1 CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in Bermuda on 10 April 1996 under the Companies Act 1981 of Bermuda. The Company's shares have been listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 23 July 1996.

The address of the Company's registered office and its principal place of business are disclosed in the "Corporate Information" section of the annual report.

The principal activity of the Company is investment holding. The principal activities of the Company's principal subsidiaries are set out in note 18.

These financial statements have been approved and authorised for issue by the board of directors on 19 April 2006.

2 IMPACT OF NEW HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND HONG KONG ACCOUNTING STANDARDS ("HKASs")

The Hong Kong Institute of Certified Public Accountants (the "HKICPA") has issued a number of new HKFRSs and HKASs and interpretations, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has adopted the following HKFRSs and HKASs which are pertinent to its operations and relevant to these financial statements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effect of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings Per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations

2 IMPACT OF NEW HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND HONG KONG ACCOUNTING STANDARDS ("HKASs") (CONTINUED)

These HKFRSs and HKASs prescribe new accounting measurement and disclosure practices. The major and significant effects of the adoption of these HKFRSs and HKASs on the Group's accounting policies and on amounts disclosed in the financial statements are summarised as follows:

(a) The adoption of HKASs 2, 7, 10, 12, 14, 16, 18, 19, 23, 27, 33 and 37 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

(b) HKAS 1 and HKAS 8 have not resulted in significant impact on accounting policies and on amounts disclosed in the financial statements except for reclassification of certain balance sheet items disclosed on the face of the balance sheets and notes to the financial statements

(c) Leasehold land and buildings held for own use (HKAS17, Leases)

In prior years, leasehold land and buildings held for own use were stated at revalued amounts less accumulated depreciation and accumulated impairment losses. Movements of revaluation surpluses or deficits were normally taken to the land and buildings revaluation reserve.

With effect from 1 January 2005, in order to comply with HKAS 17, the Group has adopted a new policy for leasehold land and buildings held for own use. Under the new policy, the leasehold interest in land and building is separated into leasehold land and leasehold buildings. The Group's leasehold land held for own use is accounted for as being held under an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from fixed assets to prepaid land lease premium, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land lease premium under operating leases is initially stated at cost and subsequently amortised on the straight-line basis over the lease terms.

In accordance with the transitional provisions of HKAS 17, comparative amounts on the balance sheet for the year ended 31 December 2004 have been restated to reflect the reclassification of leasehold land.

(d) Definition of related parties (HKAS 24, Related Party Disclosures)

As a result of the adoption of HKAS 24, Related party disclosures, the definition of related parties as disclosed in note 4 (p) has been explained to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members) and post-employment benefits plans which are for the benefit of employees of the Group or of an entity that is a related party of the Group. The clarification of the definition of related parties has not resulted in any material changes to the previously reported disclosures of related party transactions nor has it had any material effect on the disclosures made in the current period, as compared to those that would have been reported had SSAP 20, Related party disclosures, still been in effect.

2 IMPACT OF NEW HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND HONG KONG ACCOUNTING STANDARDS ("HKASs") (CONTINUED)

(e) *Financial instruments (HKAS 32, Financial Instruments: Disclosure and Presentation and HKAS 39, Financial Instruments: Recognition and Measurement)*

With effect from 1 January 2005, in order to comply with HKAS 32 and HKAS 39, the Group has changed its accounting policies relating to financial instruments to those as set out in note 4(h). Further details of the changes are as follows.

(i) Investment in debt and equity securities

In prior year, equity investments held on a continuing basis for an identifiable long-term purpose were classified as investment securities and stated at cost less provision. Other investments in securities (including those held for trading and for non-trading purposes) were stated at fair value with changes in fair value recognised in profit or loss, with the exception of dated debt securities being held to maturity.

With effect from 1 January 2005, and in accordance with HKAS 39, all investments, with the exception of securities held for trading purposes, dated securities being held to maturity and certain unquoted equity investments, are classified as available-for-sale securities and carried at fair value. Change in the fair value of available-for-sale securities are recognised in equity, unless there is objective evidence that an individual investment had been impaired.

(ii) Convertible notes

In prior years, convertible notes issued were stated at amortised cost (including transaction costs).

With effect from 1 January 2005, and in accordance with HKAS 32 and HKAS 39, convertible notes issued are split into their liability and equity components at initial recognition, The liability component is subsequently carried at amortised cost. The equity component is recognised at capital reserve until the note is either converted (in which case it is transferred to share premium) or the note is redeemed (in which case it is released directly to retained profits).

(iii) Description of transitional provisions and effect of adjustments

The changes in accounting policies relating to accounting for investments in debt and equity securities and convertible notes were adopted by way of opening balance adjustments to certain reserves as at 1 January 2005. The adjustments included re-designation of investment in associate classified under non-current assets with a carrying amount of HK$50,000,000 and other investments classified as currents assets with carrying amount of HK$4,194,000 as available-for-sale investment and trading securities respectively at 1 January 2005. Comparative amounts have not been restated as this is prohibited by the transitional arrangements in HKAS 39.

The adjustments for each financial statement line item affected for the years ended 31 December 2004 and 2005 are set out in note 2(h) and (i).

2 IMPACT OF NEW HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND HONG KONG ACCOUNTING STANDARDS ("HKASs") (CONTINUED)

(f) Employee share option scheme (HKFRS 2, Share-based Payment)

The adoption of HKFRS2 has resulted in a change in accounting policy for employee share options. Prior to this, no amounts were recognised when employees (which term includes directors) were granted share options over shares in the Company. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

With effect from 1 January 2005, in order to comply with HKFRS 2, the Group has adopted a new policy for employee share options. Under the new policy, the Group recognises the fair value of such share options as an expense with a corresponding increase recognised in a capital reserve within equity. Further details of the new policy are set out in note 4(j)(iii).

The Group has taken advantage of the transitional provisions set out in HKFRS 2, under which the new recognition and measurement policies have not been applied to the following grants of options:

(i) all options granted to employees on or before 7 November 2002; and

(ii) all options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

There were no options granted by the Company after 7 November 2002 but had not vested before 1 January 2005. Accordingly, the adoption of HKFRS 2 in respect of share options granted has had no effect on these financial statements.

Details of the employee share option scheme are set out in note 28.

HKFRS 2 also requires an expense to be recognised when the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transaction"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of shares given by the controlling shareholder of the Company and warrants granted by the Company to the directors of the Company.

(g) Goodwill (HKFRS 3, Business Combinations)

The adoption of HKFRS 3 has had no material impact on the financial statements of prior year as all goodwill arising from acquisitions in previous years was derecognised on the disposal of the relevant businesses before prior year.

2 IMPACT OF NEW HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND HONG KONG ACCOUNTING STANDARDS ("HKASs") (CONTINUED)

(g) *Goodwill (HKFRS 3, Business Combinations) (continued)*

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. The adoption of HKFRS 3 in respect of discount on acquisition is not a change in accounting policies under HKAS 8, as discount on acquisition (previously known as "negative goodwill") did not incur in previous acquisitions.

(h) Effect of changes in the above accounting policies on the Group's and Company's balance sheets are as follows:

Group	Previous accounting policies HK$'000	HKAS 17 HK$'000	HKAS 32 HK$'000	Adoption of HKASs after prior year adjustment HK$'000
At 31 December 2004				
Non-current assets				
Property, plant and equipment	24,714	(2,569)	–	22,145
Prepaid land lease premium	–	1,726	–	1,726
Investment in associates	50,000	–	(50,000)	–
Available-for-sale investment	–	–	50,000	50,000
Other non-current assets	49	–	–	49
	74,763	(843)	–	73,920
Current assets				
Prepaid land lease premium	–	43	–	43
Other investments	4,194	–	(4,194)	–
Trading securities	–	–	4,194	4,194
Other current assets	717,397	–	–	717,397
	721,591	43	–	721,634
Current liabilities	(52,754)	–	–	(52,754)
Net current assets	668,837	43	–	668,880
Total assets less current liabilities	743,600	(800)	–	742,800
Non-current liabilities				
Convertible debts	(20,000)	–	–	(20,000)
Net assets	723,600	(800)	–	722,800
Capital and reserves				
Share capital	95,265	–	–	95,265
Share premium account	821,424	–	–	821,424
Capital reserve	814	–	–	814
Exchange fluctuation reserve	235	–	–	235
Accumulated losses	(194,138)	(800)	–	(194,938)
	723,600	(800)	–	722,800

2 IMPACT OF NEW HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND HONG KONG ACCOUNTING STANDARDS ("HKASs") (CONTINUED)

(h) Effect of changes in the above accounting policies on the Group's and Company's balance sheets are as follows (continued):

Group	Adoption of HKASs after prior year adjustments HK$'000	Opening adjustments HKAS 39 HK$'000	Adoption of HKFRSs and HKASs after prior year adjustments HK$'000
At 1 January 2005			
Non-current assets			
Property, plant and equipment	22,145	–	22,145
Prepaid land lease premium	1,726	–	1,726
Available-for-sale investment	50,000	–	50,000
Other non-current assets	49	–	49
	73,920	–	73,920
Current assets			
Prepaid land lease premium	43	–	43
Trading securities	4,194	–	4,194
Other current assets	717,397	–	717,397
	721,634	–	721,634
Current liabilities	(52,754)	–	(52,754)
Net current assets	668,880	–	668,880
Total assets less current liabilities	742,800	–	742,800
Non-current liabilities			
Convertible debt	(20,000)	380	(19,620)
Net assets	722,800	380	723,180
Capital and reserves			
Share capital	95,265	–	95,265
Share premium account	821,424	–	821,424
Capital reserve	814	418	1,232
Exchange fluctuation reserve	235	–	235
Accumulated losses	(194,938)	(38)	(194,976)
	722,800	380	723,180

2 IMPACT OF NEW HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND HONG KONG ACCOUNTING STANDARDS ("HKASs") (CONTINUED)

(h) Effect of changes in the above accounting policies on the Group's and Company's balance sheets are as follows (continued):

Group	Previous accounting policies HK$'000	HKFRS 2 HK$'000	HKAS 17 HK$'000	Adoption of HKFRSs & HKASs HK$'000
At 31 December 2005				
Non-current assets				
Property, plant and equipment	2,846,960	–	(873,302)	1,973,658
Prepaid land lease premium	–	–	821,829	821,829
Other non-current assets	5,665	–	–	5,665
	2,852,625	–	(51,473)	2,801,152
Current assets				
Prepaid land lease premium	–	–	18,948	18,948
Other current assets	195,520	–	–	195,520
	195,520	–	18,948	214,468
Current liabilities	(101,772)	–	–	(101,772)
Net current assets	93,748	–	18,948	112,696
Total assets less current liabilities	2,946,373	–	(32,525)	2,913,848
Non-current liabilities	(500,119)	–	–	(500,119)
Net assets	2,446,254	–	(32,525)	2,413,729
Capital and reserves				
Share capital	121,265	–	–	121,265
Share premium account	1,415,424	–	–	1,415,424
Capital reserve	814	–	–	814
Exchange fluctuation reserve	235	–	–	235
Leasehold building revaluation reserve	898,574	–	(31,653)	866,921
Employee share-based payment reserve	–	496,800	–	496,800
Accumulated losses	9,942	(496,800)	(872)	(487,730)
	2,446,254	–	(32,525)	2,413,729

2 IMPACT OF NEW HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND HONG KONG ACCOUNTING STANDARDS ("HKASs") (CONTINUED)

(h) Effect of changes in the above accounting policies on the Group's and Company's balance sheets are as follows (continued):

Company	Previous accounting policies HK$000	Opening adjustments HKAS 39 HK$000	Adoption of HKAS 39 HK$000
At 1 January 2005			
Total assets less current liabilities	744,934	–	744,934
Non-current liabilities			
Convertible debt	(20,000)	380	(19,620)
Net assets	724,934	380	725,314
Capital and reserves			
Share capital	95,265	–	95,265
Share premium account	821,424	–	821,424
Contributed surplus	69,332	–	69,332
Capital reserve	–	418	418
Accumulated losses	(261,087)	(38)	(261,125)
	724,934	380	725,314

Company	Previous accounting policies HK$'000	HKFRS 2 HK$'000	Adoption of HKFRSs and HKASs HK$'000
At 31 December 2005			
Net assets	1,326,744	–	1,326,744
Capital and reserves			
Share capital	121,265	–	121,265
Share premium account	1,415,424	–	1,415,424
Contributed surplus	69,332	–	69,332
Employee share-based payment reserve	–	496,800	496,800
Accumulated losses	(279,277)	(496,800)	(776,077)
	1,326,744	–	1,326,744

2 IMPACT OF NEW HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND HONG KONG ACCOUNTING STANDARDS ("HKASs") (CONTINUED)

(i) Effect of changes in the above accounting policies on the consolidated income statement are as follows:

Group	HKAS 17 HK$'000	Total effect on adoption of HKFRS & HKASs HK$'000
For the year ended 31 December 2004		
Amortisation of land lease premium (note)	43	43
Decrease in depreciation (note)	(53)	(53)
Other gain – revaluation surplus in respect of leasehold buildings	53	53
Increase in loss for the year	43	43
Increase/(decrease) in basic loss per shares (HK$)	– cents	– cents

Note: The amounts were included in cost of sales in the consolidated income statement.

Group	HKFRS 2 HK$'000	HKAS 17 HK$'000	Total effect on adoption of HKFRS & HKASs HK$'000
For the year ended 31 December 2005			
Amortisation of land lease premium	–	11,696	11,696
Decrease in depreciation	–	(11,696)	(11,696)
Other gain – revaluation surplus in respect of leasehold buildings	–	72	72
Expenses in relation to giving of shares by the controlling shareholder as gift	448,000	–	448,000
Expenses in relation to grant of unlisted warrants	48,800	–	48,800
Increase in loss for the year	496,800	72	496,872
Increase in basic loss per shares (HK$)	43.41 cents	0.01 cents	43.42 cents

3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements. Unless otherwise stated, these HKFRS are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial instruments, Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFIRC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
HK(IFIRC)-Int 7	Applying the Restatement Approach under HKSA 29 Financial Reporting in Hyperinflationary Economies

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

The HKAS 19 Amendment, HKAS 39 Amendment regarding cash flow hedge accounting of forecast intragroup transactions, HKFRSs 1 and 6 Amendment, HKFRS 6, HK(IFRIC)-Int 5 and HK(IFRIC)-Int 6 do not apply to the activities of the Group. HK(IFRIC)-Int 6 shall be applied for annual periods beginning on or after 1 December 2005.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application. HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007.

HK(IFRIC)-Int 7 shall be applied for annual periods beginning on or after 1 March 2006.

4 PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation of the financial statements

These financial statements have been prepared in accordance with HKFRS and HKAS (collectively "HKFRSs") issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The measurement basis used in the preparation of the financial statements is the historical cost basis except that the leasehold properties and financial instruments classified as trading securities are stated at their fair value as explained in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumption that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other source. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 40.

(b) Subsidiaries

Subsidiaries are all entities over which the Group has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

4 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(b) Subsidiaries (continued)

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the company's balance sheet, an investment in a subsidiary is stated at cost less impairment loss, unless the investment is classified as held for sale or included in a disposal group that is classified as held for sale.

(c) Associates

An associate is an entity in which the Group or the Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale) The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associates for the year, including any impairment loss on goodwill relating to the investment in associates recognised for the year.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long term interest that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

4 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(d) *Excess over the cost of business combination (previously referred to negative goodwill)*

On acquisition of subsidiaries, jointly-controlled entities and associates, if the Group interest in the net fair value of the identifiable assets, liabilities, and contingent liabilities of an entity being acquired recognised as at the date of acquisition exceeds the cost of the business combination, the Group shall reassess the identification and measurement of the identifiable assets, liabilities and contingent liabilities of that entity and the measurement of the cost of the business combination; and recognise immediately in the consolidated income statement any excess remaining after that reassessment.

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

The building component of owner-occupied leasehold properties are stated at valuation less accumulated depreciation. Fair value is determined by an independent firm of qualified property valuers. Revaluations are performed with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the balance sheet date.

Increase in valuation are credited to the leasehold buildings revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and are thereafter charged to the income statement. Any subsequent increase are credited to the income statement up to the amount previously charged and thereafter to leasehold buildings revaluation reserve.

Other items of property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over the their estimated useful lives as follows:

– Building situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives

– Plant and machinery	20%
– Leasehold improvement, furniture, fixture and equipment	10%-30%
– Motor vehicles	20%

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 Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the year in which they are incurred.

4 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(e) Property, plant and equipment and depreciation (continued)

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

Upon the disposal of leasehold buildings, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the leasehold buildings revaluation reserve to retained earnings.

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

Construction in progress represents factory building, plant and machinery and other fixed assets under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprised direct cost of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

(f) Leased assets

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.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at 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 a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance lease charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see note 4(o) below)

Rentals applicable to operating leases net of any incentives received from the leasing company are charged to the income statement on straight line basis over the lease term.

Prepaid land lease premium under operating leases are up-front payments to acquire long-term interests in lessee-occupied properties. Prepaid land lease premium are stated at cost less accumulated amortisation and any impairment and are amortised over the remaining lease terms on a straight-line basis to the income statement.

4 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(g) Inventories

Inventories comprise stocks and work in progress and are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis, comprises 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 to the sale.

(h) Financial instruments

Financial assets and financial liabilities are recognised on the Group's and the Company's balance sheet when the Group and the Company have become a party to the contractual provisions of the instrument.

(a) Financial assets at fair value through profit or loss

Investments in securities held for trading are classified as current assets and are initially stated at fair value. At each balance sheet date the fair value is re-measured, with any resultant gain or loss being recognised in profit or loss. Upon disposal, the difference between the net sales proceeds and the carrying value is included in the income statement.

(b) Available-for-sale investments

Available-for-sale investments are those non-derivates and are designated as available-for-sale investments or not classified under other investment categories. Available-for-sale investments are carried at fair value. Unrealised gain or losses (including transaction costs on acquisition) arising from changes in the fair value are recognised in investment revaluation reserve in accordance with HKAS 39. When the securities are sold, the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments in the investment revaluation reserve are treated as gains or losses on disposal. For investments where there is no active market and whose fair value cannot be reliably measured, such investments are measured at cost less any impairment losses at each balance sheet date subsequent to initial recognition.

(c) Loan and receivable

Loan and other receivables are non-derivative financial asset with fixed or determinable payment that are not quoted in an active market and are not held for the intention. They are carried at amortised costs using the original effective interest method taking into account the unamortised portion of relevant fees and expenses, less any accumulated impairment losses.

(d) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

4 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(h) Financial instruments (continued)

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(f) Trade and other payables

Trade and other payable are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(g) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings using the effective interest method.

(h) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new shares are taken to equity as a deduction, net of tax, from the proceeds.

(i) Convertible debts

Convertible debts that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments. At initial recognition, the liability component of the convertible debts is calculated as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that related to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the note is converted or redeemed.

If the debt is converted, the capital reserve, together with the carrying value of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, the capital reserve is released directly to retained profits.

4 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(i) Impairment of assets

(i) Impairment of investments in debt and equity securities and other receivables

Investment in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

– For unquoted equity securities and current receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for current receivables are reversed if in a subsequent period the amount of the impairment loss decrease. Impairment losses for equity securities are not reversed.

– For financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets).

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

– For available-for-sale securities, the cumulative loss that had been recognised directly in equity is removed from equity and is recognised in profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that assets previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

  Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

4 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(i) Impairment of assets (continued)

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment (other than properties carried at revalued amounts);
– prepaid land lease premium;
– investment in subsidiaries.

If any such indication exists, the asset's recoverable amount is estimated.

Calculation of recoverable amount

The recoverable amount of an asset is the greater of its 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 time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(j) Employee benefits

(i) Short term employee benefits in the form of leave

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

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

4 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(j) Employee benefits (continued)

(ii) Retirement benefit costs

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the company in an independently-administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme. The company's contributions to the MPF Scheme are recognised as an expense in the income statement as incurred.

Obligations for contributions to social security fund for the employees in Macau are recognised as an expense in the income statement as incurred.

(iii) Share-based payments

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments.

For share options granted under the Scheme, the fair value of the employee's services rendered in exchange for the grant of the options is recognised as an expense and credited to an employee share-based payment reserve under equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted at the grant date. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of the original estimates, if any, in the income statement, and a corresponding adjustment to the employee share-based payment reserve over the remaining vesting period.

At the time when the share options are exercised, the amount previously recognised in the employee share-based payment 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 employee share-based payment reserve will be released directly to retained earnings.

(iv) Termination benefits

Termination benefits are recognised when, and only when the 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.

4 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(j) *Employee benefits (continued)*

(v) *Employment Ordinance – long service payment*

Certain of the Group's employees have completed the required number of years of service to the Group in order to eligible for long service payments under the Hong Kong Employment Ordinance (the "Employment Ordinance") in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision is recognised in respect of probable future long service payments based on the best estimate of the probable future outflow of resources which have been earned by the employees from their services to the Group at the balance sheet date.

(k) *Income tax*

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity, if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purpose.

Deferred tax liabilities are recognised for all material taxable temporary differences:

– except when the deferred tax liability arises from goodwill or the initial recognition of an assets or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

– in respect of taxable temporary differences associated with investments in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not be reversed in the foreseeable future.

Deferred tax assets are recognised for all material deductible temporary differences, carryforward or unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised:

– except when the deferred tax assets relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither the accounting profit nor taxable profit or loss; and

4 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(k) Income tax (continued)

– in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

(l) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a 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 expenditure 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 of economic benefits 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 of economic benefits is remote.

(m) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and cost, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sales of goods

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

(ii) Hotel revenue

Hotel revenue from rooms rental, food and beverage sales and other ancillary services is recognised when the services are rendered.

4 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(m) Revenue recognition (continued)

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iv) Sales of trading securities

Sale proceeds of trading securities are recognised on a trade date basis.

(n) Translation of foreign currencies

(i) Functional and presentation currency

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

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary items such as equities instruments held at fair value through profit or loss are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are, included in the fair value reserve in equity.

(iii) Group companies

The results and financial position of all Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(b) 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 dates of the transactions); and

(c) all resulting exchange differences are recognised as a separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

4 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(o) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying assets for its intended use or sale are interrupted or complete.

(p) Related parties

A party is considered to be related to the Group if:

(i) directly, or indirectly through one or more intermediaries, the party:

- control, is controlled by, or is under common control with, the Group;
- has an interest in the Company that gives it significant influence over the Group; or
- has joint control over the Group

(ii) the party is a member of key management personnel of the Company or its parent company;

(iii) the party is a close member of the family of any individual refered to in (i) and (ii);

(iv) 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, the individual referred to in (ii) or (iii);

(v) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

(q) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment as the secondary reporting format for the purpose of these financial statements.

4 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(q) Segment reporting (continued)

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

5 TURNOVER AND OTHER INCOME

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are the holding and operating of hotels in Macau, the manufacturing and selling of watches and watch components, and investment in listed securities. An analysis of the Group's turnover and other income is as follows:

	2005 **HK$'000**	2004 HK$'000
Turnover		
Operating of hotels		
– room rental	**58,035**	–
– food and beverage sale	**24,991**	–
– income from casino	**158,132**	–
– other rental income	**2,534**	–
	243,692	–
Sale of watches and watch components	**128,024**	126,176
Proceeds from sale of trading securities	**674**	15,479
	372,390	141,655
Other income		
Interest income	**3,245**	5
Sundry income	**2,093**	131
	5,338	136
	377,728	141,791

6 SEGMENTAL INFORMATION

PRIMARY REPORTING FORMAT – BUSINESS SEGMENTS

As at 31 December 2005, the Group is organised into three business segments:

(1) holding and operating of hotels: the operation of two hotels in Macau;

(2) manufacturing and selling of watches and watch components; and

(3) trading of listed securities.

The following tables represent revenue and profit (loss) information on each of the above business segments for the years ended 31 December 2004 and 2005, and certain assets and liabilities information regarding business segments at 31 December 2004 and 2005.

	Holding and operating of hotels		Manufacturing and selling of watches and watch components		Trading of listed securities		Consolidated	
	2005 HK$'000	2004 HK$'000	**2005 HK$'000**	2004 HK$'000 (restated)	**2005 HK$'000**	2004 HK$'000	**2005 HK$'000**	2004 HK$'000 (restated)
Revenue from external customers	**243,692**	–	**128,024**	126,176	**674**	15,479	**372,390**	141,655
Segment result	**88,767**	–	**(2,084)**	(4,720)	**(95)**	(1,572)	**86,588**	(6,292)
Interest income							**3,245**	5
Unallocated operating income and expenses							**(366,739)**	(3,901)
Loss from operations							**(276,906)**	(10,188)
Finance costs							**(15,889)**	(943)
Loss before taxation							**(292,795)**	(11,131)
Taxation							**41**	(4)
Loss for the year							**(292,754)**	(11,135)
Segment assets	**2,868,254**	–	**47,652**	48,311	**–**	4,456	**2,915,906**	52,767
Unallocated assets							**99,714**	742,787
Total assets							**3,015,620**	795,554
Segment liabilities	**49,285**	–	**40,125**	48,560	**–**	716	**89,410**	49,276
Unallocated liabilities							**512,481**	23,478
Total liabilities							**601,891**	72,754
Other information								
Capital expenditure	**568,567**	–	**1,491**	2,386	**–**	–		
Depreciation and amortisation	**48,339**	–	**1,760**	1,385	**–**	–		
Significant non-cash expenses (other than depreciation and amortisation)	**287**	–	**(867)**	(632)	**–**	419		

6 SEGMENTAL INFORMATION (CONTINUED)

SECONDARY REPORTING FORMAT – GEOGRAPHICAL SEGMENTS

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers, segment assets and capital expenditure are based on the geographical location of the assets.

The following is the analysis of the Group's sales by geographical market:

	Holding and operating of hotels		Manufacturing and selling of watches and watch components		Trading of listed securities		Total	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
The People's Republic of China ("PRC") including Hong Kong excluding Macau	**–**	–	**14,393**	28,832	**674**	15,479	**15,067**	44,311
Macau	**243,692**	–	**–**	–	**–**	–	**243,692**	–
Middle East	**–**	–	**27,002**	15,294	**–**	–	**27,002**	15,294
South America	**–**	–	**75,715**	66,897	**–**	–	**75,715**	66,897
North America	**–**	–	**8,247**	13,362	**–**	–	**8,247**	13,362
Europe	**–**	–	**261**	763	**–**	–	**261**	763
Other locations	**–**	–	**2,406**	1,028	**–**	–	**2,406**	1,028
	243,692	–	**128,024**	126,176	**674**	15,479	**372,390**	141,655

6 SEGMENTAL INFORMATION (CONTINUED)

SECONDARY REPORTING FORMAT – GEOGRAPHICAL SEGMENTS (CONTINUED)

The following is an analysis of the carrying amount of segment assets by location of assets:

	Holding and operating of hotels		Manufacturing and selling of watches and watch components		Trading of listed securities		Total	
	2005	2004	**2005**	2004 (restated)	**2005**	2004	**2005**	2004 (restated)
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
The People's Republic of China ("PRC") including Hong Kong excluding Macau	**582**	–	**42,537**	37,943	**–**	4,456	**43,119**	42,399
Macau	**2,867,672**	–	**–**	–	**–**	–	**2,867,672**	–
Middle East	**–**	–	**2,459**	3,786	**–**	–	**2,459**	3,786
South America	**–**	–	**177**	3,067	**–**	–	**177**	3,067
North America	**–**	–	**2,129**	3,142	**–**	–	**2,129**	3,142
Europe	**–**	–	**163**	–	**–**	–	**163**	–
Other locations	**–**	–	**187**	373	**–**	–	**187**	373
Unallocated assets							**99,714**	742,787
							3,015,620	795,554

The following is an analysis of the capital expenditures by location of assets:

	Holding and operating of hotels		Manufacturing and selling of watches and watch components		Unallocated		Total	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
The People's Republic of China ("PRC") including Hong Kong and excluding Macau	**–**	–	**1,491**	2,386	**2,448**	–	**3,939**	2,386
Macau	**568,567**	–	**–**	–	**–**	–	**568,567**	–
	568,567	–	**1,491**	2,386	**2,448**	–	**572,506**	2,386

7 STAFF COSTS

	2005 HK$'000	2004 HK$'000
Staff costs (including directors' remuneration)		
– salaries, wages and other benefits	**19,085**	5,001
– contributions to defined contribution retirement plan	**308**	212
– equity-settled share-based payment expenses		
– expenses in relation to giving of shares by the controlling shareholder as gift (NB2)	**448,000**	–
– expenses in relation to the grant of unlisted warrants (NB3)	**48,800**	–
Amount shown as staff costs in the consolidated income statement	**516,193**	5,213
Staff costs included in other items in the consolidated income statement (NB1)	**55,096**	23,586
Total staff costs (including directors' remuneration)	**571,289**	28,799

NB 1: Staff costs to the amount of HK$26,406,000 (2004: HK$23,157,000), HK$27,971,000 (2004: nil) and HK$719,000 (2004: HK$429,000) was included in cost of sales, operating cost and distribution cost in the consolidated income statement respectively.

NB 2: Upon the completion of the acquisition of Grandview Hotel on 31 March 2005, the controlling shareholder of the Company, Perfect View Development Limited, bestowed Choose Right Limited ("Choose Right") with its 400,000,000 shares and Sure Expert Limited ("Sure Expert") with its 1,200,000,000 shares respectively, for inviting Mr. Lee Wai Man, who was later appointed as the non-executive director of the Company, being the beneficial owner of Choose Right and Mrs. Chu Yuet Wah, now an executive director of the Company, being the beneficial owner of Sure Expert, to be consultants of the Company in relation to the management of Grandview Hotel with gaming entertainment. The transaction falls within the one of the three types of share-based payment transaction – equity-settled share-based payment transaction and the Company measured the services rendered, and the corresponding increase in equity, directly, at the fair value of the shares given.

NB 3: The Company also granted 80,000,000 (as adjusted for share consolidation of ten shares into one share) warrants conferring rights to subscribe up to HK$200,000,000 in aggregate in cash for shares at an adjusted subscription price of HK$2.5 to Sure Expert to retain Mrs. Chu's support to the Company as a consultant in the future in respect of the management of Grandview Hotel. The warrant is measured using the Black-Scholes Option Pricing Model with the following variables:

Closing share price at date of grant	HK$2.8 (as adjusted for share consolidation of ten shares into one share)
Risk free rate (being the yield of 3-year Exchange Fund Notes)	3.614% as at 31 March 2005
Expected volatility (note i)	14%
Expiration of the warrants	3 years from 31 March 2005

(i) The volatility measured at the standard deviation of expected share price return is based on statistical analysis of daily shares prices over one year immediately preceding the grant date.

(ii) The above calculation is based on the assumption that there is no material difference between the expected volatility over the whole life of the warrants and the historical volatility of the Company shares set out above.

Details of the giving shares by the controlling shareholder and granting of warrants are disclosed in the Company's circular dated 22 February 2005.

8 OPERATING LOSS

Operating loss is arrived after charging (crediting) the following:

	2005 HK$'000	2004 HK$'000 (restated)
Cost of inventories sold (note 1)	**120,327**	135,896
Operating cost	**61,548**	–
Amortisation of land lease premium (note 2)	**11,696**	43
Auditors' remuneration (note 2)		
– audit services	**650**	380
– tax services	**78**	11
– other services	**1,869**	435
Depreciation (note 2)		
– owned assets	**38,827**	1,349
– leased assets	**11**	–
Operating lease charges: minimum lease payments (note 2)		
– hire of plant and machinery	**–**	2
– hire of other assets (including property rentals)	**3,204**	1,518
Other operating expenses		
– impairment losses for trade and other receivables	**378**	109
– compensation for early termination of tenancy	**20,000**	–
– loss on disposal of property, plant and equipment	**271**	–
Other charges/(gains)		
– unrealised loss on trading securities	**–**	419
– gain on disposal of available-for-sale investment	**(2,000)**	–
– revaluation surplus in respect of leasehold buildings	**(851)**	(632)
– loss on disposal of subsidiaries	**2,498**	–

Note: (1) Included in costs of inventories sold were operating lease rentals and depreciation of HK$501,000 (2004: HK$525,000) and HK$1,205,000 (2004: HK$1,105,000), respectively, which had also been included in operating lease charges and depreciation disclosed above.

(2) Except for the amounts mentioned in note 1 above, which had been included in other items in the consolidated income statement, these amounts had been included in administrative expenses in the consolidated income statement.

9 FINANCE COSTS

	2005 HK$'000	2004 HK$'000
Interest on bank loans and overdrafts	**15,659**	722
Interest on other loans	**183**	83
Interest on convertible debts	**44**	138
Finance charges on obligation under finance lease	**3**	–
	15,889	943

10 TAXATION

	2005 HK$'000	2004 HK$'000
Deferred tax (note 29)		
– Current year	**(41)**	4

(a) No provision for Hong Kong profits tax has been made in the financial statements as the Group has no assessable profit for the year (2004: nil).

No provision for Macau Complementary Tax has been made as the subsidiaries operating in Macau has no assessable profit for the year.

No provision for overseas taxation has been made for the year as the subsidiaries operating in the PRC had no assessable income for PRC taxation purpose (2004: nil).

10 TAXATION (CONTINUED)

(b) The (credit) charge for the year can be reconciled to the loss before taxation per the consolidated income statement as follow:

	2005 HK$'000	2004 HK$'000 (as restated)
Loss before taxation	**(292,795)**	(11,131)
Tax calculated at domestic tax rates applicable to profits in the respective jurisdictions (note)	**(56,427)**	(1,948)
Tax effect of non-deductible expenses	**111,325**	1,324
Tax effect of non-taxable income	**(66,838)**	(294)
Utilisation of tax losses previously not recognised	**–**	(303)
Reversal of deferred tax not recognised	**(420)**	(52)
Deferred tax assets not recognised	**12,319**	1,277
	(41)	4

Note: The tax rates adopted here are 15% for those entities operating in Macau and 17.5% for entities operating in other jurisdictions.

11 LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated loss attributable to equity shareholders of the Company includes a loss of HK$514,952,000 (2004: HK$4,203,000) which has been dealt with in the financial statements of the Company.

12 DIVIDENDS

No dividends had been paid or declared by the Company during the year (2004: nil).

13 LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the net loss attributable to equity shareholders of the Company of HK$292,754,000 (2004 (restated): HK$11,135,000) and the weighted average number of 1,144,562,057 ordinary shares (2004: 785,796,797 as restated for the share consolidation of ten shares into one share) in issue during the year.

(b) Diluted loss per share

Diluted loss per share for the years ended 31 December 2005 and 2004 has not been presented as the effect of any dilution is anti-dilutive.

14 DIRECTORS' REMUNERATION

An analysis of remuneration paid and payable to directors of the Company for the year ended 31 December 2005 is set as follows:

	Directors' fee HK$'000	Salaries, allowances and benefits in kind HK$'000	Share-based payments HK$'000	Retirement scheme contribution HK$'000	2005 Total HK$'000
Executive directors					
Cheung Yu Shum, Jenkin (resigned on 10 February 2006)	–	200	–	–	200
Chu Yuet Wah (appointed on 6 April 2005)	–	2,872	384,800	7	387,679
Chu Yuk Kuen (resigned on 6 June 2005)	–	–	–	–	–
Wong Hin Shek (appointed on 23 February 2005)	–	1,100	–	9	1,109
Chi Chi Hung, Kenneth (appointed on 8 June 2005)	–	548	–	5	553
Ng Tak Chak, Nelson (resigned on 6 April 2005)	–	–	–	–	–
Non-executive director					
Lee Wai Man* (appointed on 6 April 2005)	883	–	112,000	–	112,883
Independent non-executive directors					
Wong King Shiu, Daniel (resigned on 8 June 2005)	–	–	–	–	–
Shum Ka Hei (resigned on 8 June 2005)	–	–	–	–	–
Wong Yun Kuen (appointed on 8 June 2005)	34	–	–	–	34
Lo Miu Sheung, Betty (appointed on 8 June 2005)	34	–	–	–	34
Lau Man Tak (appointed on 8 June 2005)	11	–	–	–	11
Chan Chi Yuen (resigned on 28 October 2005)	25	–	–	–	25
	987	4,720	496,800	21	502,528

* Mr Lee Wai Man resigned as non-executive director on 10 February 2006.

None of the directors received any fees or emoluments in respect of their services to the Company during the year ended 31 December 2004.

No directors have waived or agreed to waive any emoluments in respect of the years ended 31 December 2004 and 2005.

14 DIRECTORS' REMUNERATION (CONTINUED)

Other than the giving of shares by the controlling shareholder and the granting of unlisted warrants as disclosed as share-based payment in above and detailed in note 7 as an inducement to directors to join the Group, there is no other emolument paid or payable as an inducement to directors to join the Group and no emoluments were paid or payable to the directors as compensation for loss of office during the years ended 31 December 2004 and 2005.

15 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2004: nil) are directors whose emoluments are disclosed in note 14. The aggregate of the emoluments in respect of the other one (2004: five) individual(s) whose emolument fell within the band of nil to HK$1,000,000 are as follows:

	2005 HK$'000	2004 HK$'000
Salaries and other emoluments	**492**	1,496
Retirement scheme contributions	**9**	58
	501	1,554

No emoluments were paid or payable to the above highest paid individuals as an inducement to join the Group or as compensation for loss of office during the years ended 31 December 2004 and 2005.

16 PROPERTY, PLANT AND EQUIPMENT

The Group	Leasehold building held for own use HK$'000	Construction in progress HK$'000 (note f)	Plant and machinery HK$'000	Leasehold improvement, furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost or valuation						
At 1 January 2004 (restated)	18,966	–	39,629	15,486	2,066	76,147
Additions	–	–	1,333	771	282	2,386
At 31 December 2004 (restated)	18,966	–	40,962	16,257	2,348	78,533
Representing:						
Cost (restated)	–	–	40,962	16,257	2,348	59,567
At 2004 valuation (restated)	18,966	–	–	–	–	18,966
	18,966	–	40,962	16,257	2,348	78,533
At 1 January 2005 (restated)	18,966	–	40,962	16,257	2,348	78,533
Additions	267,436	–	734	130,636	2,996	401,802
Acquisition of subsidiaries	609,825	–	–	110,284	992	721,101
Disposals	–	–	–	(6,901)	(528)	(7,429)
Adjustment on revaluation	854,757	–	–	–	–	854,757
At 31 December 2005	1,750,984	–	41,696	250,276	5,808	2,048,764
Representing:						
Cost	–	–	41,696	250,276	5,808	297,780
At 2005 valuation	1,750,984	–	–	–	–	1,750,984
	1,750,984	–	41,696	250,276	5,808	2,048,764
Accumulated depreciation						
At 1 January 2004 (restated)	–	–	38,903	14,702	2,066	55,671
Charge for the year	632	–	419	291	7	1,349
Elimination on revaluation	(632)	–	–	–	–	(632)
At 31 December 2004 (restated)	–	–	39,322	14,993	2,073	56,388
At 1 January 2005 (restated)	–	–	39,322	14,993	2,073	56,388
Charge for the year	13,015	–	551	24,598	674	38,838
Written back on disposals	–	–	–	(6,577)	(528)	(7,105)
Elimination on revaluation	(13,015)	–	–	–	–	(13,015)
At 31 December 2005	–	–	39,873	33,014	2,219	75,106
Net book value						
At 31 December 2005	1,750,984	–	1,823	217,262	3,589	1,973,658
At 31 December 2004 (restated)	18,966	–	1,640	1,264	275	22,145

16 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(a) The Group's buildings for own use in the PRC and Macau, were revalued by AA Property Services Limited, an independent professional valuer, on an open market value basis as at 31 December 2005.

(b) Included in the total amount of revaluation surpluses of HK$867,772,000, HK$866,921,000 (2004 (restated): nil) have been transferred to the leasehold buildings revaluation reserve of the Group and the balance was recognised in the consolidated income statement.

(c) Had these properties held for own use been carried at cost less accumulated depreciation, the carrying amounts would have been:

	2005 HK$'000	2004 HK$'000
Buildings in the PRC excluding Hong Kong and Macau	**19,942**	20,635
Leasehold buildings in Macau	**864,900**	–
	884,842	20,635

(d) The analysis of net book value of properties is as follows:

	2005 HK$'000	2004 HK$'000
Medium-term lease		
– in the PRC excluding Hong Kong SAR and Macau	**19,163**	18,966
– in Macau	**1,731,821**	–
	1,750,984	18,966

(e) The carrying amount of the Group's motor vehicles and equipment included amounts of HK$199,000 (2004: nil) and HK$13,000 in respect of assets held under finance lease.

(f) Construction in progress ("CIP") represents the cost of construction in respect of the Group's new production facility in the PRC where construction has yet to be completed to its original intended use. Up to 31 December 2005, the Group has incurred an aggregate construction cost of HK$9,043,000. Full provision had been made during the four years ended 31 December 2000 due to the limited cash flows of the Group during past years and the directors were of the view that the Group might not have the necessary cash resources available to complete the construction of this new production facility to its original intended use.

16 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(f) (continued)

The CIP is currently temporarily used by the Group as warehouse. As at 31 December 2005, the open market value of the CIP, as revalued by AA Property Services Limited, an independent professional valuer, amounted to HK$7,088,000 (2004: HK$7,015,000 as restated). The directors are of the view that, as the relevant Real Estate Title Certificate has not been obtained, no reversal of provision should be made in the financial statements.

(g) The leasehold buildings for own use were pledged to the banks for banking facilities granted to the Group (note 25).

The Company	Leasehold improvement, furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost			
Additions during the year and at 31 December 2005	2,275	173	2,448
Accumulated depreciation			
Charge for the year	406	29	435
At 31 December 2005	1,869	144	2,013

17 PREPAID LAND LEASE PREMIUM

	The Group HK$'000
Cost	
At 1 January 2004	
As previously reported	–
Reclassification upon adoption of HKAS 17	2,153
At 1 January 2004 and 31 December 2004 (as restated)	2,153
At 31 December 2004 and 1 January 2005	
As previously reported	–
Reclassification upon adoption of HKAS 17	2,153
At 1 January 2005 (as restated)	2,153
Additions	170,704
Acquisition of subsidiaries	680,000
At 31 December 2005	852,857
Accumulated amortisation	
At 1 January 2004	
As previously reported	–
Reclassification upon adoption of HKAS 17	341
As restated	341
Provided for the year	43
At 31 December 2004 (as restated)	384
At 31 December 2004 and 1 January 2005	
As previously reported	–
Reclassification upon adoption of HKAS 17	384
As restated	384
Provided for the year	11,696
At 31 December 2005	12,080
Net book value	
At 31 December 2005	840,777
At 31 December 2004 (as restated)	1,769

17 PREPAID LAND LEASE PREMIUM (CONTINUED)

The leasehold land of the Group are situated in the PRC and Macau and are held under medium term leases. The leasehold land was pledged to the banks for banking facilities granted to the Group (note 25).

Analysed for reporting purposes as:

	2005 HK$'000	2004 HK$'000
Current asset	**18,948**	43
Non-current asset	**821,829**	1,726
	840,777	1,769

The land leases are stated at recoverable amount subject to impairment test pursuant to HKAS 36 which is based on the higher of fair value less cost of sell and the value in use. The fair value less costs to sell of the land leases was determined with reference to a qualified external valuer's valuation.

18 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2005 HK$'000	2004 HK$'000
Unlisted shares, at cost	**69,532**	69,532
Amounts due from subsidiaries	**1,538,274**	360,174
Amounts due to subsidiaries	**(69,978)**	–
Less: impairment loss	**(298,236)**	(325,820)
	1,239,592	103,886
Less: Amount due within one year and included in current assets	**(3,000)**	–
	1,236,592	103,886

Included in amounts due from subsidiaries are loans of HK$3,000,000 and HK$300,000,000 respectively, which bear interest at 5% per annum and are unsecured. The HK$3 million loan is repayable within 1 year and the HK$300 million loan has no fixed term of repayment.

Apart from the above, the amounts due from/to subsidiaries are unsecured, interest-free and have no fixed term of repayment. The amounts are non-current in nature and their carrying amounts approximate their fair value.

18 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

The following list contains only the particular of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation/ registration and operation	Particulars of registered/issued and paid up share capital	Proportion of ownership interest Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Bebright Limited	British Virgin Islands	US$1	100%	100%	–	Investment holding
City Check Limited *	British Virgin Islands	US$10,000	100%	–	100%	Manufacturing of watches and watch components
Dongguan Queshi Watch Co. Ltd.	The People's Republic of China	HK$15,400,000	100%	–	100%	Manufacturing of watch components and property holding
Easy Rich Watch Dial Factory Limited	Hong Kong	HK$10,000	100%	–	100%	Trading of watch dials
Funwell Industrial Company Limited	Hong Kong	HK$10,000	100%	–	100%	Trading of leather watch straps
Futuremind Holdings Limited #	British Virgin Islands	US$1	100%	100%	–	Investment holding
GR Casa Real Holdings Limited (formerly known as Hang Huo Hotel Holdings Limited) #	British Virgin Islands	US$5	100%	–	100%	Investment holding
GR Casa Real (HK) Company Limited (formerly known as Hang Huo Hotel Company Limited)	Hong Kong	HK$2	100%	–	100%	Operating booking office for Casa Real Hotel
GR Casa Real Company Limited (formerly known as Hang Huo Hotel Company Limited)	Macau	MOP100,000	100%	–	100%	Operating Casa Real Hotel
Golden Resorts Group Hotel Investment Limited	Macau	MOP100,000	100%	–	100%	Operating Grandview Hotel
Goventure Finance Limited ^	British Virgin Islands	US$1	100%	100%	–	Marketing of gaming activities in hotels
Hangfer Company Limited	Hong Kong	HK$10,000	100%	–	100%	Trading of watch cases
Million-Well Enterprises Corp. #	British Virgin Islands	US$130,000	100%	100%	–	Investment holding
Next Champion Limited	British Virgin Islands	US$1	100%	100%	–	Investment holding
Silver Crystal Manufacturing Company Limited	Hong Kong	HK$10,000	100%	–	100%	Trading of watch glasses
Stime Watch Manufacturing Limited #	British Virgin Islands	US$50,000	100%	–	100%	Trading of watches and watch components and property holding

18 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of company	Place of incorporation/ registration and operation	Particulars of registered/issued and paid up share capital	Proportion of ownership interest Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Stime Watch Manufacturing Company Limited	Hong Kong	HK$10,000	100%	–	100%	Trading of watches
Vanfer Electroplating Factory Limited	Hong Kong	HK$10,000	100%	–	100%	Electroplating of watch components
Wing Fat Watch Band Factory Limited	Hong Kong	HK$10,000	100%	–	100%	Trading of metal watch bands

\# Companies operate principally in Hong Kong instead of in their respective places of incorporation/establishment.

* Companies operate principally in the People's Republic of China instead of in their respective places of incorporation/establishment.

^ Companies operate principally in Macau instead of in their respective places of incorporation/establishment.

19 AVAILABLE-FOR-SALE INVESTMENT/INVESTMENT IN ASSOCIATES

	The Group	
	2005	2004
	HK$'000	HK$'000
Unlisted shares, at fair value	–	50,000

The available-for-sale investment represented 35% interest in Starway Management Limited ("Starway"). As disclosed in the annual report 2004, the directors formed a view that the Group did not have significant influence in Starway as the Group had neither representation on the Board of Starway nor participation in its financial and operating policy making processes. Accordingly, the investment is accounted for at its cost on initial measurement as a financial asset less any possible impairment loss.

With effect from 1 January 2005, and in accordance with HKAS 39, all investments, with the exception of securities held for trading purposes, dated securities being held to maturity and certain unquoted equity investments, are classified as available-for-sale securities and carried at fair value.

On 10 January 2005, Win Matching Limited ("Win Matching"), a wholly owned subsidiary of the Company, and Sky Beyond Investments Limited ("Sky Beyond") entered into a disposal agreement, pursuant to which Win Matching agreed to dispose of its entire 35% shareholding interest in Starway Management Limited to Sky Beyond at a consideration of HK$52,000,000 in cash (the "Disposal"). The consideration for the Disposal was determined after arm's length negotiation between Win Matching and Sky Beyond based on 4% premium over the original acquisition price of the 35% interest in Starway by Win Matching of HK$50,000,000. The Disposal was duly approved by the independent shareholders at the special general meeting held on 28 July 2005.

20 INVENTORIES

	The Group	
	2005	2004
	HK$'000	HK$'000
Manufacture and selling of watches and watch components		
Raw material	**4,429**	3,731
Work in progress	**7,067**	6,061
Finished goods	**1,938**	151
	13,434	9,943
Holding and operating of hotels		
Food and beverage	**2,076**	–
	15,510	9,943

At 31 December 2005, the inventories that were carried at net realisable value amounted to HK$284,000 (2004: HK$3,414,000).

21 TRADE AND OTHER RECEIVABLE

	The Group		The Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	HK$'000	HK$'000
Trade receivables	**54,744**	13,753	**–**	–
Deposits and prepayments	**4,963**	50,544	**855**	340
	59,707	64,297	**855**	340

All of trade and other receivable are expected to be recovered within one year.

The following is an ageing analysis of trade receivables at the balance sheet date:

	The Group	
	2005	2004
	HK$'000	HK$'000
0 – 3 months	**50,885**	13,141
4 – 6 months	**3,725**	451
7 – 12 months	**101**	161
Over 1 year	**33**	–
	54,744	13,753

The Group's credit policy is set out in note 36.

21 TRADE AND OTHER RECEIVABLE (CONTINUED)

Included in trade and other receivables are the following amounts denominated in a currency other than the functional currency of the Group entities to which they relate:

	The Group	
	2005	2004
United States Dollars	**US$656,000**	US$1,351,000

22 TRADING SECURITIES

	The Group	
	2005	2004
	HK$'000	HK$'000
Trading securities, at market value		
Listed equity securities, in Hong Kong	**–**	4,194

23 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	HK$'000	HK$'000
Trade payables	**26,789**	21,062	**–**	–
Other payable and accruals	**60,543**	22,239	**3,737**	1,973
	87,332	43,301	**3,737**	1,973

All of trade and other payables are expected to be settled within one year.

The following is an ageing analysis of trade payables at the balance sheet date:

	2005	2004
	HK$'000	HK$'000
0 – 3 months	**15,464**	10,723
4 – 6 months	**2,639**	1,629
7 – 12 months	**2,800**	6,785
Over 1 year	**5,886**	1,925
	26,789	21,062

23 TRADE AND OTHER PAYABLES (CONTINUED)

Included in trade and other payables are the following amounts denominated in a currency other than the functional currency of the Group entities to which they relate:

	The Group	
	2005	2004
United States Dollars	**US$313,000**	US$329,000
Renminbi	**Rmb22,070,000**	Rmb16,305,000

24 BORROWINGS

	The Group		The Company	
	2005 HK$'000	2004 HK$'000	**2005** HK$'000	2004 HK$'000
Bank overdrafts	**7,064**	–	**1,193**	–
Bank loans, secured – note 25	**507,243**	8,879	**–**	–
Convertible debts – note 26	**–**	20,000	**–**	20,000
Obligations under finance lease – note 27	**195**	138	**–**	–
	514,502	29,017	**1,193**	20,000
Amount due within one year and included in current liabilities	**14,383**	9,017	**1,193**	–
Amount due after one year	**500,119**	20,000	**–**	20,000

25 BANK LOANS, SECURED

At 31 December 2005, the secured bank loans were repayable as follows:

	The Group	
	2005 HK$'000	2004 HK$'000
Within 1 year or on demand	**7,243**	8,879
After 1 year but within 2 years	**–**	–
After 2 years but within 5 years	**500,000**	–
	500,000	–
	507,243	8,879

25 BANK LOANS, SECURED (CONTINUED)

Included in bank loan is the following amount denominated in a currency other than the functional currency of the Group entities to which they relate:

	2005	2004
Renminbi	**Rmb7,750,000**	Rmb9,500,000

At 31 December 2005, the banking facilities of certain subsidiaries were secured by mortgages over their leasehold land and buildings with an aggregate carrying amount of HK$2,589,240,000.

At 31 December 2004, the bank loan was secured by the Group's leasehold land and buildings with aggregate carrying amount of HK$20,735,000 (as restated for adoption of HKAS 17).

The average effective interest rates of the bank loans are 4.11% and 5.9% (2004: 5.84%) respectively.

The carrying amounts of bank loans and overdrafts approximate to their fair value.

26 CONVERTIBLE DEBTS

The details of the Group's and the Company's convertible bonds outstanding as at 31 December 2004 are set out below:–

Date of issue	29 October 2004
Aggregate principal amount (HK$)	20,000,000
Coupon rate per annum	4%
Conversion price (HK$)	0.02
Conversion period	any time after issue
Collaterals	Nil
Maturity date	28 October 2006

Notes:

(a) All the bond holders are entitled to convert all or part of the bond at their respective conversion prices, subject to limits set out in the respective bond agreements, into ordinary shares which rank pari passu in all respects with the ordinary shares in issue on the relevant conversion dates.

(b) The Company has the right, having given notices to the bond holders, to redeem all or any part (in a minimum amount of HK$100,000 or integral multiple thereof) of the outstanding principal amount of the bonds together with interest accrued to the date of redemption and the bond holders have the right, having given notices to the Company, to require the Company to redeem all or any part (in a amount of not less than a whole multiple of HK$100,000) of the outstanding principal amount of the bonds together with interest accrued to the date of redemption.

On 31 January 2005, 3 February 2005 and 16 February 2005, 375,000,000 shares, 275,000,000 shares and 350,000,000 shares, respectively, of HK$0.01 each were issued to the convertible bondholders upon the full conversion of the convertible bonds with total principal amount of HK$20,000,000 at a conversion price of HK$0.02 each. As such all convertible debts outstanding at 31 December 2004 were converted to shares of the Company.

27 OBLIGATIONS UNDER FINANCE LEASES

At 31 December 2005, the Group had obligations under finance leases repayable as follows:

	Minimum lease payment		Present value of minimum lease payment	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	HK$'000	HK$'000
Amount payable under finance lease:				
Within one year	**87**	138	**76**	138
In the second year	**83**	–	**72**	–
In the third and fifth years, inclusive	**53**	–	**47**	–
Less: future finance charges	**(28)**	–	**–**	–
Present value of lease obligation	**195**	138	**195**	138
Less: amount due for settlement within one year shown under current liabilities			**(76)**	(138)
Amount due for settlement after one year			**119**	–

28 EMPLOYEE RETIREMENT BENEFITS

(i) Defined contribution retirement plan

The Group operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employee are each required to make contributions to the plan at 5% of the employee's relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the plan vest immediately.

(ii) Share option scheme

The Company has a share option scheme (the "Scheme") which was adopted on 7 June 2004 whereby the directors of the Company may, at their discretion, select participants as incentives or rewards for their contribution to the Group to take up options at HK$1 per option to subscribe for shares in the Company.

The total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme must not exceed 30% of the shares in issue from time to time. The total number of shares available for issue under the Scheme is 283,795,329 which represents 23% of the issued share capital as at the date of this annual report. The number of shares in respect of which options may be granted to any individual in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time without prior approval from the Company's shareholders.

28 EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

(ii) Share option scheme (continued)

Options may be exercised at any time from the date of grant of the share option to the date of expiry of the option. The exercise price is determined by the directors of the Company, and will not be less than the highest of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant, and (iii) the nominal value of the share.

Details of the share options outstanding as at 31 December 2005 which have been granted under the Scheme are as follows:

Name or category of participants	Date of grant	Exercise period	Exercise price (adjusted) (note 2)	Balance at 1 January 2005 and 31 December 2005 (note 2)
Consultants	12 November 2004	15 November 2004 to 14 November 2006	HK$1.51	66,100,000

Note:

(1) No options were exercised during the year.

(2) The exercise price and the number of options outstanding as at 1 January 2005 has been adjusted in accordance with the Capital Reorganisation as stated under the item (iv) of the heading of "Share capital".

29 DEFERRED TAXATION

The components of deferred tax assets (liabilities) recognised in the consolidated balance sheet and the movements during the year are as follows:

	Accelerated tax depreciation HK$'000	Other assets HK$'000	Unused tax losses HK$'000	Total HK$'000
At 1 January 2004	(757)	38	772	53
(Charge)/credit to income statement	757	3	(764)	(4)
At 31 December 2004 and 1 January 2005	–	41	8	49
Acquisition of subsidiaries	4	–	5,571	5,575
Credit to income statement	–	29	12	41
At 31 December 2005	4	70	5,591	5,665

29 DEFERRED TAXATION (CONTINUED)

At 31 December 2005, the Group has unused tax losses of approximately HK$182,295,000 (2004: approximately HK$58,418,000) available for offset against future profits. A deferred tax asset has been recognised for the year ended 31 December 2005 in respect of HK$37,256,000 (2004: HK$45,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward for a period of:

	2005	2004
	HK$'000	HK$'000
More than two years but not more than three years	**61,863**	–
Indefinitely	**83,176**	58,373
	145,039	58,373

30 SHARE CAPITAL

	2005		2004	
	Number of shares	Amount	Number of shares	Amount
		HK$'000		HK$'000
Ordinary shares of HK$0.10 (2004: HK$0.01) each				
Authorised:				
At 1 January	**30,000,000,000**	**300,000**	10,000,000,000	100,000
Increase in authorised share capital	**–**	**–**	20,000,000,000	200,000
Share consolidation	**(27,000,000,000)**	**–**	–	–
At 31 December	**3,000,000,000**	**300,000**	30,000,000,000	300,000
Issued and fully paid:				
At 1 January	**9,526,510,980**	**95,265**	4,847,132,942	48,471
Issue of shares	**2,600,000,000**	**26,000**	7,910,800,000	79,108
Capital reorganisation	**(10,913,859,882)**	**–**	(3,231,421,962)	(32,314)
At 31 December	**1,212,651,098**	**121,265**	9,526,510,980	95,265

30 SHARE CAPITAL

Details of the changes in the Company's share capital during the year ended 31 December 2005 are as follows:

(i) On 31 January 2005, 3 February 2005 and 16 February 2005, 375,000,000 shares, 275,000,000 shares and 350,000,000 shares, respectively, of HK$0.01 each were issued to the convertible bondholders upon the full conversion of the convertible bonds with total principal amount of HK$20,000,000 at a conversion price of HK$0.02 each.

(ii) On 31 March 2005, 500,000,000 ordinary shares at a price of HK$0.20 each were issued to satisfy part of the consideration pursuant to the sale and purchase agreement dated 8 March 2005 entered into between Futuremind Holdings Limited, a wholly owned subsidiary of the Company and Grand View Hotel Investment S. A. for the acquisition of Grandview Hotel and all the fixed assets therein.

(iii) On 31 May 2005, 1,100,000,000 ordinary shares at a price of HK$0.4545 each were issued to satisfy part of the consideration pursuant to the sale and purchase agreement dated 19 February 2005 entered into between Next Champion Limited, a wholly owned subsidiary of the Company and the vendors for the acquisition of Hang Huo Hotel Holdings Limited.

(iv) Pursuant to a special resolution passed 6 June 2005, a capital reorganisation was undertaken that the issued and unissued ordinary shares of HK$0.01 each in the capital of the Company were consolidated on the basis of every 10 issued shares being consolidated into 1 issued share of HK$0.10 ("Consolidated Share") and every 10 unissued shares being consolidated into 1 unissued Consolidated Share.

Warrants

During the year, the Company granted 80,000,000 (as adjusted for share consolidation of ten shares into one share) warrants conferring rights to subscribe up to HK$200,000,000 in aggregate in cash for shares at an adjusted subscription price of HK$2.5 to Sure Expert, details of which are disclosed in note 7 to the financial statements. Each warrant confers upon the holder the right to subscribe in cash for one ordinary share of HK$0.10 each in the Company at any time until 31 March 2008.

31 RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity on page 29 of the financial statements.

Company	Share premium account HK$'000	Contributed surplus HK$'000	Employee share-based payment reserve HK$'000	Capital reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2004	179,563	69,332	–	–	(289,198)	(40,303)
Capital reduction	–	32,314	–	–	–	32,314
Capital reorganisation	–	(32,314)	–	–	32,314	–
Issued of shares for cash, net of expenses	642,860	–	–	–	–	642,860
Expenses for capital reorganisation	(999)	–	–	–	–	(999)
Loss for the year	–	–	–	–	(4,203)	(4,203)
At 31 December 2004	821,424	69,332	–	–	(261,087)	629,669
At 31 December 2004						
– as originally stated	821,424	69,332	–	–	(261,087)	629,669
– effect of initial adoption of HKAS 39	–	–	–	418	(38)	380
At 1 January 2005, as restated	821,424	69,332	–	418	(261,125)	630,049
Issue of shares upon the conversion of convertible bond	10,000	–	–	(418)	–	9,582
Issue of shares for the acquisition of assets	95,000	–	–	–	–	95,000
Issue of shares for the acquisition of subsidiaries and assets	489,000	–	–	–	–	489,000
Employee share-based payment	–	–	496,800	–	–	496,800
Loss for the year	–	–	–	–	(514,952)	(514,952)
At 31 December 2005	1,415,424	69,332	496,800	–	(776,077)	1,205,479

(i) The share premium account represents the excess of proceeds received over the nominal value of the Company's shares issued, less share issue expenses.

31 RESERVES (CONTINUED)

(ii) The contributed surplus represents the difference between the nominal value of the Company's shares issued and the value of net assets of the underlying subsidiaries acquired. Under the Companies Act 1981 of Bermuda (as amended), a company may not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that (i) the Company is, or would after the payment be, unable to pay its liabilities as they become due; (ii) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

(iii) The capital reserve comprises the following:

- the value of unexercised equity component of convertible debts issued by the Company recognised in accordance with the accounting policy adopted for convertible debts in note 4(h)(i);
- the fair value of the shares given by the controlling shareholder for equity-settled share-based payment transaction recognised in accordance with HKFRS 2. Details are set out in note 7;
- the fair value of unlisted warrant granted for share-based payment transaction recognised in accordance with HKFRS 2. Details are set out in note 7.

(iv) In the opinion of the directors, the Company had no reserve available for distribution to shareholders at the balance sheet date.

32 ACQUISITION OF SUBSIDIARIES

On 31 May 2005, Next Champion Limited, a wholly owned subsidiary of the Company, acquired (i) the entire shareholding interest in Hang Huo Hotel Holdings Limited (now known as GR Casa Real Holdings Limited) (which holds 99% shareholding interest in Hang Huo Hotel Company Limited (now known as GR Casa Real Company Limited) and (ii) 50% shareholding interest in Hang Huo Hotel Company Limited (now known as GR Casa Real (HK) Company Limited) (collectively as "Casa Real") at a consideration of HK$1.25 billion.

Details of the net assets of Casa Real acquired by the Group were as follows:

	Casa Real's carrying amount before combination HK$'000	Fair value adjustment HK$'000	Effect of adopting HKAS 17 HK$'000	Fair value HK$'000
Property, plant and equipment	275,085	1,126,016	(680,000)	721,101
Prepaid land lease premium	–	–	680,000	680,000
Deferred tax assets	5,575	–	–	5,575
Inventories	1,108	–	–	1,108
Trade and other receivable	6,860	–	–	6,860
Bank balance and cash	1,866	–	–	1,866
Trade and other payable	(11,264)	–	–	(11,264)
Net assets	279,230	1,126,016	–	1,405,246
Discount on acquisition				(158,687)
Total consideration (note)				1,246,559
Satisfied by				
Cash				746,559
Issue of shares				500,000
				1,246,559
Net cash outflow arising on acquisition				
Cash consideration paid				746,559
Cash and cash equivalent acquired				(1,866)
				744,693

Note: The consideration per the sale and purchase agreement of acquisition of Casa Real (the "Agreement") is HK$1,250,000,000 and the Net Amount which means the current assets less liabilities as defined in the Agreement. As the Net Amount is not yet agreed between the vendors and the Company, the consideration is subject to amendment.

32 ACQUISITION OF SUBSIDIARIES (CONTINUED)

Casa Real contributed HK$146,074,000 revenue and HK$67,085,000 to the Group's profit for the year between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2005, total group turnover for the year would have been HK$473,801,000 and loss attributable to shareholders would have been HK$233,633,000. The proforma information is for illustrative purposes only and is not necessarily an indicative turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2005 nor is it intended to be a projection of future results.

33 DISPOSAL OF SUBSIDIARIES

	HK$'000
Trading securities	7,257
Trade and other receivable	1
Trade and other payable	(3,804)
Tax payable	(279)
Net assets	3,175
Loss on disposal	(2,498)
Consideration received – cash	677
Net inflow of cash and cash equivalents	677

34 CASH AND CASH EQUIVALENTS

	The Group	
	2005	2004
	HK$'000	HK$'000
Time deposits	**92,294**	637,500
Cash at bank and in hand	**28,009**	5,657
Cash and cash equivalents in the balance sheet	**120,303**	643,157
Bank overdraft (note 25)	**(7,064)**	–
Cash and cash equivalents in the consolidated cash flow statement	**113,239**	643,157

34 CASH AND CASH EQUIVALENTS (CONTINUED)

Included in cash and cash equivalents in the balance sheet are the following amounts denominated in a currency other than the functional currency of the Group entities of which they relate:

	The Group	
	2005	2004
Renminbi	**Rmb53,000**	Rmb281,000

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term deposits during the year are made for varying period of between 1 day and two months depending on the immediate cash requirements of the Group, and earn interest at respective short term time deposits rates. The carrying amount of the cash and cash equivalent approximate to their fair value.

35 MAJOR NON-CASH TRANSACTIONS

Save as those disclosed under the heading of "Share Capital" in note 30 to the financial statements, during the year, the Group entered into finance lease arrangement in respect of acquisition of motor vehicles and equipment with a total capital value at the inception of the lease of HK$222,000.

36 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk.

(i) Foreign exchange risk

The Group's monetary assets and transactions are principally denominated in Hong Kong Dollars ("HK$"), United States Dollars ("US$") and Macau Paracs ("MOP"). The Group is exposed to foreign exchange risk arising from the exposure of HK$ against US$. Considering that the exchange rate between HK$ and US$ is pegged, the Group believes its exposure to exchange rate risk is minimal.

(ii) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its long-term borrowings. Borrowings at variable rates expose the Group to cash flow interest-rate risk. Borrowings at fixed rates expose the Group to fair value interest rate risk.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

36 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk factors (continued)

(iii) Price risk

The Group has no significant concentration of price risk and commodity price risk. The extent of the Group's price risk exposure is represented by the change in equity securities price.

(iv) Credit risk

The extent of the Group's credit exposure is represented by the aggregate balance of cash in bank, trade and other receivables and deposits and prepayments. Cash transactions are limited to high-credit-quality institutions.

In respect of trade and other receivable, credit evaluations are performed on all customers requiring credit over a certain amount. These receivable are due within 0-180 days from the date of billing. Debtors with balances that are more than 6 months are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

At the balance sheet date, the Group has a certain concentration of credit risk as 40% (2004: 22%) and 47% (2004: 81%) of total trade and other receivables was due from the Group's largest customer and the five largest customers respectively.

(v) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in short and longer term.

(b) Fair value estimation

The carrying amounts of the Group's financial assets including cash and cash equivalents, bank deposits, trade and other receivables; and financial liabilities including trade and other payables, bank loans, approximate their fair values due to their short maturities. The face value less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values.

37 OPERATING LEASE ARRANGEMENT

(a) The Group leases its land and buildings under operating lease arrangements, and the terms of the leases range from one to ten years and the leases are repayable in fixed monthly instalments. The lease agreements are renewable at the end of the respective lease terms. There is no arrangement for contingent rent payments.

At 31 December 2005, the Group had total future minimum lease receivable under non-cancellable operating leases which fall due as follows:

	2005 HK$'000	2004 HK$'000
Within one year	**40,529**	–
After one year but within five years	**161,482**	–
Over five years	**365,384**	–
	567,395	–

(b) The Group entered into non-cancellable operating lease arrangements with landlords and the terms of the leases range from one to five years.

At 31 December 2005, the Group had total future minimum lease rent payables under non-cancellable operating leases falling due as follows:

	2005 HK$'000	2004 HK$'000
Within one year	**3,025**	–
After one year but within five years	**3,275**	–
	6,300	–

38 COMMITMENTS AND CONTINGENT LIABILITIES

	The Group	
	2005	2004
	HK$'000	HK$'000
Capital commitments:		
– contracted but not provided in the financial statements	**3,392**	–
– authorised but not contracted for	**254**	–
	3,646	–

As at 31 December 2005, the Company has executed corporate guarantees to the amount of HK$500,000,000 bank loan granted to two subsidiaries.

Apart from the above, the Group and the Company had no commitments or contingent liabilities at the balance sheet date.

39 MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party and connected transactions.

(a) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 14 and certain of the highest paid employees as disclosed in note 15 as follows:

	2005	2004
	HK$'000	HK$'000
Short-term employee benefits	**6,199**	–
Post-employment benefits	**30**	–
Equity compensation benefits	**496,800**	–
	503,029	–

Total remuneration is included in "Staff costs" (note 7)

(b) Financial advisory services fee of HK$1,600,000 paid to a corporation controlled by a director of the Company.

40 ACCOUNTING JUDGEMENT AND ESTIMATES

There is no significant risk of key assumptions concerning the future and other key sources of estimation at the balance sheet date which will cause an adjustment to carrying amounts of assets and liabilities within the next financial year.

There are no significant effects on amounts recognised in the financial statements arising from the judgement or estimates used by management except for the share-based payment in relation to giving of shares by the controlling shareholder as gift which is subject to the limitation of the Black Scholes Model and the uncertainty in estimates used by management in assumptions. Should the estimate on the relevant parameters be changed, there would be material changes in the amount of expenses in relation to giving of shares by the controlling shareholder as gift recognised in the income statement and employee share-based payment.

41 CHANGE OF COMPANY NAME

Pursuant to a special resolution passed on 17 March 2005, the name of the Company was changed from "Medtech Group Company Limited" to "Golden Resorts Group Limited" and 黃金集團有限公司 was adopted as the Chinese name of the Company with effect from 15 April 2005.

42 COMPARATIVE FIGURES

Certain comparative figures have been adjusted or re-classified as a result of the change in accounting policies. Further details are disclosed in note 2.