## 1. General Information

The Company was incorporated in the Cayman Islands on 16 June 1992 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 2 of 1961, as consolidated and revised) of the Cayman Islands. The shares of the Company are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company (with its subsidiaries, collectively referred to as the "Group") is an investment holding company. Its subsidiaries are principally engaged in property development, trading of leatherware products and real estate investment. The Group was also engaged in the retailing, and healthcare and medical related businesses, which were discontinued in the current year (see note 9).

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

## 2. Significant Accounting Policies

### (a) Statement of Compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued the following new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company.

| | |
|---|---|
| HKFRS 6 | Exploration for and Evaluation of Mineral Resources |
| Amendment to HKAS 19 | Employee Benefits — Actuarial Gains and Losses, Group Plans and Disclosures |
| Amendment to HKAS 21 | The Effects of Changes in Foreign Exchange Rates — Net Investment in a Foreign Operation |

## 2. Significant Accounting Policies *(Continued)*

### (a) Statement of Compliance *(Continued)*

| | |
|---|---|
| Amendment to HKAS 39 | Financial Instruments: Recognition and Measurement<br>• "Cash Flow Hedge Accounting of Forecast Intragroup Transactions"<br>• "The Fair Value Option" |
| Amendments to HKAS 39 and HKFRS 4 | Financial Instruments: Recognition and Measurement and Insurance Contracts — Financial Guarantee Contracts |
| HK(IFRIC) — Int 4 | Determining whether an Arrangement Contains a Lease |
| HK(IFRIC) — Int 5 | Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds |
| HK(IFRIC) — Int 6 | Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment (effective for annual periods beginning on or after 1 December 2005) |

The adoption of these new and revised HKFRSs did not result in significant change to the Group's accounting policies applied on these financial statements for the pervious accounting periods presented and had no significant impact on the results or the financial position of the Group and the Company for current and previous accounting periods. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 45).

### (b) Basis of preparation of financial statements

In 2005, the Company changed its year end date from 31 March to 31 December so as to have the year end date to be coterminous among the companies within the Group.

The financial statements for the current period cover the year ended 31 December 2006. The corresponding amounts shown for the consolidated income statement, the consolidated statement of changes in equity, the consolidated cash flow statement and related notes cover a nine month period from 1 April 2005 to 31 December 2005 and therefore might not be comparable with amounts shown for the current period.

## 2. Significant Accounting Policies *(Continued)*

### (b) Basis of preparation of financial statements *(Continued)*

The consolidated financial statements for the year ended 31 December 2006 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value set out below:

— investment property (see note 2(g)); and

— financial instrument classified as trading securities (see note 2(f)).

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 44.

## 2. Significant Accounting Policies *(Continued)*

### (c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from their activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements, from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interests in the equity of a subsidiary, the excess, and any further losses attributable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently report profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

Loans from holders of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with notes 2(o), (p) or (q) depending on the nature of the liability.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 2(k)).

## 2. Significant Accounting Policies *(Continued)*

### (d) Associates

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

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets. The consolidated income statement includes the Group's share of post acquisition, post-tax results of the associates for the year, including any impairment loss on goodwill relating to the investment in associates recognised for the year (see notes 2(e) and (k)).

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

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

### (e) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 2(k)). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the interest in the associate.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate is recognised immediately in profit or loss.

On disposal of a cash generating unit or an associate during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

## 2. Significant Accounting Policies *(Continued)*

### (f) Other investments in equity securities

The Group's and the Company's policies for investments in equity securities other than investments in subsidiaries and associates are as follows:

Investments in equity securities are initially stated at cost, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Costs include attributable transactions costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss.

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 2(k)).



Investments in securities which do not fall into any of the above categories are classified as available-for-sales securities. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity, except foreign exchange gains and losses in respect of monetary items such as debt securities which are recognised directly in profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss. When these investments are derecognised or impaired (see note 2(k)), the cumulative gain or loss previously recognized directly in equity is recognised in profit or loss.

Investments are recognised/derecognised on the date the Group and/or the Company commits to purchase/sell the investments or they expire.

### (g) Investment property

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 2(j)) to earn rental income and/or for capital appreciation.

Investment properties are stated in the balance sheet at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 2(v)(ii).

## 2. Significant Accounting Policies *(Continued)*

### (g) Investment property *(Continued)*

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if were held under a finance lease (see note 2(j)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 2(j).

### (h) Properties under development

Properties under development are stated at cost, less any impairment loss. Cost comprises land costs, direct cost of construction, borrowing costs and other direct costs attributable to the development.

### (i) Other property, plant and equipment

Property, plant and equipment are stated in the consolidated balance sheet at cost less accumulated depreciation and impairment losses (see note 2(k)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives. The principal annual rates of depreciation are as follows:

| | |
|---|---|
| Buildings | 2-5% or over the lease term, if shorter |
| Furniture and fixtures | 10-20% |
| Office equipment | 10-20% |
| Plant and machinery | 5-20% |
| Motor vehicles | 10-20% |
| Leasehold improvements | Over the lease term |

Where parts of an item of property, plant and equipment have different useful life, the cost of the item is allocated on a reasonable basis between the parts and each part depreciate separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

## 2. Significant Accounting Policies *(Continued)*

### (j) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

#### *(i) Classification of assets leased to the Group*

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, except for land held for own use under an operating lease, the cost of which cannot be measured separately from the cost of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

#### *(ii) Operating lease charges*

Where the Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

## 2. Significant Accounting Policies *(Continued)*

### (k) Impairment of assets

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

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

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

— For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

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

— property, plant and equipment;

— investments in subsidiaries and associates; and

— goodwill.

## 2. Significant Accounting Policies *(Continued)*

### (k) Impairment of assets *(Continued)*

#### *(ii) Impairment of other assets*

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets hat have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its net selling price and value is use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— *Recognition of impairment losses*

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

— *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

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

## 2. Significant Accounting Policies *(Continued)*

### (l) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the first-in first-out basis and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.



### (m) Properties held for sale

Properties held for sale are classified under current assets and stated at lower cost and net realizable value. Net realizable value represents the estimated selling price as determined by reference to management estimates based on prevailing market conditions, less costs to be incurred in selling the property.

### (n) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised costs less impairment losses for bad and doubtful debts (see note 2(k)), except where the receivables are interest free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 2(k)).

## 2. Significant Accounting Policies *(Continued)*

### (o) Convertible notes

Convertible notes that can be converted to equity share capital at the option of the holders, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component. At initial recognition the liability component of the convertible notes is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the note is converted or redeemed. If the note is converted, the capital reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, the capital reserve is released directly to retained profits.

### (p) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method. Bills discounted with recourse are not derecognised from the balance sheet until actual settlement on maturity, and the related advances from banks in respect of discounted bills are classified as secured bank loans.

### (q) Trade and other payables

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

## 2. Significant Accounting Policies *(Continued)*

**(r) Cash and cash equivalents**

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

**(s) Employee benefits**

***(i) Short term employee benefits and contributions to defined contribution retirement plans***

Salaries, annual bonuses, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

***(ii) Termination benefits***

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

**(t) Income tax**

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

## 2. Significant Accounting Policies *(Continued)*

### (t) Income tax *(Continued)*

(iii) *(Continued)*

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

## 2. Significant Accounting Policies *(Continued)*

### (t) Income tax *(Continued)*

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

### (u) Provisions and contingent liabilities

#### *(i) Financial guarantees issued*

Financial guarantees are contracts that require the issuer (ie. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the “holder”) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group’s policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognized in profit or loss on initial recognition of any deferred income.

## 2. Significant Accounting Policies *(Continued)*

### (u) Provisions and contingent liabilities *(Continued)*

#### *(i) Financial guarantees issued* (Continued)

The amount of the guarantee initially recognized as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognized in accordance with note 2(u)(iii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

#### *(ii) Contingent liabilities acquired in business combinations*

Contingent liabilities acquired as part of a business combination are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less, where appropriate, accumulated amortisation, and the amount that would be determined in accordance with note 2(u)(iii). Contingent liabilities that cannot be reliably fair valued are disclosed in accordance with note 2(u)(iii).

#### *(iii) Other provisions and contingent liabilities*

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

## 2. Significant Accounting Policies *(Continued)*

### (v) Revenue recognition

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

#### *(i) Sale of goods*

Revenue is recognised when the title to the goods and the related risks and rewards of ownership are passed to customers, the Group retains neither managerial involvement associated with ownership nor effective control over the goods sold. Revenue excludes value added tax and is after deduction of any trade discounts.

#### *(ii) Rental income from operating leases*

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

#### *(iii) Dividends*

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

#### *(iv) Interest income*

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

### (w) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised directly in equity.

## 2. Significant Accounting Policies *(Continued)*

### (w) Translation of foreign currencies *(Continued)*

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of foreign operations on or after 1 January 2005, are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity. On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which related to that foreign operation is included in the calculation of the profit or loss on disposal.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

### (x) Borrowing costs

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

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

## 2. Significant Accounting Policies *(Continued)*

### (y) Non-current assets held for sale and discontinued operations

#### *(i) Non-current assets held for sale*

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group are concerned are deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries and associate) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 2.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

#### *(ii) Discontinued operations*

A discontinued operation is a component of the group's business, the operations and cash flows of which can be clearly distinguished from the rest of the group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale (see (i) above), if earlier. It also occurs when the operation is abandoned.

## 2. Significant Accounting Policies *(Continued)*

**(y) Non-current assets held for sale and discontinued operations** *(Continued)*

***(ii) Discontinued operations*** *(Continued)*

Where an operation is classified as discontinued, a single amount is presented on the face of the income statement which comprises:

— the post-tax profit or loss of the discontinued operation; and

— the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

**(z) Related parties**

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control then Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

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

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

## 2. Significant Accounting Policies *(Continued)*

### (aa) Segment reporting

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

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of theses financial statements based on the location of assets (being the geographical location of the Group's production facilities) as the primary reporting format.

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

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

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

## 3. Turnover

The Company is an investment holding company. The principal activities of the Group are (i) property development and investment, (ii) trading and retailing, and (iii) healthcare and medical-related services.

## 3. Turnover *(Continued)*

Turnover represents the sale value of goods supplied to customers (after deduction of any goods returns and trade discounts), retailing business, provision for healthcare and medical-related services and gross rental income from investment properties and dividend income for the year. The amount of each significant category of revenue recognised in turnover during the year/period is analysed as follows:

| | **Year ended 31/12/2006** ***HK$'000*** | 9 months ended 31/12/2005 *HK$'000* |
|---|---|---|
| Continuing operations | | |
| Sale of leather products | **72,532** | 63,949 |
| Gross rentals from investment properties | **341** | — |
| | **72,873** | 63,949 |
| Discontinued operations | | |
| Revenue from retailing business | **9,300** | 8,075 |
| Revenue from healthcare and medical-related services | **567** | 1,565 |
| | **9,867** | 9,640 |
| | **82,740** | 73,589 |

## 4. Other Revenue and Net Income

| | Year ended 31/12/2006 HK$'000 | 9 months ended 31/12/2005 HK$'000 |
|---|---|---|
| **Other revenue** | | |
| Continuing operations | | |
| Interest income | **1,180** | 130 |
| Rentals receivable from operating leases other than those relating to investment properties | **587** | 327 |
| Others | **493** | 447 |
| | **2,260** | 904 |
| Discontinued operations | | |
| Interest income | **18** | 14 |
| Commission income | **238** | — |
| Rentals receivable from operating leases other than those relating to investment properties | **205** | 207 |
| Office and management fee income | **—** | 311 |
| Others | **48** | 230 |
| | **509** | 762 |

## 4. Other Revenue and Net Income *(Continued)*

| | Year ended 31/12/2006 HK$'000 | 9 months ended 31/12/2005 HK$'000 |
|---|---|---|
| **Other net income** | | |
| Continuing operations | | |
| Reversal of impairment loss for bad and doubtful debts | **11** | 14 |
| Net exchange gains | **4** | 28 |
| Net realized and unrealized (losses)/gains on trading securities | **(7)** | 25 |
| Others | **430** | 1 |
| Reversal of provision for long service payments | **—** | 47 |
| | **438** | 115 |
| Discontinued operations | | |
| Reversal of impairment loss for bad and doubtful debts | **—** | 60 |
| Net exchange gains/(losses) | **66** | (22) |
| | **66** | 38 |

## 5. Segment Information

### (a) Business segments

In accordance with the Group's internal financial reporting and management purposes, the Group has determined that business segments are its primary reporting format and geographical segments are its secondary reporting format, with each segment organised and managed separately.

Principal activities are as follows:

| | | |
|---|---|---|
| Property development and investments | : | Development of residential property and rental income |
| Trading and retailing | : | Trading and retailing of leather products |
| Healthcare and medical-related services | : | Provision for healthcare and medical-related services |

## 5. Segment Information *(Continued)*

### (a) Business segments *(Continued)*

Segment information about these businesses is presented below.

**Year ended 31 December 2006**

| | Continuing operations | | | | | Discontinued operations | | | | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|
| | Property development and investment | Trading | Unallocated | Elimination | Sub-total | Retailing | Healthcare and medical related business | Elimination | Sub-total | |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Revenue from external customers | 341 | 72,532 | — | — | 72,873 | 9,300 | 567 | — | 9,867 | 82,740 |
| **Segment results** | 280 | (661) | | | (381) | (11,339) | (6,172) | | (17,511) | (17,892) |
| Unallocated operating income and expenses | | | | | (13,819) | | | | — | (13,819) |
| Loss from operations | | | | | (14,200) | | | | (17,511) | (31,711) |
| Finance costs | | | | | (6,528) | | | | (16) | (6,544) |
| Share of results of associates | | | | | 95,465 | | | | 90 | 95,555 |
| Profit/(loss) before taxation | | | | | 74,737 | | | | (17,437) | 57,300 |
| Taxation | | | | | — | | | | — | — |
| Profit/(loss) for the year | | | | | 74,737 | | | | (17,437) | 57,300 |
| **Segment assets** | 541,863 | 31,468 | 1,176,121 | (490,279) | 1,259,173 | 3,032 | — | — | 3,032 | 1,262,205 |
| **Segment liabilities** | (544,101) | (82,320) | (621,589) | 732,206 | (515,804) | (17,940) | — | 11,740 | (6,200) | (522,004) |
| **Other segment information** | | | | | | | | | | |
| Capital expenditure | 377,650 | 2 | 103 | — | 377,755 | 825 | — | — | 825 | 378,580 |
| Depreciation and amortisation | 9 | 1,267 | 358 | — | 1,634 | 370 | 682 | — | 1,052 | 2,686 |

## 5. Segment Information *(Continued)*

### (a) Business segments *(Continued)*

**Period from 1 April 2005 to 31 December 2005**

| | Continuing operations | | | | | Discontinued operations | | | | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|
| | Property development and investment | Trading | Unallocated | Elimination | Sub-total | Retailing | Healthcare and medical related business | Elimination | Sub-total | |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Revenue from external customers | — | 63,949 | — | — | 63,949 | 8,075 | 1,565 | — | 9,640 | 73,589 |
| **Segment results** | (23) | (3,344) | | | (3,367) | (5,259) | (4,968) | | (10,227) | (13,594) |
| Unallocated operating income and expenses | | | | | (6,059) | | | | 93 | (5,966) |
| Loss from operations | | | | | (9,426) | | | | (10,134) | (19,560) |
| Finance costs | | | | | (179) | | | | (12) | (191) |
| Impairment loss on goodwill | | | | | — | | | | (30,160) | (30,160) |
| Share of results of associates | | | | | 86,314 | | | | (174) | 86,140 |
| Profit/(loss) before taxation | | | | | 76,709 | | | | (40,480) | 36,229 |
| Taxation | | | | | — | | | | (44) | (44) |
| Profit/(loss) for the period | | | | | 76,709 | | | | (40,524) | 36,185 |
| **Segment assets** | 73,923 | 37,338 | 1,251,960 | (638,345) | 724,876 | 11,984 | 57,311 | (47,752) | 21,543 | 746,419 |
| **Segment liabilities** | (73,898) | (86,766) | (596,833) | 627,054 | (130,443) | (15,386) | (59,706) | 66,920 | (8,172) | (138,615) |
| **Other segment information** | | | | | | | | | | |
| Capital expenditure | 72,731 | 188 | 1,252 | — | 74,171 | 1,946 | 62 | — | 2,008 | 76,179 |
| Depreciation and amortisation | — | 753 | 105 | — | 858 | 434 | 781 | — | 1,215 | 2,073 |

## 5. Segment Information *(Continued)*

### (b) Geographical segments

The Group's operations are located in Hong Kong, Macau and other regions in the People's Republic of China.

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

***Continuing operations***

| | Hong Kong | | Macau | | Other regions in the People's Republic of China | | Others | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Year ended 31/12/2006** | 9 months ended 31/12/2005 | **Year ended 31/12/2006** | 9 months ended 31/12/2005 | **Year ended 31/12/2006** | 9 months ended 31/12/2005 | **Year ended 31/12/2006** | 9 months ended 31/12/2005 | **Year ended 31/12/2006** | 9 months ended 31/12/2005 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Revenue from external customers | **42,237** | 40,205 | **341** | 26 | **28,608** | 22,392 | **1,687** | 1,326 | **72,873** | 63,949 |
| Segment assets | **58,567** | 45,251 | **1,200,606** | 679,625 | **—** | — | **—** | — | **1,259,173** | 724,876 |
| Capital expenditure | **105** | 1,440 | **377,650** | 72,731 | **—** | — | **—** | — | **377,755** | 74,171 |

***Discontinued operations***

| | Hong Kong | | Macau | | Other regions in the People's Republic of China | | Others | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Year ended 31/12/2006** | 9 months ended 31/12/2005 | **Year ended 31/12/2006** | 9 months ended 31/12/2005 | **Year ended 31/12/2006** | 9 months ended 31/12/2005 | **Year ended 31/12/2006** | 9 months ended 31/12/2005 | **Year ended 31/12/2006** | 9 months ended 31/12/2005 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Revenue from external customers | **6,603** | 7,600 | **2,698** | 475 | **566** | 1,565 | **—** | — | **9,867** | 9,640 |
| Segment assets | **3,032** | 10,119 | **—** | 1,865 | **—** | 9,559 | **—** | — | **3,032** | 21,543 |
| Capital expenditure | **74** | 1,946 | **751** | — | **—** | 62 | **—** | — | **825** | 2,008 |

## 5. Segment Information *(Continued)*

### (b) Geographical segments *(Continued)*

| | Consolidated | |
|---|---|---|
| | **Year ended 31/12/2006 *HK$'000*** | 9 months ended 31/12/2005 *HK$'000* |
| Revenue from external customers | **82,740** | 73,589 |
| Segment assets | **1,262,205** | 746,419 |
| Capital expenditure | **378,580** | 76,179 |

## 6. Finance Costs

| | Continuing Operations | | Discontinued operations | | Consolidated | |
|---|---|---|---|---|---|---|
| | **Year ended 31/12/2006 *HK$'000*** | 9 months ended 31/12/2005 *HK$'000* | **Year ended 31/12/2006 *HK$'000*** | 9 months ended 31/12/2005 *HK$'000* | **Year ended 31/12/2006 *HK$'000*** | 9 months ended 31/12/2005 *HK$'000* |
| Interest on bank loans, overdrafts and other loans wholly repayable within five years | **14,103** | 482 | **—** | 8 | **14,103** | 490 |
| Effective interest expenses of convertible notes | **3,552** | — | **—** | — | **3,552** | — |
| Finance charges on obligations under finance leases | **8** | 10 | **16** | 4 | **24** | 14 |
| Other borrowing costs | **372** | 221 | **—** | — | **372** | 221 |
| Total borrowing costs | **18,035** | 713 | **16** | 12 | **18,051** | 725 |
| *Less:* borrowing costs capitalized into* | | | | | | |
| — properties under development | **(11,140)** | (534) | **—** | — | **(11,140)** | (534) |
| — investment properties | **(367)** | — | **—** | — | **(367)** | — |
| | **6,528** | 179 | **16** | 12 | **6,544** | 191 |

* The borrowing costs have been capitalised at a rate of 5.9% — 7.0% per annum (9 months ended 31 December 2005: 6.5% — 6.8%)

## 7. Share of Results of Associates

**Hotel Golden Dragon (Macao) Company Limited**

Pursuant to the Provisional Sale and Purchase Agreement dated 3 January 2005 entered into between the vendors and Pearl Oriental Macau Limited (the "Purchaser", a wholly owned subsidiary of the Company), upon the acquisition of a 40% interest in Hotel Golden Dragon (Macao) Company Limited ("Hotel Golden Dragon"), the vendors have guaranteed and warranted to the Purchaser that the audited consolidated net profit after taxation of Hotel Golden Dragon for each of the three years for the period from 5 January 2005 to 4 January 2008, before the payment of bank loan interest, shall not be less than HK$200 million.

## 8. Taxation

(a) Taxation in the consolidated income statement represents:

| | Continuing operations | | Discontinued operations | | Consolidated | |
|---|---|---|---|---|---|---|
| | **Year ended 31/12/2006** | 9 months ended 31/12/2005 | **Year ended 31/12/2006** | 9 months ended 31/12/2005 | **Year ended 31/12/2006** | 9 months ended 31/12/2005 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Hong Kong profits tax | **—** | — | **—** | 44 | **—** | 44 |

For the year ended 31 December 2006, no provision for Hong Kong profits tax has been made in the financial statements as the Group has no estimated assessable profits for the year. For the period ended 31 December 2005, Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profit arising in Hong Kong during that period. PRC subsidiaries are subject to PRC Enterprise Income Tax at 30% (9 months ended 31 December 2005: 30%). Taxes on profits assessable elsewhere have been calculated at the applicable rates of prevailing in the jurisdiction on which the Group operates, based on existing legislation, interpretations and practice in respect thereof during the year/period.

## 8. Taxation *(Continued)*

(b) Reconciliation between taxation expenses and accounting profit/(loss) at applicable rates:

| | Continuing Operations | | Discontinued operations | | Consolidated | |
|---|---|---|---|---|---|---|
| | **Year ended 31/12/2006 *HK$'000*** | 9 months ended 31/12/2005 *HK$'000* | **Year ended 31/12/2006 *HK$'000*** | 9 months ended 31/12/2005 *HK$'000* | **Year ended 31/12/2006 *HK$'000*** | 9 months ended 31/12/2005 *HK$'000* |
| Profit/(loss) before taxation | **74,737** | 76,709 | **(17,437)** | (40,480) | **57,300** | 36,229 |
| Notional tax on profit/(loss) before taxation calculated at the rate of 17.5% (9 months ended 31 December 2005: 17.5%) | **13,080** | 13,424 | **(3,051)** | (7,084) | **10,029** | 6,340 |
| Tax effect of non-deductible expenses | **2,475** | 928 | **2,164** | 5,268 | **4,639** | 6,196 |
| Tax effect of non-taxable income | **(16,895)** | (14,748) | **(351)** | (62) | **(17,246)** | (14,810) |
| Tax effect of unused tax losses not recognised | **1,292** | 293 | **1,238** | 1,831 | **2,530** | 2,124 |
| Effect of different tax rates of the companies of the Group | **48** | 60 | **—** | — | **48** | 60 |
| Others | **—** | 43 | **—** | 91 | **—** | 134 |
| Actual tax expense | **—** | — | **—** | 44 | **—** | 44 |

## 9. Discontinued Operations

**(a) Disposal of the retailing business**

On 27 June 2006, Star Palace Enterprises Limited ("Star Palace"), 70% owned subsidiary of the Company, entered into an agreement with Star (1) Limited ("Star (1)"), a company wholly owned by Mr. Law Kar Po and Ms. Law Wing Yee, Wendy, both of whom are directors of the Company, pursuant to which Star Palace transferred its assets, rights and contracts related to the shoes and bags retail business to Star (1) for a consideration of HK$950,000. Upon completion of the disposals, Star Palace ceases to conduct the shoes and bags retail business. Further details are set out in the announcement dated 29 June 2006 and the circular dated 13 July 2006 issued by the Company.

**(b) Disposal of the healthcare and medical related business**

On 6 October 2006, Canasta Overseas Group Limited ("Canasta"), a wholly owned subsidiary of the Company, entered into an agreement with an independent third party, pursuant to which Canasta disposed of its entire interest in China Healthcare Limited, together with benefits in the shareholders' loans and profit guarantee for an aggregate consideration of HK$2,000,000. Further details are set out in the announcement of the Company dated 9 October 2006 issued by the Company.

The combined results and cash flows of the discontinued operations (i.e. the retailing and healthcare and medical related business) included in the consolidated income statement and the consolidated cash flow statement are set out below.

## 9. Discontinued Operations *(Continued)*

**(c)** An analysis of the result and cash flows of the discontinued operations is as follows:

| | Consolidated | |
|---|---|---|
| | **Year ended 31/12/2006** ***HK$'000*** | 9 months ended 31/12/2005 *HK$'000* |
| Turnover | **9,867** | 9,640 |
| Other revenue | **509** | 762 |
| Other net income | **66** | 38 |
| Impairment loss on goodwill | **—** | (30,160) |
| Expenses | **(27,969)** | (20,586) |
| Loss on remeasurement to fair value less costs to sell | **—** | — |
| Loss for the year/period from operation | **(17,527)** | (40,306) |
| Share of results of associates | **90** | (174) |
| Loss before taxation | **(17,437)** | (40,480) |
| Taxation | **—** | (44) |
| Loss for the year/period from discontinued operations | **(17,437)** | (40,524) |
| **Cash flows from discontinued operations** | | |
| Net cash used in operating activities | **(1,021)** | (9,483) |
| Net cash generated from/(used in) financing activities | **2,824** | (257) |
| Net cash (used in)/generated from investing activities | **(3,208)** | 10,898 |
| Net cash (outflow)/inflow | **(1,405)** | 1,158 |

## 10. Profit for the Year/Period

Profit for the year/period is arrived at after charging/(crediting):

| | Continuing operations | | Discontinued operations | | Consolidated | |
|---|---|---|---|---|---|---|
| | **Year ended 31/12/2006 *HK$'000*** | 9 months ended 31/12/2005 *HK$'000* | **Year ended 31/12/2006 *HK$'000*** | 9 months ended 31/12/2005 *HK$'000* | **Year ended 31/12/2006 *HK$'000*** | 9 months ended 31/12/2005 *HK$'000* |
| **Charging:** | | | | | | |
| Staff costs (including directors' remuneration) | | | | | | |
| — salaries, wages and other benefits | **17,826** | 10,898 | **2,456** | 3,864 | **20,282** | 14,762 |
| — retirement benefits scheme contributions *(Note 13)* | **282** | 123 | **93** | 146 | **375** | 269 |
| Total staff costs | **18,108** | 11,021 | **2,549** | 4,010 | **20,657** | 15,031 |
| Auditors' remuneration | | | | | | |
| — audit services for current year/period | **1,647** | 1,557 | **21** | 17 | **1,668** | 1,574 |
| — (over)/under-provision in prior years | **(200)** | 260 | **—** | — | **(200)** | 260 |
| | **1,447** | 1,817 | **21** | 17 | **1,468** | 1,834 |
| — other services | **85** | 15 | **—** | — | **85** | 15 |
| | **1,532** | 1,832 | **21** | 17 | **1,553** | 1,849 |
| Direct costs | **51,290** | 49,236 | **5,278** | 4,060 | **56,568** | 53,296 |
| Depreciation | **1,634** | 858 | **1,052** | 1,215 | **2,686** | 2,073 |
| Loss on disposal of inventories | **—** | — | **1,744** | — | **1,744** | — |
| Operating lease charges: Premises | **3,030** | 1,817 | **4,947** | 4,604 | **7,977** | 6,421 |
| Loss on disposal of property, plant and equipment | **29** | 28 | **2,272** | — | **2,301** | 28 |
| Impairment loss on goodwill | **—** | — | **—** | 30,160 | **—** | 30,160 |
| Impairment loss for bad and doubtful debts | **536** | 505 | **46** | — | **582** | 505 |
| **Crediting:** | | | | | | |
| Rental receivable from investment properties less direct outgoings | **(270)** | — | **—** | — | **(270)** | — |

## 11. Directors' Remuneration

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

| | Directors' fees<br>*HK$'000* | Salaries, allowances and benefits in kind<br>*HK$'000* | Retirement benefits scheme contributions<br>*HK$'000* | Year ended 31/12/2006 Total<br>*HK$'000* |
|---|---|---|---|---|
| **Executive directors** | | | | |
| Chiang Pedro | — | — | — | — |
| Law Kar Po | — | — | — | — |
| Lee Sam Yuen, John | — | 1,264 | 8 | 1,272 |
| Law Wing Yee, Wendy | — | 270 | 6 | 276 |
| Lee Siu Yuk, Eliza | — | 960 | 12 | 972 |
| Wu Ka I, Miguel | 790 | — | — | 790 |
| Hoi Man Pak | — | — | — | — |
| Ung Choi Kun | — | — | — | — |
| **Non-executive directors** | | | | |
| Alves Leonel Alberto | 200 | — | — | 200 |
| Chui Sai Cheong | 117 | — | — | 117 |
| **Independent non-executive directors** | | | | |
| Kwok Hong Yee, Jesse | 200 | — | — | 200 |
| Wong King Lam, Joseph | 200 | — | — | 200 |
| Lau Wai Ming | 200 | — | — | 200 |
| | 1,707 | 2,494 | 26 | 4,227 |

## 11. Directors' Remuneration *(Continued)*

| | Directors' fees *HK$'000* | Salaries, allowances and benefits in kind *HK$'000* | Retirement benefits scheme contributions *HK$'000* | 9 months ended 31/12/2005 Total *HK$'000* |
|---|---|---|---|---|
| **Executive directors** | | | | |
| Law Kar Po | — | — | — | — |
| Lee Sam Yuen, John | 2,231 | — | 37 | 2,268 |
| Law Wing Yee, Wendy | — | 405 | 9 | 414 |
| Lee Siu Yuk, Eliza | — | 530 | 8 | 538 |
| Chiang Pedro | — | — | — | — |
| Hoi Man Pak | — | — | — | — |
| Ung Choi Kun | — | — | — | — |
| Wu Ka I, Miguel | 500 | — | — | 500 |
| Wong Yuk Kwan | — | — | — | — |
| **Non-executive directors** | | | | |
| Chui Sai Cheong | 83 | — | — | 83 |
| Wong Wing Hon, Alfonso | — | — | — | — |
| Leonel Alberto Alves | 83 | — | — | 83 |
| **Independent non-executive directors** | | | | |
| Kwok Hong Yee, Jesse | 83 | — | — | 83 |
| Lau Wai Ming | 83 | — | — | 83 |
| Wong King Lam, Joseph | 83 | — | — | 83 |
| Ha Kee Choy, Eugene | — | — | — | — |
| Ng Kai Man, Luke | — | — | — | — |
| Chan Nim Leung, Leon | — | — | — | — |
| | 3,146 | 935 | 54 | 4,135 |

During the year ended 31 December 2006, no emoluments were paid by the Group to the directors as a discretionary bonus or any inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived or agreed to waive any remuneration for the current or prior years.

## 11. Directors' Remuneration *(Continued)*

Included in the directors' remuneration were fees of HK$600,000 (9 months ended 31 December 2005: HK$250,000) and HK$317,000 (9 months ended 31 December 2005: HK$166,000) paid to the independent non-executive directors and the non-executive directors respectively during the year/period.

## 12. Individuals with Highest Emoluments

The five individuals with the highest emoluments included two (9 months ended 31 December 2005: three) directors whose emoluments are included in the disclosure in note 11. The aggregate of the emoluments of the remaining three (9 months ended 31 December 2005: two) individuals are as follows:

| | **Year ended 31/12/2006 *HK$'000*** | 9 months ended 31/12/2005 *HK$'000* |
|---|---|---|
| Salaries and other emoluments | **4,229** | 2,250 |
| Retirement benefits scheme contributions | **35** | — |
| | **4,264** | 2,250 |

The emoluments of the three (9 months ended 31 December 2005: two) individuals with the highest emoluments are within the following bands:

| | **Year ended 31/12/2006 Number of individuals** | 9 months ended 31/12/2005 Number of individuals |
|---|---|---|
| HK$1,000,001 to HK$1,500,000 | **3** | 2 |

During the year ended 31 December 2006 and the period ended 31 December 2005, there were no emoluments paid to the directors or individuals above as a discretionary bonus or an inducement to join or upon joining the Group or as compensation for loss of office.

## 13. Retirement Benefits Scheme Contributions

| | Continuing operations | | Discontinued operations | | Consolidated | |
|---|---|---|---|---|---|---|
| | **Year ended 31/12/2006** | 9 months ended 31/12/2005 | **Year ended 31/12/2006** | 9 months ended 31/12/2005 | **Year ended 31/12/2006** | 9 months ended 31/12/2005 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Contributions: | | | | | | |
| Hong Kong subsidiaries *(Note a)* | **282** | 101 | **61** | 64 | **343** | 165 |
| Overseas subsidiaries *(Note b)* | **—** | 22 | **32** | 82 | **32** | 104 |
| | **282** | 123 | **93** | 146 | **375** | 269 |

*Note:*

(a) The Group operates a pension scheme under the rules and regulations of Mandatory Provident Fund Schemes Ordinance ("MPF Scheme"). The MPF Scheme is a defined contribution retirement scheme. The assets of the MPF Scheme are held separately in an independently managed fund. The Group has followed the minimum statutory contribution requirement of 5% of eligible employees' relevant aggregate income or HK$12,000 per annum, whichever is lower. Contributions to the MPF Scheme vest immediately and contributions are charged to the income statement as incurred.

(b) The employees of overseas subsidiaries are members of the central pension schemes operated by the local governments authorities in which they operate. These subsidiaries are required to contribute a certain percentage of their payroll to the central pension schemes to fund the benefits. The only obligation of the Group with respect to the central pension schemes is the payment of the required contributions under the central pension schemes.

## 14. Profit Attributable to Shareholders of the Company

The consolidated profit attributable to equity holders of the Company includes a loss of HK$63,054,000 (9 months ended 31 December 2005: loss of HK$3,674,000) which has been dealt with in the financial statements of the Company.

## 15. Earnings per Share

**(a) From continuing and discontinued operations**

***(i) Basic earnings per share***

The calculation of basic earnings per share is as follows:

| | **Year ended 31/12/2006 *HK$'000*** | 9 months ended 31/12/2005 *HK$'000* |
|---|---|---|
| Profit attributable to equity holders of the Company | **57,246** | 38,399 |

| | **Number of shares** | |
|---|---|---|
| Weighted average number of ordinary shares | | |
| Issued ordinary share at 1 January/1 April | **2,430,822,840** | 1,970,622,840 |
| Effect of issue of shares for the placing | **302,465,753** | 36,577,540 |
| Effect of listed warrants exercised/issued of shares at premium | **1,118** | 151,947,594 |
| Weighted average number of ordinary shares at 31 December | **2,733,289,711** | 2,159,147,974 |

***(ii) Diluted earnings per share***

The diluted earnings per share for the year ended 31 December 2006 is calculated based on the profit attributable to the equity holders of the Company of HK$60,798,000 and the weighted average number of shares of 3,151,493,631, calculated as follows:

**Profit attributable to equity holders of the Company (diluted)**

| | **Year ended 31/12/2006 *HK$'000*** |
|---|---|
| Profit attributable to equity holders of the Company | **57,246** |
| After tax effect of effective interest on liability component of convertible notes | **3,552** |
| Profit attributable to equity holders of the Company | **60,798** |

## 15. Earnings per Share *(Continued)*

**(a) From continuing and discontinued operations** *(Continued)*

***(ii) Diluted earnings per share*** *(Continued)*

**Weighted average number of ordinary shares (diluted)**

| | Year ended 31/12/2006 Number of shares |
|---|---|
| Weighted average number of ordinary shares at 31 December 2006 | **2,733,289,711** |
| Effect of conversion of convertible notes into the Company's new ordinary shares | **418,203,920** |
| Weighted average number of ordinary shares (diluted) at 31 December 2006 | **3,151,493,631** |

The computation of diluted earnings per share for the year ended 31 December 2006 does not assume the exercise of warrants of the Company because the effect of exercise of outstanding warrants would be anti-dilutive.

Diluted earnings per share for the period from 1 April 2005 to 31 December 2005 was not presented as the exercise of the outstanding warrants of the Company would be anti-dilutive.

## 15. Earnings per Share *(Continued)*

**(b) From continuing operations**

***(i) Basic earning per share***

The calculation of basic earnings per share is as follows:

| | **Year ended 31/12/2006 *HK$'000*** | 9 months ended 31/12/2005 *HK$'000* |
|---|---|---|
| Profit attributable to equity holders of the Company | **74,683** | 76,709 |

| | **Number of shares** | |
|---|---|---|
| Weighted average number of ordinary shares (same as weighted average number of ordinary shares for basic earnings per share for continuing and discontinued operations) | **2,733,289,711** | 2,159,147,974 |

## 15. Earnings per Share *(Continued)*

### (b) From continuing operations *(Continued)*

#### *(ii) Diluted earnings per share*

The diluted earnings per share for the year ended 31 December 2006 is calculated based on the profit attributable to the equity holders of the Company of HK$78,235,000 and weighted average number of ordinary shares of 3,151,493,631, calculated as follows:

**Profit attributable to equity holders of the Company (diluted)**

| | Year ended 31/12/2006 *HK$'000* |
|---|---|
| Profit attributable to equity holders of the Company | 74,683 |
| After tax effect of effective interest on liability component of convertible notes | 3,552 |
| Profit attributable to equity holders of the Company | 78,235 |

| | Number of shares |
|---|---|
| Weighted average number of ordinary shares (same as weighted average number of ordinary shares for diluted earnings per share for continuing and discontinued operations) | 3,151,493,631 |

The computation of diluted earnings per share for the year ended 31 December 2006 does not assume the exercise of warrants of the Company because the effect of exercise of outstanding warrants would be anti-dilutive.

Diluted earnings per share for the period from 1 April 2005 to ended 31 December 2005 was not presented as the exercise of the outstanding warrants of the Company would be anti-dilutive.

## 16. Investment Property

| | The Group | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Valuation | | |
| At beginning of the year/period | **—** | — |
| Addition during the year/period | **61,114** | — |
| At end of the year/period | **61,114** | — |

(a) At 31 December 2006, the investment property was pledged as securities for bank loans as detailed in note 28.

(b) The fair value of the Group' s investment property at 31 December 2006 has been arrived at on the basis of a valuation carried out on that date by BMI Appraisals Limited, independent qualified professional valuers not connected with the Group. BMI Appraisals Limited which holds recognised and relevant professional qualifications and has recent experiences in the location and category of investment property being valued. The valuation, which conforms to international valuation standards, was arrived at by reference to the market evidence of transaction prices for similar properties.

(c) Valuation of property shown above comprises:

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Properties in Macau held under medium-term lease | **61,114** | — |

## 17. Property, Plant and Equipment

**The Group**

| | Land and buildings *HK$'000* | Furniture and fixtures *HK$'000* | Office equipment *HK$'000* | Plant and machinery *HK$'000* | Motor vehicles *HK$'000* | Leasehold improvements *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|---|---|
| **At Cost** | | | | | | | |
| At 1 April 2005 | 12,597 | 994 | 4,109 | 13,337 | 3,201 | 5,458 | 39,696 |
| Additions | 144 | 588 | 1,131 | — | 408 | 1,177 | 3,448 |
| Disposals | — | — | (137) | — | (270) | — | (407) |
| At 31 December 2005 and 1 January 2006 | 12,741 | 1,582 | 5,103 | 13,337 | 3,339 | 6,635 | 42,737 |
| Additions | — | 128 | 168 | — | — | 634 | 930 |
| Disposals | — | (465) | (748) | — | — | (2,038) | (3,251) |
| Reclassified as held for disposal on sale of subsidiaries | — | (2) | (1,594) | (4,330) | — | (2,339) | (8,265) |
| At 31 December 2006 | 12,741 | 1,243 | 2,929 | 9,007 | 3,339 | 2,892 | 32,151 |
| **Accumulated depreciation and impairment** | | | | | | | |
| At 1 April 2005 | 9,083 | 915 | 2,464 | 8,549 | 1,428 | 3,028 | 25,467 |
| Charge for the period | 270 | 71 | 502 | 172 | 401 | 657 | 2,073 |
| Eliminated on disposal | — | — | (136) | — | (243) | — | (379) |
| Exchange alignment | (105) | (1) | — | (41) | — | — | (147) |
| At 31 December 2005 and 1 January 2006 | 9,248 | 985 | 2,830 | 8,680 | 1,586 | 3,685 | 27,014 |
| Charge for the year | 682 | 105 | 523 | 191 | 556 | 629 | 2,686 |
| Eliminated on disposal | — | (14) | (67) | — | — | (171) | (252) |
| Eliminated on disposal on sale of subsidiaries | — | — | (751) | (948) | — | (1,464) | (3,163) |
| Exchange alignment | (77) | — | — | (13) | — | — | (90) |
| At 31 December 2006 | 9,853 | 1,076 | 2,535 | 7,910 | 2,142 | 2,679 | 26,195 |
| **Net book value** | | | | | | | |
| At 31 December 2006 | 2,888 | 167 | 394 | 1,097 | 1,197 | 213 | 5,956 |
| At 31 December 2005 | 3,493 | 597 | 2,273 | 4,657 | 1,753 | 2,950 | 15,723 |

## 17. Property, Plant and Equipment *(Continued)*

(a) The analysis of net book value of properties held by the Group is as follows:

| | The Group | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Outside Hong Kong held under medium-term leases | **2,888** | 3,493 |

(b) At the balance sheet date, the net book value of the Group's property, plant and equipment held under operating leases was nil (2005: HK$6,953,000).

(c) At the balance sheet date, the net book value of the Group's property, plant and equipment held under finance leases was HK$292,000 (2005: HK$610,000).

## 18. Properties under Development

| | The Group | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Valuation | | |
| At beginning of the year/period | **72,731** | — |
| Cost of acquisition of land during the year/period | **300,000** | 69,400 |
| Other incidental expenses capitalized during the year/period | **16,536** | 3,331 |
| At end of the year/period | **389,267** | 72,731 |

(a) At 31 December 2006, the properties under development were pledged as securities for bank loans as detailed in note 28.

(b) Included in the cost of properties under development is net interest capitalized totaling HK$11,453,000 (2005: HK$313,000).

## 18. Properties under Development *(Continued)*

(c) The analysis of carrying value of land held for properties under development shown above comprises:

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Properties in Macau held under | | |
| — long lease | **69,400** | 69,400 |
| — medium-term lease | **300,000** | — |
| At end of the year/period | **369,400** | 69,400 |

## 19. Investments in Subsidiaries

| | **The Company** | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Unlisted shares, at cost | **2,101** | 2,100 |
| *Less:* Impairment loss | **(2,100)** | — |
| | **1** | 2,100 |

(a) As detailed in note 9(a) to the financial statements, upon disposal of its retail business, Star Palace ceased to conduct the shoes and bags retail business and remained dormant. In 2006, the management of the Group assessed the recoverable amounts of the investments in subsidiaries. Based on this assessment, the carrying amount of the investments in subsidiaries was written down by HK$2,100,000. The management determined the recoverable amount on the basis of past performance, management's expectations for the market development and certain key assumptions.

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

## 19. Investments in Subsidiaries *(Continued)*

| Name of company | Place of incorporation/ registration and operation | Particulars of issued and paid up capital | Proportion of ownership interest Directly | Indirectly | Principal activities |
|---|---|---|---|---|---|
| Star Palace Enterprises Limited | Hong Kong | 3,000,000 shares of HK$1 each | 70% | — | Investment holding |
| MOCCA Group Limited | Hong Kong | 1 share of HK$1 each | — | 100% | Investment holding |
| Pearl Oriental Macau Limited | Hong Kong | 1 share of HK$1 each | 100% | — | Investment holding |
| Canasta Overseas Group Limited | British Virgin Islands ("BVI") | 1 share of US$1 each | 100% | — | Investment holding |
| Prospect Sync Holdings Limited | BVI | 1 share of US$1 each | 100% | — | Investment holding |
| Dah Hwa Leather & Trading Co., Limited # | Hong Kong | 5,000 shares of HK$100 each | — | 100% | Investment holding and trading of finished leather |
| Guangdong Faith Investment Limited # | Hong Kong | 2,280,000 shares of HK$1 each | — | 100% | Investment holding |
| Inter Leather Limited # | Hong Kong | 100,000 shares of HK$1 each | — | 100% | Inactive |
| Pathway International Limited # | BVI | 50 shares of US$1 each | 50% | — | Investment holding |
| Da Ya Leather Company Limited # | PRC | Registered capital US$820,000 | — | 100% | Processing of finished leather |
| Zhong Da Handbag Company Limited # | PRC | Registered capital HK$9,260,000 | — | 100% | Manufacture of leatherware accessories |
| Honesty Services Limited | Hong Kong | 1 share of HK$1 each | 100% | — | Holding of motor vehicle |

## 19. Investments in Subsidiaries *(Continued)*

| Name of company | Place of incorporation/ registration and operation | Particulars of issued and paid up capital | Proportion of ownership interest Directly | Proportion of ownership interest Indirectly | Principal activities |
|---|---|---|---|---|---|
| Honesty Treasure Limited | Hong Kong | 2 shares of HK$1 each | 50% | 50% | Provision of management service |
| Parsinno International Limited | Hong Kong | 1 share of HK$1 each | 100% | — | Investment holding |
| Son Pou Real Estate Company Limited | Macau | Registered capital MOP100,000 | — | 51% | Property development |
| Honesty Treasure Management Limited | Macau | Registered capital MOP25,000 | 4% | 96% | Management services |
| Fast Action Developments Limited | BVI | 1 share of US$1 each | 100% | — | Investment holding |
| Continental Ocean Investment and Development Company Limited | Macau | Registered capital MOP200,000 | — | 55% | Property development |
| Super Times Far East Limited | BVI | 1 share of US$1 each | 100% | — | Investment holding |

# Companies not audited by CCIF CPA Limited.

## 20. Interests in Associates

| | The Group 2006 HK$'000 | The Group 2005 HK$'000 |
|---|---|---|
| Share of net assets | **657,906** | 606,349 |

## 20. Interests in Associates *(Continued)*

The following list contains only the particulars of associates, all of which are unlisted corporate entities, which principally affected the results or assets of the Group:

| Name of company | Form of business structure | Place of incorporation/ registration and operation | Particulars of issued and paid up capital | Proportion of ownership interest: Group's effective interest | Proportion of ownership interest: Held by subsidiary | Proportion of ownership interest: Held by associate | Principal activities |
|---|---|---|---|---|---|---|---|
| Hotel Golden Dragon (Macao) Company Limited # | Incorporated | Macau | Registered capital MOP1,000,000 | 40% | 40% | — | Operation of hotel |
| Sunny Tourist & Entertainment Company Limited # | Incorporated | Macau | Registered capital MOP100,000 | 24% | — | 60% | Provision for tourism and related service |

\# Companies not audited by CCIF CPA Limited

The key consolidated financial information of the associates is as follows:

| | **2006** **HK$'000** | 2005 HK$'000 |
|---|---|---|
| Non-current assets | **585,802** | 589,036 |
| Current assets | **262,413** | 195,520 |
| Non-current liabilities | **(364,953)** | (397,978) |
| Current liabilities | **(93,012)** | (149,292) |
| Equity | **390,250** | 237,286 |

## 20. Interests in Associates *(Continued)*

| | Year ended 31/12/2006 HK$'000 | 9 months ended 31/12/2005 HK$'000 |
|---|---|---|
| Revenues | **589,405** | 468,792 |
| Profit* | **238,664** | 185,587 |

* Included in the profit of the associates for the year ended 31 December 2006 was increase in fair value of hotel property to approximately HK$25 million (9 months ended 31 December 2005: HK$49 million).

## 21. Goodwill

| | The Group | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| At beginning of the year/period | **—** | 30,160 |
| Impairment loss | **—** | (30,160) |
| At end of the year/period | **—** | — |

Goodwill is allocated to the Group's cash generating unit of the healthcare and medical related business. During the period ended 31 December 2005, the management of the Group assessed the recoverable amount of the goodwill. Based on this assessment, the carrying amount of the goodwill was written down by HK$30,160,000. The recoverable amount has been determined on the basis of value in use calculations. Their recoverable amount is based on certain key assumptions. All value in use calculations use cash flow projections based on the financial budgets. Cash flow projections during the budget period for the goodwill are based on the expected gross margins during the budget period. Budgeted gross margins have been determined based on past performance and management's expectations for the market development.

## 22. Trading Securities

| | The Group | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Listed equity securities in Hong Kong, at market value | **43** | 66 |

## 23. Inventories

| | The Group | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Raw materials | **266** | 528 |
| Work in progress | **132** | 226 |
| Finished goods and merchandise for sale | **7,350** | 11,581 |
| | **7,748** | 12,335 |

At 31 December 2006, the amount of inventories, included in above, carried at net realisable value is HK$7,042,000 (2005: HK$8,329,000).

## 24. Properties Held for Sale

At 31 December 2006, none of properties held for sale were carried at net realisable value.



## 25. Trade and other Receivables

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Amounts due from subsidiaries *(note a)* | **—** | — | **634,159** | 575,914 |
| Trade debtors *(note b)* | **6,999** | 7,828 | **—** | — |
| Prepayments, deposits and other receivables | **12,015** | 11,870 | **485** | 622 |
| | **19,014** | 19,698 | **634,644** | 576,536 |

## 25. Trade and other Receivables *(Continued)*

(a) An analysis of the amounts due from subsidiaries is listed below:

| | The Company | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Due from subsidiaries | **743,779** | 693,642 |
| *Less:* Impairment | **(109,620)** | (117,728) |
| | **634,159** | 575,914 |

The amounts are unsecured and have no fixed terms of repayment. Out of the total balance, a sum of HK$3,173,000 (2005: Nil) bears interest at 8% per annum.

The Group discontinued the healthcare and medical-related business and retailing business, and concluded that the recoverability of the amounts due from subsidiaries in these businesses are remote. Therefore, these amounts are fully impaired in the year.

In 2006, the management of the Group assessed the recoverable amounts of the amount due from subsidiaries. Based on this assessment, the impairment loss was reversed by HK$8,108,000. The recoverable amounts are based on the evaluation of collectability and aging analysis of accounts and on management's judgment.

(b) Included in trade receivables are trade debtors (net of impairment losses for bad and doubtful debts of HK$79,449,000 (2005: HK$78,913,000)) with the following ageing analysis as of the balance sheet date:

| | The Group | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Current or due within 30 days | **4,972** | 3,209 |
| Within 31 to 60 days | **543** | 2,481 |
| Within 61 to 90 days | **426** | 864 |
| Due over 90 days | **1,058** | 1,274 |
| | **6,999** | 7,828 |

## 25. Trade and other Receivables *(Continued)*

(b) *(Continued)*

The general credit terms of the Group range from 30 to 60 days. The Group may, on a case by case basis and after evaluation of the business relationship and creditworthiness extend the credit period upon customers' request.

(c) All of the trade and other receivables (including amounts due from subsidiaries), apart from utility deposits, are expected to be recovered within one year.

## 26. Cash and Cash Equivalents

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Cash and cash equivalents in the balance sheet | **35,495** | 19,517 | **25,584** | 6,311 |
| *Less:* pledged deposits for issuance of guarantee letter for constructions | **(100)** | — | | |
| Cash and cash equivalents in the consolidated cash flow statement | **35,395** | 19,517 | | |

## 27. Trade and other Payables

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Bills payable | **—** | 353 | **—** | — |
| Trade creditors *(note a)* | **3,484** | 2,287 | **—** | — |
| Accruals and other payables | **19,059** | 24,565 | **3,129** | 2,907 |
| Amount due to minority interests *(note b)* | **129,429** | 52,997 | **—** | — |
| Amounts due to related companies *(note c)* | **—** | 913 | **—** | — |
| Amount due to an ex-director *(note d)* | **817** | — | **—** | — |
| Other loans *(note e)* | **1,496** | 16,461 | **1,496** | 16,461 |
| | **154,285** | 97,576 | **4,625** | 19,368 |

(a) Included in trade and other payables are trade creditors with the following ageing analysis as of the balance sheet date:

| | The Group | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Due within 30 days or on demand | **2,832** | 1,164 |
| Due within 31 to 60 days | **203** | 638 |
| Due within 61 to 90 days | **2** | 200 |
| Due over 90 days | **447** | 285 |
| | **3,484** | 2,287 |

## 27. Trade and other Payables *(Continued)*

(b) The amounts due to minority interests were unsecured, non-interest bearing and have no fixed terms of repayment. Out of the total balance, a sum of HK$69,864,000 (2005: HK$2,400,000) were due to the following parties:

| | The Group | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Mr. Pedro Chiang ("Mr. Chiang") | **29,984** | — |
| Mr. Law Kar Po ("Mr. Law") | **19,940** | 1,200 |
| Mr. Hoi Man Pak ("Mr. Hoi") | **11,244** | — |
| Mr. Wu Ka I, Miguel ("Mr. Wu") | **3,748** | — |
| Ms. Law Wing Yee, Wendy ("Ms. Law") | **1,200** | 1,200 |
| Ms. Leong Lai Heng ("Ms. Leong") | **3,748** | — |
| | **69,864** | 2,400 |

At 31 December 2006, Mr. Chiang, Mr. Law, Mr. Hoi, Mr. Wu and Ms. Law were directors of the Company. Ms. Leong is the spouse of Mr. Chiang.

(c) The amounts were unsecured, non-interest bearing and repayable on demand.

(d) At 31 December 2006, the amount due to Mr. Lee Sam Yuen, John, who was a director of the Company until 1 May 2006, was unsecured, non-interest bearing and has no fixed terms of repayment.

(e) At 31 December 2006, the other loans of the Group and the Company amounting to HK$1,496,000 (2005: HK$1,461,000) due to independent third parties were unsecured, interest bearing at 2.5% per annum and repayable on demand.

At 31 December 2005, the other loans of the Group and the Company included a sum of HK15,000,000 due to independent third parties, which were unsecured, interest bearing at 7% per annum. The amount was repaid in full during the year ended 31 December 2006.

## 28. Bank Loans

At 31 December 2006, bank loans of the Group amounting to HK$187,400,000 (2005: HK$37,200,000) were secured by the properties under development of the Group with carrying amount at the balance sheet date of HK$389,267,000 (2005: HK$72,731,000). In addition of the total amount, a sum of HK$37,400,000 (2005: HK$37,200,000) was guaranteed by Mr. Pedro Chiang ("Mr. Chiang"), Mr. Wu Ka I, Miguel ("Mr. Wu"), Mr. Ung Kin Kuok ("Mr. Ung") and Ms. Hoi Wa Fan ("Ms. Hoi"), to the extent of HK$11,270,000, HK$11,270,000, HK$8,400,000 and HK$13,260,000 respectively. At 31 December 2006, Mr. Chiang and Mr. Wu are directors of the Company. Mr. Ung and Ms. Hoi have beneficial interest in a subsidiary of the Company.

At 31 December 2006, bank loans of the Group amounting to HK$97,860,000 (2005: Nil) were secured by (i) the properties held for sale of the Group with carrying amount of HK$85,662,000 (2005: Nil) at the balance sheet date, (ii) the investment properties of the Group with carrying amount of HK$61,114,000 (2005: Nil) at the balance sheet date, and (iii) corporate guarantee to the extent of HK$97,860,000 put up by the Company.

At 31 December 2006, bank loans of the Group amounting to HK$3,985,000 (2005: HK$2,588,000) were secured by (i) the land and buildings of the Group with carrying amount of HK$2,888,000 (2005: HK$3,493,000) at the balance sheet date, (ii) certain properties held by a related company of a subsidiary of the Company, and (iii) personal guarantee to the extent of HK$100 million (2005: HK$100 million) put up by a director of a subsidiary of the Company.

At 31 December 2006 and 2005, all bank loans were repayable within one year.

## 29. Obligations under Finance Leases

At 31 December 2006, the Group had obligations under finance lease payable as follows:

| | The Group | | | |
|---|---|---|---|---|
| | Total minimum lease payments | | Present value of minimum lease payments | |
| | **2006** | 2005 | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Within one year | **14** | 272 | **13** | 253 |
| After one year but within two years | **—** | 14 | **—** | 13 |
| After two years but within five years | **—** | 55 | **—** | 51 |
| | **14** | 341 | **13** | 317 |
| Total future finance charges | **(1)** | (24) | | |
| Present value of lease obligations | **13** | 317 | | |
| Current portion | | | **13** | 253 |
| Non-current portion | | | **—** | 64 |
| | | | **13** | 317 |

## 30. Convertible Notes

**The Group and the Company**

On 28 April 2006, the Company issued HK$91,094,000 convertible notes redeemable within 5 years from the date of issue. The notes bear interest at 2.5% per annum and are unsecured. The holders of the notes have the right at any time after the issue of the notes to convert any outstanding amount of the notes into the shares of the Company at the conversion price of HK$0.148 per share (subject to adjustment) until 27 April 2011. Further details are set out in the Company's circular dated 22 March 2006.

The convertible loan notes contain two components, liability and equity elements. The equity element is presented in equity heading "convertible loan notes — equity reserves". The effective interest rate of the liability component is 7.094%.

## 30. Convertible Notes *(Continued)*

**The Group and the Company** *(Continued)*

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

| | **2006** |
|---|---|
| | ***HK$'000*** |
| Principal amount | **91,094** |
| Equity component | **(17,119)** |
| Liability component at date of issue | **73,975** |
| Interest charged | **3,552** |
| Interest paid | **—** |
| Liability component at 31 December 2006 | **77,527** |



## 31. Provision for Long Service Payments

| | **The Group** | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| At the beginning of the year/period | **934** | 1,928 |
| Utilization during the year/period | **—** | (947) |
| Reversal of provision | **—** | (47) |
| At the end of the year/period | **934** | 934 |

## 32. Share Capital

| | The Group and the Company | | | |
|---|---|---|---|---|
| | **2006** | | 2005 | |
| | ***Number of shares*** | ***HK$'000*** | *Number of shares* | *HK$'000* |
| Authorised: | | | | |
| Ordinary shares of HK$0.05 each | **5,000,000,000** | **250,000** | 5,000,000,000 | 250,000 |

| | *Note* | **Number of shares** | **Amount** *HK$'000* |
|---|---|---|---|
| Issued and fully paid: | | | |
| Ordinary shares of HK$0.05 each | | | |
| At 1 April 2005 | | 1,970,622,840 | 98,531 |
| Issue of shares by a placement | *(a)* | 60,000,000 | 3,000 |
| Issue of new shares for the shortfall in relation to the acquisition of an associate | *(b)* | 400,200,000 | 20,010 |
| At 31 December 2005 and 1 January 2006 | | 2,430,822,840 | 121,541 |
| Issue of shares by a placing | *(c)* | 400,000,000 | 20,000 |
| Shares issued upon exercise of listed warrants | *(d)* | 3,000 | — |
| At 31 December 2006 | | 2,830,825,840 | 141,541 |

*Note:*

(a) Pursuant to the written resolution dated 4 July 2005, the Company entered into a placing agreement to issue of 60,000,000 new shares (the "Placing Shares") of HK$0.05 each in the capital of the Company at the price of HK$0.35 per Placing Share and 225,000,000 warrants ("2007 Warrant"), carrying the rights to subscribe for new Shares at a subscription price of HK$0.35 per share subject to adjustment, until 20 July 2007, at the price of HK$0.022 per warrant to the placing agent. The new shares were issued to rank pari passu in all respects with the then existing shares.

There is no exercise of warrants since their issue.

## 32. Share Capital *(Continued)*

*Note: (Continued)*

(b) Reference was made to the circular of the Company dated 25 August 2005. It was noted that the Company had entered into the supplemental agreement dated 14 July 2005 made between the Company, the purchaser, a wholly-owned subsidiary of the Company, and the vendors with regards to the settlement of the shortfall of HK$140,070,000 by the issue of 400,200,000 shares at an agreed price of HK$0.35 per share.

Pursuant to the ordinary resolution of the extraordinary general meeting dated 12 September 2005, the Company issued of 400,200,000 new shares according to the supplemental agreement. The new shares were issued to rank pari passu in all respects with the then existing shares.

(c) Reference was made to the announcement of the Company dated 28 February 2006, the increase in issued share capital was due to the placing of 400,000,000 new shares (the "Placing shares") of HK$0.05 each in the capital of the Company at HK$0.148 per placing share. The placing was completed on 31 March 2006. The new shares were issued to rank pari passu in all respects with the then existing shares.

(d) On 24 April 2006, the board proposed a conditional bonus warrant issue to the shareholders on the basis of one warrant for every ten shares of the Company. The initial subscription price was determined at HK$0.26 per share, subject to adjustment, and the bonus warrants ("2009 Warrant") are exercisable at any time during the period from 7 June 2006 to 6 June 2009 (if that day is not a business day, the business day immediately preceding that day) (both days inclusive). The new shares were issued to rank pari passu in all respects with the then existing shares.

In August 2006, new shares were issued upon the conversion of "2009 Warrant" into 3,000 new shares of HK$0.05 each at a price of HK$0.26 per share.

(e) **Warrants**

Movements in Warrants:

| | | Number of Warrants | | | | | |
|---|---|---|---|---|---|---|---|
| | Date of issue | At 1/4/2005 | Issued during the period | At 31/12/2005 and 1/1/2006 | Issued during the year | Exercised during the year | At 31/12/2006 |
| 2007 Warrant | 21/7/2005 | — | 225,000,000 | 225,000,000 | — | — | 225,000,000 |
| 2009 Warrant | 7/6/2006 | — | — | — | 283,082,284 | (3,000) | 283,079,284 |

Terms of unexpired and unexercised Warrants at the balance sheet date:

| | Date of issue | Exercisable period | Number of Warrants | |
|---|---|---|---|---|
| | | | **2006** | 2005 |
| 2007 Warrant | 21/7/2005 | 21/7/2005 — 20/7/2007 | **225,000,000** | 225,000,000 |
| 2009 Warrant | 7/6/2006 | 7/6/2006 — 6/6/2009 | **283,079,284** | — |

## 33. Reserves

### (a) The Group

| | Attributable to equity holders of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share premium HK$'000 | Capital redemption reserve HK$'000 | Convertible notes equity reserve HK$'000 | Warrant reserve HK$'000 | Exchange reserve HK$'000 | (Accumulated losses)/ Retained earnings HK$'000 | Total HK$'000 | Minority interests HK$'000 | Total HK$'000 |
| At 1 April 2005 | 660,795 | 69 | — | — | (220) | (214,962) | 445,682 | 2,563 | 448,245 |
| Issue of shares at a premium through placing | 17,410 | — | — | — | — | — | 17,410 | — | 17,410 |
| Capitalisation of share premium | (20,010) | — | — | — | — | — | (20,010) | — | (20,010) |
| Acquisition of a subsidiary | — | — | — | — | — | — | — | 48 | 48 |
| Expenses on capitalization of premium | (320) | — | — | — | — | — | (320) | — | (320) |
| Issue of unlisted warrants | — | — | — | 4,950 | — | — | 4,950 | — | 4,950 |
| Exchange differences on translation of financial statements of foreign entities | — | — | — | — | (245) | — | (245) | — | (245) |
| Profit for the period | — | — | — | — | — | 38,399 | 38,399 | (2,214) | 36,185 |
| Share premium set-off against accumulated losses | (218,856) | — | — | — | — | 218,856 | — | — | — |
| At 31 December 2005 and 1 January 2006 | 439,019 | 69 | — | 4,950 | (465) | 42,293 | 485,866 | 397 | 486,263 |
| Issue of shares at a premium through placing | 39,200 | — | — | — | — | — | 39,200 | — | 39,200 |
| Acquisition of subsidiaries | — | — | — | — | — | — | — | (178) | (178) |
| Issue of convertible notes | — | — | 17,119 | — | — | — | 17,119 | — | 17,119 |
| Share issue expenses | (767) | — | — | — | — | — | (767) | — | (767) |
| Exchange differences on translation of financial statements of foreign entities | — | — | — | — | (277) | — | (277) | — | (277) |
| Profit for the year | — | — | — | — | — | 57,246 | 57,246 | 54 | 57,300 |
| Share premium set-off against accumulated losses | (63,054) | — | — | — | — | 63,054 | — | — | — |
| At 31 December 2006 | 414,398 | 69 | 17,119 | 4,950 | (742) | 162,593 | 598,387 | 273 | 598,660 |
| **Reserves retained by:** | | | | | | | | | |
| At 31 December 2006 | | | | | | | | | |
| — Company and subsidiaries | 414,398 | 69 | 17,119 | 4,950 | (742) | (24,574) | 411,220 | 273 | 411,493 |
| — Associates | — | — | — | — | — | 187,167 | 187,167 | — | 187,167 |
| | 414,398 | 69 | 17,119 | 4,950 | (742) | 162,593 | 598,387 | 273 | 598,660 |
| At 31 December 2005 | | | | | | | | | |
| — Company and subsidiaries | 439,019 | 69 | — | 4,950 | (465) | (49,173) | 394,400 | 397 | 394,797 |
| — Associates | — | — | — | — | — | 91,466 | 91,466 | — | 91,466 |
| | 439,019 | 69 | — | 4,950 | (465) | 42,293 | 485,866 | 397 | 486,263 |

## 33. Reserves *(Continued)*

**(b) The Company**

| | Share premium HK$'000 | Capital redemption reserve HK$'000 | Convertible notes equity reserve HK$'000 | Warrant reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| At 1 April 2005 | 660,795 | 69 | — | — | (215,182) | 445,682 |
| Issue of shares at premium | 17,410 | — | — | — | — | 17,410 |
| Capitalization of shares at premium | (20,010) | — | — | — | — | (20,010) |
| Expenses on capitalization of premium | (320) | — | — | — | — | (320) |
| Issue of warrants | — | — | — | 4,950 | — | 4,950 |
| Loss for the period | — | — | — | — | (3,674) | (3,674) |
| Share premium set-off against accumulated losses | (218,856) | — | — | — | 218,856 | — |
| At 31 December 2005 and 1 January 2006 | 439,019 | 69 | — | 4,950 | — | 444,038 |
| Private placing | 39,200 | — | — | — | — | 39,200 |
| Issue of convertible notes | — | — | 17,119 | — | — | 17,119 |
| Expenses on issue of shares | (767) | — | — | — | — | (767) |
| Loss for the year | — | — | — | — | (63,054) | (63,054) |
| Share premium set-off against accumulated losses | (63,054) | — | — | — | 63,054 | — |
| At 31 December 2006 | 414,398 | 69 | 17,119 | 4,950 | — | 436,536 |

**(c)** Pursuant to the minutes of a directors' meeting held on 31 December 2006, an amount of approximately HK$63,054,000 was transferred from share premium account to offset the accumulated losses of the Company at 31 December 2006.

**(d)** Nature and purpose of reserves:

(i) Share premium represents the excess of consideration over par value of shares issued.

(ii) Capital redemption reserve represents nominal value of shares repurchased out of distributable profits.

## 33. Reserves *(Continued)*

**(d)** *(Continued)*

(iii) Convertible notes equity reserve represents the value of the non-exercised equity component of convertible notes issued by the Company recognised in accordance with the accounting policy adopted for convertible notes set out in note 2(o).

(iv) Warrant reserve represents the net proceeds received from the issue of warrants of the Company. The reserve will be transferred to share capital and share premium accounts upon the exercise of the warrants.

In July 2005, the Company issued 225,000,000 non-listed warrants at an issue price of HK$0.022 per warrant by private placement. Each warrant entitles the holder to subscribe for one ordinary share of HK$0.05 each at an initial subscription price of HK$0.35 per share during the two-year period from the date of allocation and issue of the warrants.

(v) Exchange reserve represents exchange differences arising from the translation of the financial statements of subsidiaries and associates operating outside Hong Kong.

(vi) The Company's reserves available for distribution represent the share premium and retained profits. Under the Companies Law of the Cayman Islands, share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Associations and provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business. As at 31 December 2006, the aggregate value of the share premium and retained profits of the Company available for distribution is HK$414,398,000 (31 December 2005: HK$439,019,000).

## 34. Deferred Taxation not Recognized

At the balance sheet date and for the year, the Group has not recognised deferred tax asset in respect of tax losses of approximately HK$126 million (2005: HK$131 million) as it is not probable that taxable profit will be available against which tax losses can be utilised.

At the balance sheet date, the Group has unrecognized deferred tax assets arising from tax losses of HK$126 million (2005: HK$131 million). The tax losses of approximately HK$121 million (2005: HK$124 million) arising in Hong Kong have no expiry date under current tax legislation. Tax losses arising in the PRC of approximately HK$5 million (2005: HK$7 million) can be used to offset against future taxable profits of the companies in which the losses arose for a maximum of 5 years.

The Group and the Company had no other significant unprovided deferred tax liabilities not recognised for the year and at the balance sheet date.

## 35. Notes to Consolidated Cash Flow Statement

### (a) Acquisition of a subsidiary

On 20 February 2006, the Group entered into a binding letter of intent to acquire 55% of the issued capital of Continental Ocean Investment and Development Company Limited ("CIDCOL"). CIDCOL is a company incorporated in Macau and its only material asset is a development site located in Macau. The consideration of the acquisition was approximately HK$91.1 million and was satisfied by the issue of 2.5% fixed interest convertible redeemable notes ("convertible notes") by the Company on 28 April 2006. The vendors, other than Mr. Choy Wang Kong, are directors or their associates of the Company as at 31 December 2006.

| | Year ended 31/12/2006 *HK$'000* |
|---|---|
| ***Net assets acquired:*** | |
| Property under development | 304,157 |
| Trade and other receivables | 19 |
| Cash and cash equivalents | 11,456 |
| Trade and other payables | (6) |
| Bank loan | (150,000) |
| | 165,626 |
| *Less:* Minority interests | (74,532) |
| Total consideration | 91,094 |
| Satisfied by: | |
| Issue of convertible notes | 91,094 |
| ***Analysis of net inflow of cash and cash equivalents in respect of acquisition of a subsidiary:*** | |
| Cash consideration | — |
| *Less:* Cash and cash equivalents | 11,456 |
| | 11,456 |

## 35. Notes to Consolidated Cash Flow Statement *(Continued)*

### (b) Disposal of subsidiaries

| | Year ended 31/12/2006 *HK$'000* |
|---|---|
| ***Net assets disposed of:*** | |
| Property, plant and machinery | **5,102** |
| Inventories | **737** |
| Trade and other receivables | **1,202** |
| Bank balances and cash | **929** |
| Trade and other payables | **(350)** |
| Due to a director | **(795)** |
| Exchange reserve | **(5)** |
| | **6,820** |
| Loss on disposal of interests in subsidiaries | **(4,820)** |
| Total consideration | **2,000** |
| Satisfied by: | |
| Cash | **2,000** |
| ***Aanalysis of net inflow of cash and cash equivalents in respect of disposals of subsidiaries:*** | |
| Cash consideration | **2,000** |
| *Less:* Bank balances and cash of the subsidiaries disposed | **(929)** |
| | **1,071** |

## 35. Notes to Consolidated Cash Flow Statement *(Continued)*

**(c) Major non-cash transactions**

On 15 March 2006, a wholly owned subsidiary of the Company entered into an agreement with vendors who were Mr. Pedro Chiang, Mr. Law Kar Po, Mr. Wu Ka I, Miguel, Ms. Leong Lai Heng, Mr. Hoi Man Pak and Mr. Choy Wang Kong in respect of the acquisition of 55% of the issued quota and shareholders' loans of Companhia De Investimento E Desenvolvimento Continental Ocean Limitada (in English "Continental Ocean Investment and Development Company Limited") ("CIDCOL"). CIDCOL is a company incorporated in Macau on 7 October 2005 and its only material asset is a development site located in Lote TN6, Taipa, Macau. The consideration of the acquisition was approximately HK$91.1 million and was satisfied by the issue of 2.5% fixed interest convertible redeemable notes ("convertible notes") by the Company on 28 April 2006. The vendors, other than Mr. Choy Wang Kong, are the Company's directors or their associates as at 31 December 2006.

Holders of the convertible notes are entitled to elect to convert the convertible notes into Shares of the Company at the conversion price of HK$0.148 per Share (subject to adjustment) until 27 April 2011.



## 36. Contingent Liabilities

As at the balance sheet date, the Company has issued a single guarantee to a bank in respect of a banking facility granted to a wholly owned subsidiary which expires on 24 July 2007.

As at the balance sheet date, the directors do not consider it probable that a claim will be made against the company under the guarantee. The maximum liability of the company at the balance sheet date under the single guarantee issued is the outstanding amount of the facility drawn down by the subsidiary of HK$97,860,000 (2005: Nil).

At the balance sheet date, the Group had no other significant contingent liabilities (2005: Nil).

## 37. Related party Transactions

Save as disclosed elsewhere in these financial statements, the Group had the following transactions with related parties during the period:

(a) Mr. Lee Sam Yuen, John (an ex-director of the Company) and Mrs. Lee Shiao Yu Cho, (a close family of Mr. Lee Sam Yuen, John), provided a personal guarantee of HK$100 million (31 December 2005: HK$100 million) to a bank to secure general banking facilities granted to a subsidiary, for which no charge is made.

## 37. Related Party Transactions *(Continued)*

(b) The Group has leased certain properties from D.H. International Limited ("D.H. International"), a related company owned by a foundation of which Mrs. Lee Shiao Yu Cho and Mr. Lee Sam Yuen, John are beneficiaries, at an aggregate monthly rental of HK$107,000. Total rental paid during the year and deposit paid were amounting to HK$1,284,000 (9 months ended 31 December 2005: HK$963,000) and HK$218,000 (9 months ended 31 December 2005: HK$218,000) respectively.

In addition to the above, D.H. International has provided all monies mortgage over six properties held and an assignment of the insurance policy over those properties to a bank to secure general banking facilities granted to a subsidiary of the Company.

(c) On 30 May 2005, a subsidiary of the Company as a tenant, entered into a tenancy agreement with Precision Advance Limited which is owned as to approximately 33.3% by Mr. Law Kar Po, a director and substantial shareholder of the Company, and as to approximately 66.7% by Mr. Law's relatives. The monthly rental and other related expenses are approximately HK$180,000 and HK$7,187 respectively. The total rental expenses and related expenses paid for the year ended 31 December 2006 amounted to HK$940,000 (9 months ended 31 December 2005: HK$1,076,000).

(d) The Group has transferred the retail assets of the Shoes and Bags Retail Business to a related company, of which Mr. Law Kar Po and Ms. Law Wing Yee, Wendy are the directors, for a consideration of HK$950,000. Retail assets included, but not limited to inventories as at commencement of business of 15 June 2006, equipment, fixed assets, contracts, business records, rights in the use of licences and interests in the entire issued share capital of Star Power Trading Limited and Star Chain Enterprises Limited which are all related to the Shoes and Bags Retail Business. Upon completion of such sale and purchase on 30 June 2006, the Group ceased to conduct the Shoes and Bags Retail Business. Total loss arising from this transaction amounted to HK$2,077,000.

(e) Key management personnel remuneration

The key management personnel of the Group comprises all directors, details of their emoluments are disclosed in Note 11.

## 38. Operating Lease Commitments

(a) The Group leased out certain buildings under operating lease with average lease terms of 2 to 5 years. At 31 December 2006, the Group had total future minimum lease receivable under non-cancellable operating leases falling due as follows:

| | The Group | | | |
|---|---|---|---|---|
| | **2006** | | 2005 | |
| | **Investment properties** | **Others** | Investment properties | Others |
| | ***HK$'000*** | ***HK$'000*** | *HK$'000* | *HK$'000* |
| Within one year | **645** | **377** | — | 781 |
| In the second to fifth years | **2,871** | **169** | — | 434 |
| | **3,516** | **546** | — | 1,215 |

(b) At 31 December 2006, the Group had total outstanding commitments for future minimum lease payable under non-cancellable operating lease in respect of properties, plant and equipment which fall due as follows:

| | The Group | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Within one year | **2,777** | 14,736 |
| In the second to fifth years | **296** | 12,731 |
| | **3,073** | 27,467 |

## 39. Capital Commitments

| | The Group | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Commitments for the acquisition of property, plant and equipment | | |
| — contracted but not provided for | **—** | 2,603 |
| — authorised but not contracted for | **—** | 49,070 |
| | **—** | 51,673 |

## 40. Pledge of Assets

(a) At 31 December 2006, the Group pledged the following assets to secure general banking facilities granted to the Group:

| | The Group | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Investment property | **61,114** | — |
| Properties under development | **389,267** | 72,731 |
| Properties held for sale | **85,662** | — |
| | **536,043** | 72,731 |

(b) At 31 December 2006, bank deposits of HK$100,000 (2005: Nil) were pledged for issuance of guarantee letter for constructions.

## 41. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise interest bearing borrowings and cash and bank deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as accounts receivable and accounts payable, which arise directly from its operations.

The main risks arising from the Group's financial instruments are fair value and cash flow interest rate risks, foreign exchange risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of there risks and they are summarized below.

**Fair value and cash flow interest rate risks**

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group is exposed to interest rate risks due to changes in interest rates of interest-bearing financial assets and liabilities. Interest-bearing financial assets are mainly deposits with banks which are mostly short term in nature whereas interest-bearing financial liabilities are primarily short term bank borrowings with primarily floating interest rates. The Group is therefore exposed to both fair value and cash flow interest rate risks. The Group's policy is to obtain the most favourable interest rates available without increasing its foreign currency exposure.

## 41. Financial Risk Management Objectives and Policies *(Continued)*

**Foreign currency risk**

The Group operates mainly in Macau, mainland China and Hong Kong and is exposed to foreign exchange risk arising from MOP and Renminbi currency exposures, primarily with respect to the Hong Kong dollars. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The risk management policy is to have the liquid assets mainly denominated in MOP, Hong Kong dollars and Renminbi.

**Credit risk**

The trade and other receivables represent the Group's major exposure to the credit risk arising from the default of the counterparties, with an exposure related to the carrying amount of these financial assets in the consolidated balance sheet. The Group has no significant concentration of credit risk with respect to retail business as it has a large number of diversified customers. With respect to the trading business and medical-related business, the Group trades only with recognised and creditworthy third parties. The Groups seeks to maintain strict control over its outstanding receivables and has a credit control development to minimize credit risk. In addition, all receivable balances are monitored on an ongoing basis and overdue balances are followed up by senior management. Accordingly, the Group's exposure to bad debts is not significant.

**Liquidity risk**

In the management of liquidity risk, the Group monitors and maintains level of cash and cash equivalents considered adequate by management to finance the Group's operations and mitigate the effects of fluctuation in cash flows. The Group's treasury department's responsibility is maintaining a balance between continuity of funding and flexibility through the use of banking facilities in order to meet its liquidity requirements both in the short and longer term. All debts of the Group as at 31 December 2006 would mature in less than one year.

## 42. Non-adjusting Post Balance Sheet Events

On 26 March 2007, a wholly-owned subsidiary (the "Vendor") of the Company signed a provisional contract (the "Contract") with an independent third party (the "Purchaser"). Pursuant to the Contract, the Vendor agreed to dispose of and the Purchaser agreed to acquire 24 residential units at various floors of Edificio Chu Kuan Mansion with book value of approximately HK$49.3 million as at 31 December 2006 for a total consideration of HK$53.6 million. The disposal will be completed by the end of July 2007.

## 43. Comparative Figures

Comparative figures have been reclassified to conform to the current year's presentation.

## 44. Accounting Estimates and Judgements and Key Source of Estimation Uncertainty

The methods, estimates and judgements the directors use in applying the Group's accounting policies have a significant impact on the Group's financial position and operating results. Some of the accounting policies require the Group to apply estimates and judgements, on matters that are inherently uncertain. In addition to note 41 which contains information about the assumptions and the risk factors, certain critical accounting judgements in applying the Group's accounting policies are described below. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

**(a) Depreciation and amortization**

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Group reviews annually the useful life of an asset and its residual value, if any. Both the period and method of amortisation are reviewed annually. The depreciation and amortisation expense for future periods is adjusted if there are significant changes from previous estimates.

**(b) Valuation of inventories**

Inventories are stated at the lower of cost and net realisable value at balance sheet date. Net realizable value is determined on the basis of the estimated selling price less the estimated costs necessary to make the sale. The directors estimate the net realisable value for finished goods and work-in-progress based primarily on the latest invoice prices and current market conditions. In addition, the directors perform an inventory review on a product-by-product basis at each year end date and assess the need for write down of inventories.

**(c) Impairment losses for bad and doubtful debts**

Impairment losses for bad and doubtful debts are assessed and provided based on the directors' review on an on going basis of ageing analysis and evaluation of collectibility. A considerable level of judgement is exercised by the directors when assessing the credit worthiness and past collection history of each individual customer.

Any increase or decrease in the impairment losses for bad and doubtful debts would affect profit or loss in future years.

## 45. Possible Impact of Amendments, New Standards and Interpretations Issued but not yet Effective for the Year ended 31 December 2006

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the accounting year ended 31 December 2006 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

In addition, the following developments may result in new or amended disclosures in the financial statements:

| | |
|---|---|
| HKAS 1 (Amendment) | Capital Disclosures[1] |
| HKFRS 7 | Financial instruments: disclosures[1] |
| HK(IFRIC)-Int 7 | Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[2] |
| HK(IFRIC)-Int 8 | Scope of HKFRS2[3] |
| HK(IFRIC)-Int 9 | Reassessment of Embedded Derivatives[4] |
| HK(IFRIC)-Int 10 | Interim Financial Reporting and Impairment[5] |
| HK(IFRIC)-Int 11 | HKFRS2-Group and Treasury Share Transactions[6] |

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