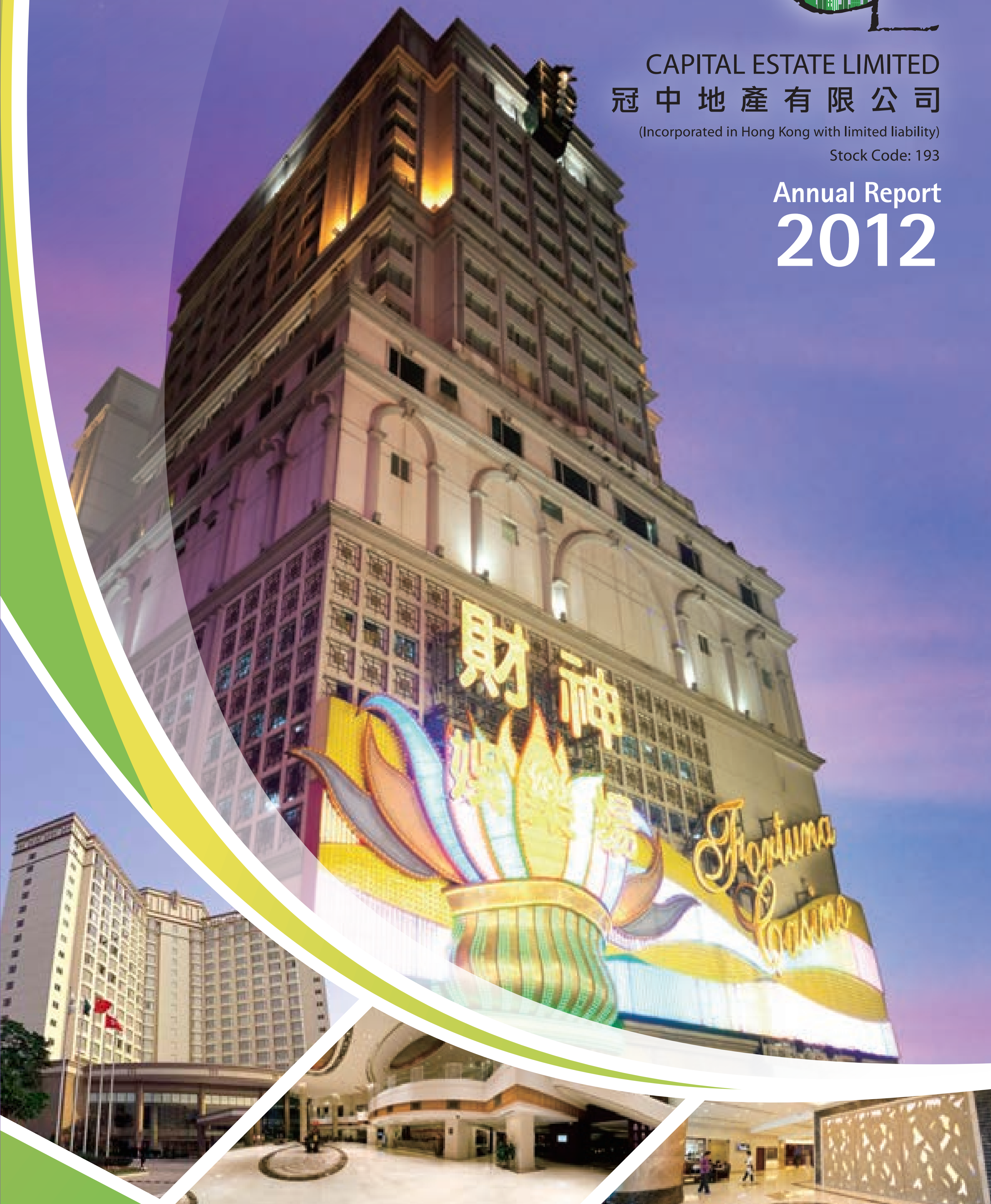
CAPITAL ESTATE LIMITED
冠 中 地 產 有 限 公 司

(Incorporated in Hong Kong with limited liability)

Stock Code: 193

Annual Report 2012



Content

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Sio Tak Hong *(Chairman)*
Chu Nin Yiu, Stephen *(Chief Executive Officer)*
Chu Nin Wai, David *(Deputy Chairman)*
Lau Chi Kan, Michael

Independent Non-Executive Directors

Li Sze Kuen, Billy
Wong Kwong Fat
Leung Kam Fai

COMPANY SECRETARY

Hung Yat Ming

AUTHORISED REPRESENTATIVES

Chu Nin Yiu, Stephen
Hung Yat Ming

AUDIT COMMITTEE

Li Sze Kuen, Billy *(Chairman)*
Wong Kwong Fat
Leung Kam Fai

REMUNERATION COMMITTEE

Leung Kam Fai *(Chairman)*
Li Sze Kuen, Billy
Wong Kwong Fat
Chu Nin Yiu, Stephen

NOMINATION COMMITTEE

(Formed on 27th March, 2012)

Wong Kwong Fat *(Chairman)*
Li Sze Kuen, Billy
Leung Kam Fai
Chu Nin Yiu, Stephen

LEGAL ADVISER

Reed Smith Richards Butler

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants, Hong Kong

PRINCIPAL BANKER

The Hongkong and Shanghai Banking
Corporation Limited

SHARE REGISTRAR AND TRANSFER OFFICE

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

REGISTERED OFFICE

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

STOCK CODE

193

On behalf of the Board of Directors (the "Board"), I am pleased to present the annual report of Capital Estate Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31st July, 2012.

REVIEW OF THE RESULTS

The Group reported gross proceeds of approximately HK$205.5 million for the year ended 31st July, 2012 (2011: HK$257.5 million), which comprised gross proceeds from sales of securities of HK$62.6 million (2011: HK$125.1 million) and income from hotel operations and other business segments totalling HK$142.9 million (2011: HK$132.4 million).

Loss for the year attributable to owners of the Company for the year ended 31st July, 2012 was HK$120.3 million, as compared to HK$17.2 million for last year. The loss was mainly attributable to the write-off of the carrying amount of certain old building and facilities at the site of Hotel Fortuna, Foshan, the PRC amounting to HK$65.3 million. The old building was demolished for further development according to plan following the construction of the new recreational building.

DIVIDEND

The Directors do not recommend the payment of any dividends for the year ended 31st July, 2012.

LIQUIDITY AND FINANCIAL RESOURCES

The Group continued to maintain a liquid position. At 31st July, 2012, the Group had cash of HK$26.7 million mainly in Hong Kong dollars (2011: HK$50.4 million mainly in Hong Kong dollars and marketable securities totalling HK$41.6 million).

Total bank borrowings (other than corporate credit card payable classified as "other payable") were HK$123.1 million at 31st July, 2012 (2011: HK$142.0 million), of which HK$25.6 million were repayable within one year and HK$97.5 million within two to five years. The bank borrowings were denominated in Renminbi and carried interest on a floating rate basis.

Convertible notes of face value HK$20.0 million outstanding at 31st July, 2012 were repayable on 8th November, 2013.

The Group's gearing ratio, expressed as a percentage of the Group's total liabilities over the shareholders' fund, was 30.3% at 31st July, 2012 (2011: 27.4%).

EXCHANGE RATE EXPOSURE

The assets and liabilities and transactions of several major subsidiaries of the Group are principally denominated in Renminbi or Hong Kong dollars pegged currencies, which expose the Group to foreign currency risk and such risk has not been hedged. It is the Group's policy to monitor such exposure and to use appropriate hedging measures when required.

BUSINESS REVIEW

For the year ended 31st July, 2012, the principal activities of the Group are property investment and development, hotel operation, financial investment and related activities.

Chairman's Statement

Property investment and development

The Group continues to own the vacant land of approximately 10,154 square meters located in Coloane, Macau. According to the revised building plan submitted to the government in late 2011, the land is for the construction of 46 luxury residential houses and related facilities with a total residential gross floor area of approximately 15,590 square meters. The Group is awaiting the government's approval for the commencement of the development.

The Group holds an effective 5% interest in the land site at Avenida Commercial de Macau through an investee company, Sociedade de Investmento Imboiliaro Pun Keng Van, S.A.. The site is for the development of a luxurious residential building on the waterfront at Nam Van Lake with a maximum permitted gross floor area of approximately 55,800 square meters. The progress of the project will be monitored closely.

Hotel operation

The Group owns 100% interest in Hotel Fortuna, Foshan, a hotel with 408 rooms located at Le Cong Zhen, Shun De District, Foshan, the PRC, through a wholly owned subsidiary, Foshan Fortuna Hotel Company Limited. During the year ended 31st December, 2011, the hotel maintained a stable occupancy rate of approximately 63% and recorded a turnover of approximately HK$145.7 million in 2011 compared to HK$117.9 million in 2010.

The Group also holds a 32.5% interest in Hotel Fortuna, Macau which is owned and operated by Tin Fok Holding Company Limited, an associated company of the Group. Despite the keen competition in the Macau hotel industry, Hotel Fortuna, Macau continued to maintain a high occupancy rate of approximately 97% and recorded a stable turnover of approximately HK$224.5 million in 2011 compared to HK$181.2 million in 2010.

EMPLOYEES

The Group offers its employees competitive remuneration packages to commensurate with their experience, performance and job nature, which include basic salary, bonuses, share options, retirement and other benefits.

At 31st July, 2012, the Group had approximately 690 employees of which approximately 670 employees were stationed in Mainland China. Total staff remuneration incurred for the year ended 31st July, 2012 amounted to approximately HK$47.6 million (2011: HK$42.5 million).

PROSPECTS

The construction of the new recreational building of Hotel Fortuna, Foshan with swimming pool, gym, sauna, karaoke and other club house facilities was completed during the period. These new facilities are expected to enhance the operational efficiency, competitiveness and revenue of the hotel.

After the completion of the recreational building, Hotel Fortuna, Foshan still has an undeveloped permissible gross floor area for residential and commercial uses of approximately 62,000 square meters. The management intends to utilise such development potential for the construction of new residential buildings for sales.

The Group is optimistic with the long term prospects of the property and hospitality sectors in Macau and the PRC. With healthy financial position and business operation, the Group continues its prudent approach to identify and seek sound business opportunities to maximize shareholders' return.

ACKNOWLEDGEMENTS

I would like to thank my fellow directors and staff for their invaluable contribution and commitment during the year.

By Order of the Board

Sio Tak Hong
Chairman

26th October, 2012

Directors' Profiles

EXECUTIVE DIRECTORS

Sio Tak Hong, aged 49, is an Executive Director, Chairman of the Company. He was appointed to the Board in July 2009. He has extensive business and management experience and has been engaged in many property projects and commercial developments in Macau. Mr. Sio is a director of Sociedade de Empreendimentos Nam Van, S.A.（南灣發展股份有限公司）and the chairman of the board of Hotel Fortuna Limited in Macau. Mr. Sio is also a standing committee member of The Chinese People's Political Consultative Conference of Guongdong province, Macau District, representative of the industrial, commercial and financial functional group of the Election Committee of Chief Executive and a Honorary Consul of Grenada since 2005.

Chu Nin Yiu, Stephen, aged 55, is an Executive Director, Chief Executive officer of the Company. He was appointed to the Board in May 2005. He has over 25 years business and management experience in the electronics industry in Hong Kong, and was a director and shareholder of a company listed overseas principally engaged in the manufacture and distribution of electronic products. Mr. Stephen Chu was a 1994 Awardee Member of Hong Kong Young Industrialists Council Limited, and a director of Tung Wah Group of Hospitals for the year 2001/02.

Chu Nin Wai, David, aged 57, is an Executive Director, Deputy Chairman of the Company. He was appointed to the Board in May 2005. He has over 20 years' extensive experience in the electronic industry in Hong Kong an overseas, and also has experience in property development and investment. He is the elder brother of the Executive Chairman and the substantial shareholder of the Company, Mr. Chu Nin Yiu, Stephen.

Lau Chi Kan, Michael, aged 55, graduated from Simon Fraser University, Vancouver, Canada in 1980 with a Bachelor of Arts degree in Economics. Mr. Lau joined the Board in May 2005 and has over 20 years' business and management experience in the clothing industry. He owns and manages a garment merchandising and trading company in Hong Kong and an apparel importing company in the U.S.. Mr. Lau is also the major shareholder of a number of companies in Hong Kong and overseas, which are engaged in garment manufacturing, importing, warehousing, apparel design or merchandizing.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Li Sze Kuen, Billy, aged 65, was appointed to the Board in May 2005. He has extensive professional experience in audit and accounting, and is currently a director of a CPA firm in Hong Kong. Mr. Li is a member of the Canadian Institute of Chartered Accountants, and the Hong Kong Institute of Certified Public Accountants. He graduated from the University of Manitoba, Canada, with a Bachelor of Arts degree.

Wong Kwong Fat, aged 56, was appointed to the Board in June 2005. He is a seasoned manager of an insurance broking company in Hong Kong. He is responsible for staff management and training, the provision of individual financial advice to clients and the marketing of a wide range of products including life and general insurance, package fund and mandatory provident fund. Mr. Wong has over 20 years' specialised knowledge and experience in the insurance industry, and is a Fellow Chartered Financial Practitioner of the Life Underwriter Association of Hong Kong.

Leung Kam Fai, aged 51, was appointed to the Board in June 2005. He is a solicitor of the High Court of Hong Kong. Mr. Leung currently is a partner solicitor in civil and criminal practice with Messrs. Patrick Wong & Co., Solicitors, and has extensive experience in litigation, conveyancing, commercial and probate matters. Mr. Leung graduated from the University of Hong Kong with a Bachelor of Laws degree, and was awarded the Sir Man Kam Lo/Jardine Scholarship and Downey Book Prize in 1989. He also holds a Bachelor of Arts degree in Economics & Political Science from the University of Washington in the U.S.A. and a postgraduate certificate in laws from the University of Hong Kong.

CORPORATE GOVERNANCE PRACTICES

In order to attain a high standard of corporate governance, the Company is committed to continuously adopting and improving effective measures and practices to achieve a high level of transparency and accountability in the interests of its shareholders.

The Company adopted the Corporate Governance Code (formerly the "Code on Corporate Governance Practice") contained in Appendix 14 (the "Code") of the Listing Rules including those revised code provisions which became effective on 1st April, 2012. During the year ended 31st July, 2012, the Company complied with all applicable provisions of the Code for their respective applicable periods except for the following deviation:

Under Code A.4.1, non-executive directors should be appointed for a specific term, subject to re-election.

The independent non-executive directors of the Company are not appointed for a specific term but they are subject to retirement by rotation at annual general meetings in accordance with Article 103(A) of the Company's Articles of Association. The Company will ensure that all directors retire at regular intervals.

BOARD OF DIRECTORS

The board of directors (the "Board") of the Company consists of four executive directors and three independent non-executive directors. One of the independent non-executive directors has appropriate professional qualifications in accounting or related financial management expertise as required by the Listing Rules.

Providing overall direction and control of the Group, the Board is mainly responsible for the formulation and development of business strategies and policies, and approval of budgets, results, significant investments and material transactions. The daily administration and operations, and the execution of plans and policies, are delegated to the management under the leadership of the Board.

During the year, the Board held 4 meetings. The members of the Board and the attendance of each member are as follows:

Name of Directors	Meetings held/attended
Executive Directors:	
Sio Tak Hong *(Chairman)*	4/4
Chu Nin Yiu, Stephen *(Chief Executive Officer)*	4/4
Chu Nin Wai, David *(Deputy Chairman)*	4/4
Lau Chi Kan, Michael	4/4
Independent Non-Executive Directors:	
Li Sze Kuen, Billy	4/4
Wong Kwong Fat	4/4
Leung Kam Fai	4/4

The biographies of the Board members are set out on page 6 of this annual report under the subject "Directors' Profile". The directors have no financial, business, family or other material/relevant relationships with each other except that Mr. Chu Nin Yiu, Stephen (Chief Executive Officer) is the brother of Mr. Chu Nin Wai, David (Deputy Chairman).

The Company has received annual confirmations of independence from all independent non-executive directors, and considers them independent in accordance with the Listing Rules.

All directors have full access to board minutes, papers and relevant information of the Group. They are also entitled to obtain independent professional advice where deemed necessary in order to enable them to make informed decisions and discharge their responsibilities and duties accordingly.

The directors are briefed during regular Board meetings to keep them abreast of any changes to the regulations and disclosure obligations. Relevant material from public resources on legislative and regulatory environment, cooperate governance, internal control and other topics are recommended to directors to go through as to develop and refresh their knowledge and skills. All directors are also encouraged to attend relevant training courses at the Company's expense.

Appropriate directors' and officers' liability insurance has been arranged for the directors and officers of the Company.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Sio Tak Hong serves as the Chairman of the Board and Mr. Chu Nin Yiu, Stephen serves as the Chief Executive Officer of the Group. The Chairman's responsibility is to oversee the functioning of the Board and the strategies and policies of the Group and the Chief Executive Officer's responsibility is to manage the Group's business.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

According to the Company's Articles of Association, two of the directors shall retire from office at each annual general meeting by rotation and shall be eligible for re-election. Any directors appointed by the Board either to fill a casual vacancy or as an addition shall hold office only until the next following annual general meeting of the Company and shall be eligible for re-election.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The independent non-executive directors of the Company are not appointed for a specific term but they are subject to retirement by rotation at annual general meetings in accordance with the Company's Articles of Association.

REMUNERATION COMMITTEE

The Remuneration Committee was established with written terms of reference in compliance with the Code. The Remuneration Committee comprises the three independent non-executive directors, Mr. Leung Kam Fai (Chairman), Mr. Li Sze Kuen, Billy and Mr. Wong Kwong Fat and the Chief Executive Officer, Mr. Chu Nin Yiu, Stephen.

The primary responsibilities of the Remuneration Committee are to make recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management, determine the specific remuneration packages of all executive directors and senior management including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive directors.

During the year, the Remuneration Committee held one meeting which was attended by all the members.

NOMINATION COMMITTEE

The Board established a Nomination Committee on 27th March, 2012 with written terms of reference in compliance with the Code, setting out the duties (containing the minimum specific duties as set out in the Code) and authority of the Nomination Committee. The principal duties of the Nomination Committee are to review the structure, size and composition (including the skills, knowledge and experience) of the Board, to determine policy for nomination of directors, make recommendations on any proposed changes to the Board to complement the Company's corporate strategy and to assess the independence of independent non-executive directors of the Company. The Nomination Committee currently comprises four members including three independent non-executive directors, Mr. Wong Kwong Fat (Chairman), Mr. Li Sze Kuen, Billy and Mr. Leung Kam Fai and the Chief Executive Officer, Mr. Chu Nin Yiu, Stephen. During the year, the Nomination Committee held one meeting which was attended by all members.

Before the establishment of the Nomination Committee, nomination of new director is subject to the assessment and approval by the Board based on the nominee's qualification and experience, integrity, commitment and potential contributions to the Company. During the year, no new director has been appointed.

AUDITOR'S REMUNERATION

For the year ended 31st July, 2012, remuneration of approximately HK$1,800,000 was payable to the Auditor for audit service and approximately HK$350,000 for interim review and other non-audit services during the year.

AUDIT COMMITTEE

The Audit Committee was established with written terms of reference in compliance with the Code. The Audit Committee comprises Mr. Li Sze Kuen, Billy (Chairman), Mr. Wong Kwong Fat and Mr. Leung Kam Fai, all of whom are independent non-executive directors.

The principal functions of the Audit Committee include the review and supervision of the Group's reporting process and internal controls.

During the year, the Audit Committee held two meetings which were attended by all the members and performed the following duties:

1. reviewed and commented on the Company's draft annual and interim financial reports;

2. reviewed and commented on the Group's internal controls; and

3. met with the external auditors and participate in the re-appointment and assessment of the performance of the external auditors.

The Audit Committee has reviewed the audited results of the Group for the year ended 31st July, 2012.

Corporate Governance Report

FINANCIAL REPORTING

The directors acknowledge the responsibilities of preparing the financial statements of the Group which give a true and fair view. The statement of the Auditors about their reporting responsibilities is set out in the Independent Auditor's Report on page 18.

INTERNAL CONTROL

The Board recognises its overall responsibilities for the Group's internal controls, and is committed to the ongoing development of an effective internal control system to safeguard the Group's assets, and to enhance risk management and compliance with applicable legislation and regulations.

The Board has conducted a review of the effectiveness of the system of internal control of the Group. The Company will continue to conduct annual reviews of its internal control system through the Audit Committee, identifying control weaknesses and risk areas, if any, and taking effective measures to improve the system.

MODEL CODES FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by directors of the Company. Having made specific enquiry of all directors, all directors confirmed that they have complied with the required standard as set out in the Model Code for the year.

COMMUNICATION WITH SHAREHOLDERS

In order to keep shareholders well informed of the business activities and direction of the Group, information about the Group has been provided to the shareholders through annual and interim reports, circulars, announcements and press interviews. The Company has established its own corporate website www.capitalestate.com.hk to facilitate effective communication with its shareholders and the public.

ANNUAL GENERAL MEETING

During the year, an annual general meeting was held on 2nd December, 2011. All members of the Board attended the meeting.

SHAREHOLDERS RIGHTS

(i) The Way In Which Shareholders Can Convene An Extraordinary General Meeting of Shareholders

The Board may, at any time it thinks proper and it shall, in compliance with Section 113 of the Companies Ordinance, on the requisition in writing of the holders of not less than one-twentieth of the issued capital of the Company upon which all calls or other sums then due have been paid, forthwith proceed to convene an extraordinary meeting of the Company, and in case of such requisition the following provisions shall have effect:–

(a) The requisition must state the objects of the meeting, and must be signed by the requisitionists and deposited at the registered office and may consist of several documents in like form, each signed by one or more requisitionists. The meeting must be convened for the purposes specified in the requisition, and if convened otherwise than by the Board, for those purposes only.

(b) In case the Board, for twenty-one days after such deposit, fails to convene an extraordinary meeting, the requisitionists, or any of them representing more than one-half of the total voting rights of all of them, may themselves convene the meeting for the purpose so specified but not for any other purpose; but any meeting so convened shall not be held after three months from the date of the deposit.

(ii) Procedure for Sending Enquiries to the Board

Enquiries by shareholders to be put to the Board can be sent in writing to the Company Secretary at the Company's registered address.

(iii) Procedures for Nominating a Person for Election as Director in General Meeting of Shareholders

Pursuant to Article 107 of the Articles of Association of the Company, no person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been given to the Company at least seven days before the date of the general meeting.

If a shareholder (the "Proposer") of the Company wishes to propose a person ("the Nominee"), for election as a Director at a general meeting, the minimum length of the period, during which notice to the Company signed by the Proposer of the intention to propose a person for election as a Director, and during which notice to the Company signed by such Nominee confirming his willingness to be elected may be given, will be at least seven (7) days and the period for lodgment of the notices to the Company of the intention to propose a person for election as a Director will commence no earlier than the day after the dispatch of the notice of the meeting appointed for such election and end no later than seven (7) days prior to the date of such meeting.

Directors' Report

The directors present their annual report and the audited consolidated financial statements of the Company for the year ended 31st July, 2012.

PRINCIPAL ACTIVITIES

The Company acts as a property and investment holding company. The activities of the principal subsidiaries and associates are set out in notes 19 and 20 to the consolidated financial statements, respectively.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate turnover attributable to the Group's five largest customers during the year were less than 30% of the Group's total turnover.

The aggregate purchases attributable to the Group's five largest suppliers during the year were less than 30% of the Group's total purchases.

RESULTS

The results of the Group for the year ended 31st July, 2012 are set out in the consolidated statement of comprehensive income on page 19.

INVESTMENT PROPERTIES

The Group revalued its investment properties at the year end date and the increase in fair value of the investment properties amounting to HK$6,620,000 has been credited directly to the consolidated statement of comprehensive income.

Details of the movements during the year in the investment properties of the Group are set out in note 15 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements during the year in the property, plant and equipment of the Group are set out in note 16 to the consolidated financial statements.

MAJOR PROPERTIES

Particulars of the major properties of the Group as at 31st July, 2012 are set out on page 82.

SHARE CAPITAL

There were no movements in either the Company's authorised or issued share capital during the year.

SHARE OPTIONS

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

Particulars of the Company's share option scheme are set out in note 35 to the consolidated financial statements.

No share options was outstanding at the beginning of the year or granted during the year.

DISTRIBUTABLE RESERVES OF THE COMPANY

At 31st July, 2012 and 2011, the Company had no reserve available for distribution to shareholders.

DIRECTORS

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

Executive Directors:
Sio Tak Hong *(Chairman)*
Chu Nin Yiu, Stephen *(Chief Executive Officer)*
Chu Nin Wai, David *(Deputy Chairman)*
Lau Chi Kan, Michael

Independent Non-Executive Directors:
Leung Kam Fai
Wong Kwong Fat
Li Sze Kuen, Billy

In accordance with Article 103(A) of the Company's Articles of Association, Chu Nin Wai, David and Wong Kwong Fat retire and, being eligible, offer themselves for re-election.

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

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

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules"). The Company considers all the independent non-executive directors are independent.

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

At 31st July, 2012, the interests of the directors and the chief executive and their associates in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long positions

(I) *The Company*

Ordinary shares of HK$0.1 each of the Company

	Number of shares held				
Name of Director	Personal interest (held as beneficial owners)	Family interest (interests of spouse or child under 18)	Corporate interest (interest of controlled corporation)	Total	Percentage of the issued share capital of the Company
Sio Tak Hong ("Mr. Sio")	–	24,491,000	861,075,000 (Note 1)	885,566,000	35.9%
Chu Nin Yiu, Stephen ("Mr. Chu")	23,700,000	–	333,447,400 (Note 2)	357,147,400	14.5%
Lau Chi Kan, Michael	7,500	–	–	7,500	0.0%

Notes:

1. Mr. Sio was deemed to be interested in the 861,075,000 shares in the Company held through Fullkeen Holdings Limited ("Fullkeen"), which is in turn 70% owned by Mr. Sio.

2. Mr. Chu was deemed to be interested in the 333,447,400 shares in the Company held through Supervalue Holdings Limited ("Supervalue"), which is in turn wholly owned by Mr. Chu.

(II) Associated corporation

Name of Director	Associated Corporation	Number of shares held: Personal interest (held as beneficial owners)	Family interest (interests of spouse or child under 18)	Corporate interest (interest of controlled corporation)	Total	Percentage of the issued share capital of the associated corporation
Mr. Sio	Tin Fok Holdings Company Limited	–	–	1,350 (Note 1)	1,350	67.5%
Mr. Chu	Tin Fok Holdings Company Limited	–	–	250 (Note 2)	250	12.5%

Notes:

1. Mr. Sio was deemed to be interested in the 1,350 shares in the associated corporation in which 1,100 shares were held through Global Master Management Limited, which is in turn 70% owned by Mr. Sio, and 250 shares were held through Macro Rich Limited, which is turn 60% owned by Global Master Management Limited.

2. Mr. Chu was deemed to be interested in the 250 shares in the associated corporation held through Macro Rich Limited, which is in turn 40% owned by Mr. Chu.

Other than as disclosed above, none of the directors, chief executive nor their associates had any interests or short position in any shares or underlying shares of the Company or any of its associated corporations as at 31st July, 2012.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Other than as disclosed under the heading "Related Party Disclosures" as set out in note 40 to the consolidated financial statements, there were no contracts of significance to which the Company, or any of its subsidiaries, was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year, Mr. Sio, the Chairman and executive director of the Company, held share interests and/or directorships in Sociedale de Empreendimentos Nam Van, S.A. (南灣發展股份有限公司) and other companies which are principally engaged in property investment and development in Macau and Mainland China. Mr. Sio is therefore considered to have interests in businesses which compete or are likely to compete with the businesses of the Group pursuant to Rule 8.10 of the Listing Rules.

As the businesses of the Company and the above entities are operated under separate management with no reliance (whether financial or business) on each other, the Group is able to operates its businesses independently of, and at arm's length from the competing entities.

SUBSTANTIAL SHAREHOLDERS

As at 31st July, 2012, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO showed that the following shareholders had notified the Company of relevant interests in the issued share capital of the Company:

Long positions

Ordinary shares of HK$0.1 each of the Company

	Number of shares held				
Name of shareholder	Personal interest (held as beneficial owners)	Family interest (interests of spouse or child under 18)	Corporate interest (interest of controlled corporation)	Total	Percentage of the issued share capital of the Company
Fullkeen	861,075,000	–	–	861,075,000	34.9%
Mr. Sio	–	24,491,000	861,075,000 (Note 1)	885,566,000	35.9%
Supervalue	333,447,400	–	–	333,447,400	13.5%
Mr. Chu	23,700,000	–	333,447,400 (Note 2)	357,147,000	14.5%

Notes:

1. Mr. Sio was deemed to be interested in the 861,075,000 shares in the Company held through Fullkeen, which is in turn 70% owned by Mr. Sio.

2. Mr. Chu was deemed to be interested in the 333,447,400 shares in the Company held through Supervalue, which is in turn wholly owned by Mr. Chu.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31st July, 2012.

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

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

CORPORATE GOVERNANCE

Pursuant to Appendix 23 of the Listing Rules, details of corporate governance report are set out on pages 7 to 11 of the Annual Report.

EMOLUMENT POLICY

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

The emoluments of the directors of the Company are decided by the board of directors after recommendation from the Remuneration Committee, having regard to the time commitment and responsibilities of the directors, the Company's operating results, individual performance and comparable market statistics.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st July, 2012.

AUDITOR

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

On behalf of the Board

Sio Tak Hong
Chairman

26th October, 2012

Independent Auditor's Report

Deloitte.
德勤

TO THE MEMBERS OF CAPITAL ESTATE LIMITED
冠中地產有限公司
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Capital Estate Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 19 to 80, which comprise the consolidated and Company statements of financial position as at 31st July, 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st July, 2012, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

26th October, 2012

Consolidated Statement of Comprehensive Income

For the year ended 31st July, 2012

	NOTES	2012 HK$'000	2011 HK$'000
Revenue	5	**142,923**	132,400
Direct operating costs		**(83,360)**	(72,597)
Gross profit		**59,563**	59,803
Other gains and losses	6	**(9,019)**	14,372
Other income		**2,700**	1,389
Marketing expenses		**(2,058)**	(1,448)
Administrative expenses		**(59,302)**	(63,050)
Other hotel operating expenses		**(37,897)**	(37,959)
Written off of property, plant and equipment	16	**(65,338)**	–
Increase in fair value of investment properties	15	**6,620**	7,080
Share of (losses) profits of associates	20	**(8,163)**	12,281
Finance costs	8	**(10,415)**	(12,729)
Gain on disposal of a subsidiary	9	**106**	–
Loss before taxation		**(123,203)**	(20,261)
Income tax credit	10	**2,557**	2,706
Loss for the year	11	**(120,646)**	(17,555)
Other comprehensive income			
Exchange differences arising on translation		**1,583**	26,387
Total comprehensive (expense) income for the year		**(119,063)**	8,832
Loss for the year attributable to:			
Owners of the Company		**(120,325)**	(17,248)
Non-controlling interests		**(321)**	(307)
		(120,646)	(17,555)
Total comprehensive (expense) income attributable to:			
Owners of the Company		**(118,742)**	9,139
Non-controlling interests		**(321)**	(307)
		(119,063)	8,832
Loss per share	14		
Basic and diluted - HK cents		**(4.88)**	(0.75)

Consolidated Statement of Financial Position

At 31st July, 2012

	NOTES	2012 HK$'000	2011 HK$'000
Non-current assets			
Investment properties	15	**43,700**	43,480
Property, plant and equipment	16	**403,047**	470,465
Prepaid lease payments	17	**2,854**	13,165
Premium on prepaid lease payments	18	**43,444**	191,393
Interests in associates	20	**213,074**	221,247
Available-for-sale investments	21	**63,738**	59,850
Convertible bond	22	**6,523**	–
Derivative component in convertible bond	22	**3,562**	–
		779,942	999,600
Current assets			
Amount due from an associate	23	**3,272**	3,456
Properties for development	24	**383,810**	227,200
Inventories	25	**3,471**	2,881
Trade and other receivables	26	**11,179**	7,602
Prepaid lease payments	17	**97**	432
Investments held for trading	27	**–**	41,551
Pledged bank deposit	28	**641**	641
Bank balances and cash	28	**26,041**	49,790
		428,511	333,553
Current liabilities			
Trade and other payables	29	**36,024**	30,949
Amounts due to related companies	23	**9,120**	150
Taxation payable		**25,548**	25,548
Bank borrowings - due within one year	30	**25,537**	19,391
		96,229	76,038
Net current assets		**332,282**	257,515
Total assets less current liabilities		**1,112,224**	1,257,115
Non-current liabilities			
Bank borrowings - due after one year	30	**97,527**	122,647
Convertible notes - liability portion	31	**17,782**	16,173
Deferred tax liabilities	33	**69,064**	71,381
		184,373	210,201
Net assets		**927,851**	1,046,914

Consolidated Statement of Financial Position

At 31st July, 2012

	NOTE	2012 HK$'000	2011 HK$'000
Capital and reserves			
Share capital	34	**246,783**	246,783
Share premium and reserves		**679,408**	798,150
Equity attributable to owners of the Company		**926,191**	1,044,933
Non-controlling interests		**1,660**	1,981
Total equity		**927,851**	1,046,914

The consolidated financial statements on pages 19 to 80 were approved and authorised for issue by the Board of Directors on 26th October, 2012 and are signed on its behalf by:

Sio Tak Hong
DIRECTOR

Chu Nin Yiu, Stephen
DIRECTOR

Statement of Financial Position

At 31st July, 2012

	NOTES	2012 HK$'000	2011 HK$'000
Non-current assets			
Investments in subsidiaries	19	**400**	400
Amounts due from subsidiaries	19	**1,116,239**	1,194,456
		1,116,639	1,194,856
Current assets			
Deposit		**7**	–
Bank balances and cash	28	**4,845**	5,547
		4,852	5,547
Current liabilities			
Other payables		**1,538**	1,522
Amounts due to subsidiaries	32	**154,912**	134,773
		156,450	136,295
Net current liabilities		**(151,598)**	(130,748)
Total assets less current liabilities		**965,041**	1,064,108
Non-current liabilities			
Convertible notes - liability portion	31	**17,782**	16,173
Deferred tax liabilities	33	**396**	661
		18,178	16,834
Net assets		**946,863**	1,047,274
Capital and reserves			
Share capital	34	**246,783**	246,783
Reserves	36	**700,080**	800,491
Total equity		**946,863**	1,047,274

Sio Tak Hong
DIRECTOR

Chu Nin Yiu, Stephen
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31st July, 2012

	Attributable to owners of the Company												
	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Share option reserve HK$'000	Capital reduction reserve HK$'000	Translation reserve HK$'000	Capital redemption reserve HK$'000	Convertible notes reserve HK$'000	Revaluation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
Balance at 1st August, 2010	214,839	994,163	157	23,542	170,583	7,041	268	–	9,200	(501,105)	918,688	2,288	920,976
Loss for the year	–	–	–	–	–	–	–	–	–	(17,248)	(17,248)	(307)	(17,555)
Exchange differences arising on translation	–	–	–	–	–	26,387	–	–	–	–	26,387	–	26,387
Total comprehensive income and expense for the year	–	–	–	–	–	26,387	–	–	–	(17,248)	9,139	(307)	8,832
Recognition of equity component of convertible notes	–	–	–	–	–	–	–	30,612	–	–	30,612	–	30,612
Deferred tax liability on recognition of equity component of convertible notes	–	–	–	–	–	–	–	(5,608)	–	–	(5,608)	–	(5,608)
Conversion of convertible notes to ordinary shares (note 34)	31,944	81,710	–	–	–	–	–	(26,077)	–	–	87,577	–	87,577
Release of deferred tax liability recognised on conversion of convertible notes	–	–	–	–	–	–	–	4,525	–	–	4,525	–	4,525
Balance at 31st July, 2011	246,783	1,075,873	157	23,542	170,583	33,428	268	3,452	9,200	(518,353)	1,044,933	1,981	1,046,914
Loss for the year	–	–	–	–	–	–	–	–	–	(120,325)	(120,325)	(321)	(120,646)
Exchange differences arising on translation	–	–	–	–	–	1,583	–	–	–	–	1,583	–	1,583
Total comprehensive expense for the year	–	–	–	–	–	1,583	–	–	–	(120,325)	(118,742)	(321)	(119,063)
Balance at 31st July, 2012	246,783	1,075,873	157	23,542	170,583	35,011	268	3,452	9,200	(638,678)	926,191	1,660	927,851

Consolidated Statement of Cash Flows

For the year ended 31st July, 2012

	NOTE	2012 HK$'000	2011 HK$'000
OPERATING ACTIVITIES			
Loss before taxation		**(123,203)**	(20,261)
Adjustments for:			
Gain on disposal of a subsidiary		**(106)**	–
Depreciation		**32,808**	33,324
Finance costs		**10,415**	12,729
Increase in fair value of investment properties		**(6,620)**	(7,080)
Release of prepaid lease payments and premium on prepaid lease payments		**6,664**	6,641
Share of losses (profits) of associates		**8,163**	(12,281)
Written off of property, plant and equipment		**65,338**	–
Loss on disposal of property, plant and equipment		**60**	–
Interest income		**(1,421)**	(308)
Decrease in fair value of derivative component in convertible bond		**954**	–
Operating cash flows before movements in working capital		**(6,948)**	12,764
Increase in properties for development		**(3,981)**	–
Increase in inventories		**(580)**	(83)
Increase in trade and other receivables		**(3,554)**	(559)
Decrease in investments held for trading		**41,551**	8,821
Increase in trade and other payables		**5,017**	3,089
NET CASH FROM OPERATING ACTIVITIES		**31,505**	24,032
INVESTING ACTIVITIES			
Payment of consideration payable for acquisition of subsidiaries		**–**	(80,277)
Purchase of property, plant and equipment		**(29,234)**	(43,794)
Advance to an associate		**–**	(560)
Repayment of advance to an associate		**196**	12,068
Purchase of available-for-sale investments		**(3,888)**	–
Interest received		**382**	308
Dividend received from an associate		**10**	297
Subscription of convertible bonds		**(10,000)**	–
Proceeds from disposal of a subsidiary	9	**6,500**	–
NET CASH USED IN INVESTING ACTIVITIES		**(36,034)**	(111,958)

Consolidated Statement of Cash Flows

For the year ended 31st July, 2012

	2012 HK$'000	2011 HK$'000
FINANCING ACTIVITIES		
Proceeds from issue of convertible notes, net of issue expense	–	131,625
Repayment of bank borrowings	**(19,457)**	(12,604)
Interest paid	**(8,806)**	(10,132)
Advance from (repayment to) related companies	**8,970**	(5,919)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(19,293)**	102,970
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(23,822)**	15,044
CASH AND CASH EQUIVALENTS BROUGHT FORWARD	**49,790**	32,956
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**73**	1,790
CASH AND CASH EQUIVALENTS CARRIED FORWARD	**26,041**	49,790
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	**26,041**	49,790

Notes to the Consolidated Financial Statements

For the year ended 31st July, 2012

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited ("the Stock Exchange"). The address of the registered office and principal place of business of the Company is 17/F., Asia Orient Tower, Town Place, 33 Lockhart Road, Wan Chai, Hong Kong.

The Company acts as an investment holding company. The activities of its principal subsidiaries and associates are set out in notes 19 and 20 respectively.

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

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

In the current year, the Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010 that are effective for annual periods beginning on or after 1st January, 2011
Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets
Amendments to HK(IFRIC) – Int 14	Prepayments of a Minimum Funding Requirement
HKAS 24 (as revised in 2009)	Related Party Disclosures

The application of the above new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or disclosures set out in these consolidated financial statements and the Company's statement of financial position.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective for the current financial year.

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009-2011 Cycle[1]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[1]
HKFRS 9	Financial Instruments[2]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[2]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]

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

Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[3]
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets[5]
HKAS 19 (as revised in 2011)	Employee Benefits[1]
HKAS 27 (as revised in 2011)	Separate Financial Statements[1]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[4]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[1]

[1] Effective for annual periods beginning on or after 1st January, 2013
[2] Effective for annual periods beginning on or after 1st January, 2015
[3] Effective for annual periods beginning on or after 1st July, 2012
[4] Effective for annual periods beginning on or after 1st January, 2014
[5] Effective for annual periods beginning on or after 1st January, 2012

HKFRS 9 "Financial Instruments" (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 "Financial Instruments" (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

The directors of the Company anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1st August, 2015 will affect the classification and measurement of the Group's available-for-sale investments based on the Group's financial assets and financial liabilities as at 31st July, 2012.

The directors of the Company anticipate that the application of the other new and revised HKFRSs will have no material impact on the results and consolidated financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs 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.

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange of goods.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and 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 statement of comprehensive income from the effective date of acquisition and 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 in line with those used by other members of the Group.

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and liabilities assumed are recognised at their fair values at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date; and

- 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* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interest are measured at their fair value or, when applicable, on the basis specified in another standard.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations *(Continued)*

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets,* as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Investments in subsidiaries

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

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy discussions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates *(Continued)*

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

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

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

Where a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values 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 derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the item is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for administrative purposes are carried at cost less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Properties for development

Properties for development represent leasehold land located in Macau and Foshan for development for future sale in the ordinary course of business. Cost comprises the costs of land use rights and other costs directly attributable to bringing the leasehold land to the condition necessary for it to be ready for development. Properties for development are stated at the lower of cost and net realisable value.

Prepaid lease payments

The up-front payments to acquire leasehold interest in land are accounted for as operating leases and are stated at cost and amortised over the lease term on a straight-line basis.

Premium on prepaid lease payments

Premium on prepaid lease payments of leasehold land represents premium on acquisition of prepaid lease payments of land use rights as a result of acquisition of subsidiaries, which are stated at cost and amortised on the same basis as the related land use rights.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

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

Revenue from hotel operation, which comprise room rental, food and beverage sales and other ancillary services in the hotel, are recognised when the relevant services have been rendered.

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

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipt through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as 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 capitalisation.

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

Inventories

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

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 recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Impairment losses on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimate to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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

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 statement of comprehensive income 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 end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss, except when it relates to items that recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

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 end of the reporting period, 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 recognised in other comprehensive income and accumulated in equity under the heading of the translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Equity-settled share-based payment transactions

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

When the share options are exercised, the amount previously recognised in share option 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 recognised in share option reserve will continue to be held in share option reserve.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefit costs

Payments to defined contribution scheme/state-managed retirement benefit schemes/the Mandatory Provident Fund Scheme ("MPF Scheme") are recognised as expenses when employees have rendered services entitling them to the contributions.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position 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 or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Financial assets at fair value through profit or loss

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including debt component of the convertible bond, amount due from an associate, amounts due from subsidiaries, trade and other receivables, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the revaluation reserve is reclassified to profit or loss (see accounting policy on impairment loss on financial assets below).

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 the end of each reporting period (see accounting policy on impairment loss on financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- breach of contract, such as default or delinquency in interest and principal payments;
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount 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 loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (Continued)

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in revaluation reserve. For available-for-sale debt investments, impairment losses are subsequently reversed through profit or loss 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.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

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

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis other than those financial liability classified as FVTPL, of which the interest expense is included in net gains or losses.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments (Continued)

Financial liabilities

Financial liabilities including trade and other payables, amounts due to related companies, bank borrowings and amounts due to subsidiaries are subsequently measured at amortised cost, using the effective interest method.

Convertible notes issued by the Group

Convertible notes containing liability and equity components

Convertible notes issued by the Company that contain liability (together with the early redemption option which is closely related to the host liability component) and conversion option are classified separately into respective items on initial recognition in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

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

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

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

Derivative component in convertible bond

Derivative component in convertible bond is initially recognised at fair value and is classified separately into respective item on initial recognition. The derivative component is subsequently remeasured at fair value at the end of the reporting period with resulting gain or loss recognised in profit or loss immediately.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the assets expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the financial asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liability when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Estimated impairment on available-for-sale investments

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

In determining whether impairment on available-for-sale investments is required, the Group takes into consideration the current market environment and the estimates of future cash flows which the Group expect to receive. Impairment is recognised based on the present value of estimated future cash flows. If the market environment/circumstances changes significantly, resulting in a decrease in the recoverable amount of these available-for-sale investments, additional impairment loss may be required. As at 31st July, 2012, the carrying amount of available-for-sale investments is approximately HK$63,738,000 (2011: HK$59,850,000).

Income taxes

As at 31st July, 2012, the Group had unused tax losses of HK$326,678,000 (2011: HK$280,006,000) available to offset against future profits. A deferred tax asset has been recognised in respect of HK$12,661,000 (2011: HK$13,010,000) of tax losses in the Group's consolidated statement of financial position. No deferred tax asset has been recognised on the tax losses of HK$314,017,000 (2011: HK$266,996,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future taxable profits or taxable temporary differences will be available in the future. In cases where the actual future taxable profits generated are less or more than expected, a material reversal or recognition of deferred tax assets may arise, which would be recognised in profit or loss in the period in which such a reversal or recognition takes place.

Properties for development

An assessment of the net realisable value is made in each reporting period. The Group takes into consideration the current market environment and the estimated market value of leasehold land. Such assessment was made based on certain assumptions, which are subject to uncertainty and might materially differ from actual results. In making the assessment, the Group's management has made estimates concerning estimated prices to be generated by the completed properties and made deductions for the estimated development costs and required estimated development profits from the properties. The assumptions used are intended to reflect conditions existing at the end of the reporting period. Impairment is made if the estimated net realisable value is less than the carrying amount. If the actual net realisable value on properties under development is less than expected as a result of change in market condition and/or significant variation in the budgeted development cost, a material provision for impairment loss may result. The carrying amount of the properties under development is HK$383,810,000 (2011: HK$227,200,000).

5. REVENUE

An analysis of the Group's revenue for the year is as follows:

	2012 HK$'000	2011 HK$'000
Property rental	**568**	568
Hotel operations	**142,355**	131,832
	142,923	132,400

6. OTHER GAINS AND LOSSES

	2012 HK$'000	2011 HK$'000
(Decrease) increase in fair value of investments held for trading	**(8,334)**	13,704
Decrease in fair value of derivative component in convertible bond	**(954)**	–
Increase in fair value of derivative financial instruments	**–**	69
Dividend income from investments held for trading	**269**	599
	(9,019)	14,372

7. SEGMENT INFORMATION

The following is an analysis of the Group's revenue and results by operating segment, based on information provided to the chief operating decision maker ("CODM") representing the board of directors of the Company, for the purpose of allocating resources to segments and assessing their performance. This is also the basis upon which the Group is arranged and organised. The Group's reportable and operating segments under HKFRS 8 are as follows:

Hotel operations	–	hotel business and its related services
Financial investment	–	trading of listed securities and other financial instruments
Property	–	leasing of properties and sale of properties held for sale and property under development

Information regarding these segments is reported below.

7. SEGMENT INFORMATION *(Continued)*

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable and operating segments:

For the year ended 31st July, 2012

	Hotel operations HK$'000	Financial investment HK$'000	Property HK$'000	Consolidated HK$'000
GROSS PROCEEDS	142,355	62,571	568	205,494
SEGMENT REVENUE	142,355	–	568	142,923
SEGMENT (LOSS) PROFIT	(20,257)	(7,724)	5,605	(22,376)
Unallocated income				975
Unallocated expenses				(17,992)
Written off of property, plant and equipment				(65,338)
Share of losses of associates				(8,163)
Finance costs				(10,415)
Gain on disposal of subsidiary				106
Loss before taxation				(123,203)

For the year ended 31st July, 2011

	Hotel operations HK$'000	Financial investment HK$'000	Property HK$'000	Consolidated HK$'000
GROSS PROCEEDS	131,832	125,078	568	257,478
SEGMENT REVENUE	131,832	–	568	132,400
SEGMENT (LOSS) PROFIT	(16,470)	13,698	6,068	3,296
Unallocated income				1,031
Unallocated expenses				(24,140)
Share of profits of associates				12,281
Finance costs				(12,729)
Loss before taxation				(20,261)

Segment profit (loss) represents the profit (loss) earned (incurred) by each segment without allocation of central administration costs, directors' salaries, written off of property, plant and equipment, share of results of associates, certain investment income, interest income, finance costs and gain on disposal of a subsidiary. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

7. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating and reportable segments:

At 31st July, 2012

	Hotel operations HK$'000	Financial investment HK$'000	Property HK$'000	Unallocated HK$'000	Consolidated HK$'000
ASSETS					
Segment assets	473,510	11,312	427,856	–	912,678
Interests in associates	–	–	–	213,074	213,074
Unallocated assets	–	–	–	82,701	82,701
Consolidated total assets					1,208,453
LIABILITIES					
Segment liabilities	97,800	84	8,132	–	106,016
Unallocated liabilities	–	–	–	174,586	174,586
Consolidated total liabilities					280,602

At 31st July, 2011

	Hotel operations HK$'000	Financial investment HK$'000	Property HK$'000	Unallocated HK$'000	Consolidated HK$'000
ASSETS					
Segment assets	708,309	41,551	271,221	–	1,021,081
Interests in associates	–	–	–	221,247	221,247
Unallocated assets	–	–	–	90,825	90,825
Consolidated total assets					1,333,153
LIABILITIES					
Segment liabilities	89,573	82	6,707	–	96,362
Unallocated liabilities	–	–	–	189,877	189,877
Consolidated total liabilities					286,239

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating and reportable segments other than interests in associates, amount due from an associate, available-for-sales investments, certain property, plant and equipment, certain other receivables, deposits and prepayments of the corporate offices, certain bank balances and cash and pledged bank deposits; and
- all liabilities are allocated to operating and reportable segments other than deposits and accrued charges of the corporate offices, taxation payable, bank borrowings, liability portion of convertible notes, and certain deferred tax liabilities. Deferred tax liabilities related to the fair value adjustments are allocated to Hotel Operations segment.

7. SEGMENT INFORMATION *(Continued)*

Other information

Amounts included in the measure of segment results and segment assets:

For the year ended 31st July, 2012

	Hotel operations HK$'000	Financial investment HK$'000	Property HK$'000	Segment total HK$'000	Unallocated HK$'000	Consolidated HK$'000
Additions to non-current assets (note)	29,221	–	–	29,221	13	29,234
Depreciation	31,234	–	–	31,234	1,574	32,808
Increase in fair value of investment properties	–	–	6,620	6,620	–	6,620
Release of prepaid lease payments and premium on prepaid lease payments	6,664	–	–	6,664	–	6,664
Decrease in fair value of investments held for trading	–	8,334	–	8,334	–	8,334
Decrease in fair value of derivative component in convertible bond	–	954	–	954	–	954
Loss on disposal of properties, plant and equipment	60	–	–	60	–	60
Interest income	50	1,371	–	1,421	–	1,421

For the year ended 31st July, 2011

	Hotel operations HK$'000	Financial investment HK$'000	Property HK$'000	Segment total HK$'000	Unallocated HK$'000	Consolidated HK$'000
Additions to non-current assets (note)	42,089	–	–	42,089	1,705	43,794
Depreciation	31,318	–	–	31,318	2,006	33,324
Increase in fair value of investment properties	–	–	7,080	7,080	–	7,080
Release of prepaid lease payments and premium on prepaid lease payments	6,641	–	–	6,641	–	6,641
Increase in fair value of investments held for trading	–	13,704	–	13,704	–	13,704
Increase in fair value of derivative financial instruments	–	69	–	69	–	69
Interest income	59	249	–	308	–	308

Note:

Additions to non-current assets represent the additions to property, plant and equipment.

7. SEGMENT INFORMATION *(Continued)*

Geographical information

The Group's current operations are mainly located in Mainland China, Hong Kong and Macau. The Group's properties for development in the property division are located and carried out in Macau and Mainland China. Financial investment division and property rental business in the property division are all located and carried out in Hong Kong. Hotel operations are all located and carried out in Mainland China.

The Group's revenue from external customers based on the location of the operations at which the services were provided and information about its non-current assets by geographical location of the assets are detailed below:

	Revenue from external customers		Non-current assets	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**568**	568	**45,485**	46,263
Macau	**–**	–	**213,074**	221,234
Mainland China	**142,355**	131,832	**447,560**	672,253
	142,923	132,400	**706,119**	939,750

Non-current assets excluded financial instruments.

Information about major customers

No revenue from customers contributed over 10% of the total sales of the Group for any of the two years ended 31st July, 2012.

Revenue by services and investments

	2012	2011
	HK$'000	HK$'000
Room rentals	**52,576**	49,793
Food and beverage sales	**57,070**	50,354
Rendering of ancillary services	**32,709**	31,255
Property rental	**568**	998
	142,923	132,400

8. FINANCE COSTS

	2012 HK$'000	2011 HK$'000
Interest on:		
Borrowings wholly repayable within five years:		
Bank borrowings	**8,006**	8,249
Consideration payable for acquisition of subsidiaries	**–**	444
Convertible notes	**2,409**	4,036
	10,415	12,729

9. DISPOSAL OF A SUBSIDIARY

On 30th April, 2012, the Company entered into an agreement to dispose of a subsidiary, Adrian Realty Limited, for a cash consideration of HK$6,500,001. The disposal was completed on 5th July, 2012. The net assets of the subsidiary at the date of disposal were as follows:

	HK$'000
Net assets disposed of	
Investment properties	6,400
Other payables	(6)
	6,394
Gain on disposal of a subsidiary	106
Total consideration	6,500
Satisfied by:	
Cash	6,500

10. INCOME TAX CREDIT

	2012 HK$'000	2011 HK$'000
Tax credit comprises:		
Deferred taxation (note 33)	**(2,557)**	(2,706)

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the People's Republic of China ("PRC") subsidiary is 25% from 1st January, 2008 onwards. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

No provision for Hong Kong Profits Tax and Enterprise Income Tax in PRC subsidiaries has been made for both years as the Company and its subsidiaries either did not generate any assessable profits for the years. For the year ended 31st July, 2011, there were available tax losses brought forward from prior years to offset against the assessable profits generated.

The tax credit for the year can be reconciled to the loss before taxation per the consolidated statement of comprehensive income as follows:

	2012 HK$'000	2011 HK$'000
Loss before taxation	**(123,203)**	(20,261)
Tax at the Hong Kong Profits Tax rate of 16.5%	**(20,328)**	(3,343)
Tax effect of share of results of associates	**1,347**	(2,026)
Tax effect of expenses not deductible for tax purpose	**19,530**	1,970
Tax effect of income not taxable for tax purpose	**(3,996)**	(4,318)
Tax effect of tax losses not recognised	**8,434**	8,829
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(7,544)**	(1,944)
Utilisation of tax losses previously not recognised	**–**	(1,874)
Tax credit for the year	**(2,557)**	(2,706)

Details of deferred taxation are set out in note 33.

11. LOSS FOR THE YEAR

	2012 HK$'000	2011 HK$'000
Loss for the year has been arrived at after charging (crediting):		
Directors' remuneration (note 12)	**3,713**	3,712
Other staff costs, excluding directors		
– Salaries and other benefits	**41,446**	36,701
– Retirement benefit scheme contributions	**2,449**	2,093
Total employee benefit expenses	**47,608**	42,506
Auditor's remuneration	**1,800**	1,750
Depreciation included in:		
– other hotel operating expenses	**31,234**	31,318
– administrative expenses	**1,574**	2,006
Release of prepaid lease payments and premium on prepaid lease payments (included in other hotel operating expenses)	**6,664**	6,641
Net exchange (gain) loss	**(284)**	766
Loss on disposal of property, plant and equipment	**60**	–
Cost of inventories recognised as an expense	**30,598**	26,511
Gross rental income from investment properties	**568**	568
Less:		
direct operating expenses from investment properties that generated rental income during the year	**(340)**	(313)
direct operating expenses from investment properties that did not generate rental income during the year	**(1,156)**	(1,185)
	(928)	(930)
Bank and other interest income	**(56)**	(308)
Interest income on convertible bond	**(1,365)**	–
Investment income earned from available-for-sale investments (included in the other income)	**(975)**	(1,030)

12. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the seven (2011: seven) directors are as follows:

2012

	Mr. Sio Tak Hong HK$'000	Mr. Chu Nin Yiu, Stephen HK$'000	Mr. Chu Nin Wai, David HK$'000	Mr. Lau Chi Kan, Michael HK$'000	Mr. Leung Kam Fai HK$'000	Mr. Wong Kwong Fat HK$'000	Mr. Li Sze Kuen, Billy HK$'000	Total HK$'000
Fees	–	–	–	–	150	150	150	450
Other emoluments								
– Salaries and other benefits	–	3,250	–	–	–	–	–	3,250
– Retirement benefit scheme contributions	–	13	–	–	–	–	–	13
	–	3,263	–	–	150	150	–	3,713

2011

	Mr. Sio Tak Hong HK$'000	Mr. Chu Nin Yiu, Stephen HK$'000	Mr. Chu Nin Wai, David HK$'000	Mr. Lau Chi Kan, Michael HK$'000	Mr. Leung Kam Fai HK$'000	Mr. Wong Kwong Fat HK$'000	Mr. Li Sze Kuen, Billy HK$'000	Total HK$'000
Fees	–	–	–	–	150	150	150	450
Other emoluments								
– Salaries and other benefits	–	3,250	–	–	–	–	–	3,250
– Retirement benefit scheme contributions	–	12	–	–	–	–	–	12
	–	3,262	–	–	150	150	150	3,712

During the years ended 31st July, 2012 and 2011, no directors waived any emoluments.

13. EMPLOYEES' EMOLUMENTS

Of the five highest paid individuals in the Group, one (2011: one) was director of the Company whose emoluments was included in note 12 above. The emoluments of the remaining four (2011: four) employees were as follows:

	2012 HK$'000	2011 HK$'000
Salaries and other benefits	**2,424**	2,373
Retirement benefit scheme contributions	**25**	24
	2,449	2,397

Their emoluments were within the following bands:

	2012 No. of employees	2011 No. of employees
Nil to HK$1,000,000	**4**	4

During the year ended 31st July, 2012, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office (2011: Nil).

14. LOSS PER SHARE

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

	2012 HK$'000	2011 HK$'000
Loss for the year attributable to owners of the Company for the purposes of basic and diluted loss per share	**(120,325)**	(17,248)

	2012	2011
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**2,467,834,129**	2,316,159,854

The computation of diluted loss per share does not assume the conversion of the Company's outstanding convertible notes since their exercise would result in a decrease in loss per share.

15. INVESTMENT PROPERTIES

	HK$'000
AT FAIR VALUE	
At 1st August, 2010	36,400
Increase in fair value	7,080
At 31st July, 2011	43,480
Increase in fair value	6,620
Disposals of a subsidiary	(6,400)
At 31st July, 2012	43,700

The carrying value of investment properties shown above comprises:

	2012 HK$'000	2011 HK$'000
Investment properties in Hong Kong:		
Long-term lease	**–**	4,770
Medium-term lease	**43,700**	38,710
	43,700	43,480

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

The fair values of the Group's investment properties at 31st July, 2012 and 2011 have been arrived at on the basis of valuation carried out on that date by American Appraisal China Limited, independent professionally qualified valuer not connected with the Group. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

The resulting increase in fair value of investment properties of HK$6,620,000 has been recognised in profit or loss for the year ended 31st July, 2012 (2011: HK$7,080,000).

16. PROPERTY, PLANT AND EQUIPMENT

	Hotel properties HK$'000	Buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicle HK$'000	Construction in progress HK$'000	Total HK$'000
THE GROUP							
COST							
At 1st August, 2010	338,314	2,902	105,914	24,959	6,514	7,482	486,085
Additions	–	–	35	2,945	1,678	39,136	43,794
Currency realignment	20,369	180	6,503	1,514	129	465	29,160
At 31st July, 2011	358,683	3,082	112,452	29,418	8,321	47,083	559,039
Additions	–	–	–	2,014	–	27,220	29,234
Reclassification	65,554	–	2,972	5,937	–	(74,463)	–
Disposals	–	–	–	(382)	(2)	–	(384)
Written off	(68,131)	–	(9,439)	(281)	–	–	(77,851)
Currency realignment	1,183	10	377	98	7	160	1,835
At 31st July, 2012	357,289	3,092	106,362	36,804	8,326	–	511,873
DEPRECIATION							
At 1st August, 2010	15,862	150	24,097	9,732	2,402	–	52,243
Provided for the year	10,727	103	15,304	5,529	1,661	–	33,324
Currency realignment	954	9	1,413	581	50	–	3,007
At 31st July, 2011	27,543	262	40,814	15,842	4,113	–	88,574
Provided for the year	10,743	103	14,935	5,763	1,264	–	32,808
Eliminated on disposals	–	–	–	(322)	(2)	–	(324)
Eliminated on written off	(9,595)	–	(2,801)	(117)	–	–	(12,513)
Currency realignment	91	1	134	52	3	–	281
At 31st July, 2012	28,782	366	53,082	21,218	5,378	–	108,826
CARRYING VALUES							
At 31st July, 2012	328,507	2,726	53,280	15,586	2,948	–	403,047
At 31st July, 2011	331,140	2,820	71,638	13,576	4,208	47,083	470,465

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

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

Hotel properties	Over 20 years to 33½ years, representing the remaining lease term from acquisition date
Buildings	Over 9¼ years to 30 years, representing the remaining lease terms from acquisition date
Leasehold improvements	Over the remaining term of the relevant lease or 10% – 33⅓% whichever is shorter
Furniture, fixtures and equipment	20%
Motor vehicle	33⅓%

The Group's hotel property and buildings are located on land in the PRC held under medium term leases.

The construction in progress represents a new recreational building of Foshan Fortuna Hotel Company Limited ("Hotel Fortuna Foshan") for rendering ancillary services being constructed adjacent to the Group's hotel property. The construction was completed and the building has been in use since November, 2011.

After relocation of certain facilities to the new recreational building during the year, an old recreational building of Hotel Fortuna Foshan was demolished according to plan. Property, plant and equipment of HK$65,338,000, representing the aggregate carrying amount of the old recreational building demolished and related assets, have been written off. The Group intends to develop residential building on the site of the old recreational building for sale as to utilise the undeveloped permissible gross floor area of the leasehold land.

The hotel properties of the Group have been pledged to secure bank borrowings granted to the Group.

17. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise:

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Leasehold land in the PRC on medium-term lease	**2,951**	13,597
Analysed for reporting purposes as:		
Non-current assets	**2,854**	13,165
Current assets	**97**	432
	2,951	13,597

18. PREMIUM ON PREPAID LEASE PAYMENTS

Premium on prepaid lease payments of the Group represents the fair value adjustment on the prepaid lease payments of the subsidiaries acquired during the year ended 31st July, 2009 and are amortised over the period of the remaining lease term of 30 to 33½ years on a straight-line basis.

The movement of premium on prepaid lease payments is set out below:

	HK$'000
COST	
At 1st August, 2010	195,265
Currency realignment	12,148
At 31st July, 2011	207,413
Transfer to properties for development (Note 24)	(159,432)
Currency realignment	705
At 31st July, 2012	48,686
AMORTISATION	
At 1st August, 2010	9,244
Charge for the year	6,201
Currency realignment	575
At 31st July, 2011	16,020
Charge for the year	6,222
Elimination on transfer to properties for development (Note 24)	(17,054)
Currency realignment	54
At 31st July, 2012	5,242
CARRYING VALUES	
At 31st July, 2012	43,444
At 31st July, 2011	191,393

19. INVESTMENTS IN SUBSIDIARIES/AMOUNTS DUE FROM SUBSIDIARIES

	THE COMPANY	
	2012	2011
	HK$'000	HK$'000
Investments in subsidiaries:		
Unlisted shares, at cost less impairment losses recognised	**400**	400
Amounts due from subsidiaries	**1,116,239**	1,194,456

The amounts due from subsidiaries are unsecured and have no fixed terms of repayment. Except for an amount of approximately HK$236,551,000 (2011: HK$238,218,000) which carries interest ranging from Hong Kong Prime Rate to Hong Kong Prime Rate plus 6.5% (2011: Hong Kong Prime Rate to Hong Kong Prime Rate plus 6.5%) per annum, the remaining balance is interest free. The carrying amounts of the interest free advances have been determined based on an effective interest rate of 5.0% (2011: 5.0%) per annum.

Details of the Company's principal subsidiaries at 31st July, 2011 and 2012 are as followings:

Name of subsidiary	Place of incorporation/ operation	Issued and paid up share capital	Proportion of nominal value of issued share capital held by the Company			Principal activities
			Directly	Directly	Indirectly	
			2012	2011	2012 & 2011	
			%	%		
Adrian Realty Limited	Hong Kong	HK$1,000,000	–	100	–	Property investment
Ahead Company Limited	Hong Kong	HK$2	100	100	–	Trading of securities
Evergood Management Limited	Hong Kong	HK$2	100	100	–	Investment holding
Hegel Trading Limited	Hong Kong	HK$2	100	100	–	Property investment
Silver Tower Limited	Hong Kong	HK$2	–	–	100	Inactive
Top Mount Limited	Hong Kong	HK$2	–	–	100	Investment holding
Top Universal Management Limited	Hong Kong	HK$2	100	100	–	Investment holding
Shiny Rising Limited	Hong Kong	HK$1	100	100	–	Provision of corporate treasury services

19. INVESTMENTS IN SUBSIDIARIES/AMOUNTS DUE FROM SUBSIDIARIES

(Continued)

Name of subsidiary	Place of incorporation/ operation	Issued and paid up share capital	Proportion of nominal value of issued share capital held by the Company			Principal activities
			Directly 2012 %	Directly 2011 %	Indirectly 2012 & 2011	
Fame Asset Limited	Hong Kong	HK$1	100	100	–	Provision of corporate management services
Sun Fat Investment and Industry Co Limited ("Sun Fat")	Macau	MOP50,000,000	–	–	99	Property investment
Hotel Fortuna (Hong Kong) Company Limited	Hong Kong	HK$10,000	100	100	–	Investment holding
Hotel Fortuna Foshan 佛山市財神酒店有限公司	PRC	US$38,920,000	–	–	100	Hotel operations and property development

None of the subsidiaries had issued any debt securities at the end of the reporting period or at any time during the reporting period.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

20. INTERESTS IN ASSOCIATES

	THE GROUP	
	2012 HK$'000	2011 HK$'000
Cost of unlisted investments in associates	**229,455**	229,455
Share of post-acquisition results, net of dividend received	**(16,381)**	(8,208)
	213,074	221,247

20. INTERESTS IN ASSOCIATES *(Continued)*

At 31st July, 2012 and 2011 the Group had interests in the following associates:

Name of entity	Place of incorporation/ principal place of operation	Proportion of quoted capital held by the Group 2012	2011	Principal activities
Tin Fok Holdings Company Limited ("Tin Fok") (note i)	Macau	32.5%	32.5%	Hotel operation
Singon Holding Limited ("Singon") (note ii)	Hong Kong/ Macau	–	25%	Deregistered

Note:

(i) This associate is controlled by Mr. Sio Tak Hong ("Mr. Sio"), a director and substantial shareholder of the Company with significant influence over the Company. Approximately HK$213 million (2011: HK$221 million) was included in interests in associates in respect of the Group's interest in Tin Fok.

(ii) Singon held a leasehold land located in Macau for property development. In October 2010, Singon disposed of its interest in such leasehold land to an independent third party, repaid the long term advance to its shareholders, and hence became dormant since then. Singon was deregistered on 15th June, 2012.

Included in the cost of investments in associates is goodwill of HK$2,362,000 arising on acquisition of Tin Fok.

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

	2012 HK$'000	2011 HK$'000
Total assets	**1,802,883**	1,540,962
Total liabilities	**(1,154,538)**	(867,456)
Net assets	**648,345**	673,506
Group's share of net assets of associates	**210,712**	218,885
Revenue	**250,420**	278,972
(Loss) profit for the year	**(25,118)**	38,078
Group's share of (losses) profits of associates	**(8,163)**	12,281

21. AVAILABLE-FOR-SALE INVESTMENTS

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Unlisted equity securities, at cost	**73,778**	69,890
Impairment loss recognised	**(10,040)**	(10,040)
	63,738	59,850

The available-for-sale investments represent investments in unlisted equity securities issued by private entities incorporated and operate in the United States of America and Macau involved in property investment. They are measured at cost less impairment at the end of each reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

Mr. Sio is a director and has beneficial interest in one of the above private entity investees incorporated in Macau.

During the year, the Group paid HK$3,888,000 to subscribe additional shares of the private equity investee incorporated in Macau upon the right issue subscription,

The Group's available-for-sale investments that are denominated in currencies other than functional currencies of the relevant group entities are set out below:

	2012	2011
	HK$'000	HK$'000
USD	**13,640**	13,640

22. CONVERTIBLE BOND/DERIVATIVE COMPONENT IN CONVERTIBLE BOND

During the year ended 31st July, 2012, the Group subscribed a convertible bond issued by a company listed on the Stock Exchange, with principal amount of HK$10,000,000 which carries interest at 6.5% per annum payable semi-annually in arrears with maturity on 14th October, 2014 at redemption amount of 100% of the principal amount. The convertible bond can be converted at any time from the date of issue to the maturity date. The fair value at initial recognition of the receivable component and derivative component, which amounted to HK$5,484,000 and HK$4,849,000 respectively, are determined based on the valuation provided by Greater China Appraisal Limited, independent professionally qualified valuers not connected with the Group. Subsequent to initial recognition, the receivable component is carried at amortised cost using the effective interest method and the derivative component is carried at fair value.

22. CONVERTIBLE BOND/DERIVATIVE COMPONENT IN CONVERTIBLE BOND *(Continued)*

The convertible bond was recognised as follows:

	Debt component HK$'000	Derivative component HK$'000
At issue date	5,484	4,849
Accretion of interest	1,365	–
Interest received	(326)	–
Fair value loss charged to consolidated statement of comprehensive income	–	(1,287)
At 31st July, 2012	6,523	3,562

The methods and assumptions applied for the valuation of the convertible bond are as follows:

(i) Valuation of receivable component

At initial recognition, the fair value of receivable component was calculated based on the present value of contractually determined stream of future cash flows discounted at the required yield, which was determined with reference to the credit risk of the convertible bonds issuer and maturity term. The effective interest rate of the receivable component is 32.85%.

(ii) Valuation of derivative component

Derivative component is measured at fair value using the Trinomial Lattice Option Pricing model, at initial recognition and at the balance sheet date. The inputs into the model as at date of subscription and at 31st July, 2012, was as follows:

	(Date of subscription) 14th October, 2011	31st July, 2012
Stock price	HK$1.11	**HK$1.02**
Conversion price	HK$1.10	**HK$1.10**
Volatility	29.19%	**21.05%**
Dividend yield	2.03%	**0.00%**
Option life	3 years	**2.2 years**
Risk free rate	0.828%	**0.424%**

23. AMOUNT DUE FROM (TO) AN ASSOCIATES/RELATED COMPANIES

The amounts are unsecured, non-interest bearing, non-trade nature and repayable on demand.

The amount due from an associate is expected to be recovered within one year from the end of the reporting period.

As 31st July,2012, the amounts due to related companies represents advance of HK$5,472,000 (2011:HK$150,000) from Santa Cove (China) Real Estate Limited and HK$3,648,000 (2011:Nil) from Jiang Men Wuyi Golf Course Entertainment Company Limited. Mr. Sio has beneficial interests in both companies.

24. PROPERTIES FOR DEVELOPMENT

Properties for development represent leasehold lands located in Macau and Mainland China amounting to HK$227,200,000 (2011: HK$227,200,000) and HK$156,610,000 (2011: Nil) respectively for development and future sale in the ordinary course of business. Cost comprises the costs of land use rights under medium-term lease and other cost directly attributable to bringing the leasehold lands to the condition necessary for it to be ready for development. No finance cost on development has been capitalised. Properties for development are stated at lower of cost and net realisable value. No impairment loss has been recognised on properties for development for both years. The Group has not commenced construction activities on the land in Macau held for development purpose. During the year, the Group has submitted the revised proposal according to the requirements from the relevant authorities in Macau in relation to the change of the use of the land from industrial use to residential properties. Although the timing of the approval by the relevant authorities in Macau is not certain and the construction is not scheduled to be completed in a year, the Group will commence the development once the approval from the relevant authorities is obtained.

Following the demolishment of an old recreational building of Hotel Fortuna Foshan during the year (see Note 16), the Group launched a plan to develop residential buildings for sale on the site as to utilise the undeveloped permissible gross floor area of the leasehold land located in Mainland China. Accordingly, prepaid lease payments and premium on prepaid lease payments with carrying amount of HK$10,251,000 and HK$142,378,000 respectively was transferred to properties for development upon the Group starting the process to apply for the construction approval of new residential buildings for sale.

25. INVENTORIES

All of the Group's inventories at 31st July, 2012 and 31st July, 2011 represent food and beverage for hotel business.

26. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 30 days to its trade customers of hotel business and property rental, an aged analysis of trade receivables based on invoice date is as follows:

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Trade receivables:		
0 to 30 days	**4,690**	2,273
31 to 60 days	**224**	245
61 to 90 days	**49**	102
91 days or above	**204**	133
	5,167	2,753
Prepayments and deposits	**1,859**	1,719
Other receivables	**4,153**	3,130
	11,179	7,602

Before accepting any new customer of hotel business, the Group assesses the potential customer's credit quality by investigating their historical credit record and then defines the credit limit of that customer. Trade receivables are neither past due nor impaired at the end of the reporting period for which the Group believes that the amounts are recoverable. The Group does not hold any collateral over these balances.

27. INVESTMENTS HELD FOR TRADING

	THE GROUP	
	2012 HK$'000	2011 HK$'000
Listed equity securities		
– Hong Kong	–	28,213
– Overseas	–	5,225
Unlisted overseas debt securities	–	8,113
	–	41,551

The fair values of the above investments were determined based on the quoted market bid prices at the close of business at the end of reporting period.

28. PLEDGED BANK DEPOSIT/BANK BALANCES AND CASH

Pledged bank deposit of the Group represents deposit pledged to a bank to secure short term banking facilities granted to the Group. The deposit carries fixed interest rate of 0.01% (2011: 0.01%) per annum. The pledged bank deposit will be released upon the release of relevant banking facilities.

Bank balances and cash of the Group and the Company comprise bank balances and cash held and short-term bank deposits that are interest-bearing at market interest rate and are with original maturity of three months or less. The Group's and the Company's bank deposits carry interest rates ranging from nil to 0.01% (2011: nil to 0.01%) per annum.

The Group's and the Company's bank balances and cash that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	THE GROUP	
	2012 HK$'000	2011 HK$'000
USD	**1,649**	1,251

	THE COMPANY	
	2012 HK$'000	2011 HK$'000
USD	**1,638**	858

29. TRADE AND OTHER PAYABLES

The average credit period on purchases of goods is 30 to 120 days, an aged analysis of trade payables based on invoice date is as follows:

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Trade payables:		
0 to 30 days	**3,680**	3,865
31 to 60 days	**3,533**	1,856
61 to 90 days	**1,760**	1,795
91 days or above	**1,887**	929
	10,860	8,445
Accruals	**14,184**	13,876
Deposits received	**121**	121
Other payables	**10,859**	8,507
	36,024	30,949

30. BANK BORROWINGS

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Secured bank loan	**123,064**	142,038
Bank borrowings are repayable as follows:		
Within one year	**25,537**	19,391
More than one year but not exceeding two years	**97,527**	25,451
More than two years but not exceeding three years	**–**	97,196
	123,064	142,038
Less: Current portion shown under current liabilities	**(25,537)**	(19,391)
	97,527	122,647

The borrowings carried interest at prevailing market rates, are repayable in instalments over four years. The proceeds were used to repay loans from related parties and for general working capital purpose of the Group.

31. CONVERTIBLE NOTES

On 8th November, 2010, the Company issued an aggregate principal amount of HK$135,000,000 unsecured 4% convertible notes due 2013.

The convertible notes bear interest at 4% per annum and will mature on 8th November, 2013. The holders of the convertible notes have the right to convert their convertible notes into ordinary shares of the Company at a conversion price of HK$0.36 per share at any time commencing from the issue date up to the business day last preceding the fifth business day prior to the maturity date.

Unless previously redeemed, converted or repaid in accordance with the terms and conditions of the convertible notes, the Company will redeem all convertible notes at their principal amount together with accrued and unpaid interest thereon on the maturity date. The Company may early redeem any portion of the outstanding convertible notes at par at any time prior to the maturity date.

The convertible notes contain two components, liability (together with embedded derivative for early redemption right by the Company which is closely related to the host debt) and equity elements. The equity element is presented in equity under the heading of "convertible notes reserve". The effective interest rate of the liability component of the convertible notes is 11.58% at the date of initial recognition.

During the year ended 31st July, 2011, convertible notes with a principal amount of HK$115,000,000 were converted into shares of HK$0.1 each in Company at the conversion price of HK$0.36 per share. Accordingly, a total of 319,444,440 ordinary shares of HK$0.1 each were issued.

During the year ended 31st July, 2012, there is no conversion of convertible notes into shares of the Company.

The movement of liability component of the convertible notes is as follows:

	HK$'000
At the date of issue, net of issue expense	101,013
Interest charge	4,036
Interest paid	(1,299)
Conversion during the period	(87,577)
Carrying amount of convertible notes as at 31st July, 2011	16,173
Interest charge	2,409
Interest paid	(800)
Carrying amount of convertible notes as at 31st July, 2012	17,782

32. AMOUNTS DUE TO SUBSIDIARIES

The amounts are unsecured, interest bearing at Hong Kong Prime Rate plus 6.5% per annum and repayable on demand.

33. DEFERRED TAX LIABILITIES

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

	Accelerated tax depreciation HK$'000	Tax losses HK$'000	Fair value adjustments HK$'000 (note a)	Convertible notes HK$'000	Total HK$'000
THE GROUP					
At 1st August, 2010	1,987	(1,987)	68,728	–	68,728
Recognised upon issue of convertible notes	–	–	–	5,608	5,608
Credit to reserves	–	–	–	(4,525)	(4,525)
Exchange difference	–	–	4,276	–	4,276
Charge (credit) to profit or loss	160	(160)	(2,284)	(422)	(2,706)
At 31st July, 2011	2,147	(2,147)	70,720	661	71,381
Disposal of a subsidiary	(75)	75	–	–	–
Exchange difference	–	–	240	–	240
Charge (credit) to profit or loss	17	(17)	(2,292)	(265)	(2,557)
At 31st July, 2012	2,089	(2,089)	68,668	396	69,064

	Convertible notes HK$'000
THE COMPANY	
At 31st July, 2010	–
Recognised upon issue of convertible notes	5,608
Credit to reserves	(4,525)
Credit to profit or loss	(422)
At 31st July, 2011	661
Credit to profit or loss	(265)
At 31st July, 2012	396

Note:

(a) The fair value adjustments represented the fair value changes on property, plant and equipment and prepaid lease payments arising from the acquisition of subsidiaries.

33. DEFERRED TAX LIABILITIES *(Continued)*

At 31st July, 2012, the Group and the Company had unused tax losses of HK$326,678,000 (2011: HK$280,006,000) and HK$40,121,000 (2011: HK$29,264,000), respectively, available to offset against future profits. A deferred tax asset of the Group has been recognised in respect of HK$12,661,000 (2011: HK$13,010,000) of such tax losses. No deferred tax assets of the Group and the Company have been recognised in respect of the remaining unused tax losses of HK$314,017,000 (2011: HK$266,996,000) and HK$40,121,000 (2011: HK$29,264,000), respectively, due to unpredictability of future profit streams. The tax losses may be carried forward indefinitely. In addition, the Group has deductible temporary differences of HK$74,033,000 (2011: HK$74,033,000) in relating to impairment loss recognised on properties for development. No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

34. SHARE CAPITAL

	Number of ordinary shares	Amount HK$'000
Ordinary shares at HK$0.1 each		
Authorised:		
At 1st August, 2010, 31st July, 2011 and 31st July, 2012, at HK$0.1 each	20,000,000,000	2,000,000
Issued and fully paid:		
At 1st August, 2010, at HK$0.1 each	2,148,389,689	214,839
Conversion of convertible notes (note)	319,444,440	31,944
At 31st July, 2011 and 31st July, 2012 at HK$0.1 each	2,467,834,129	246,783

Note: During the year ended 31st July, 2011, convertible notes with a principal amount of HK$115,000,000 were converted into shares of HK$0.1 each in the Company at the conversion price of HK$0.36 per share. Accordingly, a total of 319,444,440 ordinary shares of HK$0.1 each were issued. The new shares rank pari passu in all respect with the then existing issued shares.

35. SHARE-BASED PAYMENT TRANSACTIONS

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

35. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Under the Scheme, the Board of Directors of the Company (the "Board") may grant options to executive directors, employees of the Company and its subsidiaries and such eligible participants at the discretion of the Board pursuant to the terms of the Scheme, to subscribe for shares of the Company at a price per share not less than the highest of i) the closing price of a share of the Company listed on the Stock Exchange at the date of grant of the option; ii) the average of the closing price of a share of the Company on the Stock Exchange for the five trading days immediately preceding the date of grant of the option; and iii) the nominal value of a share of the Company.

The maximum number of shares in respect of which options shall be granted under the Scheme shall not exceed 10% in aggregate of the issued share capital of the Company at the date of its adoption. No director, employee or eligible participant may be granted options under the Scheme which will enable him or her if exercise in full to subscribe for exceeding 1% of the issued share capital of the Company in any 12-month period. The option period for which the options granted can be exercisable, shall be such period as notified by the Board, save that it shall not be more than 10 years from the date of grant subject to the terms of the Scheme. Nominal consideration of HK$1 is payable on acceptance of each grant and the share options granted shall be accepted within 28 days from the date of grant.

No shares option was granted or remained outstanding under the Scheme for both years.

36. SHARE PREMIUM AND RESERVES

THE COMPANY

	Share premium HK$'000	Capital reserve HK$'000	Share option reserve HK$'000	Capital reduction reserve HK$'000	Capital redemption reserve HK$'000	Convertible notes reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
THE COMPANY								
At 1st August, 2010	994,163	2,127	23,542	170,583	268	–	(475,858)	714,825
Profit for the year	–	–	–	–	–	–	504	504
Recognition of equity component of convertible notes	–	–	–	–	–	30,612	–	30,612
Deferred tax liability on recognition of equity component of convertible notes	–	–	–	–	–	(5,608)	–	(5,608)
Conversion of convertible notes to ordinary shares (note 34)	81,710	–	–	–	–	(26,077)	–	55,633
Release of deferred tax liability recognised on conversion of convertible notes	–	–	–	–	–	4,525	–	4,525
At 31st July, 2011	1,075,873	2,127	23,542	170,583	268	3,452	(475,354)	800,491
Loss for the year	–	–	–	–	–	–	(100,411)	(100,411)
At 31st July, 2012	1,075,873	2,127	23,542	170,583	268	3,452	(575,765)	700,080

36. SHARE PREMIUM AND RESERVES *(Continued)*

Under the capital reduction exercise carried out in October 2002, the Company undertook to maintain a capital reduction reserve account. This account would not be treated as realised profits and should be treated as reserve of the Company, which should not be distributable until or unless the creditors of the Company as at the date of the sanction of the reduction of capital (the "Creditors") were fully settled, provided for by the Company or the remaining Creditors and each of them did consent by which time the account would be cancelled and provided that prior to the cancellation of the account, the Company might apply it in paying up unissued shares of the Company to be issued to members as fully paid bonus shares.

37. PLEDGE OF ASSETS

At 31st July, 2012, hotel properties of HK$328,507,000 (2011: HK$331,140,000) of the Group were pledged to secure bank borrowings of RMB101,200,000 equivalent to approximately of HK$123,064,000 (2011: RMB117,200,000, equivalent to approximately of HK$142,038,000) granted to the Group. Bank deposit of HK$641,000 (2011: HK$641,000) of the Group was pledged to banks to secure credit facilities to the extent of HK$600,000 (2011: HK$600,000) granted to the Group, of which HK$7,000 (2011: HK$22,000) was utilised by the Group.

38. RETIREMENT BENEFIT SCHEME

Prior to 1st December, 2000, the Group operated defined contribution retirement benefit schemes ("Defined Contribution Schemes") for its qualifying employees in Hong Kong. The assets of the schemes were held separately from those of the Group in funds under the control of independent trustees. Where there are employees who leave the Defined Contribution Schemes prior to vesting fully in the contributions, the amount of the forfeited contributions would be used to reduce future contributions payable by the Group. Since the Defined Contribution Schemes were terminated on 1st December, 2000, forfeited contributions in respect of unvested benefits of employees leaving the Group under the Defined Contribution Schemes cannot be used to reduce ongoing contributions. The Group did not have forfeited contributions for both years.

Effective on 1st December, 2000, the Group has joined the MPF Scheme for all of its employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme.

The employees employed by PRC subsidiaries are members of the state-managed retirement benefits schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect of the retirement benefits schemes is to make the required contributions under the schemes.

38. RETIREMENT BENEFIT SCHEME *(Continued)*

The retirement benefit scheme contributions arising from the MPF Scheme and the PRC state-managed retirement benefit scheme charged to the consolidated statement of comprehensive income represent contributions payable to the scheme by the Group at rates specified in the rules of the scheme. For the year ended 31st July, 2012, contributions of the Group under the MPF Scheme and the PRC state-managed retirement benefit scheme amounted to HK$2,462,000 (2011: HK$2,105,000).

39. OPERATING LEASES

The Group as lessee

Minimum lease payments paid under operating leases for premises during the year was HK$2,924,000 (2011: HK$3,170,000).

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Within one year	**3,030**	2,473
In the second to fifth year inclusive	**4,907**	3,089
Over five years	**671**	6,599
	8,608	12,161

Operating lease payments represent rentals payable by the Group for certain of its office premises and staff quarters. Leases are negotiated and rentals are fixed for an average term of two to ten years (2011: two to ten years).

The Group as lessor

Property rental income earned by the Group during the year was HK$568,000 (2011: HK$568,000). Certain of the Group's properties are held for rental purposes and are expected to generate rental yields of 1% (2011: 2%) for the year, on an ongoing basis. The properties of the Group held for rental purposes have no committed tenants for the both years.

40. COMMITMENTS

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Contracted for but not provided in the consolidated financial statements in respect of the		
– Acquisition of property, plant and equipment	**6,928**	17,531
– Properties for development	**4,169**	–

41. RELATED PARTY DISCLOSURES

(a) Related party balances

Details of the Group's and Company's outstanding balances with related parties are set out in the consolidated and Company's statements of financial position and in notes 19 and 23.

(b) Compensation of key management personnel

The remuneration of directors, who are the key management personnel of the Group, during the year was as follows:

	2012	2011
	HK$'000	HK$'000
Short-term benefits	**3,700**	3,700
Post-employment benefits	**13**	12
	3,713	3,712

The remuneration of directors and key executives is determined by the board of directors after recommendation from the Remuneration Committee, having regard to the performance of individuals and market trends.

42. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes the bank borrowing and convertible notes disclosed in notes 30 and 31 respectively, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and various reserves.

The directors of the Company review the capital structure on a semi-annual basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debts.

43. FINANCIAL INSTRUMENTS

43a. Categories of financial instruments

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Financial assets		
Fair value through profit or loss (FVTPL) held for trading	**–**	41,551
Derivative financial instruments	**3,562**	–
Loans and receivables (including cash and cash equivalents)	**42,877**	59,770
Available-for-sale financial assets	**63,738**	59,850
Financial liabilities		
Amortised cost	**170,259**	170,825

	THE COMPANY	
	2012	2011
	HK$'000	HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**1,121,084**	1,200,003
Financial liabilities		
Amortised cost	**172,741**	151,019

43b. Financial risks management objectives and policies

The Group's major financial instruments are set out in note 43(a) above and details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. 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.

43. FINANCIAL INSTRUMENTS *(Continued)*

43b. Financial risks management objectives and policies *(Continued)*

Market risk

(i) Currency risk

The Group and the Company have foreign currency bank balances which expose the Group and the Company to foreign currency risk.

The carrying amounts of the Group's and the Company's foreign currency denominated monetary assets at the reporting date are as follows:

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
USD	**1,649**	1,251

	THE COMPANY	
	2012	2011
	HK$'000	HK$'000
USD	**1,638**	858

Sensitivity analysis

The Group and the Company are mainly exposed to the fluctuation in USD. The foreign currency risk is not significant as HKD is pegged with USD.

(ii) Interest rate risk

Convertible bonds and convertible notes at fixed rates expose the Group and the Company to fair value interest rate risk.

Details of the Group's and the Company's interest bearing financial instruments have been disclosed in their respective notes to the consolidated financial statements.

The Group's and the Company's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

43. FINANCIAL INSTRUMENTS *(Continued)*

43b. Financial risks management objectives and policies *(Continued)*

Market risk (Continued)

(ii) Interest rate risk (Continued)

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the rate determined by the People's Bank of China arising from the Group's RMB borrowings. Certain amounts of the amounts due from subsidiaries of the Company also expose the Company to cash flow interest rate due to the fluctuation of the Hong Kong Prime Rate.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives variable rate non-derivative instruments (including bank borrowings) at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

The effect of an increase/decrease in interest rates by 50 (2011: 50) basis points, with all other variables held constant, on the Group's and the Company's loss for both years would be insignificant.

(iii) Other price risk

The Group is exposed to equity price risk arising from investments held for trading, derivative component in convertible bond and available-for-sale investments (which are stated at cost as their fair values cannot be estimated reliably). Management manages this exposure by maintaining a portfolio of investments with different risks.

The management considers that there is no significant equity price risks to the fair value of derivative component in convertible bond. In addition, the Group has appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise.

The Group's equity price risk is mainly concentrated on listed equity instruments quoted on the Stock Exchange.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks assuming all other variables were held constant, at the reporting date.

If the prices of the respective equity investments had been 5% higher/lower, the Group's loss for the year would decrease/increase by Nil (2011: HK$1,735,000) as a result of the changes in fair value of investments held for trading.

43. FINANCIAL INSTRUMENTS *(Continued)*

43b. Financial risks management objectives and policies *(Continued)*

Credit risk

The Group's and the Company's maximum exposure to credit risk which will cause a financial loss to the Group and the Company due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated and Company's statements of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Other than investment in convertible bond issued by an entity listed in the Stock Exchange, the Group does not expose to significant concentration of credit risk in both years, with exposure spread over a number of counterparties and customers. The management continues to monitor the financial performance of the listed company for the purpose of monitoring its credit risk exposure.

The Company has concentration of credit risk on amounts due from subsidiaries as 93% (2011: 91%) of the balance due from seven (2011: five) operating subsidiaries. However, the Company's credit risk is limited because the counterparties are subsidiaries with positive operating cash flow position. In order to minimise the credit risk, the directors of the Company review the recoverable amount of each individual amount due from subsidiaries at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Company's credit risk is significantly reduced.

The credit risks of the Group and the Company on liquid funds are limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Liquidity risk

In the management of the liquidity risk, the Group and the Company monitor and maintain a level of cash and cash equivalents deemed adequate by management to finance their operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of borrowings and ensures compliance with loan covenants.

As at 31st July, 2012 and 2011, all the Company's financial liabilities except convertible notes – liability portion are either repayable in less than 3 months or repayable on demand.

43. FINANCIAL INSTRUMENTS *(Continued)*

43b. Financial risks management objectives and policies *(Continued)*

Credit risk (Continued)

The following tables detail the Group's remaining contractual maturity for its financial liabilities. For non-derivatives financial liabilities, the tables have been drawn up based on the undiscounted cash flows of the financial liabilities based on the earliest dates on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest are at floating rate, the undiscounted amount is based on the interest rate at the end of the reporting period.

Liquidity tables – The Group

	Contractual interest rate %	Repayable on demand/ less than 1 month HK$'000	1 – 3 months HK$'000	3 months to 1 year HK$'000	1 – 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.7.2012 HK$'000
2012							
Non-derivative financial liabilities							
Trade and other payables	**–**	**20,293**	**–**	**–**	**–**	**20,293**	**20,293**
Amounts due to related companies	**–**	**9,120**	**–**	**–**	**–**	**9,120**	**9,120**
Bank borrowings	**6.21**	**–**	**6,986**	**24,607**	**118,220**	**149,813**	**123,064**
Convertible notes – liability portion	**4.00**	**–**	**–**	**800**	**21,203**	**22,003**	**17,782**
		29,413	**6,986**	**25,407**	**139,423**	**201,229**	**170,259**

	Contractual interest rate %	Repayable on demand/ less than 1 month HK$'000	1 – 3 months HK$'000	3 months to 1 year HK$'000	1 – 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.7.2011 HK$'000
2011							
Non-derivative financial liabilities							
Trade and other payables	–	12,464	–	–	–	12,464	12,464
Amounts due to related companies	–	150	–	–	–	150	150
Bank borrowings	5.81	–	6,022	20,489	146,972	173,483	142,038
Convertible notes – liability portion	4.00	–	–	800	21,203	22,003	16,173
		12,614	6,022	21,289	168,175	208,100	170,825

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subjected to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

43. FINANCIAL INSTRUMENTS *(Continued)*

43c. Fair value

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

- the fair value of financial assets and financial liabilities, with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices, respectively; and

- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

- the fair value of derivative instruments is made of discounted cash flow analysis using applicable yield curve for the duration of the instruments for non optional derivatives, and option pricing model for optional derivatives.

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

Fair value measurements recognised in the consolidated statement of financial position

The financial instruments that are measured subsequent to initial recognition at fair value are grouped into Levels 1 to 3 based on the degree to which the fair value is observable are as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at 31st July, 2012

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Financial assets at FVTPL				
Investments held for trading	–	–	–	–
Derivative component in convertible bond	–	–	3,562	3,562
	–	–	3,562	3,562

43. FINANCIAL INSTRUMENTS *(Continued)*

43c. Fair value *(Continued)*

As at 31st July, 2011

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Financial assets at FVTPL				
Investments held for trading	41,551	–	–	41,551
Derivative component in convertible bond	–	–	–	–
	41,551	–	–	41,551

There were no transfers between Level 1 and 2 in current and prior years.

There is no transfer into/out of Level 3 in the current and prior years.

RESULTS

	Year ended 31st July,				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Continuing operations					
Revenue	**142,923**	132,400	108,433	48,174	898
Gains (losses) on financial investment	**(9,019)**	14,372	6,400	(38,934)	(188,836)
	133,904	146,772	114,833	9,240	(187,938)
Loss before taxation	**(123,203)**	(20,261)	(73,018)	(228,343)	(201,535)
Taxation	**2,557**	2,706	2,351	–	22
Loss for the year	**(120,646)**	(17,555)	(70,667)	(228,343)	(201,513)
Attributable to:					
Owners of the Company	**(120,325)**	(17,248)	(70,209)	(227,224)	(201,507)
Non-controlling interests	**(321)**	(307)	(458)	(1,119)	(6)
	(120,646)	(17,555)	(70,667)	(228,343)	(201,513)

ASSETS AND LIABILITIES

	At 31st July,				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**1,208,453**	1,333,153	1,273,908	1,362,475	1,045,518
Total liabilities	**(280,602)**	(286,239)	(352,932)	(381,813)	(39,902)
	927,851	1,046,914	920,976	980,662	1,005,616
Equity attributable to owners of the Company	**926,191**	1,044,933	918,688	977,916	1,001,851
Non-controlling interests	**1,660**	1,981	2,288	2,746	3,765
	927,851	1,046,914	920,976	980,662	1,005,616

Major Properties

Particulars of major properties held by the Group at 31st July, 2012 are as follows:

(a) Investment properties:

Location	Use	Term of the lease
Shops no. 303, 310, 314, 316, 317, 320, 327 and 329 - 332 on third floor Shops no. 201, 203 - 205, 208 - 211, 214 - 218, 220, 222, 224, 225, 227, 229, 230 and 232 on second floor Shops no. 101 - 106, 108 - 110, 112, 113, 115 - 117 and 119 - 131 on first floor Shops no. 1 - 8, 10 - 11 on upper ground floor Shops no. 76, 76A, 78, 80, 82 and 82A on ground floor Shops no. 1 - 10 on lower ground floor Time Plaza, 76 - 82 Castle Peak Road Shamshuipo, Kowloon	Shops	Medium-term lease

(b) Hotel properties:

Location	Use	Term of the lease
Hotel Fortuna Foshan No. B82 Lecong Avenue East, Lecong Residential Committee, Lecong Town, Shunde District, Foshan City, Guangdong Province, the PRC	Hotel operations	Medium-term lease

(c) Properties for development

Location	Use	Stage of completion	Expected date of completion	Site/Floor Area (approx.) sq. ft.	Group interest
Terreno Junto'a Estrada de Nossa Senhora de Ka' Ho' S. Francisco Xavier, Coloare, Macau	Vacant land	Not applicable	Not applicable	109,298	99%
Undeveloped permissible gross floor area of the site of Hotel Fortuna Foshan No. B82 Lecong Avenue East, Lecong Residential Committee, Lecong Town, Shunde District, Foshan City, Guangdong Province, the PRC	Residential and Commercial	Not applicable	Not applicable	279,500	100%