\$'000	Foreign currency translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2004	1	233	(3,979)	(3,745)
Net income recognised directly in equity				
— Translation difference	—	41	—	41
Loss for the year	—	—	(7,577)	(7,577)
Total recognised income and expense for the year	—	41	(7,577)	(7,536)
At 31 December 2004 and 1 January 2005	1	274	(11,556)	(11,281)
Net income recognised directly in equity				
— Translation difference	—	6,092	—	6,092
Loss for the year	—	—	(29,664)	(29,664)
Total recognised income and expense for the year	—	6,092	(29,664)	(23,572)
Issue of shares	9	—	—	9
At 31 December 2005 and 1 January 2006	10	6,366	(41,220)	(34,844)
Net income recognised directly in equity				
— Translation difference	—	5,721	—	5,721
Loss for the year	—	—	(71,722)	(71,722)
Total recognised income and expense for the year	—	5,721	(71,722)	(66,001)
At 31 December 2006 and 1 January 2007	10	12,087	(112,942)	(100,845)
Net income recognised directly in equity				
— Translation difference	—	14,319	—	14,319
Loss for the period	—	—	(48,014)	(48,014)
Total recognised income and expense for the period	—	14,319	(48,014)	(33,695)
At 30 September 2007	10	26,406	(160,956)	(134,540)

I. FINANCIAL INFORMATION *(Continued)*CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY *(Continued)*

## UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital <i>HK\$'000</i>	Foreign currency translation reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2006	<u>10</u>	<u>6,366</u>	<u>(41,220)</u>	<u>(34,844)</u>
Net income recognised directly in equity				
— Translation difference	—	1,136	—	1,136
Loss for the period	<u>—</u>	<u>—</u>	<u>(60,500)</u>	<u>(60,500)</u>
Total recognised income and expense for the period	<u>—</u>	<u>1,136</u>	<u>(60,500)</u>	<u>(59,364)</u>
At 30 September 2006	<u><u>10</u></u>	<u><u>7,502</u></u>	<u><u>(101,720)</u></u>	<u><u>(94,208)</u></u>

## I. FINANCIAL INFORMATION (Continued)

## CONSOLIDATED CASH FLOW STATEMENTS

	Year ended 31 December			Nine months ended	(Unaudited) Nine months ended
	2004	2005	2006	30 September	30 September
Note	HK\$'000	HK\$'000	HK\$'000	2007 HK\$'000	2006 HK\$'000
<b>Cash flows from operating activities</b>					
Loss before tax	(7,577)	(29,664)	(71,722)	(48,014)	(60,500)
Adjustments for:					
Bank interest expenses	—	2,196	9,292	8,515	6,821
Other interest expenses	4,070	12,949	22,095	21,174	15,813
Bank interest received	(1)	(3)	(42)	(32)	(29)
Other interest received	—	—	—	(1,866)	—
Finance lease charges	—	—	—	13	—
Amortisation of prepaid land lease payments	105	107	108	110	80
Depreciation	—	2,543	22,716	19,051	12,248
Loss on disposal of property, plant and equipment	1,769	—	—	2	—
Operating loss before working capital changes	(1,634)	(11,872)	(17,553)	(1,047)	(25,567)
Increase in inventories	(65)	(1,263)	(772)	(642)	(86)
Increase in trade and other receivables	(70)	(782)	(1,286)	(984)	(1,166)
(Increase)/decrease in prepayments and deposits paid	(3,584)	15,165	(1,541)	5,165	3,341
Decrease/(increase) in amounts due from directors and shareholders	2	(31)	(356)	(281)	(145)
(Increase)/decrease in amounts due from related companies	(1,000)	(2,300)	2,795	503	23,996
Increase/(decrease) in trade and other payables	18,500	29,155	(900)	(42,277)	19,649
(Decrease)/increase in accrued expenses and amount due to a related company	(90)	1,954	957	312	794
Cash generated from/(used in) operations	12,059	30,026	(18,656)	(39,251)	20,816
Interests paid	—	(2,371)	(9,389)	(8,515)	(6,821)
Finance lease charges	—	—	—	(13)	—
Net cash generated from/(used in) operating activities	12,059	27,655	(28,045)	(47,779)	13,995

## I. FINANCIAL INFORMATION (Continued)

## CONSOLIDATED CASH FLOW STATEMENTS (Continued)

	Year ended 31 December			(Unaudited)	
				Nine months ended	Nine months ended
				30 September	30 September
	2004	2005	2006	2007	2006
Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Cash flows from investing activities</b>					
Bank interest received	1	3	42	32	29
Other interest received	—	—	—	1,866	—
Prepaid land lease payment	—	—	—	(2,022)	—
Purchase of property, plant and equipment	(43,287)	(184,844)	(99,173)	(16,911)	(90,860)
Loan advanced to a related company	(23,311)	(44,926)	(4,851)	—	—
Repayment of loan receivable from a related company	3,302	10,465	41,980	19,235	—
Deposit for proposed investment	—	—	—	(207,428)	—
Refund of deposit for proposed investment	—	—	—	30,077	—
Net cash used in investing activities	(63,295)	(219,302)	(62,002)	(175,151)	(90,831)
<b>Cash flows from financing activities</b>					
Proceeds from issue of shares	—	9	—	—	—
Increase/(decrease) in amount due to a director	—	40,806	(43,778)	—	(43,778)
Increase in amounts due to related companies	—	2,745	47,236	27,167	42,258
Increase/(decrease) in amounts due to shareholders	—	20,403	(3)	(52)	(3)
Bank loans raised	—	60,000	75,000	207,428	75,000
Director's loan raised	75	—	—	—	—
Loans from related companies raised	48,560	62,261	46,351	29,778	40,296
Shareholders' loans raised	388	—	—	—	—
Repayment of bank loans	—	—	(8,000)	(37,297)	(5,000)
Repayment of temporary loan	—	(20,418)	—	—	—
Repayment of director's loan	—	—	(1,285)	—	(1,285)
Repayment of finance lease payables	—	—	—	(73)	—
Net cash generated from financing activities	49,023	165,806	115,521	226,951	107,488



I. FINANCIAL INFORMATION *(Continued)*CONSOLIDATED CASH FLOW STATEMENTS *(Continued)*

		Year ended 31 December			(Unaudited)	
		2004	2005	2006	Nine months ended 30 September 2007	Nine months ended 30 September 2006
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net (decrease)/increase in cash and cash equivalents		(2,213)	(25,841)	25,474	4,021	30,652
Cash and cash equivalents at beginning of year/period		2,892	720	(21,768)	4,884	(21,768)
Effect of foreign exchange rate changes		41	3,353	1,178	552	86
Cash and cash equivalents at end of year/period		<u>720</u>	<u>(21,768)</u>	<u>4,884</u>	<u>9,457</u>	<u>8,970</u>
Analysis of cash and cash equivalents						
Bank and cash balance	24	720	11,583	4,884	9,457	8,970
Bank overdraft	25	—	(33,351)	—	—	—
		<u>720</u>	<u>(21,768)</u>	<u>4,884</u>	<u>9,457</u>	<u>8,970</u>

**II. NOTES TO THE FINANCIAL INFORMATION****1. GENERAL INFORMATION**

Fortuna HK is a company incorporated in Hong Kong with limited liability under the Hong Kong Companies Ordinance on 6 December 1999. The address of its registered office is Room 602-603, 6th Floor, Hua Qin International Building, 340 Queen's Road Central, Hong Kong. The address of its principal place of business is No. 82 Le Cong Da Dao, Le Cong Zhen, Shun De District, Foshan, Guangdong Province, the PRC.

Fortuna HK is an investment holding company. The principal activities of its subsidiary are hotel operations.

In the opinion of the directors of Fortuna HK, Mason Creation Limited, a company incorporated in Hong Kong, is the immediate parent and ultimate parent and Mr. Sio Tak Hong is the ultimate controlling party of Fortuna HK.

**2. GOING CONCERN BASIS**

As at 30 September 2007 the Hotel Group had net current liabilities and net liabilities of HK\$133,909,000 and HK\$134,540,000 respectively and incurred a loss attributable to equity holders of Fortune HK of HK\$48,014,000 for the nine months ended 30 September 2007. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Hotel Group's ability to continue as a going concern. Therefore, the Hotel Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Financial Information has been prepared on a going concern basis, the validity of which depends upon the successful maintaining of profitable and positive cash flows from operations and the financial support from the controlling party, at a level sufficient to finance the working capital requirements of the Hotel Group. The controlling party has agreed to provide adequate funds for the Hotel Group to meet its liabilities as they fall due. Upon the completion of the acquisition of the entire equity interest in Fortuna HK by the Company, the Company will provide financial support to the Hotel Group to enable it to meet its financial obligations as they fall due.

The directors of the Fortuna HK are therefore of the opinion that it is appropriate to prepare the Financial Information on a going concern basis. Should the Hotel Group be unable to continue as a going concern, adjustments would have to be made to the Financial Information to adjust the value of the Hotel Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

**II. NOTES TO THE FINANCIAL INFORMATION** *(Continued)***3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS**

For the purpose of this report, the Hotel Group has adopted all the HKFRSs that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2007. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations.

The Hotel Group has not applied the new HKFRSs that have been issued but are not yet effective. The Hotel Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

**4. SIGNIFICANT ACCOUNTING POLICIES**

The Financial Information has been prepared in accordance with HKFRSs, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance.

The Financial Information has been prepared under the historical cost convention.

The preparation of Financial Information in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to this Financial Information, are disclosed in note 5.

The significant accounting policies applied in the preparation of the Financial Information are set out below.

**(a) Consolidation**

The Financial Information includes the financial statements of Fortuna HK and its subsidiary. Subsidiary is entity over which the Hotel Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Hotel Group has control.

Subsidiary is fully consolidated from the date on which control is transferred to the Hotel Group. It is de-consolidated from the date the control ceases.

Inter-company transactions, balances and unrealised profits on transactions between Fortuna HK and its subsidiary are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Hotel Group.

In the Fortuna HK's balance sheet the investment in subsidiary is stated at cost less allowance for impairment losses. The results of subsidiary is accounted for by Fortuna HK on the basis of dividends received and receivable.

II. NOTES TO THE FINANCIAL INFORMATION *(Continued)*4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

## (b) Foreign currency translation

i. *Functional and presentation currency*

Items included in the financial statements of each of Hotel Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Financial Information is presented in Hong Kong dollars, which is the Fortuna HK's functional and presentation currency.

ii. *Transactions and balances in each entity's financial statements*

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the rates ruling on the balance sheet date. Profits and losses resulting from this translation policy are included in the income statement.

iii. *Translation on consolidation*

The results and financial position of all the Hotel Group entities that have a functional currency different from the Fortuna HK's presentation currency are translated into Fortuna HK's presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and
- All resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in the consolidated income statement as part of the profit or loss on disposal.

II. NOTES TO THE FINANCIAL INFORMATION (Continued)

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Property, plant and equipment

All property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Hotel Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost or revalued amounts less their residual values over the estimated useful lives on a straight-line basis. The useful lives are as follows:

Hotel buildings	35 years or unexpired lease terms whichever is shorter
Other buildings	31 years or unexpired lease terms whichever is shorter
Plant and equipment	10 years
Leasehold improvements	20 years
Furniture and fixtures and office equipment	5 to 10 years
Motor vehicles	5 years

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each balance sheet date.

Construction in progress represents buildings under construction and plant and equipments pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

(d) Leases

(i) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the lease term.

**II. NOTES TO THE FINANCIAL INFORMATION** *(Continued)***4. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***(d) Leases** *(Continued)***(ii) Finance leases**

Leases that substantially transfer to the Hotel Group all the risks and rewards of ownership of assets are accounted for as finance leases. At the commencement of the lease term, a finance lease is capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments, each determined at the inception of the lease.

The corresponding liability to the lessor is included in the balance sheet as finance lease payable. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Assets under finance leases are depreciated the same as owned assets.

**(e) Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis and comprises direct materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

**(f) Recognition and derecognition of financial instruments**

Financial assets and financial liabilities are recognised in the balance sheet when the Hotel Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Hotel Group transfers substantially all the risks and rewards of ownership of the assets; or the Hotel Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in the income statement.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in the income statement.

II. NOTES TO THE FINANCIAL INFORMATION *(Continued)*4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*(g) **Trade and other receivables**

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Hotel Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in the income statement.

Impairment losses are reversed in subsequent periods and recognised in the income statement when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

(h) **Cash and cash equivalents**

For the purpose of the cash flow statement, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Hotel Group's cash management are also included as a component of cash and cash equivalents.

(i) **Financial liabilities and equity instruments**

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Hotel Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(i) ***Borrowings***

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Hotel Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

**II. NOTES TO THE FINANCIAL INFORMATION** *(Continued)***4. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***(i) Financial liabilities and equity instruments** *(Continued)***(ii) Trade and other payables**

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

**(iii) Equity instruments**

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

**(j) Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Hotel Group and the amount of revenue can be measured reliably.

Income from hotel operations, including rooms rentals, food and beverage sales and other ancillary services, is recognised when services are rendered;

Interest income is recognised on a time-proportion basis using the effective interest method.

Rental income is recognised on a straight-line basis over the lease term.

Other income is recognised on an accrual basis.

**(k) Employee benefits****(i) Employee leave entitlements**

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.



II. NOTES TO THE FINANCIAL INFORMATION *(Continued)*4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*(k) Employee benefits *(Continued)*

## (ii) Pension obligations

The Hotel Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Hotel Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to the income statement represents contributions payable by the Hotel Group to the schemes.

## (iii) Termination benefits

Termination benefits are recognised when, and only when, the Hotel Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

## (l) Borrowing costs

All borrowing costs are recognised in the income statement in the period in which they are incurred.

## (m) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 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. The Hotel Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable 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, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

**II. NOTES TO THE FINANCIAL INFORMATION** *(Continued)***4. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***(m) Taxation** *(Continued)*

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Hotel 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 profits 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 is realised, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Hotel Group intends to settle its current tax assets and liabilities on a net basis.

**(n) Related parties**

A party is related to the Hotel Group if:

- (i) directly or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Hotel Group; has an interest in the Hotel Group that gives it significant influence over the Hotel Group; or has joint control over the Hotel Group;
- (ii) the party is an associate;
- (iii) the party is a joint venture;
- (iv) the party is a member of the key management personnel of Fortuna HK or its parent;
- (v) the party is a close member of the family of any individual referred to in (i) or (iv);
- (vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or
- (vii) the party is a post-employment benefit plan for the benefit of employees of Hotel Group, or of any entity that is a related party of Hotel Group.

**II. NOTES TO THE FINANCIAL INFORMATION** *(Continued)***4. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***(o) Impairment of assets**

At each balance sheet date, the Hotel Group reviews the carrying amounts of its tangible and intangible assets except inventory and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Hotel Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit 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 (net of amortization or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

**(p) Provisions and contingent liabilities**

Provisions are recognised for liabilities of uncertain timing or amount when the Hotel Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

**II. NOTES TO THE FINANCIAL INFORMATION** *(Continued)***4. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***(q) Events after the balance sheet date**

Events after the balance sheet date that provide additional information about the Hotel Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the Financial Information. Events after the balance sheet date that are not adjusting events are disclosed in the notes to the Financial Information when material.

**5. CRITICAL JUDGEMENTS AND KEY ESTIMATES****Critical judgements in applying accounting policies**

In the process of applying the accounting policies, the directors have made the following judgements that have the most significant effect on the amounts recognised in the Financial Information (apart from those involving estimations, which are dealt with below).

**(a) *Going concern basis***

This Financial Information has been prepared on a going concern basis, the validity of which depends upon successful maintaining of profitable and positive cash flows from operations and the financial support from the controlling party at a level sufficient to finance the working capital requirements of the Hotel Group. Details are explained in note 2.

**(b) *Legal title of hotel building***

As stated in note 15, the Hotel Group has not obtained the relevant legal title of the hotel buildings. The directors determine to recognise the hotel buildings as property, plant and equipment on the ground that they expect the transfer of legal title in future should have no major difficulties and the Hotel Group is in substance controlling the hotel buildings.

**II. NOTES TO THE FINANCIAL INFORMATION** *(Continued)***5. CRITICAL JUDGEMENTS AND KEY ESTIMATES** *(Continued)***Key sources of estimation uncertainty**

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

**(a) Property, plant and equipment and depreciation**

The Hotel Group determines the estimated useful lives and related depreciation charges for the Hotel Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The Hotel Group will revise the depreciation charge where useful lives are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

**(b) Impairment loss for subsidiary**

No impairment is provided for interest in a subsidiary, which was determined according to the directors' estimation. If the financial position of the subsidiary is to deteriorate in the future or profitability of operations of the subsidiary in foreseeable future is doubtful, full or partial impairment may be required to incur and affect Fortuna HK's profit or loss in the future.

**6. FINANCIAL RISK MANAGEMENT**

The Hotel Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Hotel Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Hotel Group's financial performances.

**(a) Foreign currency risk**

The Hotel Group has certain exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in Renminbi. The Hotel Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Hotel Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

At 31 December 2004, 31 December 2005, 31 December 2006 and 30 September 2007, if the Hong Kong dollar had weakened or strengthened five per cent against the Renminbi with all other variables held constant, there would be no significant effect on the consolidated loss after tax for the years ended 31 December 2004, 2005 and 2006 and the nine months ended 30 September 2007.

II. NOTES TO THE FINANCIAL INFORMATION *(Continued)*6. FINANCIAL RISK MANAGEMENT *(Continued)*(a) Foreign currency risk *(Continued)*

At 31 December 2004, 31 December 2005, 31 December 2006 and 30 September 2007, if the Hong Kong dollar had weakened five per cent against the Renminbi with all other variables held constant, other components of the consolidated equity would have been HK\$5,179,000, HK\$14,478,000, HK\$13,230,000 and HK\$13,174,000 higher respectively, arising mainly as a result of the foreign exchange gain on translating the financial statements of the PRC subsidiary. If the Hong Kong dollar had strengthened five per cent against the Renminbi with all other variables held constant, other components of the consolidated equity would have been HK\$4,686,000, HK\$13,099,000, HK\$11,970,000 and HK\$11,919,000 lower respectively, arising mainly as a result of the foreign exchange loss on translating the financial statements of the PRC subsidiary.

## (b) Credit risk

The carrying amount of the cash and bank balances, trade and other receivables, amounts due from related companies, loan receivable from a related company and deposit for proposed investment included in the balance sheet represents the Hotel Group's maximum exposure to credit risk in relation to the Hotel Group's financial assets.

There is a concentration of credit risk in relation to the loan receivable from a related company and deposit for proposed investment.

The credit risk on cash and bank balances is limited because the counterparties are well-established banks.

In order to minimise credit risk, the directors have delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures. It has policies in place to ensure that sales are made to customers with an appropriate credit history. In addition, the directors review the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. Loans receivable from a related company, deposit for proposed investment and amounts due from related companies are closely monitored by the directors. In this regard, the directors consider that the Hotel Group's credit risk is significantly reduced.

The Hotel Group has no other significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

## II. NOTES TO THE FINANCIAL INFORMATION (Continued)

## 6. FINANCIAL RISK MANAGEMENT (Continued)

## (c) Liquidity risk

The Hotel Group's objective is to maintain a balance between continuity of funding and the flexibility through the use of bank loans and other borrowings. In the opinion of the Hotel Group's management, most of the loans and borrowings that mature within one year can be renewed and the Hotel Group expects to have adequate sources of funding to finance its operations.

The maturity analysis of the Hotel Group's financial liabilities is as follows:

	Less than 1 year HK\$'000	Between 1 and 2 years HK\$'000	Between 2 and 5 years HK\$'000	Over 5 years HK\$'000
<b>At 30 September 2007</b>				
Bank loans	190,139	20,839	111,738	—
Trade and other payables	34,487	—	—	—
Accrued expenses	3,506	—	—	—
Amounts due to related companies	80,722	—	—	—
Amounts due to shareholders	20,348	—	—	—
Finance lease payables	110	129	321	—
Shareholders' loans	—	8,539	—	—
Loans from related companies	—	289,695	—	—
	<u>329,312</u>	<u>319,202</u>	<u>112,059</u>	<u>—</u>
<b>At 31 December 2006</b>				
Bank loans	127,000	—	—	—
Trade and other payables	72,917	—	—	—
Accrued expenses	3,076	—	—	—
Amounts due to related companies	50,035	—	—	—
Amounts due to shareholders	20,400	—	—	—
Shareholders' loans	—	7,989	—	—
Loans from related companies	—	239,383	—	—
	<u>273,428</u>	<u>247,372</u>	<u>—</u>	<u>—</u>

II. NOTES TO THE FINANCIAL INFORMATION *(Continued)*6. FINANCIAL RISK MANAGEMENT *(Continued)*(c) Liquidity risk *(Continued)*

	Less than 1 year <i>HK\$'000</i>	Between 1 and 2 years <i>HK\$'000</i>	Between 2 and 5 years <i>HK\$'000</i>	Over 5 years <i>HK\$'000</i>
<b>At 31 December 2005</b>				
Bank overdrafts	33,351	—	—	—
Bank loans	60,000	—	—	—
Trade and other payables	72,391	—	—	—
Accrued expenses	2,087	—	—	—
Amount due to a director	43,778	—	—	—
Amounts due to related companies	2,745	—	—	—
Amounts due to shareholders	20,403	—	—	—
Shareholders' loans	—	7,275	—	—
Director's loan	—	1,404	—	—
Loans from related companies	—	165,426	—	—
	<u>234,755</u>	<u>174,105</u>	<u>—</u>	<u>—</u>
<b>At 31 December 2004</b>				
Trade and other payables	42,025	—	—	—
Accrued expenses	133	—	—	—
Temporary loan	20,418	—	—	—
Shareholders' loans	—	6,573	—	—
Director's loan	—	1,268	—	—
Loans from related companies	—	85,133	—	—
	<u>62,576</u>	<u>92,974</u>	<u>—</u>	<u>—</u>



**II. NOTES TO THE FINANCIAL INFORMATION** *(Continued)***6. FINANCIAL RISK MANAGEMENT** *(Continued)***(d) Interest rate risk**

The Hotel Group's exposure to cash flow interest rate risk is mainly on its bank loans, bank overdrafts and other financing obtained by the Hotel Group. It is a common practice to have loans and borrowings with banks, shareholders, directors and related companies with floating rates. In order to manage the risk on interest rate for its cash flow, the Hotel Group will repay the corresponding loans and borrowings when it has surplus funds.

At 31 December 2004, 31 December 2005, 31 December 2006 and 30 September 2007, if interest rates at those dates had been 10 basis points lower with all other variables held constant, consolidated loss after tax for the years ended 31 December 2004, 2005 and 2006, and nine months ended 30 September 2007 would have been HK\$58,000, HK\$216,000, HK\$329,000 and HK\$322,000 lower respectively, arising mainly as a result of lower interest expense on bank and other borrowings. If interest rates had been 10 basis points higher, with all other variables held constant, consolidated loss after tax for the years ended 31 December 2004, 2005 and 2006, and nine months ended 30 September 2007 would have been HK\$58,000, HK\$216,000, HK\$329,000 and HK\$322,000 higher respectively, arising mainly as a result of higher interest expense on bank and other borrowings.

**(e) Fair values**

The carrying amounts of the Hotel Group's financial assets and financial liabilities as reflected in the consolidated balance sheet approximate their respective fair values.

**7. SEGMENT INFORMATION**

The principal business activity of the Hotel Group is in the business of hotel operations.

Contribution to operating results and assets and liabilities by business segment and by geographical segment have not been presented as the Hotel Group's results and assets and liabilities were resulted from business activities that subject to similar risks and return and were within the PRC.

**8. TURNOVER**

Turnover represents revenue from hotel operations.

II. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

## 9. OTHER INCOME

	Year ended 31 December			(Unaudited) Nine months ended 30 September	(Unaudited) Nine months ended 30 September
	2004	2005	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank interest received	1	3	42	32	29
Exchange gains	—	—	—	303	29
Other interest received	—	—	—	1,866	—
Sundry income	—	13	400	551	182
	<u>1</u>	<u>16</u>	<u>442</u>	<u>2,752</u>	<u>240</u>

## 10. FINANCE COSTS

	Year ended 31 December			(Unaudited) Nine months ended 30 September	(Unaudited) Nine months ended 30 September
	2004	2005	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Finance lease charge	—	—	—	13	—
Bank overdraft interests	—	—	179	9	93
Other interests	—	175	97	344	—
Bank loan interests	—	2,196	9,113	8,506	6,727
Director's loan interests	75	3,066	—	—	—
Interests on loans from related companies	3,607	9,221	21,344	20,309	15,330
Shareholders' loans interests	388	487	654	521	484
	<u>4,070</u>	<u>15,145</u>	<u>31,387</u>	<u>29,702</u>	<u>22,634</u>

II. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

## 11. INCOME TAX EXPENSE

- (a) No provision of Hong Kong profits tax and PRC enterprise income tax is made as the Hotel Group incurred tax loss during the Relevant Periods.
- (b) Reconciliation between tax expenses and the product of loss before tax multiplied by the Hong Kong profits tax rate is as follows:

				(Unaudited)	
	Year ended 31 December			Nine months ended	Nine months ended
	2004	2005	2006	30 September 2007	30 September 2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loss before tax	(7,577)	(29,664)	(71,722)	(48,014)	(60,500)
Tax at the domestic tax rate of 17.5%	(1,326)	(5,191)	(12,551)	(8,403)	(10,587)
Tax effect of expenses that are not deductible	713	2,690	6,084	5,453	4,000
Tax effect of income that is not taxable	(1)	(1)	(6)	(52)	(1)
Tax effect of temporary differences not recognised	438	1,805	3,197	2,864	4,071
Tax effect of tax loss not recognised	176	697	3,276	139	2,517
Tax effect of utilisation of tax losses not previously recognised	—	—	—	(1)	—
Income tax expense	—	—	—	—	—

The new PRC enterprise income tax law passed by the Tenth National People's Congress on 16 March 2007 introduces various changes which include the unification of the enterprise income tax rate for domestic and foreign enterprises at 25%. The new tax law will be effective from 1 January 2008. The new tax law does not have any material impact on the Hotel Group's Financial Information.

II. NOTES TO THE FINANCIAL INFORMATION (Continued)

12. LOSS FOR THE YEAR/PERIOD

The Hotel Group's loss for the year/period is stated after charging the following:

	(Unaudited)				
	Year ended 31 December			Nine months ended	Nine months ended
	2004	2005	2006	30 September 2007	30 September 2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Auditors' remuneration	89	120	327	112	45
Cost of inventories sold	—	705	9,475	11,331	6,103
Staff costs including directors' remuneration					
— Salaries and allowances	691	1,708	11,302	11,163	8,243
— Retirement benefits scheme contribution	21	31	106	99	77
— Staff welfare and messing	—	267	2,532	2,609	1,855
— Other staff costs	—	19	1,269	1,056	919
	712	2,025	15,209	14,927	11,094
Depreciation	—	2,543	22,716	19,051	12,248
Foreign exchange losses	—	—	11	—	—
Loss on disposal of property, plant and equipment	1,769	—	—	2	—
Operating lease charges on					
— land and buildings	—	121	336	59	6
— land lease payment	105	107	108	110	80

II. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

## 13. DIRECTORS' AND EMPLOYEES' REMUNERATION

## (a) Directors' emoluments

During the Relevant Periods, no remuneration was paid or payable to any directors of the Fortuna HK.

## (b) Employees' remuneration

The emoluments of the five highest paid individuals are as follows:

	(Unaudited)				
	Year ended 31 December		Nine months ended		Nine months ended
	2004	2005	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Salaries and allowances	691	554	1,773	1,539	1,168
Retirement benefits					
scheme contribution	21	14	9	7	7
	<u>712</u>	<u>568</u>	<u>1,782</u>	<u>1,546</u>	<u>1,175</u>

The emoluments fell within the following band:

	Number of individuals			
	2004	2005	2006	2007
Nil to HK\$1,000,000	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>

During the Relevant Periods, no emoluments were paid by the Hotel Group to any of the directors or the five highest paid employees as an inducement to join or upon joining the Hotel Group or as compensation for loss of office. In addition, no directors waived or agreed to waive any emoluments during the Relevant Periods.

**II. NOTES TO THE FINANCIAL INFORMATION** *(Continued)***14. RETIREMENT BENEFIT SCHEMES**

The Hotel Group operates a mandatory provident fund scheme (the “MPF Scheme”) under the Hong Kong Mandatory Fund Schemes Ordinance for all qualifying employees in Hong Kong. Hotel Group’s contributions to the MPF Scheme are calculated at 5% of the salaries and wages subject to a monthly maximum amount of HK\$1,000 per employee and vest fully with employees when contributed into the MPF Scheme.

The employees of Hotel Group’s subsidiary established in the PRC are members of a central pension scheme operated by the local municipal government. This subsidiary is required to contribute certain percentage of the employees’ basic salaries and wages to the central pension scheme to fund the retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of this subsidiary. The only obligation of this subsidiary with respect to the central pension scheme is to meet the required contributions under the scheme.

## II. NOTES TO THE FINANCIAL INFORMATION (Continued)

## 15. PROPERTY, PLANT AND EQUIPMENT

## Hotel Group

	Hotel buildings HK\$'000	Other buildings HK\$'000	Plant and equipment HK\$'000	Leasehold improvements HK\$'000	Furniture and fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
<b>Cost</b>								
At 1 January 2004	—	—	—	—	—	—	48,701	48,701
Additions	—	—	—	—	48	248	42,991	43,287
Disposal	—	—	—	—	—	—	(1,769)	(1,769)
At 31 December 2004 and 1 January 2005	—	—	—	—	48	248	89,923	90,219
Additions	—	—	—	—	11,764	128	172,952	184,844
Transfer from/(to)	120,538	—	68,203	64,225	12,529	—	(265,495)	—
Exchange differences	—	—	—	—	1	7	2,620	2,628
At 31 December 2005 and 1 January 2006	120,538	—	68,203	64,225	24,342	383	—	277,691
Additions	—	—	—	—	1,116	1,164	96,893	99,173
Transfer from/(to)	9,252	—	11,691	64,348	11,602	—	(96,893)	—
Exchange differences	2,387	—	1,351	1,272	482	8	—	5,500
At 31 December 2006 and 1 January 2007	132,177	—	81,245	129,845	37,542	1,555	—	382,364
Additions	935	2,575	—	2,137	1,658	1,003	9,153	17,461
Disposal	—	—	—	—	(2)	—	—	(2)
Transfer from/(to)	—	5	1,461	7,194	493	—	(9,153)	—
Exchange differences	5,811	—	3,859	6,169	1,777	74	—	17,690
At 30 September 2007	138,923	2,580	86,565	145,345	41,468	2,632	—	417,513

## II. NOTES TO THE FINANCIAL INFORMATION (Continued)

## 15. PROPERTY, PLANT AND EQUIPMENT (Continued)

## Hotel Group (Continued)

	Hotel buildings HK\$'000	Other buildings HK\$'000	Plant and equipment HK\$'000	Leasehold improvements HK\$'000	Furniture and fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
<b>Accumulated depreciation</b>								
At 1 January 2004, 31 December 2004 and 1 January 2005	—	—	—	—	—	—	—	—
Charge for the year	537	—	1,008	475	512	11	—	2,543
Exchange differences	8	—	15	7	7	—	—	37
At 31 December 2005 and 1 January 2006	545	—	1,023	482	519	11	—	2,580
Charge for the year	3,489	—	7,135	5,702	6,203	187	—	22,716
Exchange differences	97	—	197	151	164	5	—	614
At 31 December 2006 and 1 January 2007	4,131	—	8,355	6,335	6,886	203	—	25,910
Charge for the period	2,780	55	5,760	4,835	5,354	267	—	19,051
Exchange differences	237	1	480	371	405	12	—	1,506
At 30 September 2007	7,148	56	14,595	11,541	12,645	482	—	46,467
<b>Carrying amount</b>								
At 30 September 2007	<u>131,775</u>	<u>2,524</u>	<u>71,970</u>	<u>133,804</u>	<u>28,823</u>	<u>2,150</u>	<u>—</u>	<u>371,046</u>
At 31 December 2006	<u>128,046</u>	<u>—</u>	<u>72,890</u>	<u>123,510</u>	<u>30,656</u>	<u>1,352</u>	<u>—</u>	<u>356,454</u>
At 31 December 2005	<u>119,993</u>	<u>—</u>	<u>67,180</u>	<u>63,743</u>	<u>23,823</u>	<u>372</u>	<u>—</u>	<u>275,111</u>
At 31 December 2004	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>48</u>	<u>248</u>	<u>89,923</u>	<u>90,219</u>



II. NOTES TO THE FINANCIAL INFORMATION (Continued)

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

The construction work of the hotel buildings were completed in October 2005. The Hotel Group is in the process of applying for the real estate ownership certificate for the hotel buildings, which has not yet been issued by the relevant government authority at the date of issue of the Financial Information.

At 30 September 2007 the carrying amount of property, plant and equipment held by the Hotel Group under finance leases amounted to approximately HK\$953,000.

Fortuna HK

	Motor vehicle HK\$'000
<b>Cost</b>	
At 1 January 2004, 1 January 2005, 1 January 2006 and 1 January 2007	—
Additions	1,003
	<hr/>
At 30 September 2007	1,003
	<hr/>
<b>Accumulated depreciation</b>	
At 1 January 2004, 1 January 2005, 1 January 2006 and 1 January 2007	—
Charge for the period	50
	<hr/>
At 30 September 2007	50
	<hr/>
<b>Carrying amount</b>	
At 30 September 2007	953
	<hr/> <hr/>
At 31 December 2006	—
	<hr/> <hr/>
At 31 December 2005	—
	<hr/> <hr/>
At 31 December 2004	—
	<hr/> <hr/>

At 30 September 2007 the carrying amount of property, plant and equipment held by Fortuna HK under finance leases amounted to approximately HK\$953,000.

II. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

## 16. PREPAID LAND LEASE PAYMENTS

## Hotel Group

	As at 31 December			As at 30 September
	2004	2005	2006	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January	7,163	7,058	7,155	7,186
Additions	—	—	—	2,022
Amortisation of prepaid land lease payments	(105)	(107)	(108)	(110)
Exchange differences	—	204	139	341
	<u>7,058</u>	<u>7,155</u>	<u>7,186</u>	<u>9,439</u>
At 31 December/30 September	7,058	7,155	7,186	9,439
Current portion	<u>(105)</u>	<u>(108)</u>	<u>(111)</u>	<u>(148)</u>
	<u>6,953</u>	<u>7,047</u>	<u>7,075</u>	<u>9,291</u>
Non-current portion	<u>6,953</u>	<u>7,047</u>	<u>7,075</u>	<u>9,291</u>

The Hotel Group's prepaid land lease payments represent payments for land use rights situated in the PRC under long term lease.

## 17. INVESTMENT IN A SUBSIDIARY

## Fortuna HK

	As at 31 December			As at 30 September
	2004	2005	2006	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Non-current assets</b>				
Unlisted shares, at cost	<u>92,706</u>	<u>261,806</u>	<u>285,806</u>	<u>303,006</u>
<b>Current assets</b>				
Amount due from a subsidiary	<u>5,419</u>	<u>8,982</u>	<u>23,347</u>	<u>16,250</u>
Loan to a subsidiary	<u>—</u>	<u>—</u>	<u>45,000</u>	<u>60,000</u>

The amount due from and loan to a subsidiary are unsecured, interest-free and have no fixed repayment terms.

II. NOTES TO THE FINANCIAL INFORMATION (Continued)

17. INVESTMENT IN A SUBSIDIARY (Continued)

Particulars of the subsidiary are as follows:

Name	Place of registration and operation		Paid up capital/ registered capital		Percentage of ownership interest/ voting power/ profit sharing	Principal activities
			Paid up capital	Registered capital	Direct	
			US\$'000	US\$'000		
佛山市財神酒店 有限公司 (Formerly known as 佛山市順德區 財神酒店有限公司 and順德市財神花園 酒店有限公司)	The People's Republic of China	At 31 December 2004	11,901	26,920	100%	Hotel operations
		At 31 December 2005	33,620	38,920		
		At 31 December 2006	36,715	38,920		
		At 30 September 2007	38,920	38,920		

佛山財神 was a sino-foreign equity joint venture since incorporation. On 13 April 2005, it was registered as a wholly-owned foreign enterprise pursuant to a directors' resolution on 22 February 2005.

18. INVENTORIES

Hotel Group

	As at 31 December			As at
	2004	2005	2006	30 September
	HK\$'000	HK\$'000	HK\$'000	2007 HK\$'000
Food and beverages	—	606	1,349	1,729
Non food and beverages	65	724	778	1,141
	65	1,330	2,127	2,870

II. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

## 19. TRADE AND OTHER RECEIVABLES

**Hotel Group**

The following is an aged analysis of trade receivables, included in trade and other receivables, at the balance sheet dates:

	As at 31 December		As at 30 September	
	2004	2005	2006	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
< 30 days	—	—	859	998
31 - 60 days	—	7	10	607
61 - 90 days	—	195	304	62
91 - 180 days	—	—	175	105
180 days above	—	—	52	283
	<u>—</u>	<u>202</u>	<u>1,400</u>	<u>2,055</u>

The credit terms given to the customers vary and are generally based on the financial strengths of individual customer. In order to effectively manage the credit risks associated with trade debtors, credit evaluations of customers are performed periodically.

## 20. AMOUNTS DUE FROM DIRECTORS

**Hotel Group**

Amounts due from directors disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

	As at 1 January	As at 31 December		As at 30 September	
	2004	2004	2005	2006	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mr. Sio Tak Hong	—	—	—	141	41
Mr. Tang Fung	—	—	35	251	606
Mr. Lai Kin Hak	—	—	—	—	8
Mr. Siu Ka Kuen	—	—	—	—	10
Mr. Si Tit Sang	—	—	—	—	1
Mr. Kong Tat Choi	—	—	—	—	25
	<u>—</u>	<u>—</u>	<u>35</u>	<u>392</u>	<u>691</u>

## II. NOTES TO THE FINANCIAL INFORMATION (Continued)

## 20. AMOUNTS DUE FROM DIRECTORS (Continued)

## Hotel Group (Continued)

	Maximum amount outstanding			Nine months ended
	Year ended 31 December			30 September
	2004	2005	2006	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mr. Sio Tak Hong	—	—	141	141
Mr. Tang Fung	—	35	251	5,453
Mr. Lai Kin Hak	—	—	148	102
Mr. Siu Ka Kuen	—	—	9	10
Mr. Si Tit Sang	—	—	—	1
Mr. Kong Tat Choi	—	—	—	25
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

## Fortuna HK

Amount due from a director disclosed pursuant to section 161B of the Hong Kong Companies Ordinance is as follows:

	As at 1 January 2004 HK\$'000	As at 31 December			As at 30 September 2007 HK\$'000
		2004 HK\$'000	2005 HK\$'000	2006 HK\$'000	
Mr. Tang Fung	—	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

	Maximum amount outstanding			Nine months
				ended
	Year ended 31 December			30 September
	2004	2005	2006	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mr. Tang Fung	—	—	—	5,000
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

The amount due from a director is unsecured, interest-free and has no fixed repayment terms.

II. NOTES TO THE FINANCIAL INFORMATION (Continued)

21. AMOUNTS DUE FROM SHAREHOLDERS

Hotel Group and Fortuna HK

Amounts due from shareholders disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

	As at 1 January 2004 HK\$'000	As at 31 December 2004 HK\$'000	2005 HK\$'000	2006 HK\$'000	As at 30 September 2007 HK\$'000
Mason Creation Limited	5	2	N/A	N/A	N/A
Mr. Siu Ka Kuen	1	1	N/A	N/A	N/A
Gain Wealth Enterprises Limited	1	1	N/A	N/A	N/A
	<u>7</u>	<u>4</u>	<u>—</u>	<u>—</u>	<u>—</u>

Maximum amount outstanding

	Year ended 31 December 2004 HK\$'000	2005 HK\$'000	2006 HK\$'000	Nine months ended 30 September 2007 HK\$'000
Mason Creation Limited	21	5	—	—
Mr. Siu Ka Kuen	1	1	—	—
Gain Wealth Enterprises Limited	<u>1</u>	<u>1</u>	<u>—</u>	<u>—</u>

The amounts due from shareholders are unsecured, interest-free and have no fixed repayment terms.

II. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

## 22. AMOUNTS DUE FROM RELATED COMPANIES

**Hotel Group and Fortuna HK**

Amounts due from related companies disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

	As at 1 January 2004 HK\$'000	As at 31 December 2004 HK\$'000	2005 HK\$'000	2006 HK\$'000	As at 30 September 2007 HK\$'000
Everland Investment Limited	—	1,000	3,300	500	—
Win Loyal Development Limited	—	—	—	5	3
	<u>—</u>	<u>1,000</u>	<u>3,300</u>	<u>505</u>	<u>3</u>

**Maximum amount outstanding**

	Year ended 31 December			Nine months ended 30 September
	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000	2007 HK\$'000
Everland Investment Limited	1,000	3,300	3,300	500
Win Loyal Development Limited	<u>—</u>	<u>—</u>	<u>5</u>	<u>8</u>

Mr. Tang Fung and Mr. Lai Kin Hak have beneficial interests in Everland Investment Limited.

Mr. Sio Tak Hong, Mr. Si Tit Sang and Mr. Kong Tat Choi have beneficial interests in Win Loyal Development Limited.

The amounts due from related companies are unsecured, interest-free and have no fixed repayment terms.

### 23. LOAN RECEIVABLE FROM A RELATED COMPANY

Particulars of loan receivable from a related company disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

**Maximum amount outstanding**

	Year ended 31 December			Nine months ended
	2004	2005	2006	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
佛山市順德區聖淘灣置業投資有限公司	20,009	55,053	55,053	18,816

The loan receivable from a related company is unsecured, interest-free and has no fixed repayment terms.



## II. NOTES TO THE FINANCIAL INFORMATION (Continued)

## 23. LOAN RECEIVABLE FROM A RELATED COMPANY (Continued)

## Fortuna HK

Particulars of loan receivable from a related company disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

	As at 1 January 2004 HK\$'000	As at 31 December 2004 HK\$'000	2005 HK\$'000	2006 HK\$'000	As at 30 September 2007 HK\$'000
佛山市順德區聖淘灣 置業投資有限公司	—	—	10,000	10,000	N/A

## Maximum amount outstanding

	Year ended 31 December			Nine months ended 30 September
	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000	2007 HK\$'000
佛山市順德區聖淘灣 置業投資有限公司	—	10,000	10,000	10,000

Mr. Tang Fung has beneficial interest in the above related company.

The loan receivable from a related company is unsecured, interest-free and has no fixed repayment terms.

## 24. CASH AND CASH EQUIVALENTS

As at 31 December 2004, 31 December 2005, 31 December 2006 and 30 September 2007, the bank and cash balances of the Hotel Group denominated in Renminbi amounted to approximately HK\$587,000, HK\$841,000, HK\$3,870,000 and HK\$8,567,000 respectively. Conversion of Renminbi into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

II. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

## 25. BANK LOANS AND BANK OVERDRAFTS

## Hotel Group

	As at 31 December			As at 30 September
	2004	2005	2006	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank overdrafts	—	33,351	—	—
Bank loans	—	60,000	127,000	297,131
	—	93,351	127,000	297,131

The borrowings are repayable as follows:

	As at 31 December			As at 30 September
	2004	2005	2006	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
On demand or within one year	—	93,351	127,000	190,139
In the second year	—	—	—	13,627
In the third to fifth years, inclusive	—	—	—	93,365
	—	93,351	127,000	297,131
Less: Amount due for settlement within 12 months (shown under current liabilities)	—	(93,351)	(127,000)	(190,139)
Amount due for settlement after 12 months	—	—	—	106,992

The carrying amounts of the Hotel Group's borrowings as at 31 December 2005 and 31 December 2006 were denominated in Hong Kong dollars.

The carrying amounts of the Hotel Group's borrowings as at 30 September 2007 were denominated in Hong Kong dollars amounting to approximately HK\$119,780,000 and denominated in Renminbi amounting to approximately HK\$177,351,000.

II. NOTES TO THE FINANCIAL INFORMATION *(Continued)*25. BANK LOANS AND BANK OVERDRAFTS *(Continued)*

The average interest rates were as follows:

		As at 31 December		As at
	2004	2005	2006	30 September 2007
Bank overdrafts	—	7.25%	—	—
Bank loans	—	7.25%	7.25%	5.66%

Bank loan of approximately HK\$177,351,000 as at 30 September 2007 was arranged at fixed interest rate and exposed the Hotel Group to fair value interest rate risk. Other borrowings as at 31 December 2005, 31 December 2006 and 30 September 2007 were arranged at floating rates, thus exposing the Hotel Group to cash flow interest rate risk.

As at 31 December 2005, 31 December 2006 and 30 September 2007, the bank loans and bank overdrafts were secured by joint and several guarantees of approximately HK\$95,000,000, HK\$135,000,000 and HK\$127,000,000 executed by directors of Fortuna HK. In addition, certain directors of Fortuna HK, who also the beneficial shareholders of Fortuna HK, pledged all of Fortuna HK's issued shares to the banks.

On 18 July 2007, the Hotel Group obtained a 6 months loan of RMB200,000,000 from a bank with interest bearing at 5.265% per annum, repayable on or before 5 January 2008 and secured by a stand-by letter of credit issued by a related company.

**Fortuna HK**

		As at 31 December		As at
	2004	2005	2006	30 September 2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank overdrafts	—	33,351	—	—
Bank loans	—	60,000	127,000	119,780
	—	93,351	127,000	119,780

II. NOTES TO THE FINANCIAL INFORMATION *(Continued)*25. BANK LOANS AND BANK OVERDRAFTS *(Continued)*

The borrowings are repayable as follows:

	As at 31 December			As at 30 September
	2004	2005	2006	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
On demand or within one year	—	93,351	127,000	12,788
In the second year	—	—	—	13,627
In the third to fifth years, inclusive	—	—	—	93,365
	—	93,351	127,000	119,780
Less: Amount due for settlement within 12 months (shown under current liabilities)	—	(93,351)	(127,000)	(12,788)
Amount due for settlement after 12 months	—	—	—	106,992

The carrying amounts of the Fortuna HK borrowings were denominated in Hong Kong dollars.

The average interest rates were as follows:

	As at 31 December			As at 30 September
	2004	2005	2006	2007
Bank overdrafts	—	7.25%	—	—
Bank loans	—	7.25%	7.25%	6.25%

Bank loans were arranged at floating rates thus exposing Fortune HK to interest rate risk.

As at 31 December 2005, 31 December 2006 and 30 September 2007, the bank loans and bank overdrafts were secured by joint and several guarantees of approximately HK\$95,000,000, HK\$135,000,000 and HK\$127,000,000 executed by directors of Fortuna HK. In addition, certain directors of Fortuna HK, who also the beneficial shareholders of Fortuna HK, pledged all of Fortuna HK's issued shares to the banks.

II. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

## 26. TRADE AND OTHER PAYABLES

**Hotel Group**

The following is an aged analysis of trade payables, included in trade and other payables, at the balance sheet dates:

	As at 31 December		As at 30 September	
	2004	2005	2006	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
< 90 days	—	7,278	3,539	4,905
90 - 180 days	—	—	218	711
Over 180 days	—	—	706	270
	<u>—</u>	<u>7,278</u>	<u>4,463</u>	<u>5,886</u>

The credit terms of trade payables vary according to the terms agreed with different suppliers.

## 27. AMOUNT DUE TO A DIRECTOR

**Hotel Group and Fortuna HK**

The amount due to a director is unsecured, interest bearing at Hong Kong prime rate of The Hong Kong and Shanghai Banking Corporation Limited plus 1.5% per annum and has no fixed repayment terms.

## 28. AMOUNTS DUE TO RELATED COMPANIES

**Hotel Group and Fortuna HK**

The amounts due to related companies are unsecured, interest-free and have no fixed repayment terms, except for amounts of approximately HK\$48,076,000 and approximately HK\$51,503,000 as at 31 December 2006 and 30 September 2007, respectively, due to a related company which are interest bearing at Macau prime rate of The Seng Heng Bank plus 1.5% per annum.

II. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

## 29. AMOUNTS DUE TO SHAREHOLDERS

**Hotel Group and Fortuna HK**

The amounts due to shareholders are unsecured, interest-free and have no fixed repayment terms.

## 30. TEMPORARY LOAN

**Hotel Group and Fortuna HK**

The temporary loan is unsecured, interest free and has no fixed repayment terms.

## 31. FINANCE LEASE PAYABLES

**Hotel Group and Fortuna HK**

	Minimum lease payments			As at
	As at 31 December		30 September	
	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000	2007 HK\$'000
Within one year	—	—	—	129
In the second to fifth years, inclusive	—	—	—	431
	—	—	—	560
Less: Future finance charges	—	—	—	(83)
Present value of lease obligations	—	—	—	477
	<u>—</u>	<u>—</u>	<u>—</u>	<u>477</u>
	Present value of minimum lease payments			As at
	As at 31 December		30 September	
	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000	2007 HK\$'000
Within one year	—	—	—	110
In the second to fifth years, inclusive	—	—	—	367
Present value of lease obligations	—	—	—	477
Less: Amount due for settlement within 12 months (shown under current liabilities)	—	—	—	(110)
Amount due for settlement after 12 months	—	—	—	367
	<u>—</u>	<u>—</u>	<u>—</u>	<u>367</u>

**II. NOTES TO THE FINANCIAL INFORMATION** *(Continued)***31. FINANCE LEASE PAYABLES** *(Continued)*

It is the Hotel Group's policy to lease certain of its property, plant and equipment under finance leases. The average lease term is 5 years. At 30 September 2007, the average effective borrowing rate was 3.5%. Interest rates are fixed at the contract dates and thus expose the Hotel Group to fair value interest rate risk. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. At the end of each lease term, the Hotel Group has the option to purchase the property, plant and equipment at nominal prices.

**32. SHAREHOLDERS' LOANS****Hotel Group and Fortuna HK**

The shareholders' loans are unsecured, interest bearing at Hong Kong prime rate of The Hong Kong and Shanghai Banking Corporation Limited plus 1.5% per annum and will not be repaid within the next twelve months.

**33. DIRECTOR'S LOAN****Hotel Group and Fortuna HK**

The director's loan is unsecured, interest bearing at Hong Kong prime rate of The Hong Kong and Shanghai Banking Corporation Limited plus 1.5% per annum and will not be repaid within the next twelve months.

**34. LOANS FROM RELATED COMPANIES****Hotel Group and Fortuna HK**

The loans from related companies are unsecured, interest bearing at Macau prime rate of The Seng Heng Bank plus 1.5% per annum and will not be repaid within the next twelve months.

**35. DEPOSIT FOR PROPOSED INVESTMENT****Hotel Group**

On 2 July 2007, the Hotel Group entered into a memorandum of understanding ("MOU") with a joint investor in respect of a proposed acquisition of investment assets for a consideration of RMB285,995,000. The Hotel Group paid investment cost of RMB200,000,000 as deposit to the joint investor upon entering the MOU. Pursuant to the MOU, if the formal agreement could not be finalised before 31 August 2007, the paid deposit together with interest of 5.265% per annum would be refunded on or before 31 December 2007. As no formal agreement had been finalised up to 31 August 2007, the Hotel Group is entitled to receive the refund of the deposit together with interest thereon. During the period ended 30 September 2007, the Hotel Group received partial refund of the deposit together with interest of approximately RMB30,825,000.

Subsequent to the balance sheet date, the Hotel Group has received the remaining refund of the deposit together with interest thereon.

II. NOTES TO THE FINANCIAL INFORMATION (*Continued*)

## 36. SHARE CAPITAL

	Number of shares	Amount HK\$'000
<i>Authorised:</i>		
Ordinary shares of HK\$1 each		
At 31 December 2004, 2005 and 2006 and at 30 September 2007	10,000	10
<i>Issued and fully paid:</i>		
At 1 January 2004 and 31 December 2004	100	1
Issue of shares	9,900	9
At 31 December 2005, 2006 and at 30 September 2007	10,000	10

On 13 December 2005, Fortuna HK issued 9,900 ordinary shares of HK\$1 each at par for additional capital of Fortuna HK.

*Notes:*

The Hotel Group's objectives when managing capital are to safeguard the Hotel Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The Hotel Group currently does not have any specific policies and processes for managing capital.

## 37. RESERVES

## (a) Hotel Group

The amounts of the Hotel Group's reserves and the movements therein are presented in the consolidated statements of changes in equity.

## (b) Fortuna HK

	Accumulated losses HK\$'000
At 1 January 2004	(3,979)
Loss for the year	(5,073)
At 31 December 2004 and 1 January 2005	(9,052)
Loss for the year	(16,189)
At 31 December 2005 and 1 January 2006	(25,241)
Loss for the year	(32,048)
At 31 December 2006 and 1 January 2007	(57,289)
Loss for the period	(28,322)
At 30 September 2007	(85,611)



## II. NOTES TO THE FINANCIAL INFORMATION (Continued)

## 37. RESERVES (Continued)

## (b) Fortuna HK (Continued)

*Unaudited Statement of Changes in Equity*

	Accumulated losses HK\$'000
At 1 January 2006	(25,241)
Loss for the period	(23,073)
	<hr/>
At 30 September 2006	(48,314)
	<hr/> <hr/>

## (c) Nature and purpose of reserves

*Foreign currency translation reserve*

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of the Hotel Group as well as the effective portion of any foreign exchange differences arising from hedges of the net investment in these foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 4(b) to the Financial Information.

## 38. DEFERRED TAXATION

**Hotel Group**

At 31 December 2004, 2005 and 2006 and 30 September 2007, the Hotel Group had unused tax losses of approximately HK\$2,652,000, HK\$6,678,000, HK\$25,902,000 and HK\$27,708,000 respectively. No deferred tax asset has been recognised for the tax losses and other deductible temporary differences due to the unpredictability of future profit streams. The unrecognised tax losses expire in the following years:

	As at 31 December			As at
	2004	2005	2006	30 September
	HK\$'000	HK\$'000	HK\$'000	2007
				HK\$'000
2010	—	2,983	3,042	3,181
2011	—	—	18,318	19,189
	<hr/>	<hr/>	<hr/>	<hr/>
	—	2,983	21,360	22,370
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Other tax losses may be carried forward indefinitely, however certain tax losses are yet to be agreed with Hong Kong Inland Revenue Department.

II. NOTES TO THE FINANCIAL INFORMATION *(Continued)*38. DEFERRED TAXATION *(Continued)***Fortuna HK**

At 31 December 2004, 2005 and 2006 and 30 September 2007, Fortuna HK had unused tax losses of approximately HK\$2,652,000, HK\$3,695,000, HK\$4,542,000 and HK\$5,338,000 respectively. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Tax losses may be carried forward indefinitely, however certain tax losses are yet to be agreed with Hong Kong Inland Revenue Department.

## 39. CONTINGENT LIABILITIES

**Hotel Group**

At 30 September 2007, the Hotel Group had contingent liabilities in respect of certain non-compliance with the requirements of regulatory authorities. The aggregate amount of expenses was approximately HK\$3,300,000. In the opinion of the directors, the liabilities were remote and a director of Fortuna HK has undertaken to fully indemnify such contingent liabilities, therefore, no provision has been made in the financial statements.

## 40. LEASE COMMITMENTS

**Hotel Group**

The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	As at 31 December			As at
	2004	2005	2006	30 September
	HK\$'000	HK\$'000	HK\$'000	2007
				HK\$'000
Within one year	—	—	210	312
In the second to fifth years inclusive	—	—	867	930
After five years	—	—	1,390	1,251
	<u>—</u>	<u>—</u>	<u>1,390</u>	<u>1,251</u>
	<u>—</u>	<u>—</u>	<u>2,467</u>	<u>2,493</u>

II. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

## 41. OTHER COMMITMENTS

At the balance sheet date, Hotel Group and Fortuna HK had other commitments as follows:

**Hotel Group**

	As at 31 December			As at 30 September
	2004	2005	2006	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contracted, but not provided for:				
Expenditure on construction of hotel buildings	79,873	45,973	6,507	—
Consideration paid for other buildings	2,877	2,961	2,525	—
Payment of consultancy fees	—	700	560	490
Payment of advertising expenses	—	—	333	277
	<u>82,750</u>	<u>49,634</u>	<u>9,925</u>	<u>767</u>

**Fortuna HK**

	As at 31 December			As at 30 September
	2004	2005	2006	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contracted, but not provided for:				
Capital contributions payable to a subsidiary	116,625	44,810	10,934	—
Loans to a subsidiary	—	—	15,000	—
Expenditure on construction of hotel buildings	2,716	450	120	—
	<u>119,341</u>	<u>45,260</u>	<u>26,054</u>	<u>—</u>

## II. NOTES TO THE FINANCIAL INFORMATION (Continued)

## 42. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions and balances detailed elsewhere in this Financial Information, the Hotel Group had the following transactions with related parties:

				(Unaudited)		
				Nine months	Nine months	
				ended	ended	
Year ended 31 December				30 September	30 September	
	2004	2005	2006	2007	2006	
Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Hotel operations income received from a related company	(i)	—	25	98	366	83
Hotel operations income received from directors		—	35	823	878	558
Consultancy fees paid to a related company	(i)	—	2,600	—	—	—
Purchase from a related company	(i)	—	134	—	—	—
Management fees paid to a related company	(ii)	144	144	144	108	108
Loan interest paid to shareholders		388	487	654	521	484
Loan interest paid to a director		75	3,066	—	—	—
Loan interest paid to related companies	(iii)	3,607	9,221	21,344	20,309	15,330

## Notes:

- (i) A director, Mr. Sio Tak Hong has beneficial interest in the related company.
- (ii) The director, Mr. Lai Kin Hak has beneficial interest in the related company.
- (iii) The directors, Mr. Si Tit Sang, Mr. Kong Tat Choi and Mr. Sio Tak Hong have beneficial interest in the related company.
- (b) Pursuant to a guarantee agreement executed by Mr. Sio Tak Hong, a director of Fortuna HK, Mr. Sio Tak Hong has undertaken to fully indemnify 佛山財神 against all losses, liabilities, damages, costs and expenses suffered or incurred by 佛山財神 as a result of any event of non-compliance with requirements of regulatory authorities.

**III. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements of Fortuna HK or any of its subsidiary have been issued subsequent to 30 September 2007.

Yours faithfully  
**RSM Nelson Wheeler**  
*Certified Public Accountants*  
Hong Kong

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## **APPENDIX II      FINANCIAL INFORMATION OF THE ENLARGED GROUP**

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### **A.      UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP**

The accompanying unaudited pro forma statement of assets and liabilities of the Enlarged Group (the “Statement”) has been prepared to illustrate the effect of the Acquisition, assuming the transaction had been completed as at 31 July 2007, might have affected the financial position of the Group.

The Statement is prepared based on the audited consolidated balance sheet of the Group as at 31 July 2007 as extracted from the annual report of the Group for the year ended 31 July 2007 and the audited consolidated balance sheet of Hotel Fortuna (Hong Kong) Company Limited (“Fortuna HK”) and its subsidiary (hereinafter collectively referred to as “Hotel Group”) as at 30 September 2007 as extracted from the Accountants’ Report set out in Appendix I of this Circular after making certain proforma adjustments resulting from the Acquisition.

The Statement is prepared based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purposes only. Accordingly, as a result of the nature of the Statement, it may not give a true picture of the actual financial position of the Group that would have been attained had the Acquisition actually occurred on 31 July 2007. Furthermore, the Statement does not purport to predict the Group’s future financial position.

The Statement should be read in conjunction with the financial information of the Group as set out in Appendix III of this Circular, the financial information of Hotel Group as set out in Appendix I of this Circular and other financial information included elsewhere in this Circular.

For the purpose of presenting the Statement, the audited consolidated balance sheet of the Hotel Group as at 30 September 2007 and the pro forma adjustments are translated at the exchange rate of HK\$1 = RMB0.96419.

## APPENDIX II FINANCIAL INFORMATION OF THE ENLARGED GROUP

	The Group as at 31 July 2007 HK\$'000	The Hotel Group as at 30 September 2007 HK\$'000	Total HK\$'000	Pro forma adjustments HK\$'000	Notes	The Enlarged Group HK\$'000
Non-current assets						
Investment properties	37,828	—	37,828	—		37,828
Property, plant and equipment	3,731	371,046	374,777	52,678	1	427,455
Goodwill	—	—	—	54,794	4	54,794
Prepaid lease payments	7,265	9,291	16,556	282,992	1	299,548
Interests in associates	392,499	—	392,499	—		392,499
Available-for-sale investments	56,250	—	56,250	—		56,250
	<u>497,573</u>	<u>380,337</u>	<u>877,910</u>	<u>390,464</u>		<u>1,268,374</u>
Current assets						
Inventories	—	2,870	2,870	—		2,870
Properties held for sale	206	—	206	—		206
Trade and other receivables	12,987	3,284	16,271	—		16,271
Prepayments and deposits	—	1,599	1,599	—		1,599
Prepaid lease payments	908	148	1,056	4,419	1	5,475
Investments held for trading	266,127	—	266,127	—		266,127
Amounts due from directors	—	691	691	—		691
Amounts due from related companies	—	3	3	—		3
Deposit for proposed investment	—	177,351	177,351	—		177,351
Pledged bank deposit	630	—	630	—		630
Bank balances and cash	151,464	9,457	160,921	(250,000)	3	(89,079)
	<u>432,322</u>	<u>195,403</u>	<u>627,725</u>	<u>(245,581)</u>		<u>382,144</u>
Current liabilities						
Trade and other payables	6,401	34,487	40,888	—		40,888
Accrued expenses	—	3,506	3,506	—		3,506
Amounts due to related companies	—	80,722	80,722	(80,722)	2	—
Amounts due to shareholders	—	20,348	20,348	(20,348)	2	—
Derivative financial instruments	775	—	775	—		775
Taxation payable	34,308	—	34,308	—		34,308
Finance lease payables	—	110	110	—		110
Bank borrowings — due within one year	1,039	190,139	191,178	—		191,178
	<u>42,523</u>	<u>329,312</u>	<u>371,835</u>	<u>(101,070)</u>		<u>270,765</u>
Net current assets/(liabilities)	<u>389,799</u>	<u>(133,909)</u>	<u>255,890</u>	<u>(144,511)</u>		<u>111,379</u>
Non-current liabilities						
Bank borrowings — due after one year	4,937	106,992	111,929	—		111,929
Other borrowings — due after one year	—	—	—	300,000	3	300,000
Finance lease payables	—	367	367	—		367
Shareholders' loan	—	7,834	7,834	(7,834)	4	—
Loans from related companies	—	265,775	265,775	(265,775)	2	—
Deferred taxation	—	—	—	85,022	1	85,022
	<u>4,937</u>	<u>380,968</u>	<u>385,905</u>	<u>111,413</u>		<u>497,318</u>
Net assets/(liabilities)	<u>882,435</u>	<u>(134,540)</u>	<u>747,895</u>	<u>134,540</u>		<u>882,435</u>

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## APPENDIX II FINANCIAL INFORMATION OF THE ENLARGED GROUP

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### *Notes:*

1. The adjustments on property, plant and equipment and prepaid lease payments of HK\$52,678,000 and HK\$287,411,000 (non-current portion of HK\$282,992,000 and current portion of HK\$4,419,000) respectively represent excess of fair value of property, plant and equipment and prepaid land lease payments in the Hotel Group of HK\$423,724,000 and HK\$296,850,000 respectively as at 31 December 2007 over their carrying value of HK\$371,046,000 and HK\$9,439,000 respectively as at 30 September 2007. The fair values of these assets of the Hotel Group as at 31 December 2007 were based on valuation carried out by Savills Valuation and Professional Services Limited, an independent qualified professional valuer not connected to the Group. The adjustment assumed that the fair value of these assets of the Hotel Group as at 30 September 2007 was the same as their valuation as at 31 December 2007. In addition, deferred tax of HK\$85,022,000 on the excess of fair value totally of HK\$340,089,000 was provided at 25%.
2. The adjustments represent the re-allocation of amounts due to related companies of HK\$80,722,000; amounts due to shareholders of HK\$20,348,000 and loans from related companies of HK\$265,775,000 by Hotel Group through assignment of debts to shareholders' loan.
3. The adjustment represents the acquisition of 100% interest in Fortuna HK, and the shareholders' loan as at 28 February 2008 for an aggregate consideration of HK\$550,000,000. HK\$100,000,000 is payable in cash to the Vendors as refundable first deposit upon signing of the agreement, HK\$150,000,000 is payable in cash to the Vendors as refundable second deposit upon passing a resolution by the shareholders to approve the agreement and upon delivery of the share charges by each of the vendors to the Company, and the remaining amount of HK\$300,000,000 subject to adjustment will be payable before the expiry of the third year after the completion date.
4. Goodwill of HK\$54,794,000 represents the difference between the acquisition consideration of the equity interest and shareholders' loans of Fortuna HK of HK\$550,000,000 and the fair values of the net assets and shareholders' loans of Fortuna HK to be acquired totalling HK\$495,206,000 which comprise (i) net liabilities of the Hotel Group as at 30 September 2007 of HK\$134,540,000; (ii) excess of fair value of property, plant and equipment, and prepaid land lease payments of HK\$52,678,000 and HK\$287,411,000 respectively; (iii) 25% deferred tax provided on fair value adjustment of HK\$85,022,000; and (iv) shareholders' loan of Fortuna HK to be acquired of HK\$374,679,000 (including shareholders' loan of HK\$7,834,000 and assignment to shareholders' loan from amounts due to related companies of HK\$80,722,000, amounts due to shareholders of HK\$20,348,000 and loans from related companies of HK\$265,775,000).

The following transactions did not reflect in the above unaudited pro forma statement of assets and liabilities of the Enlarged Group:

5. On 31 August 2007, the Group had made additional capital contribution of MOP\$22,050,000 (equivalent to HK\$21,408,000) in an associate, Sun Fat Investment and Industry Company Limited ("Sun Fat") for increase in the share capital.
6. Pursuant to circular dated 26 October 2007, Silver Pro Limited ("Silver Pro"), a wholly-owned subsidiary of the Company and Kong Kei Construction Limited ("Kong Kei"), Silver Pro has agreed to acquire from Kong Kei its 50% of the issued quota capital of Sun Fat for a total consideration of HK\$158,300,000 (comprised of HK\$79,490,000 satisfied by cash and HK\$78,810,000 satisfied by the issue of the shares at the issue price of HK\$0.142). Upon completion of the above acquisition, Sun Fat became a subsidiary of the Company and its entire assets (including property under development of HK\$300,000,000 and bank and cash balances of HK\$46,752,000) of Sun Fat will be consolidated into the Group's financial statements. The impact of this transaction to the unaudited pro forma statement of assets and liabilities of the Enlarged Group are (i) the cost of the investment in associates was eliminated through consolidated upon completion of the agreement; (ii) include fair value of property under development of HK\$300,000,000; and (iii) net, bank overdraft will be increased by HK\$32,738,000.



**B. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION**

*The following is the text of a report, prepared for the sole purpose of inclusion in this circular, from the independent reporting accountants, RSM Nelson Wheeler, Certified Public Accountants, Hong Kong.*

**RSM Nelson Wheeler****羅 申 美 會 計 師 行**

Certified Public Accountants

29th Floor  
Caroline Centre  
Lee Gardens Two  
28 Yun Ping Road  
Hong Kong

28 March 2008

The Board of Directors  
Capital Estate Limited

Dear Sirs,

We report on the unaudited pro forma statement of assets and liabilities (the “Statement”) of Capital Estate Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”), which has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the proposed acquisition of the 100% interests in Hotel Fortuna (Hong Kong) Company Limited might have affected the assets and liabilities of the Group presented, for inclusion in Appendix II to the circular of the Company dated 28 March 2008 (the “Circular”). The basis of preparation of the Statement is set out on pages 77 to 78 to the Circular.

**Respective responsibilities of directors of the Company and reporting accountants**

It is the responsibility solely of the directors of the Company to prepare the Statement in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Statement and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Statement beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

**Basis of opinion**

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Statement with the directors of the Company. The engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Statement has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the Statement as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The Statement is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 July 2007 or at any future date.

**Opinion**

In our opinion:

- (a) the Statement has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Statement as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,  
**RSM Nelson Wheeler**  
*Certified Public Accountants*  
Hong Kong

**1. SUMMARY OF AUDITED FINANCIAL STATEMENTS**

- (a) Set out below is the financial summary of the audited consolidated results of the Group for each of the three years ended 31 July 2007 as extracted from the Group's annual report.

	<b>Year ended 31 July</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Continuing operations</b>			
Revenue	154,700	72,867	25,713
Profit before taxation	110,464	40,278	6,849
Taxation	(22,770)	(11,539)	(210)
	87,694	28,739	6,639
<b>Discontinued operation</b>			
(Loss) profit for the year from discontinued operation	(2,386)	243	—
Profit for the year	85,308	28,982	6,639
Attributable to:			
Equity holders of the Company	85,140	28,900	6,398
Minority interests	168	82	241
	85,308	28,982	6,639

**FINANCIAL POSITION**

	<b>At 31 July</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Total assets	929,895	522,647	182,993
Total liabilities	(47,460)	(32,468)	(22,562)
	882,435	490,179	160,431
Equity attributable to equity holders of the Company	882,435	488,961	159,305
Minority interests	—	1,218	1,126
	882,435	490,179	160,431

- (b) Set out below is the summary of the audited consolidated financial statements of the Group as contained in the annual report of the Company for the year ended 31 July 2007, together with the accompanying notes.

### Consolidated Income Statement

For the year ended 31 July 2007

	Notes	2007 HK\$'000	2006 HK\$'000
<b>Continuing operations</b>			
Revenue	7	154,700	72,867
Direct costs on property rental		(935)	(1,680)
Gross profit		153,765	71,187
Other income		8,407	5,650
Increase (decrease) in fair value of investment properties		3,260	(19,768)
Administrative expenses		(56,069)	(16,223)
Share of profit of associates		1,599	—
Finance costs	9	(498)	(568)
Profit before taxation		110,464	40,278
Taxation	10	(22,770)	(11,539)
Profit for the year from continuing operations		87,694	28,739
<b>Discontinued operation:</b>			
Profit for the year from discontinued operation	11	493	243
Impairment loss on goodwill	11	(780)	—
Loss on disposal of subsidiaries constituting the discontinued operation	37	(2,099)	—
		(2,386)	243
Profit for the year	12	85,308	28,982
Attributable to:			
Equity holders of the Company		85,140	28,900
Minority interests		168	82
		85,308	28,982
Earnings per share	15		
<b>From continuing and discontinued operations</b>			
Basic		1.044 HK cents	0.838 HK cents
Diluted		1.040 HK cents	0.837 HK cents
<b>From continuing operations</b>			
Basic		1.075 HK cents	0.833 HK cents
Diluted		1.071 HK cents	0.832 HK cents

**Consolidated Balance Sheet***At 31 July 2007*

	<i>Notes</i>	<b>2007</b> <i>HK\$'000</i>	<b>2006</b> <i>HK\$'000</i>
Non-current assets			
Investment properties	16	37,828	34,568
Property, plant and equipment	17	3,731	814
Prepaid lease payments	18	7,265	—
Deferred tax assets	36	—	49
Goodwill	19	—	4,193
Interests in associates	21	392,499	—
Available-for-sale investments	22	56,250	116,250
		<u>497,573</u>	<u>155,874</u>
Current assets			
Properties held for sale	23	206	206
Derivative financial instruments	24	—	283
Trade and other receivables	25	12,987	13,455
Prepaid lease payments	18	908	—
Investments held for trading	26	266,127	101,826
Certificate of deposit	27	—	8,996
Promissory note receivables	28	—	4,000
Taxation recoverable		—	75
Pledged bank deposit	29	630	614
Bank balances and cash	29	151,464	237,318
		<u>432,322</u>	<u>366,773</u>
Current liabilities			
Trade and other payables	30	6,401	12,803
Derivative financial instruments	24	775	1,163
Taxation payable		34,308	11,595
Bank borrowings — due within one year	31	1,039	903
Bank overdrafts		—	84
		<u>42,523</u>	<u>26,548</u>
Net current assets		<u>389,799</u>	<u>340,225</u>
Total assets less current liabilities		887,372	496,099
Non-current liability			
Bank borrowings — due after one year	31	4,937	5,920
		<u>882,435</u>	<u>490,179</u>
Capital and reserves			
Share capital	33	107,598	338,717
Reserves		<u>774,837</u>	<u>150,244</u>
Equity attributable to equity holders of the Company		882,435	488,961
Minority interests		—	1,218
		<u>882,435</u>	<u>490,179</u>

**Balance Sheet***At 31 July 2007*

	<i>Notes</i>	<b>2007</b> <i>HK\$'000</i>	<b>2006</b> <i>HK\$'000</i>
Non-current assets			
Investments in subsidiaries	20	400	10
Amounts due from subsidiaries	20	630,136	268,688
		<u>630,536</u>	<u>268,698</u>
Current assets			
Properties held for sale	23	206	206
Other receivables		202	173
Promissory note receivables	28	—	4,000
Bank balances and cash	29	112,091	195,764
		<u>112,499</u>	<u>200,143</u>
Current liabilities			
Other payables		2,100	562
Amounts due to subsidiaries	32	31,939	28,780
		<u>34,039</u>	<u>29,342</u>
Net current assets		<u>78,460</u>	<u>170,801</u>
		<u><u>708,996</u></u>	<u><u>439,499</u></u>
Capital and reserves			
Share capital	33	107,598	338,717
Reserves	35	601,398	100,782
		<u>708,996</u>	<u>439,499</u>

**Consolidated Statement of Changes in Equity***For the year ended 31 July 2007*

	Attributable to equity holders of the Company												Minority interests	Total
	Convertible										Total			
	Share capital	Share premium	Capital reserve	Warrants reserve	Share options reserve	Capital reduction reserve	Capital redemption reserve	Convertible notes equity reserve	Revaluation reserve	Accumulated losses				
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		
(note 35)														
Balance at 1 August 2005	52,544	51,866	157	—	—	170,583	268	92	—	(116,205)	159,305	1,126	160,431	
Profit for the year and recognised income for the year	—	—	—	—	—	—	—	—	—	28,900	28,900	82	28,982	
Issue of shares on rights issue (note 33a)	210,176	—	—	—	—	—	—	—	—	—	210,176	—	210,176	
Conversion of convertible notes (note 33b)	2,211	1,009	—	—	—	—	—	(92)	—	—	3,128	—	3,128	
Issue of shares on private placement (note 33d)	52,800	264	—	—	—	—	—	—	—	—	53,064	—	53,064	
Issue of warrants (note 33e)	—	—	—	13,247	—	—	—	—	—	—	13,247	—	13,247	
Exercise of warrants (note 33e)	20,986	5,247	—	(5,247)	—	—	—	—	—	—	20,986	—	20,986	
Expenses incurred in connection with issue of shares	—	(5,806)	—	—	—	—	—	—	—	—	(5,806)	—	(5,806)	
Recognition of equity-settled share-based payments (note 34)	—	—	—	—	5,961	—	—	—	—	—	5,961	—	5,961	
Capital contribution from a minority shareholder	—	—	—	—	—	—	—	—	—	—	—	10	10	
Balance at 31 July 2006	338,717	52,580	157	8,000	5,961	170,583	268	—	—	(87,305)	488,961	1,218	490,179	
Profit for the year and recognised income for the year	—	—	—	—	—	—	—	—	—	85,140	85,140	168	85,308	
Capital reduction (note 33f)	(321,781)	321,781	—	—	—	—	—	—	—	—	—	—	—	
Issue of shares on rights issue (note 33g)	84,680	135,487	—	—	—	—	—	—	—	—	220,167	—	220,167	
Exercise of warrants (note 33h)	4,571	35,429	—	(8,000)	—	—	—	—	—	—	32,000	—	32,000	
Exercise of share options (note 33i)	1,411	15,254	—	—	(5,812)	—	—	—	—	—	10,853	—	10,853	
Expenses incurred in connection with issue of shares	—	(5,280)	—	—	—	—	—	—	—	—	(5,280)	—	(5,280)	
Recognition of equity-settled share-based payments (note 34)	—	—	—	—	41,394	—	—	—	—	—	41,394	—	41,394	
Acquisition of additional interest in an associate	—	—	—	—	—	—	—	—	9,200	—	9,200	—	9,200	
Disposal of subsidiaries	—	—	—	—	—	—	—	—	—	—	—	(1,386)	(1,386)	
Balance at 31 July 2007	107,598	555,251	157	—	41,543	170,583	268	—	9,200	(2,165)	882,435	—	882,435	

**Consolidated Cash Flow Statement***For the year ended 31 July 2007*

	<i>Notes</i>	<b>2007</b> <i>HK\$'000</i>	<b>2006</b> <i>HK\$'000</i>
<b>OPERATING ACTIVITIES</b>			
Profit (loss) before taxation			
— continuing operations		110,464	40,278
— discontinued operation		(2,280)	288
		<u>108,184</u>	<u>40,566</u>
Adjustments for:			
Share-based payment expense		41,394	5,961
Loss on disposal of subsidiaries		2,099	—
Impairment loss on goodwill		780	—
Depreciation		565	639
Finance costs		498	568
Release of prepaid lease payments		227	—
Interest income		(8,407)	(5,650)
(Increase) decrease in fair value of investment properties		(3,260)	19,768
Share of profit of associates		(1,599)	—
		<u>Operating cash flows before movements in working capital</u>	<u>61,852</u>
		140,481	
Increase in trade and other receivables		(5,738)	(3,819)
Increase in investments held for trading		(164,301)	(77,772)
(Increase) decrease in derivative financial instruments		(105)	765
(Decrease) increase in trade and other payables		(3,080)	2,368
		<u>Cash used in operations</u>	<u>(16,606)</u>
		(32,743)	
Hong Kong Profits Tax paid		(42)	(194)
		<u>NET CASH USED IN OPERATING ACTIVITIES</u>	<u>(16,800)</u>
		(32,785)	
<b>INVESTING ACTIVITIES</b>			
Acquisition of associates		(321,700)	—
Increase in prepaid lease payments		(8,400)	—
Purchase of property, plant and equipment		(3,719)	(1,054)
Increase in pledged bank deposit		(16)	(614)
Purchase of available-for-sale investments		—	(116,250)
Advances to third parties		—	(55,000)
Decrease in certificate of deposit		8,996	—
Interest received		8,407	5,586
Repayment of promissory note receivables		4,000	6,000
Proceed from disposal of subsidiaries	37	3,039	—
Repayment of advances to third parties		—	55,000
		<u>NET CASH USED IN INVESTING ACTIVITIES</u>	<u>(106,332)</u>
		(309,393)	



**Consolidated Cash Flow Statement (Continued)***For the year ended 31 July 2007*

	<b>2007</b> <i>HK\$'000</i>	<b>2006</b> <i>HK\$'000</i>
<b>FINANCING ACTIVITIES</b>		
Proceeds from issue of shares	220,167	263,240
Proceeds from exercise of warrants	32,000	20,986
Proceeds from exercise of share options	10,853	—
Proceeds from issue of warrants	—	13,247
Capital contribution from a minority shareholder	—	10
Expenses paid in connection with the issue of shares	(5,280)	(5,806)
Repayment of bank loans	(834)	(857)
Interest paid	(498)	(541)
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<u>256,408</u>	<u>290,279</u>
<b>(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	(85,770)	167,147
<b>CASH AND CASH EQUIVALENTS BROUGHT FORWARD</b>	<u>237,234</u>	<u>70,087</u>
<b>CASH AND CASH EQUIVALENTS CARRIED FORWARD</b>	<u><u>151,464</u></u>	<u><u>237,234</u></u>
<b>ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Bank balances and cash	151,464	237,318
Bank overdrafts	<u>—</u>	<u>(84)</u>
	<u><u>151,464</u></u>	<u><u>237,234</u></u>

**Notes to the Consolidated Financial Statements***For the year ended 31 July 2007***1. GENERAL**

The Company is a public listed limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The address of the registered office and principal place of business of the Company is Unit 1901, 19/F., Asia Orient Tower, Town Place, 33 Lockhart Road, Wan Chai, Hong Kong.

The Company acts as a property and investment holding company. The activities of its principal subsidiaries are set out in note 20.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

**2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS(S)”)**

In the current financial year, the Group has applied, for the first time, a number of new standards, amendments and interpretations (“new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), which have become effective for the Group’s financial year beginning 1 August 2006. The adoption of the new HKFRSs has had no material effect on how the results for the current or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendment and interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures <sup>1</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>2</sup>
HKFRS 7	Financial Instruments: Disclosures <sup>1</sup>
HKFRS 8	Operating Segments <sup>2</sup>
HK(IFRIC) — INT10	Interim Financial Reporting and Impairments <sup>3</sup>
HK(IFRIC) — INT11	HKFRS 2 — Group and Treasury Share Transaction <sup>4</sup>
HK(IFRIC) — INT12	Service Concession Arrangement <sup>5</sup>
HK(IFRIC) — INT13	Customer Loyalty Programmes <sup>6</sup>
HK(IFRIC) — INT14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction <sup>5</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>3</sup> Effective for annual periods beginning on or after 1 November 2006

<sup>4</sup> Effective for annual periods beginning on or after 1 March 2007

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2008

<sup>6</sup> Effective for annual periods beginning on or after 1 July 2008

**Notes to the Consolidated Financial Statements (Continued)***For the year ended 31 July 2007***3. CHANGE IN PRESENTATION OF FINANCIAL STATEMENTS**

In the current year, the Group has changed its presentation of revenue and direct cost in the consolidated income statement in respect of its financial investments. In prior years, such revenue comprised proceeds from sale of investments held for trading and derivative financial instruments. In the current year, revenue of the Group included the net gain (rather than proceeds) from such investments and derivative financial instruments and dividend income. The Group has determined that this change in presentation would provide more useful and relevant information to users of its financial statements. The comparative amounts in the consolidated income statement have been reclassified accordingly.

The effects of the change in presentation is set out below:

	<b>2007</b> <i>HK\$'000</i>	<b>2006</b> <i>HK\$'000</i>
Proceeds from sale of investments held for trading (previously included in revenue)	749,508	398,525
Proceeds from sale of derivative financial instruments (previously included in revenue)	20,657	4,383
Direct cost on investments held for trading sold (previously classified as direct cost)	(703,656)	(401,248)
Changes in fair value of investments held for trading (now included in net gain on investments held for trading)	82,850	66,739
Changes in fair value of derivative financial instruments (now included in net gain on derivative financial instruments)	105	(765)
Dividend income from investments held for trading (previously included in other income, now included in revenue)	4,669	4,822
	<u>154,133</u>	<u>72,456</u>

**4. SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

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

**Notes to the Consolidated Financial Statements (Continued)***For the year ended 31 July 2007***4. SIGNIFICANT ACCOUNTING POLICIES (Continued)****Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 July each year. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

**Goodwill**

Goodwill arising on an acquisition of a subsidiary for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition.

For previously capitalised goodwill arising on acquisitions of subsidiaries prior to 1 January 2005, the Group has discontinued amortisation from 1 August 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policy below).

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet.

**Notes to the Consolidated Financial Statements (Continued)***For the year ended 31 July 2007***4. SIGNIFICANT ACCOUNTING POLICIES (Continued)****Goodwill (Continued)**

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

**Investments in subsidiaries**

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

**Investments in associates**

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

**Notes to the Consolidated Financial Statements (Continued)***For the year ended 31 July 2007***4. SIGNIFICANT ACCOUNTING POLICIES (Continued)****Investments in associates (Continued)**

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

**Investment properties**

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the year in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year in which the item is derecognised.

**Property, plant and equipment**

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

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

**Properties held for sale**

Properties held for sale are stated at the lower of cost and net realisable value. Cost includes professional fees and other direct costs attributable to such properties. Net realisable value is determined by reference to estimated sales proceeds less selling expenses.

**Notes to the Consolidated Financial Statements (Continued)***For the year ended 31 July 2007***4. SIGNIFICANT ACCOUNTING POLICIES (Continued)****Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable.

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

Commission from estate agency services provided is recognised as revenue on the date the relevant contract is executed.

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

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipt through the expected life of the financial asset to that asset's net carrying amount.

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

**Borrowing costs**

All borrowing costs are recognised as and included in finance costs in the income statement in the period in which they are incurred.

**Financial instruments**

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

**Notes to the Consolidated Financial Statements (Continued)***For the year ended 31 July 2007***4. SIGNIFICANT ACCOUNTING POLICIES (Continued)****Financial instruments (Continued)***Financial assets*

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss includes financial assets held for trading. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged bank deposit and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss and loans and receivables or held to maturities investments. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment loss on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse through profit or loss in subsequent periods.



**Notes to the Consolidated Financial Statements (Continued)***For the year ended 31 July 2007***4. SIGNIFICANT ACCOUNTING POLICIES (Continued)****Financial instruments (Continued)****Financial assets (Continued)****Available-for-sale financial assets (Continued)**

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

**Financial liabilities and equity**

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

**Financial liabilities**

Financial liabilities (including trade and other payables and bank borrowings) are subsequently measured at amortised cost using the effective interest method.

**Convertible notes**

Convertible loan notes issued by the Group that contain both the liability and conversion option components are classified separately into respective items on initial recognition. Conversion option will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the notes into equity, is included in equity (convertible notes equity reserve).

**Notes to the Consolidated Financial Statements (Continued)***For the year ended 31 July 2007***4. SIGNIFICANT ACCOUNTING POLICIES (Continued)****Financial instruments (Continued)****Financial liabilities and equity (Continued)****Convertible notes (Continued)**

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in convertible notes equity reserve until the embedded option is exercised (in which case the balance stated in convertible notes equity reserve will be transferred to share premium. Where the option remains unexercised at the expiry date, the balance stated in convertible notes equity reserve will be released to the accumulated profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan notes using the effective interest method.

**Equity instruments**

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

**Derecognition**

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

**Derivative financial instruments**

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

**Notes to the Consolidated Financial Statements (Continued)***For the year ended 31 July 2007***4. SIGNIFICANT ACCOUNTING POLICIES (Continued)****Financial instruments (Continued)*****Derivative financial instruments (Continued)******Embedded derivatives***

Derivatives embedded in non-derivative host contracts are separated from the relevant host contracts and deemed as held-for-trading when the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contracts, and the combined contracts are not measured at fair value through profit or loss. In all other circumstances, derivatives embedded are not separated and are accounted for together with the host contracts in accordance with appropriate standards. Where the Group needs to separate an embedded derivative but is unable to measure the embedded derivative, the entire combined contracts are classified as financial assets or financial liabilities at fair value through profit or loss.

**Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

***The Group as lessor***

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

***The Group as lessee***

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

**Notes to the Consolidated Financial Statements (Continued)***For the year ended 31 July 2007***4. SIGNIFICANT ACCOUNTING POLICIES (Continued)****Impairment**

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

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the 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 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 and associates, 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.

**Notes to the Consolidated Financial Statements (Continued)***For the year ended 31 July 2007***4. SIGNIFICANT ACCOUNTING POLICIES (Continued)****Taxation (Continued)**

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 is realised. Deferred tax is charged or credited to profit or loss 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**

In preparing the consolidated financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the year.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

**Notes to the Consolidated Financial Statements (Continued)***For the year ended 31 July 2007***4. SIGNIFICANT ACCOUNTING POLICIES (Continued)****Equity-settled share-based payment transactions*****Share options granted to employees***

The fair value of services received determined by reference to the fair value of share options granted at the grant date is recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share options reserve).

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share options reserve will continue to be held on share options reserve.

**Retirement benefit scheme contributions**

Payments to defined contribution scheme and the Mandatory Provident Fund Scheme ("MPF Scheme") are charged as expenses when employees have rendered service entitling them to the contributions.

**5. KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the process of applying the Group's accounting policies, management makes various estimates based on past experiences, expectations of the future and other information. The key sources of estimation uncertainty that may significantly affect the amounts recognised in the consolidated financial statements in the next financial year are disclosed below:

**Estimated impairment on available-for-sale investments**

Management reviews the recoverability of the Group's available-for-sale investments with reference to current market environment whenever events or changes in circumstances indicate that the carrying amounts of the assets exceeds their corresponding recoverable amounts. Appropriate impairment for estimated irrecoverable amounts are recognised in profit and loss when there is objective evidence that the asset is impaired.

In determining whether impairment on available-for-sale investments is required, the Group takes into consideration the current market environment and the present value of future cash flow expected to receive. Impairment is recognised based on the higher of estimated future cash flow and estimated market value. If the market environment/circumstances changes significantly, resulting in a decrease in the recoverable amount of these available-for-sale investments, additional impairment loss may be required.

**Notes to the Consolidated Financial Statements (Continued)***For the year ended 31 July 2007***5. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)****Income taxes**

As at 31 July 2007, a deferred tax asset of HK\$2,295,000 in relation to unused tax losses has been recognised in the Group's balance sheet. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are more or less than expected, additional deferred tax assets may be recognised or a material reversal of deferred tax assets may arise, which would be recognised in the income statement for the year in which such a reversal takes places.

**6. FINANCIAL INSTRUMENTS****a. Financial risk management objectives and policies**

The Group's major financial instruments include available-for-sale investments, derivative financial instruments, investments held for trading, trade and other receivables, trade and other payables, bank borrowings, pledged bank deposit and bank balances. Details of these financial instruments are disclosed in the respective notes. The risks associated with certain of these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

***Currency risk***

Certain derivative financial instruments of the Group are denominated in foreign currencies such as Japanese yen and United States dollar. The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure closely and will consider hedging significant foreign currency exposure should the need arises.

***Credit risk***

The Group's maximum exposure to credit risk in the event of counterparties' failure to perform their obligations as at 31 July 2007 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual receivable at each balance sheet date to ensure that adequate impairment losses are recognised for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

**Notes to the Consolidated Financial Statements (Continued)***For the year ended 31 July 2007***6. FINANCIAL INSTRUMENTS (Continued)****a. Financial risk management objectives and policies (Continued)***Credit risk (Continued)*

The credit risk on liquid fund is limited because the counterparties are banks with good reputation.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

*Cash flow interest rate risk*

The Group's cash flows interest rate risk relates primarily to variable-rate bank borrowings (see note 31 for details of these borrowings). It's the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

*Price risk*

The Group is exposed to equity security price risk through its investment in derivative financial instruments and investments held for trading. Management manages this exposure by maintaining a portfolio of investments with different risk profiles.

**b. Fair value**

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

- the fair value of financial assets and financial liabilities including derivatives with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; and
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

The directors consider that the fair values of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their corresponding carrying amounts.



**Notes to the Consolidated Financial Statements (Continued)***For the year ended 31 July 2007***7. REVENUE**

An analysis of the Group's revenue for the year, for both continuing and discontinued operations is as follows:

	<b>2007</b> <i>HK\$'000</i>	<b>2006</b> <i>HK\$'000</i> (restated)
<b>Continuing operations</b>		
Property rental	567	411
Net gain on investments held for trading	128,702	64,016
Net gain on derivative financial instruments	20,762	3,618
Dividend income	4,669	4,822
	<u>154,700</u>	<u>72,867</u>
<b>Discontinued operation</b>		
Estate agency income	4,879	5,533
	<u>159,579</u>	<u>78,400</u>

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

For management purposes, the Group is 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 derivative financial instruments

Property sale — sale of properties held for sale

Estate agency — provision of estate agency services

During the year ended 31 July 2007, the Group disposed of its two subsidiaries, Consecutive Profits Limited (“Consecutive Profits”) and Century 21 Hong Kong Limited (“Century 21”) which are engaged in estate agency service operations as set out in note 11.

**Notes to the Consolidated Financial Statements (Continued)***For the year ended 31 July 2007***8. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)****Business segments (Continued)**

Segment information about these businesses is presented below:

	Continuing operations					Discontinued operation	
	Property rental	Financial investment	Property sale	Others	Sub-total	Estate agency	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
INCOME STATEMENT							
For the year ended 31 July 2007							
REVENUE							
External sales	567	150,533	—	3,600	154,700	4,879	159,579
SEGMENT RESULT	2,769	149,596	—	—	152,365	599	152,964
Unallocated corporate income							10,905
Unallocated corporate expenses							(53,907)
Share of (loss) profit of associates	—	—	(57)	1,656	1,599	—	1,599
Loss on disposal of subsidiaries						(2,099)	(2,099)
Impairment loss on goodwill						(780)	(780)
Finance costs							(498)
Profit before taxation							108,184
Taxation							(22,876)
Profit for the year							85,308

**Notes to the Consolidated Financial Statements (Continued)***For the year ended 31 July 2007***8. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)****Business segments (Continued)**

	Property rental HK\$'000	Financial investment HK\$'000	Property sale HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
BALANCE SHEET					
At 31 July 2007					
ASSETS					
Segment assets	38,106	274,687	206	—	312,999
Interests in associates	—	—	161,643	230,856	392,499
Unallocated corporate assets	—	—	—	224,397	224,397
Consolidated total assets					<u>929,895</u>
LIABILITIES					
Segment liabilities	4,040	775	—	—	4,815
Unallocated corporate liabilities	—	—	—	42,645	42,645
Consolidated total liabilities					<u>47,460</u>

	Continuing operations				Discontinued operation	
	Property rental HK\$'000	Financial investment HK\$'000	Property sale HK\$'000	Unallocated HK\$'000	Sub-total HK\$'000	Estate agency Consolidated HK\$'000

**OTHER INFORMATION***For the year ended 31 July 2007*

Capital additions	—	—	—	12,114	12,114	5	12,119
Depreciation	—	—	—	148	148	417	565
Release of prepaid lease payments	—	—	—	227	227	—	227
Impairment loss on goodwill	—	—	—	—	—	780	780

**Notes to the Consolidated Financial Statements (Continued)***For the year ended 31 July 2007***8. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)****Business segments (Continued)**

	Continuing operations					Discontinued operation	Consolidated
	Property rental	Financial investment	Property sale	Unallocated	Sub-total	Estate agency	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
INCOME STATEMENT							
For the year ended 31 July 2006							
REVENUE							
External sales	411	72,456	—	—	72,867	5,533	78,400
SEGMENT RESULT	(21,448)	72,593	—	—	51,145	288	51,433
Unallocated corporate income							1,135
Unallocated corporate expenses							(11,434)
Finance costs							(568)
Profit before taxation							40,566
Taxation							(11,584)
Profit for the year							28,982
	Property rental	Financial investment	Property sale	Estate agency	Unallocated	Consolidated	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
BALANCE SHEET							
At 31 July 2006							
ASSETS							
Segment assets	34,731	118,043	206	10,678	—	163,658	
Unallocated corporate assets					358,989	358,989	
Consolidated total assets						522,647	
LIABILITIES							
Segment liabilities	9,430	1,223	—	3,162	—	13,815	
Unallocated corporate liabilities					18,653	18,653	
Consolidated total liabilities						32,468	

Notes to the Consolidated Financial Statements (Continued)  
For the year ended 31 July 2007

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

Continuing operations					Discontinued operation	
Property rental	Financial investment	Property sale	Unallocated	Sub-total	Estate agency	Consolidated
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000

OTHER INFORMATION  
For the year ended 31 July 2006

Capital additions	—	—	—	18	18	1,036	1,054
Depreciation	—	—	—	103	103	536	639

Geographical segments

The Group's current operations are mainly located in Hong Kong and Macau. The Group's property rental businesses are carried out in Hong Kong. Financial investment division, property sale division and estate agency division are all located and carried out in Hong Kong.

Segment information about these geographic markets is presented below:

	Revenue by geographical market	
	2007	2006
	HK\$'000	HK\$'000
Hong Kong	155,979	78,400
Macau	3,600	—
	<u>159,579</u>	<u>78,400</u>

**Notes to the Consolidated Financial Statements (Continued)***For the year ended 31 July 2007***8. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)****Geographical segments (Continued)**

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

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Hong Kong	312,999	163,658	12,119	1,054
Macau	392,499	—	—	—
	<u>705,498</u>	<u>163,658</u>	<u>12,119</u>	<u>1,054</u>

**9. FINANCE COSTS**

	Continuing operations		Discontinued operation		Consolidated	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Interest on:						
Borrowings wholly repayable within five years:						
Bank borrowings	49	36	—	—	49	36
Convertible notes	—	44	—	—	—	44
	<u>49</u>	<u>80</u>	<u>—</u>	<u>—</u>	<u>49</u>	<u>80</u>
Borrowings not wholly repayable within five years:						
Bank borrowings	449	488	—	—	449	488
	<u>498</u>	<u>568</u>	<u>—</u>	<u>—</u>	<u>498</u>	<u>568</u>

**Notes to the Consolidated Financial Statements (Continued)***For the year ended 31 July 2007***10. TAXATION**

	Continuing operations		Discontinued operation		Consolidated	
	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The charge comprises:						
Current tax	22,770	11,539	173	88	22,943	11,627
Deferred tax ( <i>note 36</i> )	—	—	(67)	(43)	(67)	(43)
	<u>22,770</u>	<u>11,539</u>	<u>106</u>	<u>45</u>	<u>22,876</u>	<u>11,584</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) before taxation per the consolidated income statement as follows:

	2007	2006
	HK\$'000	HK\$'000
Profit (loss) before taxation		
Continuing operations	110,464	40,278
Discontinued operation	<u>(2,280)</u>	<u>288</u>
	<u>108,184</u>	<u>40,566</u>
Tax at the Hong Kong Profits Tax rate of 17.5%	18,932	7,099
Tax effect of share of profit of associates	(280)	—
Tax effect of expenses not deductible for tax purpose	8,705	4,888
Tax effect of income not taxable for tax purpose	(2,818)	(1,658)
Tax effect of tax losses not recognised	187	1,348
Utilisation of tax losses previously not recognised	<u>(1,850)</u>	<u>(93)</u>
Taxation for the year	<u>22,876</u>	<u>11,584</u>

**Notes to the Consolidated Financial Statements (Continued)***For the year ended 31 July 2007***11. DISCONTINUED OPERATION**

On 31 July 2007, the Group entered into an agreement to dispose of two subsidiaries, Consecutive Profits and Century 21 which are engaged in estate agency services. The disposal was effected in order to generate cash flows for the expansion of the Group's other businesses. The disposal was completed on 31 July 2007, on which date control of Consecutive Profits and Century 21 was passed to the acquirer.

The profit for the year from the discontinued operation is analysed as follows:

	<b>2007</b> <i>HK\$'000</i>	<b>2006</b> <i>HK\$'000</i>
Profit of estate agency services for the year	493	243
Impairment loss on goodwill ( <i>see note 19</i> )	(780)	—
Loss on disposal of estate agency services operation ( <i>see note 37</i> )	(2,099)	—
	<u>(2,386)</u>	<u>243</u>
(Loss) profit for the year attributable to the equity holders of the Company	(2,554)	161
Minority interests	168	82
	<u>(2,386)</u>	<u>243</u>

The results of the estate agency service operations for the year, which have been included in the consolidated income statement, were as follows:

	<b>2007</b> <i>HK\$'000</i>	<b>2006</b> <i>HK\$'000</i>
Revenue	4,879	5,533
Cost of sales	(2,270)	(2,799)
Other income	290	514
Administrative expenses	(2,300)	(2,960)
	<u>599</u>	<u>288</u>
Profit before taxation	599	288
Taxation	(106)	(45)
	<u>493</u>	<u>243</u>
Profit for the year	<u>493</u>	<u>243</u>

No charge or credit arose on loss on discontinuance of the operations.



**Notes to the Consolidated Financial Statements (Continued)***For the year ended 31 July 2007***11. DISCONTINUED OPERATION (Continued)**

During the year, Consecutive Profits and Century 21 contributed HK\$598,000 (2006: HK\$150,000) to the Group's net operating cash flows, paid HK\$2,980,000 (2006: HK\$4,204,000) in respect of investing activities and paid HK\$3,920,000 (2006: HK\$11,760,000) in respect of financing activities.

The carrying amounts of the assets and liabilities of Consecutive Profits and Century 21 at the date of disposal are disclosed in note 37.

**12. PROFIT FOR THE YEAR**

	Continuing operations		Discontinued operation		Consolidated	
	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit for the year has been arrived at after charging (crediting):						
Directors' remuneration (note 13)	11,785	9,673	—	—	11,785	9,673
Other staff costs, excluding directors						
Salaries and other benefits	1,262	917	2,200	2,534	3,462	3,451
Retirement benefit scheme contributions	36	29	97	114	133	143
Share-based payment expense	33,321	—	—	—	33,321	—
Total employee benefit expenses	46,404	10,619	2,297	2,648	48,701	13,267
Auditors' remuneration						
Current year	1,039	803	28	22	1,067	825
Underprovision in prior years	310	164	—	—	310	164
Depreciation	148	103	417	536	565	639
Release of prepaid lease payments	227	—	—	—	227	—
Share of tax of associates (included in share of profits of associates)	466	—	—	—	466	—
Bank and other interest income	(8,407)	(5,650)	—	—	(8,407)	(5,650)

**Notes to the Consolidated Financial Statements (Continued)***For the year ended 31 July 2007***13. DIRECTORS' EMOLUMENTS**

The emoluments paid or payable to each of the six (2006: six) directors are as follows:

**2007**

	Mr. Chu Nin Yiu, Stephen HK\$'000	Mr. Chu Nin Wai, David HK\$'000	Mr. Lau Chi Kan, Michael HK\$'000	Mr. Leung Kam Fai HK\$'000	Mr. Wong Kwong Fat HK\$'000	Mr. Li Sze Kuen, Billy HK\$'000	Total HK\$'000
Fees	—	—	—	150	150	150	450
Other emoluments							
— Salaries and other benefits	3,250	—	—	—	—	—	3,250
— Retirement benefit scheme contributions	12	—	—	—	—	—	12
— Share-based payment expense	—	3,191	3,191	—	1,691	—	8,073
	<u>3,262</u>	<u>3,191</u>	<u>3,191</u>	<u>150</u>	<u>1,841</u>	<u>150</u>	<u>11,785</u>

**2006**

	Mr. Chu Nin Yiu, Stephen HK\$'000	Mr. Chu Nin Wai, David HK\$'000	Mr. Lau Chi Kan, Michael HK\$'000	Mr. Leung Kam Fai HK\$'000	Mr. Wong Kwong Fat HK\$'000	Mr. Li Sze Kuen, Billy HK\$'000	Total HK\$'000
Fees	—	—	—	150	150	150	450
Other emoluments							
— Salaries and other benefits	3,250	—	—	—	—	—	3,250
— Retirement benefit scheme contributions	12	—	—	—	—	—	12
— Share-based payment expense	1,987	1,987	1,987	—	—	—	5,961
	<u>5,249</u>	<u>1,987</u>	<u>1,987</u>	<u>150</u>	<u>150</u>	<u>150</u>	<u>9,673</u>

During the years ended 31 July 2007 and 2006, no directors waived any emoluments.

**Notes to the Consolidated Financial Statements (Continued)***For the year ended 31 July 2007***14. EMPLOYEES' EMOLUMENTS**

Of the five highest paid individuals in the Group, three (2006: three) were directors of the Company whose emoluments was included in note 13 above. The emoluments of the remaining two (2006: two) employees were as follows:

	<b>2007</b> <i>HK\$'000</i>	<b>2006</b> <i>HK\$'000</i>
Salaries and other benefits	725	1,018
Retirement benefit scheme contributions	15	24
share-based payment expense	9,779	—
	<u>10,519</u>	<u>1,042</u>

Their emoluments were within the following bands:

	<b>2007</b> <i>No. of employees</i>	<b>2006</b> <i>No. of employees</i>
Nil to HK\$1,000,000	—	2
HK\$4,500,001 to HK\$5,000,000	1	—
HK\$5,500,001 to HK\$6,000,000	1	—
	<u>1</u>	<u>—</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 (2006: Nil).

**Notes to the Consolidated Financial Statements (Continued)***For the year ended 31 July 2007***15. EARNINGS PER SHARE****From continuing and discontinued operations**

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

	<b>2007</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Earnings for the purpose of basic earnings per share		
Profit for the year attributable to equity holders of the Company	85,140	28,900
Effect of dilutive potential ordinary shares:		
Interest on convertible notes	—	44
	<u>85,140</u>	<u>28,944</u>
Earnings for the purpose of diluted earnings per share	<u>85,140</u>	<u>28,944</u>
	<b>2007</b>	<b>2006</b>
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	8,154,358,748	3,448,593,919
Effect of dilutive potential ordinary shares:		
— convertible notes	—	8,829,697
— share options	35,115,778	—
	<u>8,189,474,526</u>	<u>3,457,423,616</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>8,189,474,526</u>	<u>3,457,423,616</u>

The weighted average number of ordinary shares for both years for the purpose of calculating the basic and diluted earnings per share have been adjusted to reflect the effects of the share sub-division and bonus element of the rights issue as set out in notes 33(c) and 33(g) respectively. The computation of diluted earnings per share does not assume the conversion of certain share options and warrants since their exercise would result in an increase in earnings per share from continuing operations.

**Notes to the Consolidated Financial Statements (Continued)***For the year ended 31 July 2007***15. EARNINGS PER SHARE (Continued)****From continuing operations**

The calculation of basic and diluted earnings per share from continuing operations is based on the following data:

	<b>2007</b> <i>HK\$'000</i>	<b>2006</b> <i>HK\$'000</i>
Earnings for the purpose of basic earnings per share:		
Profit for the year attributable to equity holders of the Company	85,140	28,900
Less: Loss (profit) for the year attributable to equity holders of the Company from discontinued operation	2,554	(161)
	<u>87,694</u>	<u>28,739</u>
Earnings for the purpose of basic earnings per share from continuing operations	87,694	28,739
Interest on convertible notes	—	44
	<u>87,694</u>	<u>28,783</u>
Earnings for the purpose of diluted earnings per share from continuing operations	<u>87,694</u>	<u>28,783</u>

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

The basic and diluted (loss) earnings per share from discontinued operations based on the above data are as follows:

	<b>2007</b>	<b>2006</b>
From discontinued operations		
— Basic (loss) earnings per share	(0.031) HK cents	0.005 HK cents
	<u>(0.031) HK cents</u>	<u>0.005 HK cents</u>
— Diluted (loss) earnings per share	(0.031) HK cents	0.005 HK cents
	<u>(0.031) HK cents</u>	<u>0.005 HK cents</u>

**Notes to the Consolidated Financial Statements (Continued)***For the year ended 31 July 2007***16. INVESTMENT PROPERTIES***HK\$'000*

AT FAIR VALUE	
At 1 August 2005	54,336
Decrease in fair value	(19,768)
	<hr/>
At 31 July 2006	34,568
Increase in fair value	3,260
	<hr/>
At 31 July 2007	37,828
	<hr/>

The carrying value of investment properties shown above comprises:

	<b>2007</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Investment properties in Hong Kong:		
Long lease	2,520	1,800
Medium-term lease	28,710	25,470
Investment properties outside Hong Kong:		
Freehold land	6,598	7,298
	<hr/>	<hr/>
	37,828	34,568
	<hr/>	<hr/>

All of the Group's property interests in land held under operating leases to earn rentals are measured using the fair value model and are classified and accounted for as investment properties.

The fair values of the Group's investment properties at 31 July 2007 have been arrived at on the basis of valuation carried out on that date by Norton Appraisals Limited and Network Real Estate Appraisal Inc., independent qualified professional valuers not connected with the Group. Norton Appraisals Limited and Network Real Estate Appraisal Inc. have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to Hong Kong Institute of Surveyors Valuation Standards on Properties/Japanese Real Estate Appraisal, was arrived at by reference to market evidence of transaction prices for similar properties.

**Notes to the Consolidated Financial Statements (Continued)***For the year ended 31 July 2007***17. PROPERTY, PLANT AND EQUIPMENT**

	<b>Buildings</b>	<b>Leasehold</b>	<b>Furniture,</b>	<b>Motor</b>	<b>Total</b>
	<b>HK\$'000</b>	<b>improvements</b>	<b>fixtures and</b>	<b>vehicle</b>	<b>HK\$'000</b>
		<b>HK\$'000</b>	<b>equipment</b>	<b>HK\$'000</b>	
			<b>HK\$'000</b>		
<b>THE GROUP</b>					
<b>COST</b>					
At 1 August 2005	—	140	462	—	602
Additions	—	808	246	—	1,054
At 31 July 2006	—	948	708	—	1,656
Additions	1,600	—	25	2,094	3,719
Disposal of subsidiaries	—	(875)	(510)	—	(1,385)
At 31 July 2007	1,600	73	223	2,094	3,990
<b>DEPRECIATION</b>					
At 1 August 2005	—	11	192	—	203
Provided for the year	—	418	221	—	639
At 31 July 2006	—	429	413	—	842
Provided for the year	43	325	197	—	565
Elimination of disposal of subsidiaries	—	(681)	(467)	—	(1,148)
At 31 July 2007	43	73	143	—	259
<b>CARRYING VALUES</b>					
At 31 July 2007	1,557	—	80	2,094	3,731
At 31 July 2006	—	519	295	—	814

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum.

Buildings	Over 9 $\frac{1}{4}$ years, representing the remaining lease term
Leasehold improvements	Over the term of the relevant lease or 33 $\frac{1}{3}$ %, whichever is shorter
Furniture, fixtures and equipment	20%
Motor vehicle	33 $\frac{1}{3}$ %

**Notes to the Consolidated Financial Statements (Continued)***For the year ended 31 July 2007***18. PREPAID LEASE PAYMENTS**

The Group's prepaid lease payments comprise:

	<b>2007</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Leasehold land outside Hong Kong on short lease	8,173	—
Analysed for reporting purposes as:		
Non-current assets	7,265	—
Current assets	908	—
	<u>8,173</u>	<u>—</u>

**19. GOODWILL**

	<b>THE GROUP</b>
	<i>HK\$'000</i>
<b>COST</b>	
At 1 August 2005	4,532
Elimination of accumulated amortisation upon the application of HKFRS 3	<u>(339)</u>
At 31 July 2006	4,193
Disposal of subsidiaries	<u>(4,193)</u>
At 31 July 2007	<u>—</u>
<b>AMORTISATION AND IMPAIRMENT</b>	
At 1 August 2005	339
Elimination of accumulated amortisation upon the application of HKFRS 3	<u>(339)</u>
At 31 July 2006	—
Impairment loss recognised	780
Eliminated on disposal of subsidiaries	<u>(780)</u>
At 31 July 2007	<u>—</u>
<b>CARRYING VALUES</b>	
At 31 July 2007	<u>—</u>
At 31 July 2006	<u>4,193</u>



**Notes to the Consolidated Financial Statements (Continued)***For the year ended 31 July 2007***19. GOODWILL (Continued)**

As explained in note 8, the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill has been allocated to one cash generating unit ("CGU") which is estate agency segment.

During the year, the management had recognised an impairment loss of HK\$780,000 on goodwill. The basis of the recoverable amount of the above CGU and its major underlying assumptions are summarised below:

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by the management of the Group covering a ten-year period from the balance sheet date and discount rate of 6%. The cash flows beyond the 5-year period are extrapolated using a zero growth rate. The growth rate is based on the relevant industry growth forecast. A key assumption for the value in use calculations is the budgeted gross margin, which is determined based on the unit's past performance and the management's expectations for the market development. According to that calculation, the discounted recoverable amount is higher than the carrying amount of the CGU, including the related goodwill and net asset value. The Group had recognised an impairment loss of HK\$780,000 (2006: Nil) for the year ended 31 July 2007.

During the year ended 31 July 2007, the CGU was disposed of as set out in note 37.

**20. INVESTMENTS IN SUBSIDIARIES/AMOUNTS DUE FROM SUBSIDIARIES**

	<b>THE COMPANY</b>	
	<b>2007</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Investments in subsidiaries:		
Unlisted shares, at cost, less impairment		
losses recognised	400	10
	<u>400</u>	<u>10</u>
Amounts due from subsidiaries	630,136	268,688
	<u>630,136</u>	<u>268,688</u>

The amounts due from subsidiaries are unsecured, bear interest at prevailing market rates and have no fixed terms of repayment.

**Notes to the Consolidated Financial Statements (Continued)***For the year ended 31 July 2007***20. INVESTMENTS IN SUBSIDIARIES/AMOUNTS DUE FROM SUBSIDIARIES (Continued)**

Details of the Company's principal subsidiaries at 31 July 2007 are as follows:

Name of subsidiary	Place of incorporation/ operation	Issued and paid up share capital	Proportion of nominal value of issued share 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
Chadbury International Limited	British Virgin Islands/ Japan	US\$1	—	100	Property investment
Evergood Management Limited	Hong Kong	HK\$2	100	—	Investment holding
Hegel Trading Limited	Hong Kong	HK\$2	100	—	Property investment
High Cheong Developments Limited	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
Tamulus Limited	British Virgin Islands	US\$50,000	100	—	Investment holding

**Notes to the Consolidated Financial Statements (Continued)***For the year ended 31 July 2007***20. INVESTMENTS IN SUBSIDIARIES/AMOUNTS DUE FROM SUBSIDIARIES (Continued)**

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.

**21. INTERESTS IN ASSOCIATES**

	<b>THE GROUP</b>	
	<b>2007</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of unlisted investments in associates	390,900	—
Share of post-acquisition profits	1,599	—
	<u>392,499</u>	<u>—</u>

At 31 July 2007, the Group had interests in the following associates:

<b>Name of entity</b>	<b>Place of incorporation/ principal place of operation</b>	<b>Proportion of quoted capital held by the Group</b>	<b>Principal activities</b>
Tin Fok Holdings Company Limited ("Tin Fok")	Macau	32.5%	Hotel operation
Sun Fat Investment and Industry Limited ("Sun Fat")	Macau	49%	Property development

During the year ended 31 July 2007, the Group acquired 22.5% additional equity interests in Tin Fok at a consideration of HK\$160,000,000. At 31 July 2006, the Group held 10% equity interest in Tin Fok which was then classified as available-for-sale investment. After completion of the acquisition of 22.5% interests of Tin Fok, Tin Fok has become an associate of the Group. Included in the cost of investments in associates is goodwill of HK\$2,362,000 arising on acquisition of Tin Fok.

**Notes to the Consolidated Financial Statements (Continued)***For the year ended 31 July 2007***21. INTERESTS IN ASSOCIATES (Continued)**

The summarised financial information in respect of the Group's associates is set out below:

	<b>2007</b> <i>HK\$'000</i>	<b>2006</b> <i>HK\$'000</i>
Total assets	1,371,516	—
Total liabilities	(338,573)	—
Net assets	<u>1,032,943</u>	<u>—</u>
Group's share of net assets of associates	<u>392,499</u>	<u>—</u>
Revenue	<u>38,625</u>	<u>—</u>
Profit for the year	<u>4,979</u>	<u>—</u>
Group's share of profits of associates	<u>1,599</u>	<u>—</u>

**22. AVAILABLE-FOR-SALE INVESTMENTS**

	<b>THE GROUP</b> <b>2007</b> <i>HK\$'000</i>	<b>2006</b> <i>HK\$'000</i>
Unlisted equity securities, at cost	<u>56,250</u>	<u>116,250</u>

The above investments represent investments in unlisted equity securities issued by private entities incorporated in Macau. They are measured at cost less impairment at the balance sheet date because the range of reasonable fair values estimates is so significant that the directors of the Group are of the opinion that their fair values cannot be measured reliably.

Included in unlisted equity securities as at 31 July 2006 was 10% equity interest in Tin Fok, amounting to HK\$60,000,000. During the year ended 31 July 2007, the Group acquired 22.5% additional equity interests in Tin Fok as set out in note 21. After completion of the acquisition of 22.5% additional interests in Tin Fok, Tin Fok has become an associate of the Group.

**Notes to the Consolidated Financial Statements (Continued)***For the year ended 31 July 2007***23. PROPERTIES HELD FOR SALE**

	<b>THE GROUP</b>		<b>THE COMPANY</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Properties in Hong Kong	<u>206</u>	<u>206</u>	<u>206</u>	<u>206</u>

**24. DERIVATIVE FINANCIAL INSTRUMENTS**

	<b>THE GROUP</b>			
	<b>2007</b>		<b>2006</b>	
	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Futures	<u>—</u>	<u>775</u>	<u>283</u>	<u>1,163</u>

Futures:

The Group entered into futures trading during the year and the major terms of the outstanding futures are set out below:

	<b>Notional amount</b>	<b>Maturity</b>
<b>At 31 July 2007</b>		
Nikkei 225 index futures	US\$4 million	September 2007
H-Share index futures	HK\$30 million	August 2007
Heng Sang index futures	HK\$55 million	August 2007
<b>At 31 July 2006</b>		
Japanese Yen futures	Yen 375 million	September 2006
H-Share index futures	HK\$69 million	August 2006

The above derivatives are measured at fair value at the balance sheet date. Their fair values are determined based on the quoted market price for equivalent instruments at the balance sheet date.

**Notes to the Consolidated Financial Statements (Continued)***For the year ended 31 July 2007***25. TRADE AND OTHER RECEIVABLES**

At 31 July 2007, the balance of trade and other receivables of the Group included trade receivables of HK\$41,000 (2006: HK\$2,824,000). An aged analysis of trade receivables is as follows:

	<b>THE GROUP</b>	
	<b>2007</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 60 days	31	662
61 to 90 days	—	208
91 days or above	10	1,954
	<u>41</u>	<u>2,824</u>

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

**26. INVESTMENTS HELD FOR TRADING**

Investments held for trading of the Group at 31 July 2007 represent equity securities listed in Hong Kong.

**27. CERTIFICATE OF DEPOSIT**

	<b>THE GROUP</b>	
	<b>2007</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fixed-rate certificate of deposit	<u>—</u>	<u>8,996</u>

The certificate of deposit was unsecured, bore interest at 2.33% per annum and was fully matured during the year ended 31 July 2007.

**Notes to the Consolidated Financial Statements (Continued)***For the year ended 31 July 2007***28. PROMISSORY NOTE RECEIVABLES**

	<b>THE GROUP AND THE COMPANY</b>	
	<b>2007</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Principal	—	4,000

The unquoted promissory note receivables were unsecured, bore interest at 5% per annum and were fully repaid during the year ended 31 July 2007.

**29. PLEDGED BANK DEPOSIT/BANK BALANCES AND CASH**

Pledged bank deposit of the Group represents deposit pledged to a bank to secure banking facilities granted to the Group. The deposit carries fixed interest rates ranging from 2.65% to 4.33% (2006: 1.75% to 2.85%) per annum. The pledged bank deposit will be released upon the expiry of relevant banking facilities.

Bank balances and cash of the Group and the Company comprise bank balances and cash held and short-term bank deposits that are interest-bearing at market interest rate and are with maturity of three months or less. The Group's and the Company's bank deposits carry interest rates ranging from 1.75% to 2.50% (2006: 1.25% to 4.33%) per annum and 1.75% to 2.50% (2006: 1.85% to 4.33%) per annum, respectively.

**30. TRADE AND OTHER PAYABLES**

At 31 July 2007, the balance of trade and other payables of the Group included trade payables of HK\$1,305,000 (2006: HK\$618,000). An aged analysis of trade payables is as follows:

	<b>THE GROUP</b>	
	<b>2007</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 60 days	1,159	246
61 to 90 days	—	92
91 days or above	146	280
	<u>1,305</u>	<u>618</u>

**Notes to the Consolidated Financial Statements (Continued)***For the year ended 31 July 2007***31. BANK BORROWINGS**

	<b>THE GROUP</b>	
	<b>2007</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unsecured bank loan	—	25
Secured bank loan	5,976	6,798
	<u>5,976</u>	<u>6,823</u>
Bank borrowings are repayable as follows:		
Within one year or upon demand	1,039	903
More than one year but not exceeding two years	1,028	970
More than two years but not exceeding three years	1,103	1,031
More than three years but not exceeding four years	1,185	1,107
More than four years but not exceeding five years	1,272	1,189
More than five years	349	1,623
	<u>5,976</u>	<u>6,823</u>
Less: Current portion shown under current liabilities	<u>(1,039)</u>	<u>(903)</u>
	<u>4,937</u>	<u>5,920</u>

The secured bank loan carries interest at Hong Kong Prime Rate less 1% for both years. It is secured by investment properties held by the Group with carrying value at 31 July 2007 of HK\$27,800,000 (2006: HK\$24,700,000).

**32. AMOUNTS DUE TO SUBSIDIARIES**

The amounts are unsecured, bear interest at prevailing market rates and have no fixed terms of repayment.



**Notes to the Consolidated Financial Statements (Continued)***For the year ended 31 July 2007***33. SHARE CAPITAL**

	Number of ordinary shares	Amount HK\$'000
Ordinary shares		
Authorised:		
At 1 August 2005 at HK\$0.01 each	12,250,000,000	122,500
Capital reorganisation		
— Share consolidation ( <i>note a (i)</i> )	(12,127,500,000)	—
— Increase during the year ( <i>note a (ii)</i> )	1,877,500,000	1,877,500
	<u>2,000,000,000</u>	<u>2,000,000</u>
— Share subdivision ( <i>note c</i> )	8,000,000,000	—
	<u>10,000,000,000</u>	<u>2,000,000</u>
At 31 July 2006, at HK\$0.20 each	10,000,000,000	2,000,000
Capital reduction ( <i>note f</i> )	—	(1,900,000)
Increase during the year ( <i>note g</i> )	190,000,000,000	1,900,000
	<u>190,000,000,000</u>	<u>1,900,000</u>
At 31 July 2007, at HK\$0.01 each	<u>200,000,000,000</u>	<u>2,000,000</u>
Issued and fully paid:		
At 1 August 2005, at HK\$0.01 each	5,254,398,668	52,544
Capital reorganisation		
— Share consolidation ( <i>note a (i)</i> )	(5,201,854,682)	—
— Issue of shares on rights issue ( <i>note a</i> )	210,175,944	210,176
Conversion of convertible notes ( <i>note b</i> )	2,211,538	2,211
Capital reorganisation		
— Share subdivision ( <i>note c</i> )	1,059,725,872	—
Issue of shares on private placement		
on 30 June 2006 ( <i>note d</i> )	264,000,000	52,800
Exercise of warrants ( <i>note e</i> )	104,930,000	20,986
	<u>1,693,587,340</u>	<u>338,717</u>
At 31 July 2006, at HK\$0.20 each	1,693,587,340	338,717
Capital reduction ( <i>note f</i> )	—	(321,781)
Issue of shares on rights issue ( <i>note g</i> )	8,467,936,700	84,680
Exercise of warrants ( <i>note h</i> )	457,142,856	4,571
Exercise of share options ( <i>note i</i> )	141,100,000	1,411
	<u>10,759,766,896</u>	<u>107,598</u>
At 31 July 2007, at HK\$0.01 each	<u>10,759,766,896</u>	<u>107,598</u>

**Notes to the Consolidated Financial Statements (Continued)***For the year ended 31 July 2007***33. SHARE CAPITAL (Continued)***Notes:*

- (a) Pursuant to a circular dated 12 September 2005, a prospectus dated 30 September 2005 and resolutions passed on 29 September 2005, a capital reorganisation (the “Capital Reorganisation”) was approved with effect from 29 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 9 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 HK\$52,544,000 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 HK\$1.00 each, in which 1,877,500,000 shares were created.

In addition, the Company issued 210,175,944 shares at a subscription price of HK\$1.00 each in the capital of the Company, by way of rights issue, in the proportion of four rights shares per one existing share to the shareholders (“Rights Shares”) whose names appeared on the Company’s register at the close of business on 21 September 2005. The transaction was completed on 20 October 2005. The net proceeds of approximately HK\$206 million was 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\$6 million as general working capital of the Company. The Rights Shares, credited as fully paid, rank pari passu in all respects with the then existing issued shares. As a result of the rights issue, the total number of shares in issue was 262,719,930.

- (b) In November 2005, the 2% redeemable convertible notes due 2006 with principal amount of HK\$3,220,000 were converted into 2,211,538 ordinary shares of HK\$1.00 each of the Company at a conversion price of HK\$1.456 per share. The new shares rank pari passu with the then existing shares in all respects.

**Notes to the Consolidated Financial Statements (Continued)***For the year ended 31 July 2007***33. SHARE CAPITAL (Continued)***Notes: (Continued)*

- (c) Pursuant to an announcement dated 9 November 2005 and an ordinary resolution passed on 20 December 2005, a share subdivision was approved with effect from 21 December 2005 in which 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 shares of HK\$0.20 each (the “Subdivided Shares”) (the “Share Subdivision”). As at 25 November 2005, the authorised share capital of the Company was HK\$2,000,000,000 divided into 2,000,000,000 Consolidated Shares, of which 264,931,468 Consolidated Shares were issued and fully paid. On this basis, immediately after the Share Subdivision, the authorised share capital of the Company comprised 1,324,657,340 issued Subdivided Shares and 8,675,342,660 unissued Subdivided Shares of HK\$0.20 each.
- (d) On 30 June 2006, arrangement was made for private placement to independent investors of 264,000,000 new shares of the Company of HK\$0.20 each at placing price of HK\$0.201 per share, representing a discount of approximately 1.95% to the closing market price of HK\$0.205 per share on 30 June 2006. The net proceeds of approximately HK\$51,855,000 will be used as additional general working capital and funding to finance the acquisition of properties, property development or other potential investment as and when opportunities arise. The 264,000,000 new shares were issued under the general mandate granted to the directors at the extraordinary general meeting of the Company held on 16 June 2006. The new shares ranked pari passu with other shares in issue in all respects.
- (e) On 19 May 2006, the Company issued 264,930,000 warrants at a price of HK\$0.05 per warrant. The exercise price of the warrants is HK\$0.20 per share (subject to adjustment), and the warrants can be exercised by warrant holders on or before 18 May 2007. Total consideration received from the issue of warrants amounted to HK\$13,247,000 which has been credited to reserves.

On 19 July 2006, 104,930,000 warrants issued on 19 May 2006 were exercised, resulting in the issuance of 104,930,000 ordinary shares of HK\$0.20 each of the Company at a subscription price of HK\$0.20 per share. The new shares rank pari passu with the then existing shares in all respects.

At 31 July 2006, the Company had outstanding 160,000,000 warrants to be exercised at any time on or before 18 May 2007. Exercise in full of such warrants would result in the issue of approximately 160,000,000 additional ordinary shares of HK\$0.20 each.

- (f) Pursuant to a special resolution passed on 6 September 2006, the adjustment to the nominal value of the ordinary shares of the Company by way of capital reduction (the “Capital Reduction”), as detailed in the circular issued by the Company dated 14 August 2006, was approved. The Capital Reduction involved the reduction of the nominal value of each of the issued ordinary shares from HK\$0.20 to HK\$0.01 by cancelling the paid up capital to the extent of HK\$0.19 on each share, and crediting of the amount of HK\$321,781,000 arising from the Capital Reduction to the share premium account of the Company. Immediately after the completion of the Capital Reduction, the authorised share capital and the issued share capital of the Company were changed to HK\$100,000,000 and HK\$16,936,000, respectively.

**Notes to the Consolidated Financial Statements (Continued)***For the year ended 31 July 2007***33. SHARE CAPITAL (Continued)***Notes: (Continued)*

- (g) Pursuant to a circular dated 16 February 2007, a prospectus dated 13 March 2007 and resolutions passed on 12 March 2007, the authorised share capital of the Company was increased from HK\$100 million to HK\$2,000 million by the creation of 190,000 million shares of HK\$0.01 each (the “Capital Increase”).

In addition, the Company issued 8,467,936,700 shares at a subscription price of HK\$0.026 each in the capital of the Company, by way of rights issue, on the basis of five rights shares for every share held on 12 March 2007 after the Capital Increase became effective. The transaction was completed in April 2007. The net proceeds of approximately HK\$215.0 million raised will be used to finance future investment opportunities. The new shares rank pari passu in all respects with the then existing issued shares.

- (h) In April and May 2007, the remaining warrants issued on 19 May 2006 as set out in note (e) above were all converted into 457,142,856 ordinary shares of HK\$0.01 each at a subscription price adjusted from HK\$0.20 per share to HK\$0.07 per share in view of the rights issue completed in April 2007 as set out in note (g) above. The new shares rank pari passu in all respect with the then existing issued shares.
- (i) In July 2007, the Company issued 116,100,000, 10,000,000, 15,000,000 ordinary shares of HK\$0.01 each in the Company for cash at HK\$0.068, 0.048 and 0.167 per share respectively, as a result of the exercise of share options granted to directors and employees. The new shares rank pari passu in all respects with the then existing issued shares.

**34. SHARE-BASED PAYMENT TRANSACTIONS**

Pursuant to a resolution passed on 30 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 29 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.

**Notes to the Consolidated Financial Statements (Continued)***For the year ended 31 July 2007***34. SHARE-BASED PAYMENT TRANSACTIONS (Continued)**

At 31 July 2007, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 792,878,531 (2006: 144,167,286, after adjusting for the effects of Share Consolidation, Share Subdivision and the rights issue as set out in note 33), representing 7.37% of the shares of the Company in issue at that date. Total consideration of HK\$10 (2006: HK\$3) was received by the Company during the year ended 31 July 2007 on acceptance of the grants. The share options are fully vested upon issue.

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

Date of grant	Exercisable period	Exercise price HK\$	Outstanding at 1.8.2006	Granted during the year	Exercised during the year	Outstanding at 31.7.2007
17.7.2006	17.7.2006 — 29.12.2012	0.068*	144,167,286*	—	(116,100,000)	28,067,286
13.9.2006	13.9.2006 — 29.12.2012	0.048*	—	52,086,245*	(10,000,000)	42,086,245
15.6.2007	15.6.2007 — 14.6.2010	0.167	—	307,345,000	(15,000,000)	292,345,000
31.7.2007	31.7.2007 — 30.7.2010	0.255	—	430,380,000	—	430,380,000
			<u>144,167,286</u>	<u>789,811,245</u>	<u>(141,100,000)</u>	<u>792,878,531</u>
Date of grant	Exercisable period	Exercise price HK\$	Outstanding at 1.8.2005	Granted during the year	Cancelled during the year	Outstanding at 31.7.2006
20.11.2003	20.11.2003 — 29.12.2012	0.151*	6,448,832*	—	(6,448,832)	—
17.3.2004	17.3.2004 — 29.12.2012	0.155*	12,804,652*	—	(12,804,652)	—
17.7.2006	17.7.2006 — 29.12.2012	0.068*	—	144,167,286*	—	144,167,286
			<u>19,253,484</u>	<u>144,167,286</u>	<u>(19,253,484)</u>	<u>144,167,286</u>

**Notes to the Consolidated Financial Statements (Continued)***For the year ended 31 July 2007***34. SHARE-BASED PAYMENT TRANSACTIONS (Continued)**

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

Date of grant	Exercisable period	Exercise price HK\$	Outstanding at 1.8.2006	Granted during the year	Exercised during the year	Outstanding at 31.7.2007
17.7.2006	17.7.2006 — 29.12.2012	0.068*	144,167,286*	—	(116,100,000)	28,067,286
15.6.2007	15.6.2007 — 14.6.2010	0.167	—	147,060,000	—	147,060,000
			<u>144,167,286</u>	<u>147,060,000</u>	<u>(116,100,000)</u>	<u>175,127,286</u>
Date of grant	Exercisable period	Exercise price HK\$	Outstanding at 1.8.2005	Granted during the year	Cancelled during the year	Outstanding at 31.7.2006
20.11.2003	20.11.2003 — 29.12.2012	0.151*	3,224,416*	—	(3,224,416)	—
17.3.2004	17.3.2004 — 29.12.2012	0.155*	9,471,722*	—	(9,471,722)	—
17.7.2006	17.7.2006 — 29.12.2012	0.068*	—	144,167,286*	—	144,167,286
			<u>12,696,138</u>	<u>144,167,286</u>	<u>(12,696,138)</u>	<u>144,167,286</u>

\* Exercise prices for the share options granted on 20 November 2003, 17 March 2004, 17 July 2006 and 13 September 2006 have been adjusted from HK\$0.468, HK\$0.48, HK\$0.21 and HK\$0.150 to HK\$0.151, HK\$0.155, HK\$0.068 and HK\$0.048, respectively, due to the rights issue completed in April 2007. The number of share options are also adjusted.

**Notes to the Consolidated Financial Statements (Continued)***For the year ended 31 July 2007***34. SHARE-BASED PAYMENT TRANSACTIONS (Continued)**

During the year ended 31 July 2007, options were granted on 13 September 2006, 15 June 2007 and 31 July 2007. The estimated fair values of the options granted on those dates are HK\$979,000, HK\$16,873,000 and HK\$23,542,000, respectively. During the year ended 31 July 2006, options were granted on 17 July 2006. The estimated fair value of the options granted on this date is HK\$5,961,000. These fair values were calculated using The Black-Scholes pricing model. The inputs into the model were as follows:

	17 July 2006	13 September 2006	15 June 2007	31 July 2007
Weighed average share price	HK\$0.198	HK\$0.120	HK\$0.160	HK\$0.250
Exercise price	HK\$0.210	HK\$0.150	HK\$0.167	HK\$0.255
Expected volatility	100.00%	100.00%	79.2%	78.6%
Expected life	3.23 years	1.5 years	1.22 years	1.22 years
Risk-free rate	4.6%	4.5%	4.5%	4.2%
Expected dividend yield	0.0%	0.0%	0.0%	0.0%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous one year. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

As the services to be performed by other eligible participants, including consultants, are services performed by the employees of the Group, the fair value of such services is also measured with reference to the fair value of share options granted using the Black-Scholes pricing model.

The Group recognised the total expenses of HK\$41,394,000 (2006: HK\$5,961,000) for the year in relation to the share options granted by the Company in which approximately HK\$33,321,000 (2006: Nil) was related to options granted to the Group's employees and consultants and shown as staff costs as set out in note 12, and the remaining balance of approximately HK\$8,073,000 (2006: HK\$5,961,000) was related to options granted to directors which have been included in directors' emoluments as set out in note 13.

**Notes to the Consolidated Financial Statements (Continued)***For the year ended 31 July 2007***35. SHARE PREMIUM AND RESERVES**

	Share premium	Capital reserve	Warrants reserve	Share options reserve	Capital reduction reserve	Capital redemption reserve	Convertible notes equity reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>THE COMPANY</b>									
At 1 August 2005	51,866	2,127	—	—	170,583	268	92	(132,349)	92,587
Loss for the year and recognised expenses for the year	—	—	—	—	—	—	—	(6,388)	(6,388)
Conversion of convertible notes (note 33b)	1,009	—	—	—	—	—	(92)	—	917
Issue of shares on private placement (note 33d)	264	—	—	—	—	—	—	—	264
Issue of warrants (note 33e)	—	—	13,247	—	—	—	—	—	13,247
Exercise of warrants (note 33e)	5,247	—	(5,247)	—	—	—	—	—	—
Expenses incurred in connection with issue of shares	(5,806)	—	—	—	—	—	—	—	(5,806)
Recognition of equity-settled share-based payments (note 34)	—	—	—	5,961	—	—	—	—	5,961
At 31 July 2006	52,580	2,127	8,000	5,961	170,583	268	—	(138,737)	100,782
Loss for the year and recognised expenses for the year	—	—	—	—	—	—	—	(29,637)	(29,637)
Capital reduction (note 33f)	321,781	—	—	—	—	—	—	—	321,781
Issue of shares on rights issue (note 33g)	135,487	—	—	—	—	—	—	—	135,487
Exercise of warrants (note 33h)	35,429	—	(8,000)	—	—	—	—	—	27,429
Exercise of share options (note 33i)	15,254	—	—	(5,812)	—	—	—	—	9,442
Expenses incurred in connection with issue of shares	(5,280)	—	—	—	—	—	—	—	(5,280)
Recognition of equity-settled share-based payments (note 34)	—	—	—	41,394	—	—	—	—	41,394
At 31 July 2007	555,251	2,127	—	41,543	170,583	268	—	(168,374)	601,398



**Notes to the Consolidated Financial Statements (Continued)***For the year ended 31 July 2007***35. SHARE PREMIUM AND RESERVES (Continued)**

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.

**36. DEFERRED TAXATION**

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

	<b>Accelerated tax depreciation HK\$'000</b>	<b>Tax losses HK\$'000</b>	<b>Total HK\$'000</b>
<b>THE GROUP</b>			
At 1 August 2005	1,350	(1,356)	(6)
Charge (credit) to income statement	117	(160)	(43)
At 31 July 2006	1,467	(1,516)	(49)
Charge (credit) to income statement	712	(779)	(67)
Disposal of subsidiaries	116	—	116
At 31 July 2007	<u>2,295</u>	<u>(2,295)</u>	<u>—</u>
<b>THE COMPANY</b>			
At 1 August 2005	56	(56)	—
(Credit) charge to income statement	(56)	56	—
At 31 July 2006 and 31 July 2007	<u>—</u>	<u>—</u>	<u>—</u>

**Notes to the Consolidated Financial Statements (Continued)***For the year ended 31 July 2007***36. DEFERRED TAXATION (Continued)**

At 31 July 2007, the Group and the Company had unused tax losses of HK\$60,645,000 (2006: HK\$65,424,000) and HK\$13,307,000 (2006: HK\$19,857,000), respectively, available to offset against future profits and deductible temporary differences of HK\$1,926,000 (2006: HK\$285,000) and HK\$9,000 (2006: HK\$11,000), respectively, in respect of depreciation. A deferred tax asset of the Group has been recognised in respect of HK\$13,114,000 (2006: HK\$8,663,000) of such tax losses. At 31 July 2006, 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 tax losses of HK\$47,531,000 (2006: HK\$56,761,000) and HK\$13,298,000 (2006: HK\$19,857,000), respectively, and the deductible temporary differences due to unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

**37. DISPOSAL OF SUBSIDIARIES**

As explained in note 11, on 31 July 2007, the Group discontinued its estate agency operation at the time of disposal of its subsidiaries, Consecutive Profits and Century 21. The net assets of Consecutive Profits and Century 21 at the date of disposal were as follows:

	<i>HK\$'000</i>
NET ASSETS DISPOSED OF	
Property, plant and equipment	237
Deferred tax assets	116
Trade and other receivables	6,206
Bank balances and cash	936
Trade and other payables	(3,322)
Tax payable	(113)
Bank borrowings	(13)
	<u>4,047</u>
Minority interests	(1,386)
Release of goodwill	3,413
	<u>6,074</u>
Loss on disposal	(2,099)
	<u>3,975</u>
Net consideration	<u>3,975</u>
Satisfied by:	
Cash	3,975
Legal and professional fees	25
	<u>4,000</u>
Net cash inflow arising on disposal:	
Cash consideration	3,975
Bank balances and cash disposed of	(936)
	<u>3,039</u>

**Notes to the Consolidated Financial Statements (Continued)***For the year ended 31 July 2007***38. PLEDGE OF ASSETS**

At 31 July 2007, investment properties of HK\$27,800,000 (2006: HK\$24,700,000) and bank deposit of HK\$630,000 (2006: HK\$614,000) of the Group had been pledged to banks to secure credit facilities to the extent of HK\$10,600,000 (2006: HK\$10,600,000) granted to the Group, of which HK\$5,976,000 (2006: HK\$6,798,000) was utilised by the Group.

**39. RETIREMENT BENEFIT SCHEME**

Prior to 1 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. Since the Defined Contribution Schemes were terminated on 1 December 2000, forfeited contributions in respect of unvested benefits of employees leaving the Group under the Defined Contribution Schemes cannot be used to reduce ongoing contributions. The Group did not have forfeited contributions for both years.

Effective on 1 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 31 July 2007, contributions of the Group under the MPF Scheme amounted to HK\$48,000 (2006: HK\$155,000).

**Notes to the Consolidated Financial Statements (Continued)***For the year ended 31 July 2007***40. OPERATING LEASES****The Group as lessee**

Minimum lease payments paid under operating leases for premises during the year was HK\$1,358,000 (2006: HK\$801,000).

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

	<b>THE GROUP</b>	
	<b>2007</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	1,580	1,101
In the second to fifth year inclusive	522	—
	<u>2,102</u>	<u>1,101</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.

**The Group as lessor**

Property rental income earned by the Group during the year was HK\$254,000 (2006: HK\$104,000), net of outgoings of HK\$313,000 (2006: HK\$307,000). Certain of the Group's properties are held for rental purposes and are expected to generate rental yields of 2% (2006: 2%), on an ongoing basis. The properties of the Group held for rental purposes have committed tenants for an average term of two years.

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

	<b>THE GROUP</b>	
	<b>2007</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	164	307
In the second to fifth year inclusive	—	98
	<u>164</u>	<u>405</u>

The Company did not have any significant commitments and arrangement either as a lessor or a lessee at the balance sheet date.

**Notes to the Consolidated Financial Statements (Continued)***For the year ended 31 July 2007***41. CONTINGENT LIABILITIES**

At 31 July 2007, the Company has outstanding guarantees issued in favour of a bank in respect of banking facilities made available to a subsidiary which were utilised amounting to HK\$5,903,000 (2006: HK\$6,906,000).

**42. RELATED PARTY DISCLOSURES****Compensation of key management personnel**

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

	<b>2007</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Short-term benefits	3,712	3,712
Share-based payments	8,073	5,961
	<u>11,785</u>	<u>9,673</u>

The remuneration of directors and key executives is determined by the board of directors having regard to the performance of individuals and market trends.

**43. POST BALANCE SHEET EVENT**

In November 2007, the Group acquired a 50% additional interests in Sun Fat through a wholly owned subsidiary, Silver Pro Limited, for a consideration of HK\$158,300,000. The consideration was satisfied by cash totalling HK\$79,490,000 and by the issue of 555,000,000 new shares of HK\$0.01 each in the capital of the Company to the vendor at an issue price of HK\$0.142 each. Upon the completion of the acquisition in November 2007, the Group has an effective interest of 99% in the quoted capital of Sun Fat and Sun Fat has become an indirect non-wholly owned subsidiary of the Company. The principal asset of Sun Fat is its 100% ownership in a piece of land in Coloane, Macau.

**2. WORKING CAPITAL**

The Directors are of the opinion that, following completion of the Acquisition, taking into account the financial resources available to the Group, including the internally generated funds, the Enlarged Group will have sufficient working capital to satisfy its present requirements that is for at least the next twelve months from the date of this circular.

**3. STATEMENT OF INDEBTEDNESS****Borrowings and debts**

At the close of business on 31 January 2008, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of the circular, the Enlarged Group had total outstanding borrowings of approximately HK\$521.20 million, comprising (i) secured bank borrowings of HK\$116.61 million; (ii) obligations under finance leases of HK\$0.59 million; (iii) unsecured amounts due to shareholders of Hotel Fortuna (Hong Kong) of HK\$28.41 million; (iv) unsecured amounts due to related companies of Hotel Fortuna (Hong Kong) of HK\$375.50 million; and (v) secured corporate credit card payables of HK\$0.09 million.

The bank borrowings of HK\$116.61 million at the close of business on 31 January 2008 were secured by joint and several guarantees of approximately HK\$127 million executed by the directors of Hotel Fortuna (Hong Kong). In addition, certain directors of Hotel Fortuna (Hong Kong), who are also the beneficial shareholders of Hotel Fortuna (Hong Kong), pledged all of Hotel Fortuna (Hong Kong)'s issued shares to the banks.

The corporate credit card payables of HK\$0.09 million at the close of business on 31 January 2008 were secured by a fixed deposit of HK\$0.64 million pledged to secure the corporate card facility granted by a bank.

**Capital commitments**

At the close of business on 31 January 2008, the Enlarged Group had capital commitment of approximately HK\$5.51 million for the architectural design of a residential project in relation to Hotel.

**Contingent liabilities**

At the close of business on 31 January 2008, the Enlarged Group had contingent liabilities in respect of certain non-compliance with the requirements of regulatory authorities of expenses of approximately HK\$3,300,000.

**Disclaimer**

Save as disclosed above and apart from intra-group liabilities and normal trade payables in the ordinary course of business, the Enlarged Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, borrowings or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase or finance lease commitments, guarantees or other material contingent liabilities as at the close of business on 31 January 2008.

The Directors have confirmed that there has been no material change in the indebtedness and contingent liabilities of the Enlarged Group since 31 January 2008 and up to the Latest Practicable Date.

**4. MANAGEMENT DISCUSSIONS AND ANALYSIS, AND PROSPECTS****Review of the results**

The Group's turnover for the year ended 31 July 2007 was HK\$154.7 million (2006: HK\$72.9 million). Net profit after tax attributable to equity holders of the Company for the year ended 31 July 2007 amounted to HK\$85.1 million (2006: HK\$28.9 million).

The improvement in results was mainly attributable to the increase in gains from the trading of marketable securities and derivatives financial instruments.

**Business review**

During the year ended 31 July 2007, the principal activities of the Group remained to be property investment and development, provision of estate agency services, financial investment and related activities.

In Macau, according to the statistics published by Macau's Census and Statistics Department, the number of visitor arrivals has escalated to over 17 million in the first eight months of 2007, up by 21.8% over the same period of last year. Focusing on Macau's robust economy and blooming tourism, the Group has seized various opportunities and increased its presence in the property and hotel sectors through active investment and acquisitions.

In May 2007, the Group increased its equity interest in Tin Fok Holding Company Limited ("Tin Fok") in Macau from 10% to 32.50% by acquiring a further 22.50% interest for a consideration of HK\$160 million. Tin Fok, now an associated company of the Group, continues to operate and own 100% interest in Hotel Fortuna, Macau the popular three-star hotel within close proximity to business and shopping in the San Hau Ngor district. According to its audited accounts for the year ended 31 December 2006, Tin Fok achieved a turnover of approximately HK\$174.2 million in 2006, up 51.3% from HK\$115.1 million in 2005, and its hotel occupancy rate was approximately 83.9%. Tin Fok continued to perform satisfactorily. For the ensuing period ended 31 July 2007, Tin Fok's turnover was in excess of HK\$130 million and its hotel occupancy rate was above 90%.

On 29 June 2007, the Group acquired 49% of the issued quota capital of Sun Fat Investment and Industry Company Limited (“Sun Fat”) for a consideration of HK\$161.7 million. On 5 November 2007, the Group acquired a further 50% interest in Sun Fat for HK\$158.3 million, thereby increasing its total shareholders in Sun Fat to 99%. The principal asset of this subsidiary is its 100% ownership of a piece of land in Coloane, Macau consists of a site area of approximately 10,154 square meters with a valuation of HK\$330 million as at 8 June 2007. The land is currently vacant pending the approval of a development plan to develop 48 residential houses and related facilities with a total gross floor area of approximately 19,394 square meters.

The Group continues to hold a 5% interest in Sociedade de Investment Imboiliaro Pun Keng Wan, SARL in Macau, which owns the piece of land located at Avenida Commercial de Macau - Baia de Praia Grande, Zona A “Lote 9”. The Macau company is awaiting the approval of the building plans to commence the development of the 57-storey luxurious residential building on the site.

In July 2007, the Group disposed of its indirect interest in Century 21 Hong Kong Limited, the subsidiary which operates in estate agency franchising, for a consideration of HK\$4 million. The disposal allows the Group to its strategy to expand its property portfolio.

In November 2007, the Group acquired a 50% additional interests in Sun Fat through a wholly owned subsidiary, Silver Pro Limited, for a consideration of HK\$158,300,000. The consideration was satisfied by cash totalling HK\$79,490,000 and by the issue of 555,000,000 new shares of HK\$0.01 each in the capital of the Company to the vendor at an issue price of HK\$0.142 each. Upon the completion of the acquisition in November 2007, the Group has an effective interest of 99% in the quota capital of Sun Fat and Sun Fat has become an indirect non-wholly owned subsidiary of the Company. The principal asset of Sun Fat is its 100% ownership in a piece of land in Coloane, Macau.

Meanwhile, the Group has successfully raised approximately HK\$215.0 million after expenses by way of rights issue in April 2007. The rights issue has provided the Group with long term equity funding, and strengthened the Group’s financial capabilities for future investment activities.

### **Prospects**

With the opening of more world-class casinos and convention centres, and the establishments of large-scale entertainment complexes and resorts, the resorts, the outlook of Macau’s economy remains positive. The Group is confident that its investments in the property and hospitality sectors in Macau will be fruitful and rewarding, and will realize satisfactory return to both the Group and its shareholders in the foreseeable future.

Looking ahead, the Group will continue to identify and secure suitable investment projects in Macau in order to capitalize on its rapid economic growth. The Group will also explore actively opportunities in the PRC, especially the neighbouring Guangdong Province.

### **Staff remuneration**

As at 31 July 2007, the Group has seven staff in Hong Kong. The Group offers its employees competitive remuneration packages which commensurate with their performance, experience and job nature.

## **5. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors confirm that there was no material adverse change in the financial or trading position of the Group since 31 July 2007, being the date at which the latest published audited financial statement of the Group were made up.



**MANAGEMENT DISCUSSION AND ANALYSIS ON THE HOTEL FORTUNA GROUP**

The following is the management discussion and analysis of the business, financial results and position of Hotel Fortuna Group for the three years ended 31 December 2006 and the nine months ended 30 September 2007:

**(i) For the nine months ended 30 September 2007***Financial performance*

Hotel Fortuna Group recorded a turnover of approximately HK\$49.5 million for the nine months ended 30 September 2007, representing an increase of approximately 1.2 times as compared to an unaudited turnover of approximately HK\$22.5 million for the same period in 2006.

During the same period, Hotel Fortuna Group recorded a gross profit of approximately HK\$21.0 million as compared to an unaudited gross profit of approximately HK\$4.1 million during the same period in 2006, representing an increase of approximately 4.1 times. The substantial increase in turnover and gross profit were mainly attributed to higher occupancy rate of the Hotel.

Administrative expenses amounted to approximately HK\$41.8 million, representing a slight decrease of approximately 0.5% during the same period in 2006.

*Liquidity, financial resources and funding*

As at 30 September 2007, the Hotel Fortuna Group's non-current assets amounted to approximately HK\$380.3 million and current assets amounted to approximately HK\$195.4 million. Hotel Fortuna Group had cash and bank balances of approximately HK\$9.5 million, and finance lease payable and bank loans which were repayable within one year of approximately HK\$0.1 million and HK\$190.1 million, respectively. In addition, Hotel Fortuna Group had neither any other outstanding secured short-term borrowing nor created any mortgages. The income and expenditure and the assets and liabilities of the Hotel Fortuna Group were mainly denominated in RMB.

The majority of the transactions of the Hotel Fortuna Group are denominated in RMB. The Hotel Fortuna Group has certain exposure to foreign currency risk. The management believes that the Hotel Fortuna Group will monitor its foreign currency exposure closely. The Hotel Fortuna Group did not use any relevant financial instruments for hedging.

*Gearing ratio*

The gearing ratio (defined as a percentage of total liabilities divided by total assets) of Hotel Fortuna Group as at 30 September 2007 was 123.4%.

*Significant investments and material acquisitions*

For the nine months ended 30 September 2007, Hotel Fortuna Group did not have any significant investments and material acquisitions.

*Employee Information*

As at 30 September 2007, Hotel Fortuna Group employed 617 employees.

Hotel Fortuna Group provided remuneration package to employees largely based on industry practice, individual performance, qualification and experience.

*Charges on assets*

As at 30 September 2007, none of Hotel Fortuna Group's assets had been charged.

*Contingent liabilities*

As at 30 September 2007, the Hotel Fortuna Group had contingent liabilities in respect of certain non-compliance with the requirements of regulatory authorities of expenses of approximately HK\$3.3 million.

**(ii) For the year ended 31 December 2006***Financial performance*

Hotel Fortuna Group recorded a turnover of approximately HK\$36.3 million for the year ended 31 December 2006, representing an increase of approximately 10.9 times compared with the previous year's turnover of approximately HK\$3.0 million.

During the year, Hotel Fortuna Group achieved a gross profit of approximately HK\$9.5 million as compared to a gross profit of approximately HK\$0.7 million for the year ended 31 December 2005, representing an increase of approximately 12.1 times.

Administrative expenses increased significantly by approximately 2.3 times to approximately HK\$50.0 million compared with approximately HK\$15.3 million for the year ended 31 December 2005 which were mainly related to the full year operation of the Hotel in 2006.

The substantial increase in turnover and administrative expenses were mainly attributed to the full year operation of Hotel in 2006 as compared to only three months operations of Hotel which was officially opened in October 2005.

*Liquidity, financial resources and funding*

As at 31 December 2006, the Hotel Fortuna Group's non-current assets amounted to approximately HK\$363.5 million and current assets amounted to approximately HK\$35.5 million. Hotel Fortuna Group had cash and bank balances of approximately HK\$4.9 million and bank loan which was repayable within one year of approximately HK\$127 million. In addition, Hotel Fortuna Group had neither any other outstanding secured borrowing nor created any mortgages. The income and expenditure of the Hotel Fortuna Group are mainly in RMB and the assets and liabilities of the Group were mainly denominated in RMB.

The majority of the transactions of the Hotel Fortuna Group are denominated in RMB. The Hotel Fortuna Group has certain exposure to foreign currency risk. The management believes that the Hotel Fortuna Group will monitor its foreign currency exposure closely. The Hotel Fortuna Group did not use any relevant financial instruments for hedging.

*Gearing ratio*

The gearing ratio (defined as a percentage of total liabilities divided by total assets) of Hotel Fortuna Group as at 31 December 2006 was 125.3%.

*Significant investments and material acquisitions*

For the year ended 31 December 2006, Hotel Fortuna Group did not have any significant investments and material acquisitions.

*Employee Information*

As at 31 December 2006, Hotel Fortuna Group employed 579 employees.

Hotel Fortuna Group provided remuneration package to employees largely based on industry practice, individual performance, qualification and experience.

*Contingent liabilities*

As at 31 December 2006, Hotel Fortuna Group had no significant contingent liabilities.

**(iii) For the year ended 31 December 2005***Financial performance*

Hotel Fortuna Group recorded a turnover of approximately HK\$3.0 million for the year ended 31 December 2005, as the Hotel was officially opened in October 2005.

During the year, Hotel Fortuna Group achieved a gross profit of approximately HK\$0.7 million.

Administrative expenses amounted to approximately HK\$15.3 million compared with approximately HK\$3.5 million for the year ended 31 December 2004 which were mainly related to the Hotel was officially opened in October 2005.

*Liquidity, financial resources and funding*

As at 31 December 2005, the Hotel Fortuna Group's non-current assets amounted to approximately HK\$282.2 million and current assets amounted to approximately HK\$77.1 million. Hotel Fortuna Group had cash and bank balances of approximately HK\$11.6 million and bank overdrafts of approximately HK\$33.4 million which was repayable within one year and bank loan of HK\$60.0 million. In addition, Hotel Fortuna Group had neither any other outstanding secured borrowing nor created any mortgages. The income and expenditure and the assets and liabilities of the Hotel Fortuna Group were mainly denominated in RMB.

The majority of the transactions of the Hotel Fortuna Group are denominated in RMB. The Hotel Fortuna Group has certain exposure to foreign currency risk. The management believes that the Hotel Fortuna Group will monitor its foreign currency exposure closely. The Hotel Fortuna Group did not use any relevant financial instruments for hedging.

*Gearing ratio*

The gearing ratio (defined as a percentage of total liabilities divided by total assets) of Hotel Fortuna Group as at 31 December 2005 was 109.7%.

*Significant investments and material acquisitions*

For the year ended 31 December 2005, Hotel Fortuna Group did not have any significant investments and material acquisitions.

*Employee Information*

As at 31 December 2005, Hotel Fortuna Group employed 428 employees.

Hotel Fortuna Group provided remuneration package to employees largely based on industry practice, individual performance, qualification and experience.

*Charges on assets*

As at 31 December 2005, none of Hotel Fortuna Group's assets had been charged.

*Contingent liabilities*

As at 31 December 2005, Hotel Fortuna Group had no significant contingent liabilities.

**(iv) For the year ended 31 December 2004**

*Financial performance*

Since the Hotel was under development, neither revenue nor gross results were recorded for the year ended 31 December 2004.

Administrative expenses amounted to approximately HK\$3.5 million for the year ended 31 December 2004.

*Liquidity, financial resources and funding*

As at 31 December 2004, the Hotel Fortuna Group's non-current assets amounted to approximately HK\$97.2 million and current assets amounted to approximately HK\$41.4 million. Hotel Fortuna Group had cash and bank balances of approximately HK\$0.7 million and no bank overdrafts or bank loan. In addition, Hotel Fortuna Group had neither any outstanding secured borrowing nor created any mortgages. The expenditure of the Hotel Fortuna Group are mainly in RMB and the assets and liabilities of the Group were mainly denominated in RMB.

The majority of the transactions of the Hotel Fortuna Group are denominated in RMB. The Hotel Fortuna Group has certain exposure to foreign currency risk. The management believes that the Hotel Fortuna Group will monitor its foreign currency exposure closely. The Hotel Fortuna Group did not use any relevant financial instruments for hedging.

*Gearing ratio*

The gearing ratio (defined as a percentage of total liabilities divided by total assets) of Hotel Fortuna Group as at 31 December 2004 was 108.1%.

*Significant investments and material acquisitions*

For the year ended 31 December 2004, Hotel Fortuna Group did not have any significant investments and material acquisitions.

*Employee Information*

As at 31 December 2004, Hotel Fortuna Group employed 16 employees.

Hotel Fortuna Group provided remuneration package to employees largely based on industry practice, individual performance, qualification and experience.

*Charges on assets*

As at 31 December 2004, none of Hotel Fortuna Group's assets had been charged.

*Contingent liabilities*

As at 31 December 2004, Hotel Fortuna Group had no significant contingent liabilities.

## **PROSPECTS**

Given the prospects of the tourism industry and the improvement in the trading position of the Hotel Fortuna Group (both in terms of revenue and gross profit) for the nine months ended 30 September 2007, the Directors are optimistic on the growth potential for the hotel industry in Foshan, which in turn, will benefit the Hotel in future.

*The following is the text of a letter, summary of values and valuation certificate prepared for the purpose of incorporation in this circular received from Savills Valuation and Professional Services Limited, an independent property valuer, in connection with their opinion of values of the properties of the Group as at 31 December 2007.*



The Directors  
Capital Estate Limited  
Unit 1901, 19/F  
Asia Orient Tower  
33 Lockhart Road  
Wanchai  
Hong Kong

T: (852) 2801 6100  
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23/F Two Exchange Square  
Central, Hong Kong

EA LICENCE: C-023750  
savills.com

28 March 2008

Dear Sirs,

In accordance with your instructions for us to value the properties to be acquired by Capital Estate Limited (the “Company”) and its subsidiaries (hereinafter referred to as the “Group”) situated in the People’s Republic of China (the “PRC”), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of values of such properties as at 31 December 2007 for inclusion in a public circular issued by the Company.

Our valuation of each of the properties is our opinion of its market value which we would define as intended to mean “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

The market value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, joint ventures, management agreements, special considerations or concessions granted by anyone associated with the sale, or any element of special value. The market value of a property is also estimated without regard to costs of sale and purchase, and without offset for any associated taxes.

In the course of our valuation of the properties in the PRC, unless otherwise stated, we have assumed that transferable land use rights of the properties for their specific terms at nominal annual land use fees have been granted and that any land grant premium payable has already been fully paid. In valuing the properties, unless otherwise stated, we have also assumed that the owners of the properties have enforceable titles to the properties, and have free and uninterrupted right to use, occupy or assign the properties for the whole of the respective unexpired terms as granted.

In valuing the properties, we have adopted the direct comparison approach by making reference to the comparable sales transactions as available in the relevant markets.

We have been provided with extracts of documents in relation to the titles to the properties. However, we have not inspected the original documents to ascertain any amendments which may not appear on the copies handed to us. In the course of our valuation, we have relied to a very considerable extent on the information given by the Group and its legal adviser, Hills & Co., on PRC laws, regarding the titles to the properties. We have also accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, particulars of occupancy, site and floor areas and all relevant matters. Dimensions, measurements and areas included in the valuation certificate are based on the information provided to us and are therefore only approximations. No on-site measurements have been taken. We have no reason to doubt the truth and accuracy of the information provided to us by the Group which is material to the valuation. We were also advised by the Group that no material facts have been omitted from the information provided. We consider that we have been provided with sufficient information to reach an informed view.

We have inspected the exterior and where possible, the interior of the properties. During the course of our inspection, we did not note any serious defects. However, no structural survey has been made, we are therefore unable to report whether the properties are free from rot, infestation or any other defects. No tests were carried out on any of the services. We have also not carried out investigations on site to determine the suitability of the ground conditions and the services etc., for any future development. Our valuation is prepared on the assumption that these aspects are satisfactory and no extraordinary expenses or delay will be incurred during the development period.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on any property or for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

In valuing the properties, we have complied with the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors.

Unless otherwise stated, all money amounts are stated in Renminbi.

We enclose herewith our summary of values and valuation certificate.

Yours faithfully  
For and on behalf of  
**Savills Valuation and Professional Services Limited**  
**Charles C K Chan**  
*MSc FRICS FHKIS MCI Arb RPS(GP)*  
*Managing Director*

*Note: Charles C K Chan, MSc, FRICS, FHKIS, MCI Arb, RPS (GP), has been a qualified valuer and has about 23 years' experience in the valuation of properties in Hong Kong and has about 18 years' experience in the valuation of properties in the PRC.*



SUMMARY OF VALUES

No.	Property	Market value in existing state as at 31 December 2007
Group I — Property to be held by the Group for owner operation		
1.	Hotel Fortuna, Le Cong Zhen, Shun De District, Foshan, Guangdong Province, PRC	RMB590,000,000
Sub-total:		<u>RMB590,000,000</u>
Group II — Property to be held by the Group for owner occupation		
2.	Levels 1 to 4, No.B89 Zhenhua Road, Le Cong Residential Committee East District, Le Cong Zhen, Shun De District, Foshan, Guangdong Province, PRC	RMB4,770,000
Sub-total:		<u>RMB4,770,000</u>
Group III — Property to be held by the Group for future development		
3.	Undeveloped portion of Hotel Fortuna, Le Cong Zhen, Shun De District, Foshan, Guangdong Province, PRC	RMB100,000,000
Sub-total:		<u>RMB100,000,000</u>
Grand total:		<u>RMB694,770,000</u>

VALUATION CERTIFICATE

Group I — Property to be held by the Group for owner-operation

			Market value in existing state as at 31 December 2007
No. Property	Description and tenure	Particulars of occupancy	
1. Hotel Fortuna, Le Cong Zhen, Shun De District, Foshan, Guangdong Province, PRC	<p>The property comprises an 18-storey (including basement) hotel building and a 3-storey annex building erected on a parcel of land with a site area of approximately 22,671.50 sq.m. (244,036 sq.ft.) completed in 2006.</p> <p>The hotel accommodates 408 guest rooms from Levels 5 to 17; food and beverages, lounge, restaurants, retail shops, multi-function rooms and games rooms from Levels 1 to 4; and back of house in the basement. The annex building accommodates a sauna and a night club.</p> <p>The total gross floor area of the property is approximately 45,825.00 sq.m. (493,260 sq.ft.).</p> <p>The land use rights of the property were granted for a term expiring on 24 July 2072 for residential and commercial uses.</p>	The property is operated by Hotel Fortuna as a hotel.	RMB590,000,000

- Notes:
- (1) Pursuant to State-owned Land Use Rights Certificate No. Shun Fu Guo Yong (2002) Zi 0500701 issued by Shun De Planning State-owned Land Bureau on 9 October 2002, the land use rights of a parcel of land with a site area of 22,671.50 sq.m. were granted to Hotel Fortuna (佛山市財神酒店有限公司) (formerly known as 順德財神花園酒店有限公司) for a term expiring on 24 July 2072 for residential and commercial uses.
  - (2) We have been provided with a legal opinion on the title to the property issued by the Group’s PRC legal adviser, which contains, inter-alia, the following information:
    - (i) Hotel Fortuna has obtained the State-owned Land Use Rights Certificate for a parcel of land with a site area of approximately 22,671.50 sq.m. and is entitled to transfer, lease or mortgage the land use rights of the property; and
    - (ii) as the Certificate of Completion of Works was issued, there are no legal obstacles for Hotel Fortuna to obtain Real Estate Ownership Certificate. However, the property is not allowed to transfer without Real Estate Ownership Certificate.

VALUATION CERTIFICATE

Group II — Property to be held by the Group for owner-occupation

			Market value in existing state as at 31 December 2007
No. Property	Description and tenure	Particulars of occupancy	
2. Levels 1 to 4, No.B89 Zhenhua Road, Le Cong Residential Committee East District, Le Cong Zhen, Shun De District, Foshan, Guangdong Province, PRC	<p>The property comprises a 4-storey residential building completed in about 2000.</p> <p>The total gross floor area of the property is approximately 2,512.80 sq.m. (27,048 sq.ft.).</p> <p>The land use rights of the property were granted for a term expiring on 7 July 2069 for residential and commercial uses.</p>	The property is occupied by Hotel Fortuna as staff quarters.	RMB4,770,000

- Notes:
- (1) Pursuant to Real Estate Ownership Certificate No. Yue Fang Di Zheng Zi C4967582 issued by the People’s Government of Foshan, the building ownership of the property is vested in Hotel Fortuna (佛山市財神酒店有限公司) for a term expiring on 7 July 2069 for residential and commercial uses.
  - (2) Hotel Fortuna purchased the property on 13 November 2006 at a consideration of RMB4,350,000.
  - (3) We have been provided with a legal opinion on the title to the property issued by the Group’s PRC legal adviser, which contains, inter-alia, the following information:
    - (i) Hotel Fortuna has obtained the Real Estate Ownership Certificate;
    - (ii) Hotel Fortuna has paid the consideration; and
    - (iii) Hotel Fortuna is entitled to transfer, lease or mortgage the property.

VALUATION CERTIFICATE

Group III — Property to be held by the Group for future development

			Market value in existing state as at 31 December 2007
No. Property	Description and tenure	Particulars of occupancy	
3. Undeveloped portion of Hotel Fortuna, Le Cong Zhen Shun De District, Foshan, Guangdong Province, PRC	<p>Hotel Fortuna comprises a parcel of land with a site area of approximately 22,671.50 sq.m. (244,036 sq.ft.). Existing structures comprise hotel and its annex building (“Hotel”) completed in 2006.</p> <p>The property comprises the undeveloped portion of the Hotel with a permissible gross floor area of approximately 44,861.00 sq.m. (482,884 sq.ft.).</p> <p>The land use rights of the property were granted for a term expiring on 24 July 2072 for residential and commercial uses.</p>	The property is vacant and pending for development.	RMB100,000,000

Notes:

(1) Pursuant to State-owned Land Use Rights Certificate No. Shun Fu Guo Yong (2002) Zi 0500701 issued by Shun De Planning State-owned Land Bureau on 9 October 2002, the land use rights of a parcel of land with a site area of 22,671.50 sq.m. were granted to Hotel Fortuna (佛山市財神酒店有限公司) (formerly known as 順德財神花園酒店有限公司) for a term expiring on 24 July 2072 for residential and commercial uses.

(2) Pursuant to Condition of Planning and Design of Construction Land of Shun De Foshan No. Shun Jian Yao Dian (2002) 0287 (“Planning Conditions 2002”), the planning and design works of the property was approved by Foshan Planning Bureau Shun De Branch and listed as follows:—

Site area (sq.m.):	22,671.54
Usage:	Commercial and Residential
Plot Ratio:	≤ 4.0

(3) Our valuation has only reflected a plot ratio of 4 as stipulated in the Condition of Planning and Design of Construction Land of Shunde Foshan No. Shun Jian Yao Dian (2002) 0287 for the entire development of the Hotel.

- (4) We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal adviser, which contains, inter-alia, the following information:
- (i) Hotel Fortuna has obtained the State-owned Land Use Rights Certificate for a parcel of land with a site area of approximately 22,671.50 sq.m. and is entitled to transfer, lease or mortgage the land use rights of the property;
  - (ii) prior to the commencement of the construction, Hotel Fortuna has to apply for the modification of the master layout plan of the entire development with the relevant authorities;
  - (iii) pursuant to the expired Planning Conditions 2007, the development of undeveloped portion of the Hotel can be merged with the adjacent land, with site area of 3,300.00 sq.m., which is currently occupied by the Hotel for carpark and greenery uses. After amalgamation, the total site area is approximately 25,971.54 sq.m.. Maximum plot ratio is about 6. However, the State-owned Land Use Rights Certificate of the adjacent land should be obtained before the commencement of construction work; and
  - (iv) as the land on which Hotel Fortuna is erected ("Hotel Land") is included in the Planning Conditions 2007, it is likely that a maximum plot ratio of 6 also applies to Hotel Land provided that the application was approved by local planning authorities with relevant land premium being settled.
- (5) For indicative purpose, had a plot ratio of 6 was attained for the entire development of the Hotel (without the parcel of land with a site area of 3,300.00 sq.m.) and the additional land premium had been paid, the market value of the undeveloped portion of the Hotel was estimated to be RMB200,000,000.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the issuer. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this document and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date were as follows:

Ordinary Shares

Authorised: HK\$

<u>200,000,000,000</u>	Shares of HK\$0.01 each	<u>2,000,000,000</u>
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Issued:

<u>13,286,896,896</u>	Shares of HK\$0.01 each	<u>132,868,968.96</u>
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All the issued Shares are fully paid and rank pari passu in all respects including the rights as to voting, dividends and return of capital.

3. DISCLOSURE OF INTERESTS

(a) Interests of Directors

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executives of the Company and their respective associates in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), the Model Code for Securities Transactions by Directors of Listed Issuers and which were required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO were as follows:

*Long position in the Shares*

Name of Director	Capacity	Number of issued Shares held	Approximate percentage of existing issued share capital of the Company
Chu Nin Yiu, Stephen	Interest in controlled corporation ( <i>Note</i> )	2,288,379,000	17.22

*Note:*

Mr. Chu Nin Yiu, Stephen, the executive chairman of the Company, is deemed to be interested in 2,288,379,000 Shares which are beneficially owned by Supervalve Holdings Limited, a company incorporated in the British Virgin Islands with limited liability.

Saved as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executives of the Company and their associates had any interests or short positions in any Shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), the Model Code for Securities Transactions by Directors of Listed Issuers and which were required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO.

**(b) Interests of substantial Shareholders**

As at the Latest Practicable Date, so far as is known to the Directors or the chief executives of the Company, the following persons (other than a Director or chief executive of the Company) had an interest or short position in the Shares and underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register maintained by the Company pursuant to Section 336 of the SFO, or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other members of the Group:

*In respect of the Company*

*Long position in the Shares*

Name of Director	Capacity	Number of issued Shares held	Approximate percentage of existing issued share capital of the Company
Supervalue Holdings Limited ( <i>Note</i> )	Beneficial Owner	2,288,379,000	17.22

*Note:*

Supervalue Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and is wholly and beneficially owned by Mr. Chu Nin Yiu, Stephen, the executive chairman of the Company.

Save as disclosed above, the Directors or the chief executive of the Company were not aware that there was any person (other than a Director or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group.



*In respect of other members of the Enlarged Group:*

Name of substantial shareholder	Name of relevant member of the Enlarged Group	Percentage of the issued share capital
Smooth Win Holdings Limited <sup>1</sup>	New Fortune Environmental Protection Limited	10.1%
Mason Creation Limited <sup>2</sup>	Hotel Fortuna (Hong Kong) <sup>4</sup>	60%
Upper Way Holdings Limited <sup>3</sup>	Hotel Fortuna (Hong Kong) <sup>4</sup>	30%
Mr. Siu Ka Kuen	Hotel Fortuna (Hong Kong) <sup>4</sup>	10%

*Notes:*

1. To the best knowledge of the Directors, Smooth Win Holdings Limited is wholly-owned by 潘瑞安 (Mr. Pan Ruian).
2. The Company understands from the Vendors, Mason Creation Limited is owned as to 50% by Mr. Sio, 30% by Mr. Kong Tat Choi and 20% by Si Tit Sang.
3. The Company understands from the Vendors, Upper Way Holdings Limited is owned as to 41.7% by Mr. Tang, 41.7% by Mr. Lai Kin Hak and 16.6% by Mr. Xiao De Wei.
4. Please note that the Completion has not been taken place yet. Hotel Fortuna (Hong Kong) will become a wholly-owned subsidiary of the Company upon Completion.

#### 4. SERVICE AGREEMENTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Enlarged Group which is not expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation).

#### 5. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective associates was interested in, apart from the Group's business, any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

#### 6. LITIGATION

As far as the Directors are aware, the Enlarged Group was not engaged in any litigation or arbitration or claims of material importance which is known to the Directors to be pending or threatened by or against either the Enlarged Group as at the Latest Practicable Date.

**7. OTHER INTERESTS**

As at the Latest Practicable Date,

1. none of the Directors had any direct or indirect interest in any assets which have, since 31 July 2007, being the date of the latest published audited accounts of the Group, been acquired or disposed of by, or leased to, or are proposed to be acquired or disposed of by, or leased to, any member of the Enlarged Group; and
2. None of the Directors was materially interested in any contract or arrangement entered into by any member of the Enlarged Group which contract or arrangement is subsisting as at the date of this circular and which is significant in relation to the business of the Enlarged Group taken as a whole.

**8. QUALIFICATIONS OF EXPERTS**

The following are the qualification of the experts who have given opinion or, advice contained in this circular:

<b>Name</b>	<b>Qualification</b>	<b>Date of opinion</b>
RSM Nelson Wheeler	Certified Public Accountants	28 March 2008
Savills Valuation and Professional Services Limited	Independent professional valuer	28 March 2008
PRC Legal Advisers	Legal advisers on PRC laws	28 March 2008

As at the Latest Practicable Date, none of RSM Nelson Wheeler, Savills Valuation and Professional Services Limited and PRC Legal Advisers was beneficially interested in the share capital of any member of the Group nor had it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group nor did it have any interest, either direct or indirect, in any assets which had been, since the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

**9. CONSENTS OF EXPERTS**

RSM Nelson Wheeler, Savills Valuation and Professional Services Limited and PRC Legal Advisers have given and have not withdrawn their written consents as the issue of this circular with the inclusion herein of their respective opinions or letters and/ or reference to their names, opinions or letters in the form and context in which they respectively appear.

**10. MATERIAL CONTRACTS**

The following contracts (not being contracts in the ordinary course of business) have been entered into by the Enlarged Group within two years immediately preceding the date of this circular and are, or may be material:

- (a) an agreement dated 3 April 2006 entered into between Grand Chance Consultants Limited as vendor, Evergood Management Limited (a wholly-owned subsidiary of the Company) as purchaser, and Sio Tak Hong as guarantor in relation to the acquisition of a 5% interest in the issued share capital of Sociedade de Investimento Imobiliario Pun Keng Van, SARL for a consideration of HK\$56.25 million;
- (b) a placing agreement dated 8 May 2006 entered into between the Company and Get Nice Investment Limited as placing agent in relation to the placing of 264,930,000 warrants of the Company (the “Warrants”) at a price of HK\$0.05 per Warrant;
- (c) a placing and underwriting agreement dated 30 June 2006 entered into between the Company and Get Nice Investment Limited as placing agent in relation to the placing of 264,000,000 Shares at a price of HK\$0.201 per Share;
- (d) a memorandum of understanding dated 19 January 2007 entered into between Tamulus Limited (a wholly-owned subsidiary of the Company) as purchaser and Sio Tak Hong and Si Tit Sang as potential vendors in relation to the possible acquisition of a 45% interest in the issued share capital of Fulvid Investment Company Limited and/or its related shareholders’ loan for a consideration of not more than HK\$330 million; and
- (e) the underwriting agreement dated 25 January 2007 entered into between the Company and Get Nice Investment Limited in relation to the underwriting and certain other arrangements in respect of a right issue of 8,467,936,700 rights shares of HK\$0.01 each at HK\$0.026 per rights share payable in full upon acceptance on the basis of five rights shares for every share held, at an underwriting commission of 2.0% of the aggregate subscription price of rights shares underwritten by Get Nice Investment limited;
- (f) an agreement dated 10 May 2007 entered into between Global Master Management Limited as vendor, Top Universal Management Limited (a wholly-owned subsidiary of the Company) as purchaser, and Mr. Sio Tak Hong as warrantor in relation to the acquisition of a 22.5% equity interest in Tin Fok Holding Company Limited for a consideration of HK\$160 million;
- (g) an agreement dated 13 June 2007 entered into between Kong Kei Construction Limited as vendor, Tamulus Limited (a wholly-owned subsidiary of the Company) as purchaser, and Messrs. Wong Tak Chong and Chen Yanping as warrantors in relation to the acquisition of a 49% of the issued quota capital of Sun Fat Investment and Industry Company Limited for a consideration of HK\$161.70 million;

- (h) an agreement dated 5 October 2007 entered into between Kong Kei Construction Limited as vendor, Silver Pro Limited (a wholly-owned subsidiary of the Company) as purchaser, and Messrs. Wong Tak Chong and Chen Yanping as warrantors in relation to the acquisition of a 50% of the issued quota capital of Sun Fat Investment and Industry Company Limited for a consideration of HK\$158.3 million, payable as to approximately HK\$79.5 million in cash and as to approximately HK\$78.8 million by the issue of Shares at the issue price of HK\$0.142 each;
- (i) the placing agreement dated 10 December 2007 entered into between the Company and Get Nice Investment Limited as placing agent in relation to the placing of 1,500,000,000 Shares at a price of HK\$0.11 per Share;
- (j) the joint venture agreement dated 26 February 2008 entered into between the Company, 潘瑞安 (Mr. Pan Ruian\*) and 黃其俊 (Mr. Huang Qijun\*), 趙劍輝 (Mr. Zhao Jianhui\*) in relation to the formation of various joint ventures entities to engage in the investment in environmental and/or property related projects in the PRC; and
- (k) the Agreement.

Save as disclosed herein, none of the Directors is materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Group.

## **11. GENERAL**

- (a) The registered office of the Company is situated at Unit 1901, 19th Floor, Asia Orient Tower, Town Place, 33 Lockhart Road, Wanchai, Hong Kong.
- (b) The share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (c) The secretary and qualified accountant of the Company is Mr. Hung Yat Ming, CPA, CA.
- (d) The English text of this document shall prevail over their Chinese text in case of inconsistencies.

**12. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company in Hong Kong up to and including 14 April 2008:

- (a) the memorandum of association and articles of association of the Company;
- (b) the annual reports of the Company for the two years ended 31 July 2007;
- (c) the accountants' report of Hotel Fortuna Group prepared by RSM Nelson Wheeler as set out in Appendix I to this circular;
- (d) the report issued by RSM Nelson Wheeler in connection with the unaudited pro forma statement of assets and liabilities of the Enlarged Group as set out in Appendix II to this circular;
- (e) the property valuation report prepared by Savills Valuation and Professional Services Limited, the text of which is set out in Appendix V to this circular;
- (f) the copies of material contracts referred to in the paragraph headed "Material contracts" in this appendix;
- (g) the letter of consent referred to in the section headed "Qualifications of Expert and Consent" in this appendix;
- (h) the circulars of the Company dated 16 February 2007, 31 May 2007, 5 July 2007 and 26 October 2007;
- (i) the prospectus dated 13 March 2007 relating to, among other things, a right issue of 8,467,936,700 right shares of HK\$0.01 each of HK\$0.026 per rights share on the basis of five rights shares for every share held; and
- (j) the Agreement.

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## NOTICE OF EGM

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### CAPITAL ESTATE LIMITED

### 冠中地產有限公司

*(Incorporated in Hong Kong with limited liability)*

**(Stock code: 193)**

**NOTICE IS HEREBY GIVEN THAT** the Extraordinary General Meeting (the “Meeting”) of Capital Estate Limited (the “Company”) will be held at Boardroom 3&4, Mezzanine Level, Renaissance Harbour View Hotel, 1 Harbour Road, Wanchai, Hong Kong on Monday, 14 April 2008 at 9:00 a.m.. to consider and if thought fit pass, with or without amendments, the following ordinary resolutions:—

#### ORDINARY RESOLUTION

“**THAT:**—

- (A) the terms of the sale and purchase agreement (the “Agreement”) dated 29 February 2008, a copy of which has been produced to this Meeting marked “A” and initialled by the chairman of the Meeting for identification purpose, entered into between the Company as purchaser, Mason Creation Limited (“Mason Creation”), Upper Way Holdings Limited (“Upper Way”) and Mr. Siu Ka Kuen (collectively with Mason Creation and Upper Way, the “Vendors”) as vendors, and Mr. Sio Tak Hong and Mr. Tang Fung as warrantors, pursuant to which, subject to the fulfilment of the conditions set out therein, the Company agreed to acquire and the Vendors agreed to sell the entire issued share capital (the “Sale Shares”) of Hotel Fortuna (Hong Kong) Company Limited (“Hotel Fortuna (Hong Kong)”) and all outstanding liabilities (the “Sale Loans”) owed by Hotel Fortuna (Hong Kong) to each of the Vendors as at completion of the Agreement, for a consideration to be determined in accordance with the terms of the Agreement, subject to adjustments as set out in the Agreement and the details of which are described in the circular of the Company dated 28 March 2008, be and are hereby approved; and
- (B) the directors of the Company be and are hereby authorised to exercise all the powers of the Company and take all steps as might in their opinion be necessary or desirable in connection with the Agreement and the execution and performance thereof, including, without limitation to:
- (i) the execution, amendment, supplement, delivery, submission and implementation of any further documents or agreements;
  - (ii) the amendment of the terms of the Agreement; and
  - (iii) the taking of all other necessary actions to implement the acquisition of the Sale Shares and the Sale Loans.”

By Order of the Board  
**Capital Estate Limited**  
**Chu Nin Yiu, Stephen**  
*Executive Chairman*

Hong Kong, 28 March 2008

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## NOTICE OF EGM

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*Registered office:*

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

*Notes:*

1. Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person as his proxy to attend and vote instead of him.
2. A proxy need not be a member of the Company. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised.
3. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority shall be deposited to the Company's share registrar in Hong Kong, Computershare Investor Hong Kong Services Limited, at Rooms 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than forty-eight (48) hours before the time for holding the meeting or adjourned meeting or poll (as the case may be) at which the person named in such instrument proposes to vote and in default the instrument of proxy shall not be treated as valid.
4. Delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the meeting convened or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
5. Where there are joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present whose name stand first on the register in respect of such share shall alone be entitled to vote in respect thereof.
6. A form of proxy for use at the EGM is enclosed herewith.

*As at the date of this circular, the Board comprises Mr. Chu Nin Yiu, Stephen, Mr. Chu Nin Wai, David, Mr. Lau Chi Kan, Michael as executive Directors and Mr. Li Sze Kuen, Billy, Mr. Wong Kwong Fat and Mr. Leung Kam Fai as independent non-executive Directors.*