Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

1. GENERAL

CASH Retail Management Group Limited (時惠環球控股有限公司) (the "Company") was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended) and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company's registered office is situated at Clarendon House, 2 Church Street, Hamilton HM11 Bermuda. The Company's principal place of business in Hong Kong is situated at Suite 3001, COSCO Tower, 183 Queen's Road Central, Hong Kong.

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

The Company and its subsidiaries (collectively, referred to as the "Group") are principally engaged in the department store business and the provision of retail management services such as development planning and marketing advisory services.

At 31 December 2006, the Company was controlled by Fit Top Investments Limited, a company incorporated in the British Virgin Islands with limited liability and wholly-owned by Ms. Tin Yuen Sin Carol, the chairperson and executive director of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations (the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of these new HKFRSs has had no material impact on the amounts reported for the current or prior accounting years.

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

HKAS 1 (Amendment)	Capital Disclosures	1
HKFRS 7	Financial Instruments: Disclosures	1
HKFRS 8	Operating segments	8
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies	2
HK(IFRIC)-Int 8	Scope of HKFRS 2	3
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives	4
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment	5
HK(IFRIC)-Int 11	HKFRS 2-Group and Treasury Share Transactions	6
HK(IFRIC)-Int 12	Service Concession Arrangements	7

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

1. Effective for annual periods beginning on or after 1 January 2007
2. Effective for annual periods beginning on or after 1 March 2006
3. Effective for annual periods beginning on or after 1 May 2006
4. Effective for annual periods beginning on or after 1 June 2006
5. Effective for annual periods beginning on or after 1 November 2006
6. Effective for annual periods beginning on or after 1 January 2007
7. Effective for annual periods beginning on or after 1 January 2008
8. Effective for annual periods beginning on or after 1 January 2009

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 *Business Combinations* are recognized at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, which are recognized and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognized immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognized.

Goodwill

Goodwill arising on an acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

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

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

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

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' (disposal groups') previous carrying amount and fair value less costs to sell.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business, net of discounts and sales related taxes.

(i) Sales of goods are recognized when goods are delivered and title has passed.

(ii) Income from provision of retail management services is recognized when services are provided.

(iii) Income from provision of retail premises is recognized in accordance with the terms of the relevant contracts.

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

(v) Dividend income from investments is recognized when the shareholders' rights to receive payment have been established.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

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

Buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated balance sheet at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of buildings is credited to the building revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognized as an expense, in which case the increase is credited to the consolidated income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the building revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

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

Investment properties

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing

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

The Group as lessor

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

The Group as lessee

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated 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 charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs (see below).

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

Leasehold land

Interest in leasehold land is amortized over the lease term on a straight-line basis.

Foreign currencies

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognized in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognized in equity in the consolidated financials statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in equity, in which cases, the exchange differences are also recognized directly in equity.

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

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognized in the translation reserve.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalized as part of the cost of those assets. Capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense when employees have rendered service entitling them to the contributions.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

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

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

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is calculated using the weighted average method.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Financial instruments

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

Financial assets

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated as at fair value through profit or loss on initial recognition.

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Loans and receivables

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

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. At each balance sheet date subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method, less any identified impairment losses. An impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed on initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognized, subject to the restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognized in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognized in equity is removed from equity and recognized in profit or loss. Any impairment losses on available-for-sale financial assets are recognized in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in profit or loss in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Available-for-sale financial assets *(Continued)*

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

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss has two subcategories, including financial liabilities held for trading and those designated as at fair value through profit or loss on initial recognition.

A financial liability other than a financial liability held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities at fair value through profit or loss *(Continued)*

At each balance sheet date subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognized directly in profit or loss in the period in which they arise.

Other financial liabilities

Other financial liabilities (including account payables, accrued liabilities and other payables and bank borrowings) are subsequently measured at amortized cost, using the effective interest method.

Convertible loan notes

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Equity instruments

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

Consideration paid to reacquire the Company's own equity instruments are deducted from equity. No gain or loss is recognized in profit or loss.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designed as at fair value through profit or loss is recognized initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contact at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with HKAS 18 *Revenue*.

Derecognition

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

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

Provisions

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provisions *(Continued)*

Contingent liabilities acquired in a business combination

Contingent liabilities acquired in a business combination are initially measured at fair value at the date of acquisition. At subsequent balance sheet date, such contingent liabilities are measured at the higher of the amount that would be recognized in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognized less cumulative amortization.

Share-based payment transactions

Equity-settled share-based payment transactions

For share options granted to employees, the fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The effect of the change in estimate, if any, is recognized in profit or loss with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognized in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in share options reserve will be transferred to retained profits.

For share options granted to suppliers in exchange for goods or services, they are measured at the fair value of the goods or services received. The fair values of the goods or services are recognized as expenses immediately, unless the goods or services qualify for recognize as assets. Corresponding adjustments have been made to equity.

Cash-settled share-based payment transactions

For cash-settled share-based payments, the Group measures the goods or services acquired and the liability incurred at the fair value of the liability. At each balance sheet date, the liability is remeasured at its fair value until the liability is settled, with any changes in fair value recognized in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment losses (other than goodwill)

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

(a) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Details of the impairment loss calculation are disclosed in **Note 18**.

(b) Estimated useful lives of property, plant and equipment

Management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charges where useful lives are less than previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(c) Impairment loss of trade and other receivables

The Group's policy for doubtful receivables is based on the on-going evaluation of the collectability and aging analysis of the trade and other receivables and on management's judgments. Considerable judgment is required in assessing the ultimate realization of these receivables, including the current creditworthiness and the past collection history of each debtor, and the present values of the estimated future cash flows discounted at the effective interest rates. If the financial conditions of the Group's debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment loss of trade and other receivables may be required.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include bank balances and borrowings, account receivables, deposits and other receivables, amount due from the CASH Group, account payables, accrued liabilities and other payables and convertible loan notes. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

As at 31 December 2006, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognized financial assets as stated in the consolidated balance sheet.

In order to minimize the credit risk, the management of the Group has delegated a team responsible for monitoring procedures to ensure that follow up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt and loan receivable at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

Interest rate risk

The Group is exposed to both fair value interest rate risk and cash flows interest rate risk through the impact of the rate changes on fixed interest rate borrowings and floating interest rate borrowings respectively. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Foreign currency risk

The majority of the Group's transactions, trade and other receivables and payables are denominated in Renminbi and the Group is therefore exposed to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilization of borrowings and ensures compliance with loan covenants.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

6. REVENUE

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

	2006	2005
	HK$'000	HK$'000
Continuing operations		
Operation of department store	**12,679**	—
Provision of retail premises	**64,320**	—
Provision of retail management services	**48,760**	—
	125,759	—
Discontinued operations		
Sales of furniture and household goods and trendy digital products, net of discounts and returns	**426,452**	865,647

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

For the year ended 31 December 2005, the Group reported the geographical segments as its primary segment information and the business segments as its secondary segment information. For the year ended 31 December 2006, management of the Group considers it more appropriate to present the business segments as its primary segment information and the geographical segments as its secondary segment information.

Primary segment information — Business segments

Year ended 31 December 2006	**Continuing operations** Department store business and provision of retail management services HK$'000	**Discontinued operations** Retailing of furniture and household goods and trendy digital products HK$'000	**Consolidated** HK$'000
REVENUE			
External sales	125,759	426,452	552,211
RESULTS			
Segment results	81,843	(40,924)	40,919
Interest expense on convertible loan notes			(15,973)
Impairment loss in respect of goodwill			(144,881)
Unallocated income			6,281
Unallocated corporate expenses			(26,945)
Gain on disposal of discontinued operations			61,695
Loss before tax			(78,904)
Income tax expense			(16,514)
Loss for the year			(95,418)
BALANCE SHEET			
ASSETS			
Segment assets	432,740	—	432,740
Unallocated corporate assets			179,393
Consolidated total assets			612,133
LIABILITIES			
Segment liabilities	147,636	—	147,636
Unallocated corporate liabilities			285,189
Consolidated total liabilities			432,825

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Primary segment information — Business segments *(Continued)*

Year ended 31 December 2006	**Continuing operations** Department store business and provision of retail management services HK$'000	**Discontinued operations** Retailing of furniture and household goods and trendy digital products HK$'000	**Consolidated** HK$'000
OTHER INFORMATION			
Capital expenditure	8,424	12,356	20,780
Depreciation of property, plant and equipment	20,552	13,130	33,682
Amortization of prepaid lease payments	—	51	51
Impairment loss in respect of account receivables	5,087	—	5,087
Write-down of inventories	46	520	566
(Gain)/Loss on disposal of property, plant and equipment	(26,098)	253	(25,845)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Primary segment information — Business segments *(Continued)*

Before the acquisition of Timecastle International Limited and its subsidiaries (the "Timecastle Group") on 30 December 2005 which are engaged in the department store business and the provision of retail management services in the PRC, the Group's revenue was substantially derived from the retailing of furniture and household goods and trendy digital products in Hong Kong. Accordingly, no analysis of the Group's sales and results by business segment is presented for the year ended 31 December 2005. Details of the acquisition of the Timecastle Group are set out in **Note 33**.

The following is an analysis of assets and liabilities and other information by business segments for the year ended 31 December 2005:

Year ended 31 December 2005	**Continuing operations** Department store business and provision of retail management services HK$'000	**Discontinued operations** Retailing of furniture and household goods and trendy digital products HK$'000	**Consolidated** HK$'000
BALANCE SHEET			
ASSETS			
Segment assets	391,981	539,496	931,477
LIABILITIES			
Segment liabilities	182,356	508,379	690,735
OTHER INFORMATION			
Capital expenditure	88,231	22,611	110,842
Depreciation of property, plant and equipment	—	25,125	25,125
Amortization of prepaid lease payments	—	102	102
Impairment loss in respect of account receivables	—	845	845
Impairment loss in respect of other receivables	—	1,488	1,488
Write-down of inventories	—	11,366	11,366
Loss on disposal of property, plant and equipment	—	1,947	1,947

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7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Secondary segment information — Geographical segments

Year ended 31 December 2006	**PRC**	**Hong Kong**	**Total**
	HK$'000	HK$'000	HK$'000
Segment revenue	125,759	426,452	552,211
Segment assets	432,740	179,393	612,133
Capital expenditure	8,424	12,356	20,780

Year ended 31 December 2005	**PRC**	**Hong Kong**	**Total**
	HK$'000	HK$'000	HK$'000
Segment revenue	—	865,647	865,647
Segment assets	391,981	539,496	931,477
Capital expenditure	88,231	22,611	110,842

8. FINANCE COSTS

	Continuing operations		**Discontinued operations**		**Consolidated**	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Interest on:						
Bank borrowings wholly repayable within five years	**1,998**	—	**2,160**	3,640	**4,158**	3,640
Finance leases	**—**	—	**—**	1	**—**	1
Imputed interest expense on convertible loan notes	**15,973**	2,165	**—**	—	**15,973**	2,165
	17,971	2,165	**2,160**	3,641	**20,131**	5,806

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For the year ended 31 December 2006

9. INCOME TAX EXPENSE

	2006	2005
	HK$'000	HK$'000
Current tax:		
PRC Enterprise Income Tax	**9,118**	—
Deferred tax (Note 21)	**7,396**	—
Tax charge for the year	**16,514**	—

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Company and its subsidiaries had no assessable profits arising in Hong Kong for both years.

The provision for PRC Enterprise Income Tax is calculated based on the applicable income tax rates on the assessable profit of each of the Group's PRC subsidiaries as determined in accordance with the relevant income tax rules and regulations in the PRC.

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

	2006	2005
	HK$'000	HK$'000
Profit/(Loss) before tax		
— Continuing operations	**(99,675)**	(3,410)
— Discontinued operations	**20,771**	(73,181)
	(78,904)	(76,591)
Taxation at applicable income tax rate of 33% (2005: 17.5%)	**(26,038)**	(13,403)
Tax effect of income not taxable for tax purpose	**(11,135)**	(1,537)
Tax effect of expenses not deductible for tax purpose	**53,687**	6,759
Tax effect of estimated tax loss not recognized	**—**	8,181
Tax charge for the year	**16,514**	—

Details of the deferred tax assets are set out in **Note 21**.

The applicable income tax rate has been changed to 33% as the majority of the operating entities within the Group are operating in the PRC.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

10. DISCONTINUED OPERATIONS

On 20 February 2006, the Company entered into a sale and purchase agreement (the "VSD Agreement") with Celestial Investment Group Limited ("CIGL" — a wholly owned subsidiary of CASH). Pursuant to the VSD Agreement, the Company disposed of its entire equity interest in CASH Retail Management (HK) Limited and its subsidiaries (collectively, the "Retail Group") including the entire loan due from the Retail Group to the Company, at an aggregate consideration of HK$130,590,000. The Retail Group represented all retail businesses in Hong Kong previously carried on by the Group.

The transaction was approved by an ordinary resolution passed by the shareholders at a special general meeting held on 12 June 2006, and the disposal was completed on 30 June 2006 and the Group ceased to carry on any retail business in Hong Kong. Accordingly, the results attributable to the Retail Group are presented as discontinued operations for the year ended 31 December 2006, and the comparative figures for the year ended 31 December 2005 have been reclassified as discontinued operations. Details of the assets and liabilities disposed of are disclosed in **Note 34**.

Profit/(Loss) for the year from discontinued operations	**2006** **HK$'000**	2005 HK$'000
Revenue	**426,452**	865,647
Cost of sales	**(287,602)**	(595,179)
Other income	**2,963**	8,268
Selling and distribution costs	**(156,881)**	(288,417)
Administrative expenses	**(24,040)**	(59,211)
Other operating expenses	**—**	(2,333)
Surplus on revaluation of buildings	**—**	6,803
Increase in fair value of investment property	**—**	454
Impairment loss written back/(recognized) in respect of property, plant and equipment	**344**	(4,472)
Impairment loss recognized in respect of goodwill	**—**	(1,100)
Finance costs	**(2,160)**	(3,641)
Loss before and after tax	**(40,924)**	(73,181)
Gain on disposal of discontinued operations	**61,695**	—
Profit/(Loss) for the year from discontinued operations	**20,771**	(73,181)

Cash flows from discontinued operations	**2006** **HK$'000**	2005 HK$'000
Net cash flows from operating activities	**19,788**	(48,643)
Net cash flows from investing activities	**(67,265)**	(26,140)
Net cash flows from financing activities	**1,909**	(19,934)
Net cash flows from discontinued operations	**(45,568)**	(94,717)

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For the year ended 31 December 2006

11. LOSS FOR THE YEAR

Loss for the year has been arrived at after charging/(crediting):

	Continuing operations		Discontinued operations		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Surplus on revaluation of buildings	**—**	—	**—**	(6,803)	**—**	(6,803)
Increase in fair value of investment property	**—**	—	**—**	(454)	**—**	(454)
Impairment loss (written back)/recognized in respect of property, plant and equipment	**—**	—	**(344)**	4,472	**(344)**	4,472
Impairment loss in respect of goodwill	**144,881**	—	**—**	1,100	**144,881**	1,100
Impairment loss in respect of account receivables (included in other operating expenses)	**5,087**	—	**—**	845	**5,087**	845
Impairment loss in respect of other receivables (included in other operating expenses)	**—**	—	**—**	1,488	**—**	1,488
Write-down of inventories	**46**	—	**520**	11,366	**566**	11,366
Auditors' remuneration	**850**	—	**—**	1,500	**850**	1,500
Amortization of prepaid lease payments	**—**	—	**51**	102	**51**	102
Depreciation of property, plant and equipment	**20,552**	—	**13,130**	25,125	**33,682**	25,125
(Gain)/Loss on disposal of property, plant and equipment	**(26,098)**	—	**253**	1,947	**(25,845)**	1,947
Operating lease rentals in respect of premises						
— Minimum lease payments	**10,945**	—	**47,072**	94,975	**58,017**	94,975
— Contingent rentals	**—**	—	**2,974**	5,553	**2,974**	5,553
	10,945	—	**50,046**	100,528	**60,991**	100,528

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

11. LOSS FOR THE YEAR *(Continued)*

Loss for the year has been arrived at after charging/(crediting): *(Continued)*

	Continuing operations		**Discontinued operations**		**Consolidated**	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Employee benefits expense (including directors' remuneration)						
— Wages and salaries	**11,897**	—	**48,182**	95,563	**60,079**	95,563
— Contributions to retirement benefits schemes	**308**	—	**2,320**	3,031	**2,628**	3,031
	12,205	—	**50,502**	98,594	**62,707**	98,594
Net realized result on disposal and change in fair value of investments held for trading	**—**	—	**70**	(2,161)	**70**	(2,161)
Interest income	**(6,015)**	(99)	**(1,112)**	(1,639)	**(7,127)**	(1,738)
Net foreign exchange (gain)/loss	**—**	—	**(16)**	10	**(16)**	10

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

12. DIRECTORS' REMUNERATION

The remuneration paid or payable to every director of the Company were as follows:

For the year ended 31 December 2006	Fees paid to independent non-executive directors	Other emoluments paid to executive directors: Salaries, allowances and benefits in kind	Other emoluments paid to executive directors: Contributions to retirement benefits schemes	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors				
Tin Yuen Sin Carol	—	307	7	314
Choi Chiu Fai Stanley (appointed on 26 October 2006)	—	108	5	113
Chan Hon Ming Alan (appointed on 26 October 2006)	—	87	2	89
Tse Pui To Dickson (appointed on 26 October 2006)	—	18	—	18
Lam Yat Ming (appointed on 26 October 2006)	—	141	4	145
Kwan Pak Hoo Bankee (resigned on 16 November 2006)	—	—	—	—
Law Ping Wah Bernard (resigned on 16 November 2006)	—	—	—	—
Kwok Lai Ling Elaine (resigned on 20 April 2006)	—	759	13	772
Leung Siu Pong James (resigned on 16 November 2006)	—	386	20	406
Li Yuen Cheuk Thomas (resigned on 16 November 2006)	—	—	—	—
Independent non-executive directors				
Ng Ka Chung Simon (appointed on 28 February 2006)	84	—	—	84
Chan Wai Yip Freeman (appointed on 26 October 2006)	18	—	—	18
Leung Po Ying Iris (appointed on 26 October 2006)	18	—	—	18
Lo Ming Chi Charles (resigned on 16 November 2006)	—	—	—	—
Hui Ka Wah Ronnie (resigned on 28 February 2006)	—	—	—	—
Leung Ka Kui Johnny (resigned on 16 November 2006)	—	—	—	—
	120	1,806	51	1,977

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For the year ended 31 December 2006

12. DIRECTORS' REMUNERATION *(Continued)*

For the year ended 31 December 2005	Fees paid to independent non-executive directors	Other emoluments paid to executive directors		Total
		Salaries, allowances and benefits in kind	Contributions to retirement benefits schemes	
	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors				
Kwan Pak Hoo Bankee	—	600	12	612
Law Ping Wah Bernard	—	—	—	—
Kwok Lai Ling Elaine	—	600	30	630
Leung Siu Pong James	—	440	12	452
Li Yuen Cheuk Thomas	—	—	—	—
Tin Yuen Sin Carol (appointed on 1 September 2005)	—	40	2	42
Cheng Pui Lai Majone (resigned on 31 March 2005)	—	477	3	480
Independent non-executive directors				
Lai Wai Kwong Daryl (resigned on 8 June 2005)	—	—	—	—
Lo Ming Chi Charles	100	—	—	100
Hui Ka Wah Ronnie	100	—	—	100
Leung Ka Kui Johnny (appointed on 8 June 2005)	50	—	—	50
	250	2,157	59	2,466

During both years, no remuneration was paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any remuneration during both years.

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For the year ended 31 December 2006

13. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2005: three) were directors of the Company whose emoluments are disclosed in **Note 12** above. The emoluments of the remaining three (2005: two) individuals are as follows:

	2006	2005
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**1,188**	1,434
Contributions to retirement benefits schemes	**—**	21
	1,188	1,455

Their emoluments were all within HK$1,000,000.

14. LOSS PER SHARE

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

From continuing and discontinued operations

	2006	2005
	HK$'000	HK$'000
Loss for the purpose of calculating basic and diluted loss per share — Loss for the year	**(95,418)**	(76,591)

From continuing operations

	2006	2005
	HK$'000	HK$'000
Loss for the purpose of calculating basic and diluted loss per share from continuing operations — Loss for the year from continuing operations	**(116,189)**	(3,410)

14. LOSS PER SHARE *(Continued)*

Number of shares

	2006	2005
Weighted average number of ordinary shares for the purpose of calculating basic and diluted loss per share	**1,092,526,145**	879,443,040

The computation of diluted loss per share did not assume the exercise of the Company's outstanding share options and convertible loan notes existed during the years ended 31 December 2005 and 2006 since their exercise would result in a decrease in loss per share.

15. PROPERTY, PLANT AND EQUIPMENT

Cost or valuation	**Buildings** HK$'000	**Leasehold improvements** HK$'000	**Plant and machinery** HK$'000	**Furniture, fixtures and equipment** HK$'000	**Motor vehicles** HK$'000	**Total** HK$'000
At 1 January 2005	31,856	76,394	—	141,045	3,331	252,626
Surplus on revaluation	3,744	—	—	—	—	3,744
Additions	—	18,850	—	3,305	—	22,155
Through acquisition of subsidiaries	—	36,391	49,337	2,959	—	88,687
Transferred to investment property	(4,600)	—	—	—	—	(4,600)
Disposals	—	(11,254)	—	(8,860)	—	(20,114)
At 31 December 2005	31,000	120,381	49,337	138,449	3,331	342,498
Additions	—	18,875	—	1,905	—	20,780
Through disposal of the Retail Group	(31,000)	(93,235)	—	(137,439)	(3,331)	(265,005)
Other disposals	—	(39,078)	(50,772)	(116)	—	(89,966)
Exchange adjustments	—	1,455	1,973	100	—	3,528
At 31 December 2006, at cost	—	8,398	538	2,899	—	11,835
Analysis of cost or valuation						
At cost	—	120,381	49,337	138,449	3,331	311,498
At valuation	31,000	—	—	—	—	31,000
At 31 December 2005	31,000	120,381	49,337	138,449	3,331	342,498

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

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

Accumulated depreciation and impairment	**Buildings** HK$'000	**Leasehold improvements** HK$'000	**Plant and machinery** HK$'000	**Furniture, fixtures and equipment** HK$'000	**Motor vehicles** HK$'000	**Total** HK$'000
At 1 January 2005	1,556	59,147	—	101,822	2,411	164,936
Provided during the year	2,258	9,841	—	12,614	412	25,125
Eliminated on revaluation	(3,760)	—	—	—	—	(3,760)
Impairment loss recognized in the income statement	—	1,236	—	3,236	—	4,472
Eliminated on transfer to investment property	(54)	—	—	—	—	(54)
Eliminated on disposals	—	(10,124)	—	(8,043)	—	(18,167)
At 31 December 2005	—	60,100	—	109,629	2,823	172,552
Provided during the year	—	20,816	5,881	6,754	231	33,682
Impairment loss written back	—	(344)	—	—	—	(344)
Eliminated through disposal of the Retail Group	—	(65,764)	—	(114,863)	(3,054)	(183,681)
Eliminated on other disposals	—	(14,076)	(5,629)	—	—	(19,705)
Exchange adjustments	—	271	125	15	—	411
At 31 December 2006	—	1,003	377	1,535	—	2,915
Carrying amounts						
At 31 December 2006	—	7,395	161	1,364	—	8,920
At 31 December 2005	31,000	60,281	49,337	28,820	508	169,946

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

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

The above items of property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

Buildings	20 years
Leasehold improvements	The shorter of the lease terms and 5 years
Plant and machinery	7 to 10 years
Furniture, fixtures and equipment	4 to 7 years
Motor vehicles	5 years

At 31 December 2005, the Group's buildings were situated in Hong Kong and held under medium-term leases, which were pledged to secure general banking facilities granted to the Group.

The Group's buildings were revalued on 31 December 2005 at HK$31,000,000 by Knight Frank Hong Kong Limited, independent qualified professional valuers not connected with the Group. Knight Frank Hong Kong Limited had appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conformed to Hong Kong Institute of Surveyors Valuation Standards on Properties, was arrived at by reference to comparable market transactions. The resulting surplus of approximately HK$7,504,000 arising from the revaluation was credited to the building revaluation reserve as to approximately HK$701,000 and to the consolidated income statement as to approximately HK$6,803,000 for the year ended 31 December 2005.

Had the Group's buildings been measured on a historical cost basis, their carrying amount would have been approximately HK$32,952,000 at 31 December 2005.

During the year ended 31 December 2005, the Directors reassessed the recoverable amount of the property, plant and equipment of those shops of which their tenancy agreements either would be terminated in the year ended 31 December 2006 and would not be renewed. Accordingly, an impairment loss of approximately HK$4,472,000 was recognized for the year ended 31 December 2005.

During the year ended 31 December 2006, the Group disposed of certain property, plant and equipment through disposal of the Retail Group, further details of which are disclosed in **Note 34**.

16. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments at 31 December 2005 represented leasehold land in Hong Kong held under medium-term leases. The leasehold land was amortized on a straight-line basis over the remaining term of leases.

During the year ended 31 December 2006, the Group disposed of its prepaid lease payments through disposal of the Retail Group, further details of which are disclosed in **Note 34**.

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17. INVESTMENT PROPERTY

	HK$'000
Fair value	
At 1 January 2005	—
Transferred from property, plant and equipment	4,546
Increase in fair value during the year	454
At 31 December 2005	5,000
Disposed of through disposal of the Retail Group	(5,000)
At 31 December 2006	—

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

The fair value of the Group's investment property at 31 December 2005 was arrived at on the basis of a valuation carried out on that date by Knight Frank Hong Kong Limited, independent qualified professional valuers not connected with the Group. Knight Frank Hong Kong Limited had appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conformed to Hong Kong Institute of Surveyors Valuation Standards on Properties, was arrived at by reference to comparable market transactions and rental yield for similar properties.

At 31 December 2005, the Group's investment property was located in Hong Kong and held under medium-term lease.

During the year ended 31 December 2006, the Group disposed of its investment property through disposal of the Retail Group, further details of which are disclosed in **Note 34**.

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18. GOODWILL

Cash generating units	Discontinued operations Wholesale and retailing of branded household products (Unit A) HK$'000	Discontinued operations Retailing of furniture, household and personal care products (Unit B) HK$'000	Continuing operations Operation of department store and provision of retail management services (Unit C) HK$'000	Total HK$'000
Cost				
At 1 January 2005	1,863	—	—	1,863
Arising on acquisition of the Wealthy View Group (**Note 33(ii)**)	—	1,100	—	1,100
Arising on acquisition of the Timecastle Group (**Note 33(i)**)				
— as determined provisionally	—	—	2,375	2,375
— as adjusted as a result of completing the initial accounting	—	—	213,306	213,306
At 31 December 2005 (as restated)	1,863	1,100	215,681	218,644
Eliminated on disposal of the Retail Group	(1,863)	(1,100)	—	(2,963)
At 31 December 2006	—	—	215,681	215,681
Accumulated impairment				
At 1 January 2005	1,863	—	—	1,863
Impairment loss recognized in the income statement	—	1,100	—	1,100
At 31 December 2005	1,863	1,100	—	2,963
Eliminated on disposal of the Retail Group	(1,863)	(1,100)	—	(2,963)
Impairment loss recognized in the income statement	—	—	144,881	144,881
At 31 December 2006	—	—	144,881	144,881
Carrying amounts				
At 31 December 2006	—	—	70,800	70,800
At 31 December 2005 (as restated)	—	—	215,681	215,681

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18. GOODWILL *(Continued)*

For the purposes of impairment testing, goodwill has been allocated to three individual cash generating units ("CGUs"). The basis of the recoverable amounts of the CGUs and their major underlying assumptions are summarized below:

Unit A and Unit B

Due to the continuous losses incurred by the subsidiaries comprising Unit A and Unit B, the Directors reassessed the recoverable amount of goodwill arising on the acquisition of these subsidiaries and recognized an impairment loss of approximately HK$1,100,000 in the year ended 31 December 2005 and approximately HK$1,863,000 in the year ended 31 December 2004 for Unit B and Unit A respectively.

Unit C

The recoverable amount of Unit C is determined from a value in use calculation. The key assumptions for the value in use calculation are those regarding the discount rates, growth rates and expected changes on selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to Unit C. The growth rates are made with reference to industry growth forecast together with management's estimation. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares cash flow forecast based on financial budget approved by management for the next two years and extrapolates cash flows for the following three years based on an estimated constant growth rate of 5%. This rate does not exceed the long-term growth rate for the relevant markets. The rate used to discount the forecast cash flows is 13.5%.

At 31 December 2005, before impairment testing, goodwill of approximately HK$215,681,000 was allocated to Unit C. After the acquisition, the Group reassessed the relevant business markets and revised its cash flow forecast for this CGU. The carrying amount of goodwill arising on the acquisition of the subsidiaries was reassessed by the Group and an impairment loss of approximately HK$144,881,000 was recognized for the year ended 31 December 2006 for Unit C.

19. AVAILABLE-FOR-SALE INVESTMENTS

The Group's available-for-sale investments at 31 December 2005 were stated at fair value, which were determined by reference to bid price quoted in the secondary market.

During the year ended 31 December 2006, the Group disposed of its available-for-sale investments through disposal of the Retail Group, further details of which are disclosed in **Note 34**.

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20. PREPAID RENTAL/DEPOSITS PAID FOR ACQUISITION OF LEASEHOLD IMPROVEMENTS

Prepaid rental represents prepayments for leasing a new department store (the "New Department Store") in the PRC in accordance with a memorandum signed on 10 May 2004 (the "Memorandum").

Deposits paid for acquisition of leasehold improvements represent deposits paid for acquisition of leasehold improvements in accordance with the terms of the Memorandum, further details of which are disclosed in **Note 37**.

21. DEFERRED TAX ASSETS

The following is the major deferred tax balances recognized and the movements thereon during the current and prior years:

	Accelerated tax depreciation HK$'000	**Depreciation over tax allowance** HK$'000	**Estimated tax losses** HK$'000	**Total** HK$'000
At 1 January 2005	(2,537)	—	2,537	—
Credited/(Charged) to income statement	(1,104)	—	1,104	—
Acquisition of subsidiaries **(Note 33)**	—	7,254	—	7,254
At 31 December 2005	(3,641)	7,254	3,641	7,254
Exchange adjustment	—	142	—	142
Credited/(Charged) to income statement	3,641	(7,396)	(3,641)	(7,396)
At 31 December 2006	—	—	—	—

22. INVENTORIES

	2006 **HK$'000**	2005 HK$'000
Finished goods held for sale	—	47,863
Merchandise held for resale	—	3,601
	—	51,464

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23. ACCOUNT RECEIVABLES

The Group allows an average credit period of 30 to 90 days to its trade customers. The following is an aged analysis of account receivables net of impairment losses at the balance sheet date:

	2006	2005
	HK$'000	HK$'000
0 — 30 days	**912**	1,875
31 — 60 days	**—**	27
61 — 90 days	**16,813**	29
Over 90 days	**62,062**	201
	79,787	2,132

During the year ended 31 December 2006, the Group recognized impairment losses in respect of account receivables from third party customers amounting to approximately HK$5,087,000 (2005: HK$845,000).

The Directors consider that the carrying amounts of the Group's account receivables approximate their fair values.

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

The Directors consider that the carrying amounts of the Group's prepayments, deposits and other receivables approximate their fair values.

25. AMOUNT DUE FROM THE CASH GROUP

As disclosed in **Notes 10** and **34**, during the year ended 31 December 2006, the Company disposed of its entire equity interest in the Retail Group at an aggregate consideration of HK$130,590,000 pursuant to the VSD Agreement entered into between the Company and CIGL (a wholly-owned subsidiary of CASH). At 31 December 2006, the remaining balance of the consideration of HK$100,590,000 was due from the CASH Group to the Company.

The balance of unsettled consideration bears interest at the annual rate of 2% above the prime lending rate, and the accrued interest amounted to approximately HK$5,868,000 at 31 December 2006.

The amount due from the CASH Group was fully settled subsequent to the balance sheet date.

The Directors consider that the carrying amount of the amount due from the CASH Group approximates its fair value.

26. LISTED INVESTMENTS HELD FOR TRADING

	2006	2005
	HK$'000	HK$'000
Listed investment held for trading		
Equity securities listed on the Stock Exchange	**—**	4,106

The fair values of the Group's listed investments held for trading at 31 December 2005 were determined based on quoted market bid place available on the Stock Exchange.

During the year ended 31 December 2006, the Group disposed of its listed investments held for trading through disposal of the Retail Group, further details of which are disclosed in **Note 34**.

27. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

The pledged bank deposits at 31 December 2005 were denominated in Hong Kong dollars and carried interest at prevailing market rate.

The Directors consider that the carrying amounts of pledged bank deposits and bank balances and cash approximate their fair values.

28. OTHER CURRENT LIABILITIES

Account payables, accrued liabilities and other payables principally comprise amounts outstanding for trade purposes and ongoing costs.

The average credit period taken for trade purchases is 30 to 90 days. The following is an aged analysis of account payables at the balance sheet date:

	2006	2005
	HK$'000	HK$'000
0 — 30 days	**2,892**	121,526
31 — 60 days	**850**	29,749
61 — 90 days	**2,425**	18,784
Over 90 days	**5,420**	22,902
	11,587	192,961

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28. OTHER CURRENT LIABILITIES *(Continued)*

The amount due to a director was unsecured, interest-free and had no fixed terms of repayment.

The Directors consider that the carrying amounts of the other current liabilities noted above approximate their fair values.

29. BANK BORROWINGS, SECURED

	2006 **HK$'000**	2005 HK$'000
Trust receipt loans	**—**	46,175
Bank loans	**20,000**	39,960
	20,000	86,135

	2006 **HK$'000**	2005 HK$'000
Denominated in:		
Hong Kong dollars	**—**	62,097
Renminbi	**20,000**	24,038
	20,000	86,135

	2006 **HK$'000**	2005 HK$'000
Carrying amount repayable:		
On demand or within one year	**20,000**	75,580
More than one year, but not exceeding two years	**—**	5,640
More than two years, but not exceeding five years	**—**	4,915
	20,000	86,135
Less: Amount due within one year shown under current liabilities	**(20,000)**	(75,580)
	—	10,555

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

29. BANK BORROWINGS, SECURED *(Continued)*

At 31 December 2006, the effective interest rate on the bank loan is 7.7% per annum and the bank loan is secured by a corporate guarantee given by a third party.

At 31 December 2005, the effective interest rates on the trust receipt loans and the bank loans were 5.7% per annum and 5.5% per annum respectively. At 31 December 2005, the Group's bank borrowings and other banking facilities were secured by:

(i) pledge of the Group's certain buildings and prepaid lease payments;

(ii) pledged bank deposits of approximately HK$38,900,000;

(iii) corporate guarantees given by the Company; and

(iv) corporate guarantee given by a third party.

The Directors consider that the carrying amounts of the bank borrowings approximate their fair values.

30. SHARE CAPITAL

	Notes	Ordinary shares of HK$0.02 each	Amount HK$'000
Authorized:			
At 1 January 2005		750,000,000	15,000
Increase on 13 May 2005	(a)(i)	750,000,000	15,000
Increase on 18 July 2005	(a)(ii)	1,500,000,000	30,000
At 31 December 2005 and 2006		3,000,000,000	60,000
Issued and fully paid:			
At 1 January 2005		666,692,812	13,334
Issue of subscription shares	(b)	83,000,000	1,660
Issue of placing shares pursuant to the placing agreement dated 4 April 2005	(c)(i)	223,000,000	4,460
Issue of placing shares pursuant to the placing agreement dated 24 August 2005	(c)(ii)	100,000,000	2,000
Exercise of share options	(d)	19,833,333	397
At 31 December 2005 and 2006		1,092,526,145	21,851

Notes to the Consolidated Financial Statements

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30. SHARE CAPITAL *(Continued)*

Notes:

(a) Increases in authorized share capital

(i) Pursuant to an ordinary resolution passed by the Company's shareholders on 13 May 2005, the authorized share capital of the Company was increased from HK$15,000,000 to HK$30,000,000 by the creation of an additional 750,000,000 shares of HK$0.02 each.

(ii) Pursuant to an ordinary resolution passed by the Company's shareholders on 18 July 2005, the authorized share capital of the Company was increased from HK$30,000,000 to HK$60,000,000 by the creation of an additional 1,500,000,000 shares of HK$0.02 each.

(b) Issue of subscription shares

Pursuant to two subscription agreements dated 23 March 2005, a total of 83,000,000 ordinary shares of HK$0.02 each were issued to two subscribers at the subscription price of HK$0.28 per share on 6 April 2005. The gross proceeds of HK$23,240,000 were used for general working capital of the Group.

(c) Issue of placing shares

(i) Pursuant to a placing agreement dated 4 April 2005, a total of 223,000,000 ordinary shares of HK$0.02 each were issued to placees at the placing price of HK$0.30 per share on 19 May 2005, giving rise to gross proceeds of HK$66,900,000. The fund had been applied as the first deposit under the Timecastle S&P Agreement for the acquisition of the Timecastle Group.

(ii) Pursuant to a placing agreement dated 24 August 2005, a total of 100,000,000 ordinary shares of HK$0.02 each were issued to placees at the placing price of HK$0.45 per share on 30 December 2005. The gross proceeds of HK$45,000,000 were used for settlement of part of the consideration for the acquisition of the Timecastle Group under the Timecastle S&P Agreement.

(d) Exercise of share options during the year ended 31 December 2005

In May 2005, 19,833,333 share options were exercised at the exercise price of HK$0.316 per share, resulting in the issue of 19,833,333 ordinary shares of HK$0.02 each for a total consideration (before expenses) of approximately HK$6,268,000 on 23 May 2005.

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31. SHARE OPTION SCHEME

Pursuant to an ordinary resolution passed at the special general meeting of the Company held on 19 February 2002, the Company adopted the share option scheme ("New Option Scheme") to replace the share option scheme adopted on 21 January 1994 ("Old Option Scheme"). All the options granted under the Old Option Scheme shall remain valid and unchanged and shall be treated in accordance with the terms under the Old Option Scheme. The major terms of the New Option Scheme are summarized as follows:

(a) The purpose was to provide incentives to:

(i) award and retain the participants who have made contributions to the Group; or

(ii) attract potential candidates to serve the Group for the benefit of the development of the Group.

(b) The participants included any employee, director, consultant, adviser or agent of any member of the Group.

(c) The maximum number of shares in respect of which options might be granted under the New Option Scheme must not exceed 10% of the issued share capital of the Company as at the date of approval of the New Option Scheme and such limit might be refreshed by shareholders in general meeting. The maximum number of shares was 109,252,614 shares, representing 10% of the issued share capital of the Company, as at the date of approval of these consolidated financial statements. However, the total maximum number of shares which might be issued upon exercise of all outstanding options granted and yet to be exercised under the New Option Scheme and any other share option scheme must not exceed 30% of the shares in issue from time to time.

(d) The maximum number of shares in respect of which options might be granted to a participant, when aggregated with shares issued and issuable (including exercised and outstanding options and the options cancelled) under any option granted to the same participant under the New Option Scheme or any other share option scheme within any 12 month period, must not exceed 1% of the shares in issue from time to time.

(e) There was no requirement for a grantee to hold the option for a certain period before exercising the option save as determined by the board of Directors and provided in the offer of grant of option.

(f) The exercise period should be any period fixed by the board of Directors upon grant of the option but in any event the option period should not go beyond 10 years from the date of offer for grant.

(g) The acceptance of an option, if accepted, must be made within 28 days from the date of grant with a non-refundable payment of HK$1.00 from the grantee to the Company.

Notes to the Consolidated Financial Statements

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31. SHARE OPTION SCHEME *(Continued)*

(h) The exercise price of an option must be the highest of:

(i) the closing price of the shares on the date of grant which day must be a trading day;

(ii) the average closing price of the shares for the 5 trading days immediately preceding the date of grant; and

(iii) the nominal value of the share.

(i) The life of the New Option Scheme is effective for 10 years from the date of adoption until 18 February 2012.

There were no outstanding share options at 31 December 2005 and 2006. No share options were granted, exercised or cancelled during the year ended 31 December 2006.

32. CONVERTIBLE LOAN NOTES

First Convertible Loan Note

On 15 August 2005, the Company issued a convertible loan note (the "First Convertible Loan Note") with a principal amount of HK$108,000,000 to AustChina Information Technology Pyt Limited. The First Convertible Loan Note was subsequently transferred to Mr. Pun So on 10 February 2006. The First Convertible Loan Note bears zero coupon rate. The maturity date is 31 August 2007 or any other date mutually agreed between the Company and the noteholder. The First Convertible Loan Note shall be repaid on the maturity date if no conversion is noted. The conversion price of the First Convertible Loan Note is HK$0.45 per share (subject to adjustment) and the conversion right attached to the First Convertible Loan Note can be exercised at any time after the expiry of 6 months from the issue date of the First Convertible Loan Note and ending on the maturity date.

32. CONVERTIBLE LOAN NOTES *(Continued)*

Second Convertible Loan Note

On 30 December 2005, the Company issued another convertible loan note with a principal amount of HK$180,000,000 (the "Second Convertible Loan Note") to Mr. Qian Song Wen (the "Timecastle Vendor") for settlement of part of the consideration for the acquisition of the Timecastle Group under the Timecastle S&P Agreement (**Note 33(i)**). The Second Convertible Loan Note bears zero coupon rate. The maturity date is 31 December 2007 or any other date mutually agreed between the Company and the Timecastle Vendor, on which all outstanding principal amount of the Second Convertible Loan Note shall be fully repaid. The Company has the repayment right at any time during the conversion period. The conversion price of the Second Convertible Loan Note is HK$0.45 per share (subject to adjustment). Pursuant to the Timecastle Supplemental Agreement (**Note 33(i)**), the terms of the Second Convertible Loan Note were changed as follows: (i) the Timecastle Vendor undertook to the Group that he shall not exercise any conversion right attached to the Second Convertible Loan Note (with principal amount as adjusted by the Group, if any) at any time before the 7th business day after the issue of the audited accounts of the Timecastle Group for the year ending 31 December 2006, or the date on which the Reorganization becomes effective, whichever is the later; and (ii) the principal amount of the Second Convertible Loan Note shall be reduced by an amount of approximately HK$1,694,000 which is equal to the Reduction Amount less the Balance, which has been included in "Prepayments, deposits and other receivables" on the consolidated balance sheet.

The convertible loan notes contain two components, liability and equity elements. The equity element is presented in equity heading "Convertible loan notes equity reserve". The effective interest rate of the liability component is 6.26%.

The movement of the liability component of the convertible loan notes for the year is set out below:

	First Convertible Loan Note	**Second Convertible Loan Note**	**Total**
	HK$'000	HK$'000	HK$'000
Principal amount	108,000	180,000	288,000
Equity component	(11,898)	(21,048)	(32,946)
Liability component at date of issue	96,102	158,952	255,054
Imputed interest charged	2,165	—	2,165
Liability component at 31 December 2005	98,267	158,952	257,219
Imputed interest charged	5,776	10,197	15,973
Liability component at 31 December 2006	104,043	169,149	273,192

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33. ACQUISITION OF SUBSIDIARIES

(i) Acquisition of the Timecastle Group

Pursuant to the share purchase agreement dated 24 August 2005 (the "Timecastle S&P Agreement") entered into between Sundynasty International Limited (a wholly-owned subsidiary of the Company) and Mr. Qian Song Wen (the "Timecastle Vendor"), the Group agreed to acquire the entire equity interest of the Timecastle Group at a consideration of HK$500 million (subject to adjustments) to be satisfied by cash and by issue of the Second Convertible Loan Note. Pursuant to the Timecastle S&P Agreement, the completion of the acquisition of the Timecastle Group was subject to, inter alia, the completion of reorganization to convert 東方銀座商業(北京)有限公司, a PRC incorporated company, into a wholly foreign owned enterprise in accordance with the PRC laws and the transfer of the entire interest of 東方銀座商業(北京)有限公司 to the wholly-owned subsidiary of Timecastle International Limited (the "Reorganization"). As the Reorganization had not been completed by the fulfillment date of 30 November 2005, the Group entered into a series of contractual arrangements to the effect that the Group would be able to enjoy all economic interests attributed to the entire equity interests in 東方銀座商業(北京)有限公司 and control the operations and financial policies of the Timecastle Group. Accordingly, the Timecastle Group was consolidated by the Group with effect from 30 December 2005, and the acquisition was accounted for using the purchase method.

The Timecastle S&P Agreement allowed for adjustments to the consideration that were contingent on a profit guarantee for the Timecastle Group for the year ended 31 December 2005. After further negotiation, the Timecastle Vendor and the Group entered into a supplemental agreement dated 26 April 2006 (the "Timecastle Supplemental Agreement") to amend the terms of the Timecastle S&P Agreement, pursuant to which (i) the Timecastle Vendor undertook to the Group that he shall not exercise any conversion right attached to the Second Convertible Loan Note (with principal amount as adjusted by the Group, if any) at any time before the 7th business day after the issue of the audited accounts of the Timecastle Group for the year ending 31 December 2006, or the date on which the Reorganization becomes effective, whichever is the later; and (ii) a profit guarantee for the Timecastle Group for the year ending 31 December 2006 should be given so that the profit guarantee was given for the year in which the Reorganization was completed instead of 2005. If the audited net profit after tax of the Timecastle Group for the year ending 31 December 2006 prepared in accordance with HKFRSs is less than RMB80 million (the "Profit Guarantee"), the consideration shall be adjusted downwards by an amount equal to the shortfall of the Profit Guarantee multiplied by 6.5 (the "Reduction Amount"). If the Reduction Amount exceeds the balance of the consideration due to the Timecastle Vendor (the "Balance"), the Group shall not be liable to pay the Balance and the principal amount of the Second Convertible Loan Note shall be reduced by an amount equal to the Reduction Amount less the Balance. Accordingly, the initial accounting for the acquisition of the Timecastle Group could be determined only provisionally by 31 December 2005 as the final consideration for the acquisition was subject to adjustment with reference to the audited results of the Timecastle Group for the year ending 31 December 2006.

33. ACQUISITION OF SUBSIDIARIES *(Continued)*

(i) Acquisition of the Timecastle Group *(Continued)*

In accordance with the Timecastle S&P Agreement as amended by the Timecastle Supplemental Agreement, the final consideration was determined to be approximately HK$425,306,000 (including costs directly attributable to the acquisition of approximately HK$12,000,000).

The net assets acquired and the goodwill arising were as follows:

	Acquiree's carrying amount before combination and fair value
	HK$'000
Property, plant and equipment	88,231
Prepaid rental	38,462
Deposits paid for acquisition of leasehold improvements	23,702
Deferred tax assets	7,254
Inventories	3,601
Account receivables	894
Prepayments, deposits and other receivables	147,090
Bank balances and cash	7,747
Account payables	(41,537)
Accrued liabilities and other payables	(27,366)
Bank borrowings	(24,038)
Taxation payable	(14,415)
Net assets acquired	209,625
Goodwill **(Note 18)**	
— as determined provisionally	2,375
— as adjusted as a result of completing the initial accounting	213,306
Total consideration	425,306
Satisfied by:	
Cash	247,000
Second Convertible Loan Note **(Note 32)**	180,000
Reduction of principal amount of the Second Convertible Loan Note by an amount equal to the Reduction Amount less the Balance (included in "Prepayments, deposits and other receivables")	(1,694)
	425,306

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33. ACQUISITION OF SUBSIDIARIES *(Continued)*

(i) Acquisition of the Timecastle Group *(Continued)*

Net cash outflow arising on acquisition of the Timecastle Group:

	2006	2005
	HK$'000	HK$'000
Cash consideration paid	**(75,000)**	(172,000)
Bank balances and cash acquired	**—**	7,747
	(75,000)	(164,253)

(ii) Acquisition of the Wealthy View Group

On 19 April 2005, the Group acquired the entire equity interest of Wealthy View Investment Limited and its subsidiaries (the "Wealthy View Group") from an independent third party for a cash consideration of HK$4,000,000. This acquisition was accounted for using the purchase method. The goodwill arising on acquisition of the Wealthy View Group amounted to approximately HK$1,100,000 which was attributable to the anticipated profitability of the Wealthy View Group.

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33. ACQUISITION OF SUBSIDIARIES *(Continued)*

(ii) Acquisition of the Wealthy View Group *(Continued)*

The net assets acquired and the goodwill arising were as follows:

	Acquiree's carrying amount before combination and fair value HK$'000
Property, plant and equipment	456
Inventories	903
Account receivables	231
Prepayments, deposits and other receivables	1,556
Bank balances and cash	1,274
Account payables	(1,287)
Accrued liabilities and other payables	(233)
	2,900
Goodwill (**Note 18**)	1,100
Total consideration	4,000
Satisfied by:	
Cash consideration	4,000
Net cash outflow arising on acquisition of the Wealthy View Group:	
Cash consideration paid	(4,000)
Bank balances and cash acquired	1,274
	(2,726)

The Wealthy View Group was engaged in retailing business in the PRC. However, after the acquisition, the Group reassessed the business market of the Wealthy View Group and considered that the business principally engaged by the Wealthy View Group was unprofitable. As a result, carrying amount of the goodwill arising on acquisition of the Wealthy View Group was reassessed by the Directors and an impairment loss of approximately HK$1,100,000 was recognized in the year ended 31 December 2005 upon cessation in operating of the Wealthy View Group.

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34. DISPOSAL OF THE RETAIL GROUP

As disclosed in **Note 10**, the Group discontinued its retail businesses in Hong Kong at the time of disposal of its entire equity interest in the Retail Group at an aggregate consideration of HK$130,590,000. The transaction was completed on 30 June 2006. Details of the assets and liabilities disposed of are as follows:

	HK$'000
Property, plant and equipment	81,324
Prepaid lease payments	4,643
Investment property	5,000
Available-for-sale investments	1,760
Rental and utility deposits	10,733
Inventories	62,267
Account receivables	1,746
Prepayments, deposits and other receivables	41,702
Amount due from CASH	11,997
Listed investments held for trading	2,133
Pledged bank deposits	44,400
Bank balances and cash	50,355
Account payables	(146,539)
Accrued liabilities and other payables	(37,718)
Taxation payable	(200)
Bank borrowings, secured	(64,007)
	69,596
Release of building revaluation reserve	(701)
Gain on disposal of the Retail Group	61,695
Total consideration	130,590
Satisfied by:	
Cash consideration	30,000
Amount due from the CASH Group (**Note 25**)	100,590
	130,590
Net cash outflow arising on disposal of the Retail Group:	
Cash consideration received	30,000
Bank balances and cash disposed of	(50,355)
	(20,355)

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35. MAJOR NON-CASH TRANSACTIONS

The Group had the following major non-cash transactions during the year ended 31 December 2005:

(i) Pursuant to the agreement entered into between CASH and a third party in 2002, the third party agreed to procure its group companies to provide advertising and telecommunication services to CASH and its subsidiaries, including the Group. The fee for these services would be used to offset the prepayment for advertising and telecommunication services which the Group paid. During the year ended 31 December 2005, the Group utilized advertising and telecommunication services amounting to approximately HK$908,000.

(ii) On 30 December 2005, the consideration for the acquisition of the Timecastle Group was partially settled by issue of the Second Convertible Loan Note. Details of the Second Convertible Loan Note and the acquisition of the Timecastle Group are set out in **Notes 32** and **33** respectively.

(iii) The proceeds receivable from the placing shares issued on 30 December 2005 amounting to HK$45,000,000 were included in the Group's prepayments, deposits and other receivables at 31 December 2005.

(iv) Property, plant and equipment amounting to approximately HK$4,546,000 was transferred to investment property during the year ended 31 December 2005.

36. OPERATING LEASE COMMITMENTS

The Group as lessee

At 31 December 2006, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2006	2005
	HK$'000	HK$'000
Within one year	**41,931**	128,388
In the second to fifth years inclusive	**602,091**	206,676
Over five years	**1,232,804**	—
	1,876,826	335,064

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36. OPERATING LEASE COMMITMENTS *(Continued)*

The Group as lessor

At 31 December 2006, the Group had contracted with tenants for retail premises in the PRC for the following future minimum lease payments:

	2006	2005
	HK$'000	HK$'000
Within one year	**53,675**	347
In the second to fifth years inclusive	**52,459**	—
Over five years	**53,410**	—
	159,544	347

37. CAPITAL COMMITMENTS

	2006	2005
	HK$'000	HK$'000
Capital expenditure in respect of acquisition of leasehold improvements authorized but not contracted for	**—**	120,529

On 10 May 2004, the Timecastle Group signed the Memorandum for leasing the New Department Store in the PRC. Pursuant to the terms of the Memorandum, the landlord was responsible for the leasehold improvements of the New Department Store on behalf of the Timecastle Group and the total cost of leasehold improvements to be incurred should not exceed RMB150,000,000. The terms of the Memorandum relating to the responsibility for the leasehold improvements were terminated during the year ended 31 December 2006.

38. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under rules and regulations of Mandatory Provident Fund Schemes Ordinance for all its employees in Hong Kong. All the employees of the Group in Hong Kong are required to join the MPF Scheme. Contributions are made based on a percentage of the employees' salaries and are charged to the consolidated 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 Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme. The employee's contribution to the retirement benefits scheme charged to the consolidated income statement amounted to approximately HK$2,628,000 (2005: HK$3,031,000) for the year ended 31 December 2006.

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38. RETIREMENT BENEFITS SCHEMES *(Continued)*

The Group's PRC subsidiaries in compliance with the applicable regulations of the PRC, participate in various state-managed retirement benefit schemes operated by the relevant municipal and provincial governments. The Group's PRC subsidiaries are required to contribute a specific percentage of its payroll costs to the retirement benefits schemes to fund the benefits. The Group's PRC subsidiaries have no other material obligation for the payment of its staff's retirement and other post-retirement benefits other than the contributions described above.

39. SIGNIFICANT RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these consolidated financial statements, the Group entered into the following significant related party transactions for the year ended 31 December 2006:

	2006	2005
	HK$'000	HK$'000
CASH Group		
Consideration for disposal of the Retail Group **(Note 10)**	**130,590**	—
Interest income on balance of unsettled consideration **(Note 25)**	**5,868**	—
Rental expenses	**3,718**	3,600
Underwriting commission paid	**—**	1,312
Compensation to key management personnel of the Group		
Short-term employee benefits	**1,926**	3,591
Post-employment benefits	**51**	80
	1,977	3,671

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40. POST BALANCE SHEET EVENTS

(a) Placing of existing shares and top-up subscription of new shares

On 12 February 2007, the Company announced that Fit Top Investments Limited (the "Vendor") entered into the Placing Agreement and the Top-up Subscription Agreement both dated 9 February 2007 with China Everbright Securities (HK) Limited (the "Placing Agent") and the Company respectively. Pursuant to the Placing Agreement, the Vendor agreed to place, through the Placing Agent, an aggregate of 100,000,000 existing ordinary shares of HK$0.02 in the share capital of the Company (the "Placing Shares"), on a best effort basis, to not less than six individual, corporate and/or institutional investors, at a price of HK$0.28 per Placing Share. Pursuant to the Top-up Subscription Agreement, the Vendor conditionally agreed to subscribe for the Top-up Subscription Shares at a price of HK$0.28 per Top-up Subscription Share. The number of Top-up Subscription Shares was equivalent to the number of Placing Shares actually placed by the Placing Agent under the Placing Agreement, being not more than 100,000,000. The Top-up Subscription Shares will be issued under the general mandate to allot, issue and deal with shares granted to the Directors by resolution of the shareholders passed at the annual general meeting of the Company held on 29 May 2006. The Placing Price or the Top-up Subscription Price of HK$0.28 represented (i) a discount of approximately 6.7% to the closing price of HK$0.300 per share as quoted on the Stock Exchange on 8 February 2007 (the "Last Trading Day", being the last full trading day for the shares before the date of signing of the Placing Agreement and the Top-up Subscription Agreement); (ii) a discount of approximately 9.7% to the average closing price per share of HK$0.310 as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day; and (iii) a discount of approximately 9.4% to the average closing price per share of HK$0.309 as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day.

Assuming all the Placing Shares are fully placed and the Top-up Subscription Shares are fully subscribed, the net proceeds receivable by the Company, after deducting the placing commission and all costs, fees and expenses to be borne by the Company, are estimated to be approximately HK$27.5 million. The Directors presently intend to use the net proceeds for the purpose of general working capital of the Group.

(b) Proposed very substantial acquisition

On 19 April 2007, the Company announced that Winner Grace International Limited and Firm Top Investments Limited (both of which are wholly-owned subsidiaries of the Company) entered into the respective agreements dated 14 April 2007 with an independent third party to acquire the entire equity interests in each of Fortune International Business Limited ("FIB") and Sunny Sky Properties Limited ("SSP") and their respective shareholders' loans for a total consideration of HK$1.6 billion. The principal assets of FIB and SSP and their respective subsidiaries are two commercial and residential complexes in Beijing, the PRC. The acquisition constitutes a very substantial acquisition for the Company under the Listing Rules and thus it is subject to the Company's shareholders approval at a special general meeting. Further details of the acquisition are set out in the Company's announcement dated 19 April 2007.

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41. PARTICULARS OF SUBSIDIARIES AS AT 31 DECEMBER 2006

Name of subsidiary	Place of incorporation/ establishment	Issued share capital/paid up capital	Proportion of ownership interests held by the Company	Principal activities
Sundynasty International Limited	British Virgin Islands	Ordinary US$1	100% (Direct)	Investment holding
Timecastle International Limited	British Virgin Islands	Ordinary US$1	100% (Indirect)	Investment holding
Master Empire Development Limited	Hong Kong	Ordinary HK$1	100% (Indirect)	Investment holding
東方銀座商業(北京)有限公司	PRC **(Note (i))**	Registered capital RMB45,000,000	100% (Indirect)	Operation of department store in the PRC
北京東方銀座商業投資顧問有限公司	PRC **(Note (ii))**	Registered capital RMB500,000	100% (Indirect)	Provision of retail management services in the PRC
北京華文韜廣告有限公司	PRC **(Note (iii))**	Registered capital RMB29,000,000	100% (Indirect)	Provision of advertising services in the PRC

Notes:

(i) 東方銀座商業(北京)有限公司 is a wholly foreign owned enterprise established in the PRC.

(ii) 北京東方銀座商業投資顧問有限公司 is a limited liability company established in the PRC.

(iii) 北京華文韜廣告有限公司 is a limited liability company established in the PRC.