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If you are in any doubt as to any aspect of this supplemental 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 supplemental circular 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.

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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**

SUPPLEMENTAL CIRCULAR

FINANCIAL ADVISER



15 July 2008

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LETTER FROM THE BOARD



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

Registered office:

17th Floor
Asia Orient Tower, Town Place
33 Lockhart Road
Wanchai
Hong Kong

Independent non-executive Directors:

Mr. Li Sze Kuen, Billy
Mr. Wong Kwong Fat
Mr. Leung Kam Fai

15 July 2008

To the Shareholders

Dear Sir/Madam,

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

SUPPLEMENTAL CIRCULAR

Reference is made to the circular dated 28 March 2008 issued by the Company (the “Circular”) to the shareholders in respect of the acquisition of the entire interest in Hotel Fortuna (Hong Kong) Company Limited. This supplemental circular (the “Supplemental Circular”) should be read together with the Circular. Terms used in this Supplemental Circular shall have the same meaning as defined in the Circular unless the context requires otherwise.

The Acquisition was approved by the Shareholders at the EGM held on 14 April 2008. As stated in the Circular, the Company had applied for, and the Stock Exchange had granted a waiver from strict compliance with Rule 4.06(1) of the Listing Rules. As one of the waiver conditions, the Company is

LETTER FROM THE BOARD

required to despatch the Supplemental Circular containing the accountants' report of the Hotel Fortuna Group for the three years ended 31 December 2007 for reference and information only, on or before 15 July 2008.

The purpose of this Supplemental Circular is to provide Shareholders with the accountants' report of the Hotel Fortuna Group for the three years ended 31 December 2007.

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

中瑞岳華(香港)會計師事務所

Certified Public Accountants

29th Floor,

Caroline Centre, Lee Gardens Two,

28 Yun Ping Road,

Hong Kong

15 July 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 2005, 31 December 2006 and 31 December 2007 (the “Relevant Periods”) for inclusion in the supplementary circular dated 15 July 2008 issued by Capital Estate Limited (the “Company”) in connection with the proposed acquisition of the entire equity interest in Fortuna HK (the “Supplementary 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 Relevant Periods 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 two years ended 31 December 2005 and 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 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 year ended 31 December 2007, which were prepared in accordance with accounting principles generally accepted in Hong Kong, 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 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 Supplementary 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 Supplementary 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.

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 2005, 31 December 2006 and 31 December 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		
		2005	2006	2007
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	8	3,042	36,335	71,557
Direct costs		(2,319)	(26,863)	(39,657)
Gross profit		723	9,472	31,900
Other income	9	16	442	5,244
Administrative expenses		(15,258)	(50,017)	(56,153)
Other operating expenses		—	(232)	(443)
Loss from operations		(14,519)	(40,335)	(19,452)
Finance costs	10	(15,145)	(31,387)	(40,651)
Loss before tax		(29,664)	(71,722)	(60,103)
Income tax expense	11	—	—	—
Loss for the year	12	(29,664)	(71,722)	(60,103)

I. FINANCIAL INFORMATION (Continued)

CONSOLIDATED BALANCE SHEETS

		As at 31 December		
	Note	2005 HK\$'000	2006 HK\$'000	2007 HK\$'000
Non-current assets				
Property, plant and equipment	15	275,111	356,454	376,020
Prepaid land lease payments	16	7,047	7,075	9,547
		<u>282,158</u>	<u>363,529</u>	<u>385,567</u>
Current assets				
Inventories	18	1,330	2,127	2,653
Prepaid land lease payments	16	108	111	153
Trade and other receivables	19	886	2,190	3,456
Prepayments and deposits paid		4,821	6,457	3,691
Amounts due from directors	20	35	392	863
Amounts due from related companies	22	3,300	505	3
Loan receivable from a related company	23	55,053	18,816	—
Cash and bank balances	24	11,583	4,884	11,080
		<u>77,116</u>	<u>35,482</u>	<u>21,899</u>
Current liabilities				
Bank overdrafts	25	33,351	—	—
Bank loans	25	60,000	127,000	13,709
Trade and other payables	26	72,391	72,917	29,013
Accrued expenses		2,087	3,076	5,952
Amount due to a director	27	43,778	—	—
Amounts due to related companies	28	2,745	50,035	87,037
Amounts due to shareholders	29	20,403	20,400	20,348
Finance lease payables	30	—	—	102
		<u>234,755</u>	<u>273,428</u>	<u>156,161</u>
Net current liabilities		<u>(157,639)</u>	<u>(237,946)</u>	<u>(134,262)</u>
Total assets less current liabilities		<u>124,519</u>	<u>125,583</u>	<u>251,305</u>
Non-current liabilities				
Bank loans	25	—	—	102,901
Finance lease payables	30	—	—	362
Shareholders' loans	31	6,659	7,313	8,006
Director's loan	32	1,285	—	—
Loans from related companies	33	151,419	219,115	276,632
		<u>159,363</u>	<u>226,428</u>	<u>387,901</u>
NET LIABILITIES		<u>(34,844)</u>	<u>(100,845)</u>	<u>(136,596)</u>
Capital and reserves				
Share capital	34	10	10	10
Reserves	35	(34,854)	(100,855)	(136,606)
CAPITAL DEFICIENCY		<u>(34,844)</u>	<u>(100,845)</u>	<u>(136,596)</u>

I. FINANCIAL INFORMATION (Continued)

BALANCE SHEETS

		As at 31 December		
		2005	2006	2007
	Note	HK\$'000	HK\$'000	HK\$'000
Non-current assets				
Property, plant and equipment	15	—	—	903
Investment in a subsidiary	17	261,806	285,806	303,006
		<u>261,806</u>	<u>285,806</u>	<u>303,909</u>
Current assets				
Amount due from a subsidiary	17	8,982	23,347	16,542
Loan to a subsidiary	17	—	45,000	60,000
Prepayments and deposits paid		—	—	3
Amounts due from related companies	22	3,300	505	3
Loan receivable from a related company	23	10,000	10,000	—
Cash and bank balances		8,379	905	128
		<u>30,661</u>	<u>79,757</u>	<u>76,676</u>
Current liabilities				
Bank overdrafts	25	33,351	—	—
Bank loans	25	60,000	127,000	13,709
Other payables		324	369	546
Accrued expenses		479	569	645
Amount due to a director	27	43,778	—	—
Amount due to a related company	28	—	48,076	52,634
Amounts due to shareholders	29	20,403	20,400	20,348
Finance lease payables	30	—	—	102
		<u>158,335</u>	<u>196,414</u>	<u>87,984</u>
Net current liabilities		<u>(127,674)</u>	<u>(116,657)</u>	<u>(11,308)</u>
Total assets less current liabilities		<u>134,132</u>	<u>169,149</u>	<u>292,601</u>
Non-current liabilities				
Bank loans	25	—	—	102,901
Finance lease payables	30	—	—	362
Shareholders' loans	31	6,659	7,313	8,006
Director's loan	32	1,285	—	—
Loans from related companies	33	151,419	219,115	276,632
		<u>159,363</u>	<u>226,428</u>	<u>387,901</u>
NET LIABILITIES		<u>(25,231)</u>	<u>(57,279)</u>	<u>(95,300)</u>
Capital and reserves				
Share capital	34	10	10	10
Reserves	35	(25,241)	(57,289)	(95,310)
CAPITAL DEFICIENCY		<u>(25,231)</u>	<u>(57,279)</u>	<u>(95,300)</u>

I. FINANCIAL INFORMATION (Continued)

CONSOLIDATED STATEMENTS 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 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	—	24,352	—	24,352
Loss for the year	—	—	(60,103)	(60,103)
Total recognised income and expense for the year	—	24,352	(60,103)	(35,751)
At 31 December 2007	10	36,439	(173,045)	(136,596)

I. FINANCIAL INFORMATION (Continued)

CONSOLIDATED CASH FLOW STATEMENTS

	Year ended 31 December		
	2005	2006	2007
Note	HK\$'000	HK\$'000	HK\$'000
Cash flows from operating activities			
Loss before tax	(29,664)	(71,722)	(60,103)
Adjustments for:			
Bank interest expenses	2,196	9,292	12,282
Other interest expenses	12,949	22,095	28,337
Bank interest received	(3)	(42)	(54)
Other interest received	—	—	(3,804)
Finance lease charges	—	—	32
Amortisation of prepaid land lease payments	107	108	147
Depreciation	2,543	22,716	25,487
Loss on disposal of property, plant and equipment	—	—	3
Operating (loss)/profit before working capital changes	(11,872)	(17,553)	2,327
Increase in inventories	(1,263)	(772)	(353)
Increase in trade and other receivables	(782)	(1,286)	(1,084)
Decrease/(increase) in prepayments and deposits paid	15,165	(1,541)	3,287
Increase in amounts due from directors and shareholders	(31)	(356)	(440)
(Increase)/decrease in amounts due from related companies	(2,300)	2,795	502
Increase/(decrease) in trade and other payables	29,155	(900)	(49,788)
Increase in accrued expenses	1,954	957	2,674
Cash generated from/(used in) operations	30,026	(18,656)	(42,875)
Interests paid	(2,371)	(9,389)	(12,629)
Finance lease charges	—	—	(32)
Net cash generated from/(used in) operating activities	27,655	(28,045)	(55,536)

I. FINANCIAL INFORMATION (Continued)

CONSOLIDATED CASH FLOW STATEMENTS (Continued)

	Year ended 31 December		
	2005	2006	2007
Note	HK\$'000	HK\$'000	HK\$'000
Cash flows from investing activities			
Bank interest received	3	42	54
Other interest received	—	—	3,804
Prepaid land lease payment	—	—	(2,087)
Purchase of property, plant and equipment	(184,844)	(99,173)	(17,510)
Loan advanced to a related company	(44,926)	(4,851)	—
Repayment of loan receivable from a related company	10,465	41,980	19,528
Deposit for proposed investment	—	—	(214,006)
Refund of deposit for proposed investment	—	—	214,006
	<u> </u>	<u> </u>	<u> </u>
Net cash (used in)/generated from investing activities	<u>(219,302)</u>	<u>(62,002)</u>	<u>3,789</u>
Cash flows from financing activities			
Proceeds from issue of shares	9	—	—
Increase/(decrease) in amount due to a director	40,806	(43,778)	—
Increase in amounts due to related companies	2,745	47,236	36,843
Increase/(decrease) in amounts due to shareholders	20,403	(3)	(51)
Bank loans raised	60,000	75,000	214,006
Loans from related companies raised	62,261	46,351	30,221
Repayment of bank loans	—	(8,000)	(224,396)
Repayment of temporary loan	(20,418)	—	—
Repayment of director's loan	—	(1,285)	—
Repayment of finance lease payables	—	—	(86)
	<u> </u>	<u> </u>	<u> </u>
Net cash generated from financing activities	<u>165,806</u>	<u>115,521</u>	<u>56,537</u>

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

	<i>Note</i>	Year ended 31 December		
		2005	2006	2007
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net (decrease)/increase in cash and cash equivalents		(25,841)	25,474	4,790
Cash and cash equivalents at 1 January		720	(21,768)	4,884
Effect of foreign exchange rate changes		<u>3,353</u>	<u>1,178</u>	<u>1,406</u>
Cash and cash equivalents at 31 December		<u>(21,768)</u>	<u>4,884</u>	<u>11,080</u>
Analysis of cash and cash equivalents				
Bank and cash balance	24	11,583	4,884	11,080
Bank overdraft	25	<u>(33,351)</u>	<u>—</u>	<u>—</u>
		<u>(21,768)</u>	<u>4,884</u>	<u>11,080</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 31 December 2007 the Hotel Group had net current liabilities and net liabilities of HK\$134,262,000 and HK\$136,596,000 respectively and incurred a loss attributable to equity holders of Fortuna HK of HK\$60,103,000 for the year ended 31 December 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.

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

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.

(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

II. NOTES TO THE FINANCIAL INFORMATION *(Continued)***4. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***(b) Foreign currency translation** *(Continued)***(iii) Translation on consolidation** *(Continued)*

— 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.

(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, fixtures and 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.

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

II. NOTES TO THE FINANCIAL INFORMATION *(Continued)***4. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***(f) Recognition and derecognition of financial instruments** *(Continued)*

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.

(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.

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

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

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

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.

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;

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

- (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.

(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.

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

(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.

II. NOTES TO THE FINANCIAL INFORMATION *(Continued)***5. CRITICAL JUDGEMENTS AND KEY ESTIMATES** *(Continued)***Critical judgements in applying accounting policies** *(Continued)**(b) Legal title of hotel buildings*

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.

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.

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

The Hotel Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currencies of the Hotel Group entities. The Hotel Group currently does not have a foreign currently 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.

(b) Credit risk

The carrying amount of the cash and bank balances, trade and other receivables, amounts due from related companies and loan receivable from a related company 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.

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 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
At 31 December 2007			
Bank loans	20,000	20,000	98,031
Trade and other payables	29,013	—	—
Accrued expenses	5,952	—	—
Amounts due to related companies	87,037	—	—
Amounts due to shareholders	20,348	—	—
Finance lease payables	129	129	270
Shareholders' loans	—	8,667	—
Loans from related companies	—	299,454	—
	<u>162,479</u>	<u>328,250</u>	<u>98,301</u>
At 31 December 2006			
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>

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

	Less than 1 year HK\$'000	Between 1 and 2 years HK\$'000	Between 2 and 5 years HK\$'000
At 31 December 2005			
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>

(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 2005, 31 December 2006 and 31 December 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 2005, 2006 and 2007, would have been HK\$216,000, HK\$329,000 and HK\$454,000 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 2005, 2006 and 2007 would have been HK\$216,000, HK\$329,000 and HK\$454,000 higher respectively, arising mainly as a result of higher interest expense on bank and other borrowings.

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

(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

The Hotel Group's turnover represents income from hotel operations and rental income are as follows:

	Year ended 31 December		
	2005	2006	2007
	HK\$'000	HK\$'000	HK\$'000
Income from hotel operations	2,648	35,842	71,557
Rental income	394	493	—
	<u>3,042</u>	<u>36,335</u>	<u>71,557</u>

9. OTHER INCOME

	Year ended 31 December		
	2005	2006	2007
	HK\$'000	HK\$'000	HK\$'000
Bank interest received	3	42	54
Exchange gains	—	—	484
Other interest received	—	—	3,804
Sundry income	13	400	902
	<u>16</u>	<u>442</u>	<u>5,244</u>

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

10. FINANCE COSTS

	Year ended 31 December		
	2005 HK\$'000	2006 HK\$'000	2007 HK\$'000
Finance lease charge	—	—	32
Bank overdraft interests	—	179	8
Other interests	175	97	347
Bank loan interests	2,196	9,113	12,274
Director's loan interests	3,066	—	—
Interests on loans from related companies	9,221	21,344	27,297
Shareholders' loans interests	487	654	693
	<u>15,145</u>	<u>31,387</u>	<u>40,651</u>

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:

	Year ended 31 December		
	2005 HK\$'000	2006 HK\$'000	2007 HK\$'000
Loss before tax	<u>(29,664)</u>	<u>(71,722)</u>	<u>(60,103)</u>
Tax at the domestic tax rate of 17.5%	(5,191)	(12,551)	(10,518)
Tax effect of expenses that are not deductible	2,690	6,084	8,521
Tax effect of income that is not taxable	(1)	(6)	(767)
Tax effect of temporary differences not recognised	1,805	3,197	4,195
Tax effect of tax loss not recognised	697	3,276	292
Tax effect of utilisation of tax losses not previously recognised	<u>—</u>	<u>—</u>	<u>(1,723)</u>
Income tax expense	<u>—</u>	<u>—</u>	<u>—</u>

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

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

	Year ended 31 December		
	2005 <i>HK\$'000</i>	2006 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Auditors' remuneration			
— current year	120	327	523
— under-provision in prior year	—	—	8
Cost of inventories sold	705	9,475	16,113
Staff costs including directors' remuneration			
— Salaries and allowances	1,708	11,302	15,094
— Retirement benefits scheme contributions	31	106	153
— Staff welfare and messing	267	2,532	3,522
— Other staff costs	19	1,269	1,443
	2,025	15,209	20,212
Depreciation	2,543	22,716	25,487
Foreign exchange losses	—	11	—
Loss on disposal of property, plant and equipment	—	—	3
Operating lease charges on			
— land and buildings	121	336	60
— land lease payment	107	108	147
	<u>107</u>	<u>108</u>	<u>147</u>

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.

II. NOTES TO THE FINANCIAL INFORMATION *(Continued)*13. DIRECTORS' AND EMPLOYEES' REMUNERATION *(Continued)*

(b) Employees' remuneration

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

	Year ended 31 December		
	2005 HK\$'000	2006 HK\$'000	2007 HK\$'000
Salaries and allowances	554	1,773	2,190
Retirement benefits scheme contribution	14	9	—
	<u>568</u>	<u>1,782</u>	<u>2,190</u>

The emoluments fell within the following band:

	Number of individuals Year ended 31 December		
	2005	2006	2007
Nil to HK\$1,000,000	<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.

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, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
Cost								
At 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	550	2,659	1,497	9,622	2,612	1,120	—	18,060
Disposal	—	—	—	—	(3)	—	—	(3)
Exchange differences	9,873	—	6,559	10,482	3,019	125	—	30,058
At 31 December 2007	142,600	2,659	89,301	149,949	43,170	2,800	—	430,479
Accumulated depreciation								
At 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 year	3,551	74	7,740	6,499	7,228	395	—	25,487
Exchange differences	469	3	971	760	832	27	—	3,062
At 31 December 2007	8,151	77	17,066	13,594	14,946	625	—	54,459
Carrying amount								
At 31 December 2007	<u>134,449</u>	<u>2,582</u>	<u>72,235</u>	<u>136,355</u>	<u>28,224</u>	<u>2,175</u>	<u>—</u>	<u>376,020</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>

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 31 December 2007 the carrying amount of property, plant and equipment held by the Hotel Group under finance leases amounted to approximately HK\$903,000.

Fortuna HK

	Motor vehicle HK\$'000
Cost	
At 1 January 2005, 1 January 2006 and 1 January 2007	—
Additions	1,003
At 31 December 2007	1,003
Accumulated depreciation	
At 1 January 2005, 1 January 2006 and 1 January 2007	—
Charge for the year	100
At 31 December 2007	100
Carrying amount	
At 31 December 2007	903
At 31 December 2006	—
At 31 December 2005	—

At 31 December 2007 the carrying amount of property, plant and equipment held by Fortuna HK under finance leases amounted to approximately HK\$903,000.

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

16. PREPAID LAND LEASE PAYMENTS

Hotel Group

	2005 HK\$'000	2006 HK\$'000	2007 HK\$'000
At 1 January	7,058	7,155	7,186
Additions	—	—	2,087
Amortisation of prepaid land lease payments	(107)	(108)	(147)
Exchange differences	204	139	574
	<u>7,155</u>	<u>7,186</u>	<u>9,700</u>
At 31 December	7,155	7,186	9,700
Current portion	<u>(108)</u>	<u>(111)</u>	<u>(153)</u>
Non-current portion	<u>7,047</u>	<u>7,075</u>	<u>9,547</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		
	2005 HK\$'000	2006 HK\$'000	2007 HK\$'000
Non-current assets			
Unlisted shares, at cost	<u>261,806</u>	<u>285,806</u>	<u>303,006</u>
Current assets			
Amount due from a subsidiary	<u>8,982</u>	<u>23,347</u>	<u>16,542</u>
Loan to a subsidiary	<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 US\$'000	Registered capital US\$'000	Direct	
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 2005	33,620	38,920	100%	Hotel operations
		At 31 December 2006	36,715	38,920		
		At 31 December 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		
	2005	2006	2007
	HK\$'000	HK\$'000	HK\$'000
Food and beverages	606	1,349	1,676
Non food and beverages	724	778	977
	<u>1,330</u>	<u>2,127</u>	<u>2,653</u>

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		
	2005 HK\$'000	2006 HK\$'000	2007 HK\$'000
0 - 30 days past due	—	859	1,503
31 - 60 days past due	7	10	18
61 - 90 days past due	195	304	138
91 - 180 days past due	—	175	230
Over 180 days past due	—	52	356
	<u>202</u>	<u>1,400</u>	<u>2,245</u>

Trade receivables are due for payment upon billing. Subject to negotiation, credit terms given to certain customers are based on the financial strengths of individual customers on a case-by-case basis. In order to effectively manage the credit risks associated with trade debtors, credit evaluations of customers are performed periodically.

As of 31 December 2005, 31 December 2006 and 31 December 2007, trade receivables of HK\$202,000, HK\$1,400,000 and HK\$2,245,000 were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

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

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 2005 HK\$'000	2005 HK\$'000	As at 31 December 2006 HK\$'000	2007 HK\$'000
Mr Sio Tak Hong	—	—	141	82
Mr Tang Fung	—	35	251	684
Mr Lai Kin Hak	—	—	—	5
Mr Siu Ka Kuen	—	—	—	12
Mr Si Tit Sang	—	—	—	2
Mr Kong Tat Choi	—	—	—	78
	—	35	392	863

	Maximum amount outstanding Year ended 31 December		
	2005 HK\$'000	2006 HK\$'000	2007 HK\$'000
Mr Sio Tak Hong	—	141	224
Mr Tang Fung	35	251	5,486
Mr Lai Kin Hak	—	148	137
Mr Siu Ka Kuen	—	9	12
Mr Si Tit Sang	—	—	2
Mr Kong Tat Choi	—	—	78

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

ACCOUNTANTS' REPORT ON THE HOTEL FORTUNA GROUP

20. AMOUNTS DUE FROM DIRECTORS (Continued)

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

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

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 2005 <i>HK\$'000</i>		As at 31 December 2005 <i>HK\$'000</i>		2006 <i>HK\$'000</i>		2007 <i>HK\$'000</i>
Mason Creation Limited	2	—	—	—	—	—	—
Mr Siu Ka Kuen	1	—	—	—	—	—	—
Gain Wealth Enterprises Limited	1	—	—	—	—	—	—
	<u>4</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

II. NOTES TO THE FINANCIAL INFORMATION (Continued)

21. AMOUNTS DUE FROM SHAREHOLDERS (Continued)

Hotel Group and Fortuna HK (Continued)

	Maximum amount outstanding		
	Year ended 31 December		
	2005	2006	2007
	HK\$'000	HK\$'000	HK\$'000
Mason Creation Limited	5	—	—
Mr Siu Ka Kuen	1	—	—
Gain Wealth Enterprises Limited	1	—	—
	<u>1</u>	<u>—</u>	<u>—</u>

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

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

	Maximum amount outstanding		
	Year ended 31 December		
	2005	2006	2007
	HK\$'000	HK\$'000	HK\$'000
Everland Investment Limited	3,300	3,300	500
Win Loyal Development Limited	—	5	8
	<u>3,300</u>	<u>3,305</u>	<u>508</u>

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

22. AMOUNTS DUE FROM RELATED COMPANIES (Continued)

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.

Hotel Group

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 2005 HK\$'000	As at 31 December 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	20,009	55,053	18,816	—

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

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.

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

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 2005 HK\$'000	As at 31 December 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	—

	Maximum amount outstanding		
	Year ended 31 December		
	2005	2006	2007
	HK\$'000	HK\$'000	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 2005, 31 December 2006 and 31 December 2007, the bank and cash balances of the Hotel Group denominated in Renminbi amounted to approximately HK\$841,000, HK\$3,870,000 and HK\$10,886,000 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 and Fortuna HK

	As at 31 December		
	2005	2006	2007
	HK\$'000	HK\$'000	HK\$'000
Bank overdrafts	33,351	—	—
Bank loans	60,000	127,000	116,610
	<u>93,351</u>	<u>127,000</u>	<u>116,610</u>

The borrowings are repayable as follows:

	As at 31 December		
	2005	2006	2007
	HK\$'000	HK\$'000	HK\$'000
On demand or within one year	93,351	127,000	13,709
In the second year	—	—	14,424
In the third to fifth years, inclusive	—	—	88,477
	<u>93,351</u>	<u>127,000</u>	<u>116,610</u>
Less: Amount due for settlement within 12 months (shown under current liabilities)	<u>(93,351)</u>	<u>(127,000)</u>	<u>(13,709)</u>
Amount due for settlement after 12 months	<u>—</u>	<u>—</u>	<u>102,901</u>

The carrying amounts of the Hotel Group and Fortuna HK borrowings as at 31 December 2005, 31 December 2006 and 31 December 2007 were denominated in Hong Kong dollars.

The average interest rates were as follows:

	As at 31 December		
	2005	2006	2007
Bank overdrafts	7.25%	—	—
Bank loans	7.25%	7.25%	5.5%

Bank loans and bank overdrafts were arranged at floating rates, thus exposing Fortuna HK to interest rate risk.

II. NOTES TO THE FINANCIAL INFORMATION *(Continued)*25. BANK LOANS AND BANK OVERDRAFTS *(Continued)***Hotel Group and Fortuna HK** *(Continued)*

As at 31 December 2005, 31 December 2006 and 31 December 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 by the directors of Fortuna HK. In addition, certain directors of Fortuna HK, who are also the beneficial shareholders of Fortuna HK, pledged all of Fortuna HK's issued shares to the banks.

As at 31 December 2007, the bank loan of approximately HK\$116,610,000 was repayable by 16 equal consecutive quarterly installments of HK\$5,000,000 each, including principal plus interest with 1% Macau government stamp duty on interest, plus one final installment for amount of the then remaining loan outstanding and would be fully repaid on 30 March 2012 whereas the bank loans as at 31 December 2005 and 31 December 2006 were matured within one year.

On 3 April 2008, the bank has agreed to release the pledged shares of Fortuna HK and the maturity date of the bank loan be revised to 30 September 2008.

26. TRADE AND OTHER PAYABLES

Hotel Group

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

	As at 31 December		
	2005	2006	2007
	HK\$'000	HK\$'000	HK\$'000
< 90 days	7,278	3,539	4,347
90 - 180 days	—	218	151
Over 180 days	—	706	269
	<u>7,278</u>	<u>4,463</u>	<u>4,767</u>

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

II. NOTES TO THE FINANCIAL INFORMATION (Continued)

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\$52,634,000 as at 31 December 2006 and 31 December 2007, respectively, due to a related company which are interest bearing at Macau prime rate of the Seng Heng Bank Limited plus 1.5% per annum.

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. FINANCE LEASE PAYABLES

Hotel Group and Fortuna HK

	Minimum lease payments		
	As at 31 December		
	2005 HK\$'000	2006 HK\$'000	2007 HK\$'000
Within one year	—	—	129
In the second to fifth years, inclusive	—	—	399
	—	—	528
Less: Future finance charges	—	—	(64)
Present value of lease obligations	—	—	464

II. NOTES TO THE FINANCIAL INFORMATION *(Continued)*30. FINANCE LEASE PAYABLES *(Continued)*

	Present value of minimum lease payments As at 31 December		
	2005 HK\$'000	2006 HK\$'000	2007 HK\$'000
Within one year	—	—	102
In the second to fifth years, inclusive	—	—	362
Present value of lease obligations	—	—	464
Less: Amount due for settlement within 12 months (shown under current liabilities)	—	—	(102)
Amount due for settlement after 12 months	—	—	362

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 31 December 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.

31. 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.

32. 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.

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

33. 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 Limited plus 1.5% per annum and will not be repaid within the next twelve months.

34. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Authorised:		
Ordinary shares of HK\$1 each		
At 31 December 2005, 2006 and 2007	10,000	10
Issued and fully paid:		
At 1 January 2005	100	1
Issue of shares	9,900	9
At 31 December 2005, 2006 and 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.

35. 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.

II. NOTES TO THE FINANCIAL INFORMATION (*Continued*)35. RESERVES (*Continued*)

(b) Fortuna HK

	Accumulated losses HK\$'000
At 1 January 2005	(9,052)
Loss for the year	(16,189)
	<hr/>
At 31 December 2005 and 1 January 2006	(25,241)
Loss for the year	(32,048)
	<hr/>
At 31 December 2006 and 1 January 2007	(57,289)
Loss for the year	(38,021)
	<hr/>
At 31 December 2007	<u>(95,310)</u>

(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 notes 4(b) (iii) to the Financial Information.

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

36. DEFERRED TAXATION

Hotel Group

At 31 December 2005, 2006 and 2007, the Hotel Group had unused tax losses of approximately HK\$6,678,000, HK\$25,902,000 and HK\$19,073,000 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		
	2005 HK\$'000	2006 HK\$'000	2007 HK\$'000
2010	2,983	3,042	—
2011	—	18,318	12,859
	<u>2,983</u>	<u>21,360</u>	<u>12,859</u>

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

Fortuna HK

At 31 December 2005, 2006 and 2007, Fortuna HK had unused tax losses of approximately HK\$3,695,000, HK\$4,542,000 and HK\$6,214,000 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 by Hong Kong Inland Revenue Department.

37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transaction

Additions to property, plant and equipment during the year 2007 of HK\$550,000 were financed by finance leases.

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

38. CONTINGENT LIABILITIES

Hotel Group

At 31 December 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\$5,500,000. In the opinion of the directors, the liabilities were remote and a director of Fortuna HK has undertaken to fully indemnify for such contingent liabilities, therefore, no provision has been made in the financial statements.

39. LEASE COMMITMENTS

Hotel Group

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

	As at 31 December		
	2005	2006	2007
	HK\$'000	HK\$'000	HK\$'000
Within one year	—	210	334
In the second to fifth years inclusive	—	867	1,000
After five years	—	1,390	1,175
	<u>—</u>	<u>2,467</u>	<u>2,509</u>
	<u>—</u>	<u>2,467</u>	<u>2,509</u>

40. OTHER COMMITMENTS

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

Hotel Group

	As at 31 December		
	2005	2006	2007
	HK\$'000	HK\$'000	HK\$'000
Contracted, but not provided for:			
Expenditure on construction	45,973	6,507	5,510
Consideration paid for other buildings	2,961	2,525	—
Payment of consultancy fees	700	560	420
Payment of advertising expenses	—	333	—
	<u>49,634</u>	<u>9,925</u>	<u>5,930</u>
	<u>49,634</u>	<u>9,925</u>	<u>5,930</u>

II. NOTES TO THE FINANCIAL INFORMATION (Continued)

40. OTHER COMMITMENTS (Continued)

Fortuna HK

	As at 31 December		
	2005 HK\$'000	2006 HK\$'000	2007 HK\$'000
Contracted, but not provided for:			
Capital contributions payable to a subsidiary	44,810	10,934	—
Loans to a subsidiary	—	15,000	—
Expenditure on construction	450	120	5,510
	<u>45,260</u>	<u>26,054</u>	<u>5,510</u>

41. 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:

	Note	Year ended 31 December		
		2005 HK\$'000	2006 HK\$'000	2007 HK\$'000
Hotel operations income received				
from a related company	(i)	25	98	—
Hotel operations income received from directors		35	823	1,150
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
Loan interest paid to shareholders		487	654	693
Loan interest paid to a director		3,066	—	—
Loan interest paid to related companies	(iii)	<u>9,221</u>	<u>21,344</u>	<u>27,297</u>

Notes:

- (i) A director, Mr Sio Tak Hong has beneficial interest in the related company.
- (ii) The directors, Mr Lai Kin Hak and Mr Tang Fung have 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 companies.

II. NOTES TO THE FINANCIAL INFORMATION *(Continued)***41. RELATED PARTY TRANSACTIONS** *(Continued)*

- (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 in respect of the period subsequent to 31 December 2007.

Yours faithfully
RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

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 year ended 31 December 2007:

Financial performance

Hotel Fortuna Group recorded a turnover of approximately HK\$71.6 million for the year ended 31 December 2007, representing an increase of approximately 96.9% as compared to the year ended 31 December 2006. During the same period, Hotel Fortuna Group recorded a gross profit of approximately HK\$31.9 million as compared to a gross profit of approximately HK\$9.5 million in 2006, representing a substantial increase of approximately 2.4 times. The substantial increase in turnover and gross profit were mainly attributed to higher occupancy rate of the Hotel.

During the same period, administrative expenses amounted to approximately HK\$56.1 million, representing an increase of approximately 12.3% from 2006.

Liquidity, financial resources and funding

As at 31 December 2007, the Hotel Fortuna Group's non-current assets amounted to approximately HK\$385.6 million and current assets amounted to approximately HK\$21.9 million. Hotel Fortuna Group had cash and bank balances of approximately HK\$11.1 million, and finance lease payable and bank loans which were repayable within one year of approximately HK\$0.1 million and HK\$13.7 million, respectively. Save as disclosed, Hotel Fortuna Group had neither any other outstanding secured short-term borrowing (i.e. repayable on demand or within one year) nor created any mortgages. As at 31 December 2007, the Hotel Fortuna Group had non-current bank loan of approximately HK\$102.9 million, comprising approximately HK\$14.4 million repayable after one year but within the second year and the remaining balance of approximately HK\$88.5 million repayable after second year but within the third to fifth years, with an interest rate of 5.5% per annum.

The income and expenditure and the assets and liabilities of the Hotel Fortuna Group were mainly denominated in Hong Kong dollars and RMB.

The majority of the transactions of the Hotel Fortuna Group are denominated in RMB. The Hotel Fortuna Group has minimal 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 2007 was 133.5%.

Significant investments and material acquisitions

For the year ended 31 December 2007, Hotel Fortuna Group did not have any significant investments and material acquisitions.

Employee Information

As at 31 December 2007, Hotel Fortuna Group employed 604 employees.

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

Charges on assets

Save for a motor vehicle amounted to approximately HK\$0.9 million under finance leases, as at 31 December 2007, none of Hotel Fortuna Group's assets had been charged.

Contingent liabilities

As at 31 December 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\$5.5 million.