THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Cheung Tai Hong Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee, or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

祥泰行集團有限公司*

CHEUNG TAI HONG HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 199)

VERY SUBSTANTIAL ACQUISITION

Financial adviser to Cheung Tai Hong Holdings Limited

SOMERLEY LIMITED

A notice convening the special general meeting of Cheung Tai Hong Holdings Limited to be held at Conference Room, 11/F., Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong on Thursday, 15th June, 2006 at 11:00 a.m. is set out on pages 244 to 245 of this circular. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the branch share registrars and transfer office of Cheung Tai Hong Holdings Limited, Secretaries Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not later than 48 hours before the time for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

* *For identification purpose only*

29th May, 2006

CONTENTS

In this circular, the following expressions have the following meanings unless the context requires otherwise:–

"Acquisition"	acquisition of the Sale Shares by Million Orient pursuant to the Acquisition Agreement
"Acquisition Agreement"	the acquisition agreement dated 29th March, 2006 entered into between the Vendor and Million Orient in relation to the Acquisition
"Additional Shareholder's Loan"	the additional loan to be advanced by Million Orient to Orient Town on exercise of all or any part of the Call Option, which shall be calculated according to the terms of the Acquisition Agreement
"associates"	has the meaning ascribed to it under the Listing Rules
"Best Profit"	Best Profit Holdings Limited, a company incorporated in Hong Kong with limited liability, which holds 99% of the registered share capital of XLM
"Board"	the board of Directors
"Business Day(s)"	a day (other than Saturday and any day on which a tropical cyclone warning No. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon or on which a "black" rainstorm warning signal is hoisted or remains effected between 9:00 a.m. and 12:00 noon and is not discontinued at or before 12:00 noon) on which banks are open for business in Hong Kong
"BVI"	the British Virgin Islands
"Call Option"	an option to purchase all or any of the Option Shares granted by the Vendor to Million Orient pursuant to the Acquisition Agreement
"Company"	Cheung Tai Hong Holdings Limited, a company incorporated in Bermuda with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange
"Completion"	completion of the Acquisition in accordance with the Acquisition Agreement

"Completion Date"	the fifth Business Day immediately after all the conditions precedent to the Acquisition Agreement have been duly fulfilled or waived (as the case may be), or such other date as the Vendor and Million Orient may mutually agree in writing
"Concordia"	聯生發展股份有限公司 (Empresa De Fomento Industrial E Comercial Concórdia, S.A.), a company incorporated in Macau
"Concordia Acquisition"	acquisition of the Concordia Sale Shares and Concordia Sale Debts by XLM pursuant to the Concordia Agreement
"Concordia Agreement"	the acquisition agreement dated 25th October, 2005 entered into between San Heng Chong (for itself and on behalf of other Concordia Vendors) and XLM in relation to the Concordia Acquisition
"Concordia Consideration"	the total consideration for the Concordia Acquisition in the sum of approximately HK$1,850 million to be satisfied by cash pursuant to the terms of the Concordia Agreement
"Concordia Sale Shares"	the 77.1% of the registered share capital of Concordia
"Concordia Sale Debts"	the aggregate amount of loan and interest accrued and due by Concordia to the Concordia Vendors upon completion of the Concordia Acquisition
"Concordia Vendors"	San Heng Chong and other shareholders of Concordia holding in aggregate 77.1% of the registered share capital of Concordia
"connected persons"	has the meaning ascribed to it under the Listing Rules
"Consideration"	the total consideration for the Acquisition, being HK$280, which shall be satisfied by cash pursuant to the terms of the Acquisition Agreement
"Deed of Guarantee"	the deed of guarantee, warranties and undertakings dated 29th March, 2006 and executed by the Warrantors and Million Orient
"Director(s)"	the director(s) of the Company

"Disposal"	disposal of any shares of Orient Town held by the Vendor within the Exercise Period
"Disposal Compensation"	compensation payment by the Vendor to Million Orient as calculated according to the terms under the Acquisition Agreement upon completion of the Disposal
"Enlarged Group"	the Group after Completion
"Enlarged Orient Town Group"	Orient Town Group after completion of the Concordia Acquisition
"Everight"	Everight Investment Limited, a company incorporated in Hong Kong with limited liability
"Everight Acquisition"	acquisition of the entire issued share capital of Everight and certain loans by the Group as disclosed in the Everight Circular
"Everight Circular"	the circular of the Company dated 26th April, 2006 in respect of the Everight Acquisition
"Everight Completion"	completion of the Everight Acquisition
"Everight Group"	Everight and its subsidiaries
"Exercise Period"	the period commencing from the day following the Completion Date and ending on the first anniversary of the Completion Date, during which Million Orient may exercise the Call Option
"Green Label Note"	the zero coupon convertible note due on 11th August, 2010 in the principal amount of HK$39,272,307 to be issued by the Company to Green Label Investments Limited on Everight Completion as part of the consideration for the Everight Acquisition
"Group"	the Company and its subsidiaries, unless the context otherwise specifies
"HK GAAP"	generally accepted accounting principles applicable in Hong Kong
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC

"Latest Practicable Date"	24th May, 2006, being the latest practicable date for ascertaining certain information for inclusion in this circular
"Lease"	the lease granted by Government of Macau to Concordia for the use of the Property which expired on 7th October, 2000
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Long Stop Date"	30th September, 2006 or such other date as agreed by the Vendor and Million Orient in writing
"Macau"	the Macau Special Administrative Region of the PRC
"Magnum Note"	the zero coupon convertible note due on 11th August, 2010 in the principal amount of HK$20,727,693 to be issued by the Company to Magnum Company Limited on Everight Completion as part of the consideration for the Everight Acquisition
"Mr. Ma"	Ma Chi Un, Fred (馬志遠), holder of the entire issued share capital of the Vendor
"Million Orient"	Million Orient Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company
"Notes"	the Green Label Note and the Magnum Note
"Option Completion"	completion of sale and purchase of Option Shares or part thereof upon exercise of the Call Option
"Option Shares"	70 shares of Orient Town (representing 10% of its issued share capital as at the Latest Practicable Date) held by the Vendor as at the date of the Acquisition Agreement which are subject to the Call Option
"Orient Town"	Orient Town Limited, a company incorporated in Hong Kong with limited liability which is interested in 70% of the issued share capital of Best Profit
"Orient Town Group"	Orient Town, Best Profit and XLM
"PRC"	the People's Republic of China, excluding Hong Kong, Macau and Taiwan for the purpose of this circular

"Property"	14 parcels of leased land situated in Estrada de Seac Pai Van, Macau (澳門路環聯生填海區)
"Renewal"	the new concession, extension or renewal to be granted by the Government of Macau to Concordia in relation to the Lease
"Sale Shares"	the 280 shares of Orient Town held by the Vendor, representing 40% of the issued share capital of Orient Town
"San Heng Chong"	新興中發展有限公司 (Sociedade de Desenvolvimento San Heng Chong, Limitada), a company incorporated in Macau, the ultimate beneficial owner of which is, according to the best knowledge of the Directors, a state-owned enterprise in the PRC
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGM"	the special general meeting of the Company to be convened and held for the Shareholders to consider and, if thought fit, approve the Acquisition Agreement and the transactions contemplated thereunder
"Share(s)"	share(s) of the Company
"Share Charges"	together, (i) the share charge dated 23rd December, 2005 executed between the Vendor and an independent third party lender (pursuant to which the Vendor agreed to charge, among others, the entire issued share capital of Orient Town to such lender) and (ii) the share charge dated 23rd February, 2006 executed between the Vendor and another independent third party lender (pursuant to which the Vendor agreed to charge, among others, the entire issued share capital of Orient Town to such other independent third party lender, subject to the share charge as set out in (i) above)
"Shareholder(s)"	holder(s) of the Share(s)

"Shareholders' Agreement"	the shareholders' agreement in respect of Orient Town to be entered into between the Vendor, Million Orient, and, if the Vendor shall have agreed with any third party(ies) for the sale of other shares in Orient Town held by it, such third party(ies), and Orient Town upon Completion
"Shareholder's Loan"	a loan in the amount of HK$885 million to be advanced by Million Orient to Orient Town (subject to Completion) on 12th May, 2006 or the Completion Date, whichever is later (or such other date as may be agreed between Million Orient and Orient Town) pursuant to the Acquisition Agreement
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Vendor"	Pacific Wish Limited, a company incorporated in the BVI which holds the entire issued share capital of Orient Town
"Warrantors"	Mr. Ma and Mr. Ma Iao Son, being holder of 1% of the registered share capital of XLM
"XLM"	新聯盟投資有限公司 (San Lun Mang Investimentos, Limitada), a company incorporated in Macau with limited liability which is interested in 5.9% of the registered share capital of Concordia
"2005 August Note"	the zero coupon convertible notes due 2010 in the aggregate principal amount of HK$1,000 million issued by the Company on 11th August, 2005, details of which were set out in the circular of the Company dated 23rd May, 2005
"2005 February Note"	the 2% convertible notes due 2008 in the aggregate principal amount of HK$100 million issued by the Company on 23rd February, 2005, details of which were set out in the circular of the Company dated 6th January, 2005
"2006 Note"	the 1% convertible notes due 2011 in the aggregate principal amount of HK$1,000 million to be issued by the Company, details of which were set out in the circular of the Company dated 22nd May, 2006

DEFINITIONS

"HK$" or "HKD"	Hong Kong dollar, the lawful currency of Hong Kong
"MOP"	Macau Patacas, the lawful currency of Macau
"RMB"	Renminbi, the lawful currency of the PRC
"%"	per cent.
"m^2" or "sq.m."	square metre(s)
"sq.ft."	square feet

Unless otherwise specified, translations of MOP into HK$ and RMB into HK$ are based on the rates set out below for illustrative purpose:

MOP 1.03 = HK$1
RMB 1.04 = HK$1

祥 泰 行 集 團 有 限 公 司*

CHEUNG TAI HONG HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 199)

Executive Directors:
Mr. Cheung Hon Kit *(Chairman)*
Mr. Chan Fut Yan *(Managing Director)*

Non-executive Directors:
Mr. Ho Hau Chong, Norman *(Deputy Chairman)*
Mr. Lo Lin Shing, Simon

Independent non-executive Directors:
Mr. Wong Chi Keung, Alvin
Mr. Kwok Ka Lap, Alva
Mr. Chui Sai Cheong

Registered office:
Clarendon House
Church Street
Hamilton HM 11
Bermuda

Principal place of business in Hong Kong:
29/F., Paul Y. Centre
51 Hung To Road
Kwun Tong
Kowloon
Hong Kong

29th May, 2006

To the Shareholders, and for information only, holders of convertible notes of the Company,

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION

INTRODUCTION

On 29th March, 2006, Million Orient, an indirect wholly-owned subsidiary of the Company, entered into the Acquisition Agreement with the Vendor in relation to the acquisition of 40% of the issued share capital of Orient Town for a cash consideration of HK$280, being the nominal value of the 280 shares of Orient Town to be acquired. The principal asset of Orient Town is its indirect shareholding interest in Concordia which is the owner of the Property, being 14 parcels of leased land situated in Estrada de Seac Pai Van, Macau (澳門路環聯生填海區).

As further consideration for Million Orient agreeing to enter into the Acquisition Agreement, the Vendor has granted Million Orient the Call Option pursuant to which Million Orient has the right to require the Vendor, from time to time within the Exercise Period, to sell all or any part of the Option Shares to Million Orient or its nominee(s) at the aggregate nominal value of the Option Shares. The Company will comply with the relevant rules in Chapter 14 of the Listing Rules if the Call Option is exercised.

Pursuant to the Acquisition Agreement, Million Orient undertakes to advance to Orient Town (subject to Completion) the Shareholder's Loan (being an aggregate amount

* *For identification purpose only*

of HK$885 million) on 12th May, 2006 or the Completion Date, whichever is later (or such other date as may be agreed between Million Orient and Orient Town), which will principally be used for completion of the Concordia Acquisition, or if the Concordia Acquisition has been completed, for repayment of shareholder's loan due from Orient Town to the Vendor. Further information on Orient Town Group, Concordia and the Concordia Acquisition is set out below.

The Acquisition, having taken into account the Shareholder's Loan, constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules which requires the approval by the Shareholders at the SGM. Further information on the Acquisition Agreement is set out below.

The purpose of this circular is to provide you with, among other things, (i) further details of the Acquisition Agreement; (ii) financial information relating to the Group, Orient Town Group and Concordia; (iii) the notice of the SGM; and (iv) other information as required under the Listing Rules.

THE ACQUISITION AGREEMENT DATED 29TH MARCH, 2006

1) Parties

Vendor: Pacific Wish Limited, an investment holding company.

Save for being a party to the Acquisition Agreement and the ancillary agreements (as described below), to the best of the Directors' knowledge, information and belief and after having made all reasonable enquiry, the Vendor and its beneficial owner, Mr. Ma, are independent of the Group and its connected persons and are not connected persons as defined under the Listing Rules. Mr. Ma is also not a connected person to the ultimate owners of any of the holders of the convertible notes of the Company.

Purchaser: Million Orient Limited, an indirect wholly-owned subsidiary of the Company principally engaged in investment holding.

2) Assets to be acquired

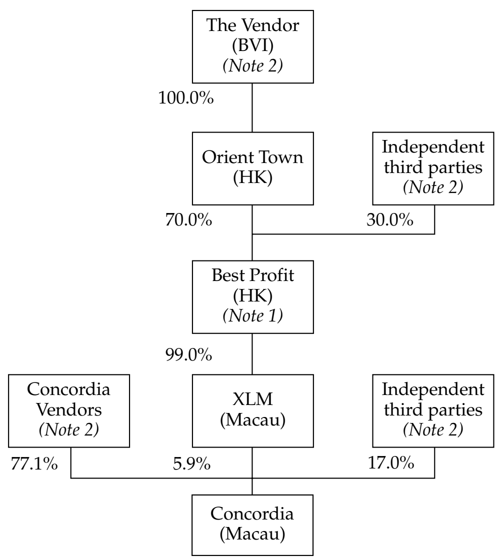
The Sale Shares, being 280 issued shares of Orient Town, representing 40% of the issued share capital of Orient Town.

As at the Latest Practicable Date, Orient Town was effectively interested in 70% of the issued share capital of XLM, which in turn was the owner of (i) 5.9% of the registered share capital of Concordia; and (ii) shareholder's loan of approximately MOP84.5 million advanced to Concordia. Concordia is the owner of the Property.

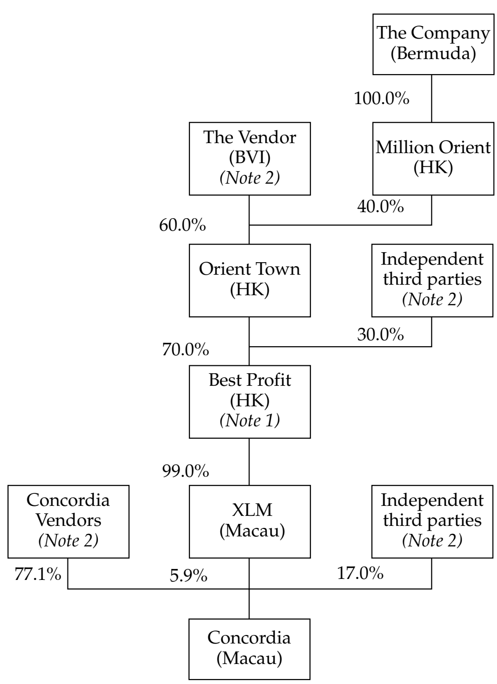
XLM entered into the Concordia Agreement with San Heng Chong (for itself and on behalf of other Concordia Vendors) to acquire a further 77.1% of the registered share capital of Concordia and the shareholder's loan (together with interest thereon) of approximately MOP1,713 million due by Concordia to the Concordia Vendors. Upon completion of the Concordia Acquisition which is scheduled to take place on 26th May, 2006, XLM will be interested in 83% of the registered share capital of Concordia. As at the Latest Practicable Date, the Concordia Acquisition had not been completed. Further information on Concordia and the Concordia Acquisition is set out in the paragraph headed "Information on Concordia" below.

The following illustrates the changes in the shareholding structure of Orient Town Group:

As at the Latest Practicable Date

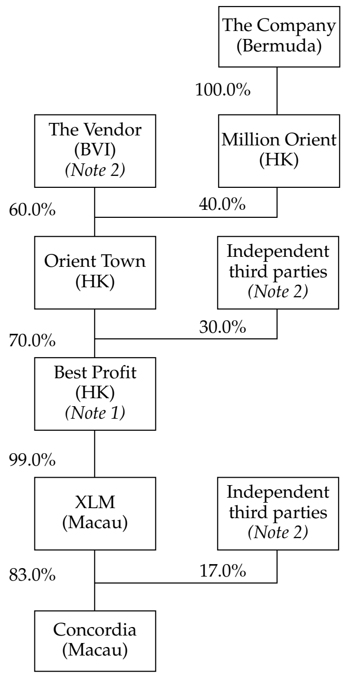


Upon Completion but before completion of the Concordia Acquisition



Upon Completion but before completion of the Concordia Acquisition, the Company will have an indirect effective interest in approximately 1.7% of the registered share capital of Concordia.

Upon Completion and completion of the Concordia Acquisition



Notes:

1. As at the Latest Practicable Date, Best Profit held 99% of the registered share capital of XLM. The remaining 1% of the registered share capital of XLM was held by Mr. Ma Iao Son, being one of the Warrantors. Pursuant to a power of attorney, Mr. Ma Iao Son has given irrevocable authority and powers to Best Profit to (i) sell such share(s) held by him; and (ii) represent him and take any deliberation and vote on his behalf in general meetings of XLM.

2. Based on the best knowledge of and information available to the Directors, as at the Latest Practicable Date, the Vendor, the independent third parties as referred to above and the Concordia Vendors were independent of any of the holders of the convertible notes of the Company.

3. Places in parentheses represent places of incorporation.

Upon Completion and completion of the Concordia Acquisition, the Company will have an indirect effective interest in approximately 23.2% of the registered share capital of Concordia and Concordia will become an associate of the Group. Information of Orient Town Group is set out in the paragraph headed "Information on Orient Town Group" below.

3) The Call Option

As further consideration for Million Orient agreeing to enter into the Acquisition Agreement, the Vendor has granted Million Orient the Call Option pursuant to which Million Orient has the right to require the Vendor, from time to time within the Exercise

Period, to sell all or any part of the Option Shares to Million Orient or its nominee(s) at the aggregate nominal value of such Option Shares. Upon Completion and upon Million Orient having exercised the Call Option in full to purchase all of the Option Shares, Million Orient will be interested in 350 shares of Orient Town, representing 50% of the issued share capital of Orient Town as at the Latest Practicable Date.

The exercise of the Call Option shall be conditional upon Million Orient having undertaken to the Vendor and Orient Town to advance to Orient Town the Additional Shareholder's Loan after the Option Completion.

The Additional Shareholder's Loan will be calculated as follows:

S = HK$200 million x N/T

whereas

S means the amount of the Additional Shareholder's Loan;
N means the number of Option Shares subject to an exercise of the Call Option; and
T means the aggregate number of Option Shares.

The Vendor undertakes not to dispose of any shares of Orient Town held by it within the Exercise Period unless, among other matters:

(a) the prior written consent of Million Orient has been obtained; and

(b) the Vendor having undertaken to Million Orient to pay to Million Orient the Disposal Compensation upon completion of the Disposal.

The Disposal Compensation will be calculated as follows:

U = (P-N-Y)/2

and subject to the maximum amount of the Disposal Compensation being calculated as follows:

U = (P-N-Y)/G x 70

whereas

U means the Disposal Compensation;
P means the amount payable by the prospective purchaser for the Disposal (excluding any amount which may be payable by such prospective purchaser to the Vendor for assignment of the relevant portion of shareholder's loan);
N means the aggregate nominal value of shares of Orient Town subject to the Disposal;
G means the number of shares of Orient Town subject to the Disposal; and
Y means all expenses reasonably and properly incurred by the Vendor in connection with the Disposal.

In the event of Disposal during the Exercise Period, the number of Option Shares will be reduced by half of the number of shares subject to Disposal.

The Company will comply with the relevant rules in Chapter 14 of the Listing Rules if the Call Option is exercised.

4) The Shareholder's Loan

Pursuant to the Acquisition Agreement, Million Orient undertakes to advance to Orient Town by way of shareholder's loan in the amount of HK$885 million for financing part of the working capital requirement of Orient Town which will principally be used for completion of the Concordia Acquisition, or if the Concordia Acquisition has been completed, for repayment of the shareholder's loan due from Orient Town to the Vendor. The Shareholder's Loan will bear an interest at the best lending rate for Hong Kong dollars as quoted by The Hongkong and Shanghai Banking Corporation Limited from time to time. The Shareholder's Loan is payable (subject to Completion) on 12th May, 2006 or the Completion Date, whichever is later (or such other date as may be agreed between Million Orient and Orient Town). Of the HK$885 million, HK$240 million will be satisfied by the earnest money paid by the Group to facilitate the negotiation of the Acquisition, and the remaining sum of HK$645 million will be satisfied by internal resource of the Group. As at the Latest Practicable Date, the Group had cash reserve of approximately HK$691 million.

In connection with the Concordia Acquisition, shareholders of Best Profit have agreed to provide shareholders' loans in an aggregate amount of HK$1,990 million to Best Profit, of which, (i) HK$597 million (representing 30% of such shareholders' loans) would be borne by the other two shareholders of Best Profit; and (ii) HK$1,393 million (representing 70% of such shareholders' loans) would be borne by Orient Town. The Vendor has been seeking financing in respect of such portion borne by Orient Town. It is one of the primary considerations of the Vendor for agreeing to dispose of the Sale Shares to Million Orient provided Million Orient would agree to bear a portion of such shareholders' loans which is in excess of the attributable equity interest in Best Profit that Million Orient would acquire. As a result, the Shareholder's Loan, which represents approximately 44.5% of the aggregate sum of the aforesaid shareholders' loans to be advanced by the shareholders of Best Profit, is not in proportion to the Group's effective interest of 28% in Best Profit upon Completion. However, taking into account the growth potential of the property market in Macau and that the Directors consider the chance to acquire significant block of land in Macau at the current location does not come by very often, the Board considers the terms of the Shareholder's Loan are reasonable.

5) Consideration and payment terms

The consideration of HK$280 for the Acquisition, being the nominal value of the 280 shares of Orient Town to be acquired, shall be satisfied by cash payable on Completion. The Consideration, which represents almost a 100% discount to the net asset value of Orient Town attributable to Million Orient of HK$14.8 million (calculated with reference to the net asset value of HK$36.9 million as at 31st December, 2005), was determined by arm's length negotiations between the Vendor and the Group with reference to the nominal value of the Sale Shares and having taken into account of the Call Option and the Shareholder's Loan. The Board considers the Consideration fair and reasonable.

6) Conditions precedent

Completion is conditional upon:

(i) the results of the due diligence review on Orient Town Group being, in the absolute opinion of Million Orient, satisfactory and acceptable to Million Orient in all respects;

(ii) Million Orient having obtained a written legal opinion issued, dated no earlier than seven Business Days prior to the Completion Date and addressed to Million Orient by a lawyer (acceptable to Million Orient) qualified to practise Macau laws in respect of, among other matters, each of XLM and Concordia and their respective ownership and business as well as that of the Property, which form and contents are satisfactory and acceptable to Million Orient at its absolute discretion;

(iii) all warranties, representations and undertakings given by the Vendor under the Acquisition Agreement remaining true and accurate and not misleading in any material respect as if repeated at Completion and at all times between the date of the Acquisition Agreement and Completion;

(iv) the Shareholders (or independent Shareholders, if required) having passed relevant resolutions at the SGM approving the transactions contemplated under the Acquisition Agreement;

(v) the Deed of Guarantee having been executed;

(vi) the release of the Share Charges; and

(vii) all necessary consents, permits and approvals (whether governmental, regulatory or otherwise, including any approval required by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong) as may be required in respect of the Acquisition Agreement and the transactions contemplated thereunder having been obtained by Million Orient and/or the Company.

Million Orient shall be entitled in its absolute discretion, at any time by written notice to the Vendor, to waive any of the above conditions (save and except for condition (iv), which cannot be waived) either in whole or in part. Save for condition (v) above, none of the above conditions had been fulfilled at the Latest Practicable Date and the Company has no present intention to waive any of the above conditions.

If (a) any of the above conditions has not been satisfied (or waived by Million Orient, as the case may be) on the Long Stop Date; or (b) Million Orient informs the Vendor in writing that it is not satisfied with the results of the due diligence review, the Acquisition Agreement shall automatically terminate and none of the parties to the Acquisition Agreement shall have any claim of any nature or liabilities thereunder whatsoever against any of the other party under the Acquisition Agreement (save for any antecedent breaches of the terms thereof and save that all monies (if any) paid by Million Orient to the Vendor thereunder and interest accrued or incurred thereto (if any) shall be repaid to Million Orient in full without any deduction forthwith).

7) Completion

Subject to fulfilment or waiver (as the case may be) of the above conditions precedent, Completion shall take place on the Completion Date.

Completion is not conditional on completion of the Concordia Acquisition.

ANCILLARY AGREEMENTS

1) Deed of Guarantee

On 29th March, 2006, the Warrantors and Million Orient entered into the Deed of Guarantee, in which the Warrantors warrant on, among other things, the shareholding structure, liabilities and indebtedness, certain accounts and financial matters of Orient Town Group and Concordia, and certain matters regarding the Property. In particular, the Warrantors have undertaken to compensate Million Orient in the event that Concordia could not obtain the Renewal from the Government of Macau within 2 years from the date of completion of the Concordia Acquisition (subject to Concordia paying the extra premium required by the Government of Macau, submitting a new development plan which complies with the regulations of the Government of Macau and the Government of Macau accepting the aforesaid development plan) pursuant to the Deed of Guarantee.

Million Orient may claim the Warrantors for breach of any warranties contained in the Deed of Guarantee by giving the Warrantors a written notice setting out details of the relevant claim prior to the third anniversary of completion of the Concordia Acquisition. The aggregate amount of liability of the Warrantors in respect of any claims for breach of any such warranties shall not exceed the aggregate amount of all monies paid or advanced by Million Orient to the Vendor or Orient Town (as the case may be) in accordance with the Acquisition Agreement together with interest calculated on a daily basis at the best lending rate for Hong Kong dollars from time to time quoted by The Hongkong and Shanghai Banking Corporation Limited. Given the Warrantors are members of a reputable family in Macau, the Directors believe that the Warrantors are capable of honouring the claims in case any warranties are breached.

2) The Shareholders' Agreement

On Completion, the Vendor and Million Orient shall enter into the Shareholders' Agreement. Principal terms of the Shareholders' Agreement are set out below:

(i)	Finance:	In the event that the Shareholder's Loan and the loan previously advanced by the Vendor have been fully utilised or that Orient Town is short of funding for operation of Orient Town Group, Orient Town shall first obtain banking facilities with no recourse to Orient Town's shareholders. If external financing cannot be obtained, Orient Town may require its shareholders to provide further shareholders' loan in proportion to their respective shareholding in Orient Town.
(ii)	Interest:	The shareholders' loans referred to in (i) above shall bear interest calculated at the best lending rate for Hong Kong dollars from time to time quoted by The Hongkong and Shanghai Banking Corporation Limited.
(iii)	Repayment:	There shall be no fixed date of repayment of the shareholders' loans, and no shareholder shall demand for repayment unless approved by the board of directors of Orient Town.
(iv)	Board:	The maximum number of directors shall be eight with five of which being nominated by the Vendor and three of which being nominated by Million Orient. The Vendor and Million Orient undertake to, and the Vendor undertakes to procure the transferee to, negotiate in relation to the board composition of Orient Town in the event of the Disposal such that the largest shareholder shall be entitled to appoint the majority number of directors. Therefore, the precise board composition cannot be ascertained as at the Latest Practicable Date. The chairman shall be elected by majority votes of directors present at the relevant meeting with casting vote.
(v)	Termination:	The Shareholders' Agreement shall continue in full force and effect until Orient Town shall be wound up or otherwise cease to exist as a separate corporate entity, or until the entire issued share capital of Orient Town shall be owned by one shareholder of Orient Town.

INFORMATION ON ORIENT TOWN GROUP

Orient Town, Best Profit and XLM are all special purpose vehicles incorporated in 2005. As at the Latest Practicable Date, Orient Town had an 70% effective interest in the issued share capital of XLM, which in turn has an interest in 5.9% of the registered share capital of Concordia. Upon completion of the Concordia Acquisition, XLM will have an interest in 83% of the registered share capital of Concordia. Except for the direct or indirect investments in Concordia, all Orient Town, Best Profit and XLM have no other business.

Set out below is the audited consolidated financial information on Orient Town since 1st June, 2005 (date of incorporation) to 31st December, 2005 prepared in accordance with HK GAAP:

	For the period from 1st June, 2005 to 31st December, 2005 *HK$'000* *(Audited)*
Turnover	–
Profit before taxation *(Note)*	36,913
Profit after taxation	36,913

	As at 31st December, 2005 *HK$'000* *(Audited)*
Total assets	791,901
Net assets	36,914

Note: Such profit was primarily attributable to the gain on disposals of 30% interests in Best Profit by Orient Town to two independent third parties. As at the Latest Practicable Date, Orient Town was effectively interested in 4.1% equity interest in Concordia through its shareholding in Best Profit. Therefore, the loss incurred by Concordia was neither consolidated nor equity accounted for by Orient Town.

Upon Completion and completion of the Concordia Acquisition, Concordia will become an indirect subsidiary of Orient Town. Based on the current intended use of the Property and information available, the Property will be stated in the consolidated accounts of Orient Town at the lower of its cost or net realisable value if the Renewal is being granted.

INFORMATION ON CONCORDIA

Concordia

Concordia was incorporated in Macau in 1975. The sole business of Concordia is its investment in the Property, which is located on the northwest side of Coloane, Macau (澳門路環) with a go-kart circuit and a hotel under construction nearby. Concordia was granted the Lease for developing the Property for residential, commercial or hotel use. The Lease expired on 7th October, 2000. Concordia is in the course of obtaining a new concession, extension or renewal from the Government of Macau for an extension of the lease term of the Property for 25 years commencing from its expiry in 2000, which is in line with the normal practice in Macau.

The total gross area of the Property is 208,490m^2 with a total construction site area of 55,652m^2. It is preliminarily planned that luxurious residential properties including service apartments with carparks and club house facilities of gross saleable area of approximately 600,000m^2 will be built on the site. Such development plan is in conceptual design stage and has not been submitted to the Government of Macau.

Concordia had previously contacted the Government of Macau in relation to the Renewal. However, as Concordia had no financial ability to pay the outstanding land premium on the Property (which amounted to approximately MOP140.8 million) together with interest accrued (which amounted to approximately HK$103.0 million as at the Latest Practicable Date) in the past, there has not been much progress on the Renewal since its expiry in 2000. As at the Latest Practicable Date, the land premium of MOP140.8 million had been fully settled by Concordia, and the interest accrued of HK$103.0 million was still subject to further enquiry with the Government of Macau.

Based on a written reply from the Government of Macau in October 2003, the approval for the Renewal will be considered after submission of (i) a proposal for settlement of the overdue land premium and the accrued interest thereon; and (ii) a development plan for the Property to the Government of Macau. Currently, formation of land, roads, access to water and electricity for the proposed development of the Property have been completed.

According to the legal opinion issued by Mr. Leong Hon Man, the Company's legal adviser in respect of Macau laws, based on the general practice in Macau, as long as Concordia pays the outstanding premium, additional premium, interest, the outstanding land rent and satisfies other requirements that the Government of Macau may demand, it is likely that the Government of Macau will grant the Renewal. In view of the above, the Board is optimistic that the Renewal will be granted by the Government of Macau in about six months upon submission of the settlement proposal and the development plan.

Set out below is the audited financial information on Concordia for each of the two years ended 31st December, 2004 and 2005 prepared in accordance with HK GAAP:

	Year ended 31st December,	
	2005	**2004**
	MOP'000	*MOP'000*
	(Audited)	*(Audited)*
Turnover	–	–
Loss before taxation	(62,280)	(109,484)
Loss after taxation	(62,280)	(109,484)

	As at 31st December,	
	2005	**2004**
	MOP'000	*MOP'000*
	(Audited)	*(Audited)*
Total assets	15,837	44,073
Net liabilities	(1,997,578)	(1,952,614)

Due to expiry of the Lease, all unamortised costs for the development of the Property incurred prior to the expiry were charged to the income statement of Concordia in 2000. Costs, including but not limited to groundwork costs and borrowing costs incurred for the development of the Property subsequent to the expiry of the Lease, were recognised as expenses in the income statement in the period in which they were incurred. Therefore, the financial information on Concordia is not reflective of the potential value of the Property.

Concordia Acquisition

XLM entered into the Concordia Agreement with San Heng Chong (for itself and on behalf of other Concordia Vendors) in relation to the acquisition of the Concordia Sale Shares, being 77.1% of the registered share capital of Concordia, and the Concordia Sale Debts, being approximately MOP1,713 million as at the Latest Practicable Date, the exact amount of which is to be determined upon completion of the Concordia Acquisition. The consideration for the Concordia Acquisition is HK$1,850 million (subject to adjustment of the Concordia Sale Debts).

Up to the Latest Practicable Date, a sum of approximately HK$840 million had been paid to the Concordia Vendors. The remaining balance of approximately HK$1,010 million outstanding as at the Latest Practicable Date shall be payable on 26th May, 2006, which will be financed by Orient Town and other two shareholders of Best Profit (both of which being independent third parties) in the form of shareholder's loan. According to the Concordia Agreement, the Concordia Vendors will transfer the Concordia Sale Shares and assign the Concordia Sale Debts to XLM upon payment of all consideration. As discussed above, the Shareholder's Loan to be advanced by Million Orient to Orient Town upon Completion will be used for financing the remaining balance of approximately HK$1,010 million for completion of the Concordia Acquisition, or if the Concordia

Acquisition has been completed, for repayment of the shareholder's loan due from Orient Town to the Vendor. The remaining sum of approximately HK$125 million will be financed by the Vendor and the other two shareholders of Best Profit. In the event of non-completion of the Concordia Acquisition, Million Orient has the right to claim the Warrantors under the Deed of Guarantee for refund of all monies paid or advanced by Million Orient, including but not limited to the Shareholder's Loan, as described in the sub-paragraph headed "Deed of Guarantee" in the paragraph headed "Ancillary Agreements" above.

REASONS FOR THE ACQUISITION

The Company is an investment holding company, and its subsidiaries are principally engaged in property development and investment in Hong Kong, trading of motorcycles and spare parts, the sale and manufacturing of "Tung Fong Hung" branded Chinese pharmaceutical and health products, the production and distribution of western pharmaceutical products and securities investment.

As disclosed in the Company's circulars dated 6th January, 2005 and 23rd May, 2005 in relation to the issue of new Shares and convertible notes in which aggregate proceeds, before expenses, of approximately HK$1,160 million was raised, by leveraging on the Group's extensive experience in the property business, the Group is open for property investment opportunities and has decided to further expand its property investment portfolio in high quality residential and commercial buildings. The Board has been actively seeking property investment opportunities in Hong Kong, Macau and the PRC and identified the Acquisition during its normal soliciting process. The Board considers that the Acquisition is in line with the Group's business strategy.

The Acquisition represents an attractive opportunity to the Group as it enables the Group to diversify into the property market in Macau and to have an interest in a quality residential properties and service apartments development project. The Board commissioned Wai & Ko Real Estate Ltd. and S.H. Ng & Co., Ltd., both being firms of independent professional valuers, to conduct a valuation on the Property which indicated that the fair value of the Property was approximately HK$3,429 million as at 1st March, 2006. In considering the Acquisition, the Board had taken into account the prospering property market in Macau and the above valuation of the Property prepared by the independent valuers.

The Board would like to draw your attention to the opinions of the reporting accountants on the financial information on Orient Town Group and Concordia set out in Appendices I and II respectively to this circular which are summarised below:

Reporting accountants' opinions on the financial information on Orient Town Group:

1. Included in the consolidated balance sheet of Orient Town as at 31st December, 2005 were an available-for-sale investment in Concordia of HK$13,236,000, loan to Concordia of HK$82,036,000 and deposits paid for the acquisition of additional interest in Concordia of HK$610,000,000, Concordia being solely engaged in the holding of the Property. The lease term of the Property expired in 2000 and Concordia is in the course of obtaining Renewal from the

Government of Macau for an extension of the lease term of the Property for twenty-five years commencing from its expiry in 2000. In the absence of a confirmation from the Government of Macau on the Renewal of the lease term, the reporting accountants were unable to assess whether any impairments for the available-for-sale investment in Concordia, the loan to Concordia or the deposits paid for the acquisition of additional interest in Concordia should be recognised and the gain on partial disposal of interest in a subsidiary of HK$78,875,000 is fairly stated.

2. Included in Orient Town's balance sheet as at 31st December, 2005 was an amount due from Best Profit of HK$319,230,000. Because of the limitation of their scope set out above, the reporting accountants were unable to obtain sufficient documentary evidence to assess whether impairment should be recognised for this amount.

Reporting accountants' opinions on the financial information on Concordia:

3. The reporting accountants were unable to obtain documentary evidence in respect of the government interest payable of MOP74,836,000, MOP88,335,000 and MOP102,679,000 as at 31st December, 2003, 2004 and 2005 respectively, for the government land premium payable balance of MOP140,782,000 as at 31st December, 2003, 2004 and 2005, and the government land rent and interest payable of MOP3,790,000, MOP4,704,000 and MOP5,617,000 as at 31st December, 2003, 2004 and 2005 respectively. There were no other satisfactory audit procedures that the reporting accountants could adopt to confirm that the amounts were fairly stated.

4. The reporting accountants were unable to obtain sufficient documentary evidence to verify the ownership and the carrying amounts of Concordia's buildings of MOP7,180,000 and MOP5,289,000 as at 31st December, 2003 and 2004 respectively. These buildings were disposed of prior to 31st December, 2005. There were no other satisfactory audit procedures that the reporting accountants could adopt to verify the ownership and whether these amounts included in the balance sheets and the related depreciation charge and profit or loss on disposal of these buildings for each of the three years ended 31st December, 2005 were fairly stated.

The Board has carefully evaluated the opinions of the reporting accountants on the financial information on Orient Town and Concordia for the prior years and considered that they have no material adverse effects to the Acquisition based on the following reasons:

1. Renewal of the Lease

The opinions of the reporting accountants in (1) and (2) above are principally related to the uncertainty on whether the Renewal can be obtained. The Lease expired in 2000. According to a written reply from the Government of Macau dated 7th October, 2003, the Renewal would be considered after submissions of the proposals to the Government of Macau in relation to:

– the settlement of outstanding land premium and accrued interest due to the Government of Macau; and

– the development plan of the Property.

To safeguard the interest of the Group, it is stated in the Deed of Guarantee that the Warrantors have undertaken to compensate Million Orient in the event that Concordia could not obtain the Renewal from the Government of Macau within 2 years from the date of completion of the Concordia Acquisition (subject to Concordia paying the extra premium required by the Government of Macau, submitting a new development plan which complies with the regulations of the Government of Macau and the Government of Macau accepting the aforesaid development plan). The Board has also carried out the following procedures to monitor the progress of the Renewal:

a. confirming with the Vendors that the outstanding land premium of HK$140.8 million due to the Government of Macau has been fully settled and the amount and timing of the settlement of the interest accrued thereon are subject to further enquiry with the Government of Macau;

b. discussing with the Vendor and reviewing documentary evidence that a development plan of the Property is being prepared to the satisfaction of the Company; and

c. discussing with its legal advisers in Macau and reviewing his legal opinion that based on the general practice in Macau, as long as Concordia pays the outstanding premium, additional premium, interest, the outstanding land rent and satisfies other requirements that the Government of Macau may demand, it is likely that the Government of Macau will grant the Renewal.

As at the Latest Practicable Date, the Government of Macau has not yet granted the Renewal. The Board has carried out the necessary procedures to corroborate that the application of the Renewal is progressing properly and nothing has come to the attention of the Board which may hinder, affect or delay Concordia from obtaining a good and marketable title to the Property.

2. Insufficient audit evidence for the land premium, interest and land rent payable

Since the reporting accountants cannot obtain independent confirmation from the Government of Macau to verify the amount payable by Concordia for the outstanding land rent, land premium and interest accrued thereon as at 31st December, 2003, 2004 and 2005 respectively, they were unable to form an opinion on whether such amounts were fairly stated in the accountants' report as described in (3) above. As set out in the Concordia Agreement, the Concordia

Vendors will settle all liabilities of Concordia (including land rent, land premium and interest accrued thereon) save for certain amounts due to some shareholders of Concordia. The Concordia Vendors further warrant that, save as disclosed in the Concordia Agreement, Concordia had no liabilities, and undertake to settle any liabilities which have not been disclosed. In particular, the outstanding land premium of HK$140.8 million had already been fully settled by Concordia as at the Latest Practicable Date.

3. The opinion of the reporting accountants in (4) above relates to the balance sheets of Concordia as at 31st December, 2003 and 31st December, 2004 which, in the opinion of the Board, has no implication to the Acquisition and Concordia Acquisition.

In addition, the Board would like to highlight that, as stated in the accountants' report of Orient Town set out in Appendix I to this circular, the financial information on Orient Town Group has been prepared on a going concern basis because upon Completion, Orient Town Group should have adequate funds to enable Orient Town Group to meet its financial obligations as they fall due in the foreseeable future since:

1. upon Completion, the Group undertakes to advance the Shareholder's Loan to Orient Town Group for completion of the Concordia Acquisition, or if the Concordia Acquisition has been completed, for repayment of the shareholder's loan due from Orient Town to the Vendor; and

2. pursuant to a shareholders' agreement of Best Profit, the existing shareholders of Best Profit shall not demand repayment of their shareholders' loans unless approved by the directors of Best Profit. In addition, the existing shareholders of Best Profit agree to provide fund to finance the Concordia Acquisition and advance further shareholders' loans up to HK$200,000,000 to Best Profit for the payment of additional land premium payable by Concordia upon the Renewal.

The Board considers that the provision of the Shareholder's Loan is justified given the principal objective of the Group is to acquire an 23.2% effective interest in the Property (which requires completion of the Concordia Acquisition) and the principal use of the Shareholder's Loan is for completion of the Concordia Acquisition, or if the Concordia Acquisition has been completed, for repayment of the shareholder's loan due from Orient Town to the Vendor.

In view of the above, the Board considers the entering into of the Acquisition Agreement (including the transactions contemplated thereunder) is in the interest of the Company and the Shareholders as a whole and that the terms of the Acquisition Agreement are fair and reasonable.

FINANCIAL EFFECTS OF THE ACQUISITION

Your attention is drawn to the unaudited pro forma financial information on Enlarged Orient Town Group and the Enlarged Group set out in Appendix V to this circular. Such unaudited pro forma financial information is prepared as if the Concordia Acquisition and the Acquisition (as the case may be) have been completed at the relevant time and is presented to provide information on Enlarged Orient Town Group as a result of completion of the Concordia Acquisition and on the Enlarged Group as a result of Completion and completion of the Concordia Acquisition.

In particular, the unaudited pro forma financial information on Enlarged Orient Town Group is included despite Completion not being conditional on completion of the Concordia Acquisition. In this respect, the Board considers that, as the principal objective of the Group is to acquire an 23.2% effective interest in the Property which requires completion of the Concordia Acquisition, inclusion of the unaudited pro forma financial information on Enlarged Orient Town Group would provide Shareholders with a more complete illustration of the possible financial effects of the Acquisition on the Group and enable Shareholders to make an informed decision for voting at the SGM.

Based on the unaudited pro forma financial information on the Enlarged Group set out in Appendix V to this circular, the financial effects of the Acquisition are summarised below:

Earnings

Upon Completion and completion of the Concordia Acquisition, the Group shall be entitled to equity account for the profit or loss after taxation of the Orient Town Group as an associate. As set out in Appendix V to this circular, assuming Completion had taken place on 1st April, 2004, the unaudited pro forma net profit after tax of the Enlarged Group would be increased by approximately HK$4.8 million, recognised as share of results of Enlarged Orient Town Group. Since (i) the income recognised by Orient Town Group for the period ended 31st December, 2005 mainly represented the gain from disposal of its partial interest in a subsidiary which may not be of recurring nature; and (ii) the only core business of Orient Town Group is its interests in the Property which operating performance will principally be dependent on the outcome of the application for the Renewal and the development plan of the Property, the above financial effect on earnings is for illustrative purpose only and does not purport to represent the results of the Enlarged Group on Completion.

Net assets

As extracted from the interim report of the Company for the six months ended 30th September, 2005, the unaudited consolidated total assets and total liabilities (including minority interest) of the Group was approximately HK$1,441.8 million and HK$1,030.9 million respectively. The unaudited net asset value attributable to Shareholders was approximately HK$410.9 million.

As set out in Appendix V to this circular, assuming Completion had taken place on 30th September, 2005, the unaudited pro forma combined total assets and total liabilities (including minority interest) of the Enlarged Group was approximately HK$1,456.5 million and HK$1,030.9 million respectively. The unaudited pro forma net asset value attributable to Shareholders was approximately HK$425.6 million. The increase in the unaudited pro forma net asset value attributable to Shareholders represents the discount on acquisition of approximately HK$14.8 million which is estimated to arise from the Acquisition.

Gearing

As extracted from the interim report of the Company for the six months ended 30th September, 2005, the gearing ratio of the Group, calculated with reference to the total bank and other borrowings of HK$50.9 million, the fair value of the liability component of convertible notes payables of HK$901.7 million, setoff with the bank and cash balances of HK$672.5 million and the Group's shareholder's funds of HK$410.9 million, was 0.7.

As set out in Appendix V to this circular, assuming the Completion had taken place on 30th September, 2005, the gearing ratio of the Enlarged Group, calculated with reference to the total bank and other borrowings of HK$50.9 million, the fair value of the liability component of convertible note payables of HK$901.7 million, setoff with the bank and cash balances of HK$27.5 million and the Group's shareholder's funds of HK$425.6 million, was 2.2.

SGM

The Acquisition, having taken into account of the Shareholder's Loan, constitutes a very substantial acquisition of the Company under Chapter 14 of the Listing Rules and is therefore subject to Shareholders' approval at the SGM. To the best of the Directors' knowledge, information and belief, and after having made reasonable enquiries, as at the Latest Practicable Date, no Shareholder had any material interest in the Acquisition and was required to abstain from voting at the SGM.

Set out on pages 244 to 245 of this circular is a notice of the SGM to be held at Conference Room, 11/F., Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong, on Thursday, 15th June, 2006 at 11:00 a.m., at which an ordinary resolution will be proposed and, if consider appropriate, passed to approve the Acquisition Agreement and the transactions contemplated thereunder.

Whether or not you are able to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the branch share registrars and transfer office of the Company, Secretaries Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not later than 48 hours before the time for holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

PROCEDURE FOR DEMANDING A POLL

Pursuant to bye-law 66 of the bye-laws of the Company, a resolution put to vote at a general meeting shall be decided on a show of hands unless voting by way of a poll is required by the rules of the designated stock exchange or (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

(a) by the chairman of the meeting; or

(b) by at least three members present in person or, in case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or

(c) by any member or members present in person or, in case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting; or

(d) by any member or members present in person or, in case of a member being a corporation, by its duly authorised representative or by proxy and holding Shares conferring a right to vote at the meeting, being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the Shares conferring that right; or

(e) if required by the rules of the designated stock exchange, by any Director or Directors who, individually or collectively, hold proxies in respect of Shares representing five per cent. (5%) or more of the total voting rights at such meeting, and if on a show of hand a meeting votes in the opposite manner to that instructed in those proxies, provided that if it is apparent from the total proxies held that a vote taken on a poll shall not reverse the vote taken on a show of hands, then the Director or Directors shall not be required to demand a poll.

In the event that a poll is demanded, the results of the poll will be published by way of an announcement in the local newspapers on the Business Day following the meeting in accordance with the requirements of the Listing Rules.

RECOMMENDATION

The Directors consider that the terms and conditions of the Acquisition Agreement are fair and reasonable and the entering of the Acquisition Agreement is in the interests of the Company and the Shareholders as a whole and accordingly recommend the Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Acquisition Agreement and the transactions contemplated thereunder.

ADDITIONAL INFORMATION

Your attention is drawn to the financial information relating to the Group, Orient Town Group and Concordia, the valuation reports of the properties of the Enlarged Group and other information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board
Cheung Tai Hong Holdings Limited
Cheung Hon Kit
Chairman

The following is the text of a report, prepared for inclusion in this circular, received from Deloitte Touche Tohmatsu, the independent reporting accountants.

Deloitte.
德勤

德勤・關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

29th May, 2006

The Directors
Cheung Tai Hong Holdings Limited

Dear Sirs,

We set out below our report on the financial information ("Financial Information") relating to Orient Town Limited ("Orient Town") and its subsidiaries (hereinafter collectively referred to as the "Orient Town Group") for the period from 1st June, 2005 (date of incorporation) to 31st December, 2005 (the "Relevant Period") for inclusion in the circular of Cheung Tai Hong Holdings Limited ("Cheung Tai Hong") dated 29th May, 2006 issued in connection with the very substantial acquisition of Cheung Tai Hong (the "Circular").

Orient Town was incorporated on 1st June, 2005 in Hong Kong with limited liability.

As at the date of this report, Orient Town has the following subsidiaries:

Name of subsidiary	Place and date of incorporation/ operations	Issued and fully paid share capital	Attributable equity interest held by Orient Town		Principal activity
			Directly	*Indirectly*	
Best Profit Holdings Limited ("Best Profit")	Hong Kong 6th October, 2005	HK$1,000 ordinary shares	70%	–	Investment holding
San Lun Mang Investimentos, Limitada ("XLM")	Macau 16th August, 2005	MOP100,000 quota shares	–	69.3%	Investment holding

The financial statements of Orient Town, Best Profit and XLM for the period since their respective dates of incorporation to 31st December, 2005 prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS(s)") were audited by Poon & Tong C.P.A. Limited, certified public accountants registered in Hong Kong.

The Financial Information of Orient Town Group for the Relevant Period set out in this report has been prepared from the audited financial statements of Orient Town Group (the "Underlying Financial Statements").

The preparation of the Underlying Financial Statements is the responsibility of the directors of those companies who approved their issue. The directors of Cheung Tai Hong are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an opinion on the Financial Information and to report our opinion to you.

We planned to perform examination procedures in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") on the audited financial statements for the Relevant Period. The examination procedures included a review of the audit working papers of other auditors on the audited financial statements and if necessary, to carry out additional independent audit procedures in accordance with Hong Kong Standards on Auditing issued by the HKICPA. However, our scope was limited as follows:

1. Included in the consolidated balance sheet as at 31st December, 2005 were an available-for-sale investment of HK$13,236,000, loan to an investee of HK$82,036,000 and deposits paid for the acquisition of additional interest in an investee of HK$610,000,000, the investee being solely engaged in the holding of 14 parcels of land in Macau (the "Land") as further explained in note 13 to the Financial Information. The lease term of the Land expired in 2000 and the investee is in the course of obtaining a new concession or renewal from the Government of Macau for an extension of the lease term of the Land for twenty five years commencing from its expiry in 2000. In the absence of a confirmation from the Government of Macau on the new concession or renewal of the lease term, we were unable to assess whether any impairment for the available-for-sale investment, loan to an investee or deposits paid for the acquisition of additional interest in the investee should be recognised and the gain on partial disposal of interest in a subsidiary of HK$78,875,000 is fairly stated.

2. Included in Orient Town's balance sheet as at 31st December, 2005 was an amount due from a subsidiary of HK$319,230,000. Because of the limitation of our scope set out above, we were unable to obtain sufficient documentary evidence so to assess whether any impairment should be recognised for this amount.

There were no other satisfactory audit procedures that we could adopt to satisfy ourselves these amounts were fairly stated as at 31st December, 2005. Any impairment found to be necessary would decrease the net assets as at that date and profit for the period of Orient Town Group or Orient Town as appropriate.

Because of the significance of the possible effects of the limitation in the scope of our examination work referred to above, we are unable to form an opinion as to whether the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Orient Town Group and Orient Town as at 31st December, 2005 and of the profit and cash flows of Orient Town Group for the period from 1st June, 2005 (date of incorporation) to 31st December, 2005.

A. FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENT

For the period from 1st June, 2005 (date of incorporation) to 31st December, 2005

	Notes	*HK$'000*
Turnover		–
Interest income		79
Gain on partial disposal of interest in a subsidiary	*7*	78,875
Administrative expenses		(1,031)
Finance costs	*8*	(11,010)
Forfeited deposit paid on acquisition of XLM	*9*	(30,000)
Profit for the period	*10*	36,913

CONSOLIDATED BALANCE SHEET
As at 31st December, 2005

	Notes	*HK$'000*
NON-CURRENT ASSETS		
Available-for-sale investment	*13*	13,236
Deposits paid for the acquisition of additional interest in an investee	*15*	610,000
		623,236
CURRENT ASSETS		
Other receivables	*16*	17,752
Amount due from a minority shareholder of a subsidiary	*18*	68,875
Loan to an investee	*19*	82,036
Bank balances and cash	*20*	2
		168,665
CURRENT LIABILITIES		
Other payables	*21*	2,213
Loan from ultimate holding company	*22*	356,024
Loans from minority shareholders of a subsidiary	*23*	396,750
		754,987
NET CURRENT LIABILITIES		(586,322)
		36,914
CAPITAL AND RESERVE		
Share capital	*24*	1
Accumulated profit		36,913
		36,914

BALANCE SHEET
As at 31st December, 2005

	Notes	*HK$'000*
NON-CURRENT ASSETS		
Investment in a subsidiary	*14*	1
CURRENT ASSETS		
Other receivables	*16*	250
Amount due from a subsidiary	*17*	319,230
Amount due from a minority shareholder of a subsidiary	*18*	68,875
Loan to an investee	*19*	6,750
		395,105
CURRENT LIABILITIES		
Other payables	*21*	2,179
Loan from ultimate holding company	*22*	356,009
		358,188
NET CURRENT ASSETS		36,917
		36,918
CAPITAL AND RESERVE		
Share capital	*24*	1
Accumulated profit	*25*	36,917
		36,918

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period from 1st June, 2005 (date of incorporation) to 31st December, 2005

	Share capital	**Accumulated profit**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Issue of shares at the time of incorporation and subsequent changes	1	–	1
Profit for the period	–	36,913	36,913
At 31st December, 2005	1	36,913	36,914

CONSOLIDATED CASH FLOW STATEMENT

For the period from 1st June, 2005 (date of incorporation) to 31st December, 2005

	Notes	*HK$'000*
OPERATING ACTIVITIES		
Profit for the period		36,913
Adjustments for:		
Interest income		(79)
Interest expense		11,010
Gain on partial disposal of interest in a subsidiary		(78,875)
Forfeited deposit paid on acquisition of XLM		30,000
Operating cash flows before working capital		(1,031)
Other receivables		(17,752)
Other payables		189
NET CASH USED IN OPERATING ACTIVITIES		(18,594)
INVESTING ACTIVITIES		
Deposits paid for acquisition of additional interest in an investee		(610,000)
Acquisition of a subsidiary	*26*	(93,248)
Deposit paid on acquisition of XLM		(30,000)
Proceeds from partial disposal of interest in a subsidiary		10,000
Interest received		79
NET CASH USED IN INVESTING ACTIVITIES		(723,169)
FINANCING ACTIVITIES		
Loans from minority shareholders of a subsidiary		396,750
Loan from ultimate holding company		345,014
Proceed from issue of share capital		1
CASH FROM FINANCING ACTIVITIES		741,765
NET INCREASE IN CASH AND CASH EQUIVALENTS AND CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, represented by bank balances and cash		2

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL

Orient Town was incorporated in Hong Kong with limited liability and acts as an investment holding company. The address of the registered office and the principal place of business of Orient Town is 15th Floor, Alexandra House, 18 Chater Road, Central, Hong Kong. Its parent and ultimate parent company is Pacific Wish Limited, a company established in the British Virgin Islands.

The Financial Information is presented in Hong Kong dollars, which is the same as the functional currency of Orient Town.

The Financial Information has been prepared on a going concern basis because, upon completion of the proposed acquisition, Orient Town Group should have adequate funds to enable it to meet its financial obligations as they fall due for the foreseeable future because:

i. Cheung Tai Hong undertakes to advance a shareholder loan of HK$885 million to Orient Town Group to finance its acquisition of 77.1% interest in Empresa De Fomento Industrial E Comercial Concordia, S.A. ("Concordia') (the "Concordia Acquisition"), details as set out in note 27; and

ii. Pursuant to a shareholders' agreement of Best Profit, the existing shareholders of Best Profit shall not demand repayment of their shareholders' loans unless approved by the directors of Best Profit. In addition, the existing shareholders of Best Profit agree to provide fund to finance the Concordia Acquisition and advance further shareholders' loans up to HK$200,000,000 to Best Profit for the payment of additional land premium payable by Concordia upon renewal of the lease term of the Land.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

Orient Town Group has not early applied the following new HKFRSs, Hong Kong Accounting Standards ("HKAS(s)") and interpretations ("INTs") that have been issued by the HKICPA but are not yet effective. The directors of Orient Town anticipate that the application of these standards or interpretations will have no material impact on Financial Information of Orient Town Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	The effects of changes in foreign exchange rates – net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment[3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]
HK(IFRIC) – INT 8	Scope of HKFRS 2[5]
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives[6]

[1] Effective for accounting periods beginning on or after 1st January, 2007.
[2] Effective for accounting periods beginning on or after 1st January, 2006.
[3] Effective for accounting periods beginning on or after 1st December, 2005.
[4] Effective for accounting periods beginning on or after 1st March, 2006.
[5] Effective for accounting periods beginning on or after 1st May, 2006.
[6] Effective for accounting periods beginning on or after 1st June, 2006.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis and in accordance with HKFRSs issued by the HKICPA.

Basis of consolidation

The Financial Information incorporates the financial information of Orient Town and its subsidiaries.

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

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

All significant intra-group transactions, balances, income and expenses within Orient Town Group are eliminated on consolidation.

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

Interests in subsidiaries

Interests in subsidiaries are included in Orient Town's balance sheet at cost less any identified impairment loss.

Revenue recognition

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

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

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

Taxation

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

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

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

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

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

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

Financial instruments

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

Financial assets

The Orient Town Group's financial assets are classified into loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Loans and receivables

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories of financial asset.

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

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including other payables, loans from ultimate holding company and minority shareholders of a subsidiary, are subsequently measured at amortised cost, using effective interest method.

Equity instruments

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

Derecognition

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

For financial liabilities, they are removed from Orient Town Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

Impairment losses

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumption 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 years, are discussed below.

Impairment on available-for-sale investment

Management considered in determining whether the available-for-sale investment is impaired depends on the value in use of the Land which the investee held. The lease term of the Land was expired, and the investee is in the process of applying a new concession or renewal of the lease term, which management considered that the application will be successful and the recoverable amount of the Land would be higher than the cost of investment. No impairment is therefore recognised.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Orient Town Group's major financial instruments include available-for-sale investment, loan to an investee, bank deposits, other receivables, other payables, loans from minority shareholders of a subsidiary and loan from ultimate holding company. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Available-for-sale investment and loan to an investee of Orient Town Group are denominated in foreign currencies. Orient Town Group currently does not have a foreign currency hedging policy in respect of foreign currency assets. However, management monitors the related foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

Credit risk

Orient Town Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December, 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of Orient Town Group has set up necessary monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In this regard, the directors of the Orient Town consider that Orient Town Group's credit risk is significantly reduced.

Liquidity risk

Upon completion of the Concordia Acquisition, Orient Town Group expects to have the financial support by its shareholders to maintain its continuity of funding.

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

No geographical segment information is presented as the activity of Orient Town Group during the Relevant Period was carried out in Macau and all assets and liabilities of Orient Town Group were located in Macau at the balance sheet date.

No business segment information is presented as there was no operation during the Relevant Period.

7. GAIN ON PARTIAL DISPOSAL OF INTEREST IN A SUBSIDIARY

It represents the gain on disposal of 30% interest in Best Profit to two independent third parties during the Relevant Period.

8. FINANCE COSTS

	HK$'000
Interest on loan from ultimate holding company	11,010

9. FORFEITED DEPOSIT PAID ON ACQUISITION OF XLM

During the period, Orient Town paid HK$30 million as a deposit on acquisition of XLM. However, the deposit paid was forfeited upon the cancellation of the acquisition by Orient Town and XLM was acquired by Best Profit subsequently.

10. PROFIT FOR THE PERIOD

	HK$'000
Profit for the period has been arrived at after charging:	
Auditors' remuneration	40
Directors' remuneration	–

11. TAXATION

No provision for Hong Kong Profits Tax has been made in the Financial Information as there is no estimated assessable profit for the Relevant Period.

The tax charge for the Relevant Period can be reconciled to the profit before taxation per the consolidated income statement as follows:

	HK$'000
Profit before taxation	36,913
Tax at Hong Kong Profits Tax rate	6,460
Tax effect of income that is not taxable in determining taxable profit	(13,817)
Tax effect of expenses that are not deductible in determining taxable profit	7,357
Tax expense for the period	–

There was no significant unrecognised deferred taxation at the balance sheet date or during the Relevant Period.

12. DIVIDENDS

No dividends were paid or declared by Orient Town during the Relevant Period.

13. AVAILABLE-FOR-SALE INVESTMENT

The available-for-sale investment represents the investment of 5.9% equity interest in Concordia, a private company incorporated in Macau. The investment is measured at cost less impairment at the balance sheet date because the directors of Orient Town are of the opinion that its fair value cannot be measured reliably.

The sole business of Concordia is its investment in 14 parcels of leased land, which is located on the northwest side of Coloane, Macau. Concordia had been granted the lease for developing the land for residential, commercial or hotel use. The lease expired in 2000. Concordia is in the course of obtaining a new concession or renewal from the Government of Macau for an extension of the lease term of the land for 25 years commencing from its expiry in 2000.

14. INVESTMENT IN A SUBSIDIARY

	HK$'000
Unlisted shares, at cost	1

15. DEPOSITS PAID FOR THE ACQUISITION OF ADDITIONAL INTEREST IN AN INVESTEE

In October 2005, Orient Town Group entered into an agreement to acquire an additional 77.1% interest in Concordia from independent third parties, for an aggregate consideration of HK$1,850 million. A deposit of HK$610 million had been paid by Orient Town Group at 31st December, 2005.

The directors consider that the carrying amount approximates its fair value at the balance sheet date.

16. OTHER RECEIVABLES

It represents the refundable deposits held by solicitors for the Concordia Acquisition. The directors consider that the carrying amounts of other receivables approximate their fair values at the balance sheet date.

17. AMOUNT DUE FROM A SUBSIDIARY

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

The directors consider that the carrying amount approximate its fair value at the balance sheet date.

18. AMOUNT DUE FROM A MINORITY SHAREHOLDER OF A SUBSIDIARY

The amount is unsecured, interest-free and is repayable on demand.

The directors consider that the carrying amount approximates its fair value at the balance sheet date.

19. LOAN TO AN INVESTEE

	Orient Town Group *HK$'000*	**Orient Town** *HK$'000*
Loan to Concordia	82,036	6,750

The amount is unsecured, interest-free and is repayable on demand.

The directors consider that the carrying amount of loan receivable approximates its fair value at the balance sheet date.

20. BANK BALANCES AND CASH

Bank balance and cash are held in Macau. The directors consider that the carrying amount of bank balances and cash approximates its fair value at the balance sheet date.

21. OTHER PAYABLES

	Orient Town Group *HK$'000*	Orient Town *HK$'000*
Accruals	213	179
Consideration payable for acquisition of a subsidiary	2,000	2,000
	2,213	2,179

The directors consider that the carrying amounts of other payables approximate their fair values at the balance sheet date.

22. LOAN FROM ULTIMATE HOLDING COMPANY

The amount is unsecured, bearing interest at prime rate for Hong Kong dollars quoted by The Hongkong and Shanghai Banking Corporation Limited, and has no fixed terms of repayment. The directors consider that the carrying amount of the loan approximates its fair value at the balance sheet date.

23. LOANS FROM MINORITY SHAREHOLDERS OF A SUBSIDIARY

The amounts are unsecured, interest-free and have no fixed terms of repayment. The directors consider that the carrying amounts of the loans from minority shareholders of a subsidiary approximate their fair values at the balance sheet date.

24. SHARE CAPITAL

	Authorised *HK$*	Issued and fully paid *HK$*
Ordinary shares of HK$1 each	10,000	700
Shown in the Financial Information as		HK$1,000

Orient Town was incorporated with an authorised share capital of HK$10,000. At the time of incorporation, 1 share of HK$1 each was issued at par to the subscriber to provide the initial capital to Orient Town.

On 16th September, 2005 and 21st December, 2005, Orient Town issued 1 share and 698 shares of HK$1 each at par respectively. The shares were issued for the purpose of raising additional capital to finance expansion and rank pari passu in all respects with the then shares in issue.

25. ACCUMULATED PROFIT OF ORIENT TOWN

	HK$'000
Profit for the period and at 31st December, 2005	36,917

26. ACQUISITION OF A SUBSIDIARY

During the Relevant Period, Orient Town has acquired the entire issued capital of Best Profit and Best Profit has acquired 99% of the issued capital of XLM for HK$95,250,000, both of which have been accounted for by purchase method of accounting.

The net assets acquired in the transaction are as follows:

	Acquiree's carrying amount before combination	Fair value adjustment	Total
	HK$'000	*HK$'000*	*HK$'000*
Available-for-sale investment	5,900	7,336	13,236
Loan to an investee	82,036	–	82,036
Bank balance and cash	2	–	2
Other payables	(24)	–	(24)
	87,914	7,336	
Total consideration, satisfied by cash			95,250
Net cash outflow arising on acquisition:			
Total cash consideration			(95,250)
Cash consideration payable			2,000
Cash consideration paid			(93,250)
Cash and cash equivalents acquired			2
			(93,248)

The revenue and results of Orient Town Group for the Relevant Period contributed by the subsidiary acquired are insignificant.

27. CAPITAL COMMITMENT

During the Relevant Period, Orient Town Group, through XLM, entered into an agreement with an independent third party (for itself and on behalf of certain shareholders of Concordia) (the "Concordia Vendors") in relation to the acquisition of 77.1% of the issued share capital of Concordia and their shareholders' loans to Concordia for approximately HK$1,850 million (subject to adjustment of the shareholders' loans). As at 31st December, 2005, a sum of HK$610 million was paid as deposits and the remaining of approximately HK$1,240 million will be payable by instalments, with the final instalment payable on 26th May, 2006. The deposits paid are refundable if the Concordia Vendors did not transfer the interest in Concordia to Orient Town Group. As the acquisition was completed after the latest practicable date for the purpose of the Circular, in the opinion of the directors, it was impracticable to quantify the amounts recognised at the acquisition date for each class of Concordia's assets, liabilities and contingent liabilities.

In accordance with a shareholder's agreement of Best Profit, all shareholders of Best Profit agreed to advance in proportion of their respective shareholding up to HK$200 million to Best Profit for the designated purpose of the extension of lease term of the Land held by Concordia.

28. RELATED PARTY DISCLOSURES

(a) Related party transactions

During the Relevant Period, Orient Town Group paid interest of HK$11,010,000 to its ultimate holding company.

In addition, Best Profit acquired the entire interest in XLM from Goal Oriental Finance Inc. which is beneficially owned by the family member of Mr. Fred Ma, a director of Orient Town, at a consideration of approximately HK$95 million. Before Best Profit's acquisition in XLM, Orient Town paid HK$30 million to Goal Oriental Finance Inc. as a deposit for its acquisition in XLM. The deposit paid was forfeited upon the cancellation of its acquisition during the period.

(b) Details of the balances with related parties as at the balance sheet date are set out on the consolidated balance sheet and in notes 18, 19, 22 and 23.

B. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Orient Town or any of the companies comprising Orient Town Group in respect of any periods subsequent to 31st December, 2005.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

The following is the text of a report, prepared for inclusion in this circular, received from Deloitte Touche Tohmatsu, the independent reporting accountants.

Deloitte.
德勤

德勤・關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

29th May, 2006

The Directors
Cheung Tai Hong Holdings Limited

Dear Sirs,

We set out below our report on the financial information ("Financial Information") relating to Empresa De Fomento Industrial E Comercial Concórdia, S.A. ("Concordia") for each of the three years ended 31st December, 2005 (the "Relevant Periods"), for inclusion in the circular of Cheung Tai Hong Holdings Limited ("Cheung Tai Hong") dated 29th May, 2006 issued in connection with the very substantial acquisition of Cheung Tai Hong (the "Circular").

Concordia was incorporated on 14th August, 1975 in Macau with limited liability.

The financial statements of Concordia prepared in accordance with the accounting principles generally accepted in Macau were audited by Messrs. Antonio Yu, auditor registered in Macau for the Relevant Periods.

For the purpose of this report, the directors of Concordia have prepared the management accounts of Concordia in accordance with Hong Kong Financial Reporting Standards ("HKFRS(s)") for the Relevant Periods (the "Underlying Financial Information").

The Financial Information set out in this report has been prepared from the Underlying Financial Information.

The preparation of the Underlying Financial Information is the responsibility of the directors of Concordia. The directors of Cheung Tai Hong are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Information, to form an opinion on the Financial Information and to report our opinion to you.

We planned to perform examination procedures in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") on the audited financial statements for the Relevant Periods. The examination procedures included a review of the audit working papers of other auditors on the audited financial statements and if necessary, to carry out additional independent audit procedures in accordance with Hong Kong Standards on Auditing issued by the HKICPA. We also planned to carry out independent audit procedures in accordance with Hong Kong Standards on Auditing issued by the HKICPA in respect of the management accounts of Concordia. However, our scope was limited as follows:

1. We were unable to obtain documentary evidence in respect of the government interest payable of MOP74,836,000, MOP88,335,000 and MOP102,679,000 as at 31st December, 2003, 2004 and 2005, respectively, for the government land premium payable of MOP140,782,000 as at 31st December, 2003, 2004 and 2005 and the government land rent and interest payable of MOP3,790,000, MOP4,704,000 and MOP5,617,000, respectively, as at 31st December, 2003, 2004 and 2005. There were no other satisfactory audit procedures that we could adopt to confirm that the amounts were fairly stated.

2. We are unable to obtain sufficient documentary evidence to verify the ownership and the carrying amounts of Concordia's buildings of MOP7,180,000 and MOP5,289,000, respectively, as at 31st December, 2003 and 2004. These buildings were disposed of during the Relevant Periods. There were no other satisfactory audit procedures that we could adopt to verify the ownership and whether these amounts included in the balance sheets and the related depreciation charge and profit or loss on disposal of these buildings for the Relevant Periods are fairly stated.

Any adjustments found to be necessary may have an effect on the net liabilities of Concordia as at 31st December, 2003, 2004 and 2005 and its loss for the Relevant Periods.

In our opinion, except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning the government interest payable, the government land rent and interest payable and the ownership and carrying amounts of buildings, the Financial Information gives, for the purpose of this report, a true and fair view of the state of Concordia's affairs as at 31st December, 2003, 2004 and 2005 and of its loss and cash flows for the Relevant Periods.

A. FINANCIAL INFORMATION

INCOME STATEMENTS

		Year ended 31st December,		
		2003	**2004**	**2005**
	Notes	*MOP'000*	*MOP'000*	*MOP'000*
Gain on debt restructuring	*7*	72,961	–	–
Interest income		712	714	234
Administrative expenses		(19,241)	(15,695)	(17,827)
Finance costs	*8*	(94,826)	(94,503)	(44,687)
Loss before taxation		(40,394)	(109,484)	(62,280)
Taxation	*9*	–	–	–
Loss for the year	*10*	(40,394)	(109,484)	(62,280)

BALANCE SHEETS

		As at 31st December,		
		2003	**2004**	**2005**
	Notes	*MOP'000*	*MOP'000*	*MOP'000*
NON-CURRENT ASSETS				
Property, plant and equipment	*12*	7,180	5,837	–
Prepaid lease payments	*13*	–	–	–
		7,180	5,837	–
CURRENT ASSETS				
Loans to related companies	*14*	37,475	38,189	15,763
Bank balances and cash	*15*	63	47	74
		37,538	38,236	15,837
CURRENT LIABILITIES				
Other payables	*16*	219,408	233,821	249,078
Loans from related parties	*17*	293,588	340,059	322,738
Loans from shareholders	*18*	1,236,142	1,304,697	1,327,175
Bank loans – due within one year	*19*	20,600	–	114,424
		1,769,738	1,878,577	2,013,415
NET CURRENT LIABILITIES		(1,732,200)	(1,840,341)	(1,997,578)
TOTAL ASSETS LESS CURRENT LIABILITIES		(1,725,020)	(1,834,504)	(1,997,578)
NON-CURRENT LIABILITIES				
Bank loans – due after one year	*19*	118,110	118,110	–
		(1,843,130)	(1,952,614)	(1,997,578)
CAPITAL AND RESERVES				
Share capital	*20*	100,000	100,000	100,000
Reserves		(1,943,130)	(2,052,614)	(2,097,578)
		(1,843,130)	(1,952,614)	(1,997,578)

STATEMENTS OF CHANGES IN EQUITY

	Share capital	Capital reserve	Accumulated losses	Total
	MOP'000	*MOP'000*	*MOP'000*	*MOP'000*
	(Note 20)	*(Note 21)*		
At 1st January, 2003	100,000	3,000	(1,905,736)	(1,802,736)
Loss for the year	–	–	(40,394)	(40,394)
At 31st December, 2003	100,000	3,000	(1,946,130)	(1,843,130)
Loss for the year	–	–	(109,484)	(109,484)
At 31st December, 2004	100,000	3,000	(2,055,614)	(1,952,614)
Effect of changes in accounting policies *(see Note 2)*	–	–	17,316	17,316
At 1st January, 2005 as restated	100,000	3,000	(2,038,298)	(1,935,298)
Loss for the year	–	–	(62,280)	(62,280)
At 31st December, 2005	100,000	3,000	(2,100,578)	(1,997,578)

CASH FLOW STATEMENTS

	Year ended 31st December,		
	2003	**2004**	**2005**
	MOP'000	*MOP'000*	*MOP'000*
OPERATING ACTIVITIES			
Loss for the year	(40,394)	(109,484)	(62,280)
Adjustments for:			
Interest income	(712)	(714)	(234)
Interest expense	94,826	94,503	44,687
Depreciation of property, plant and equipment	223	72	–
Loss on disposal of property, plant and equipment	5,180	789	2,337
Gain on debt restructuring	(72,961)	–	–
Operating cash flows before working capital changes	(13,838)	(14,834)	(15,490)
Increase in other payables	13,595	14,413	15,257
Cash used in operations	(243)	(421)	(233)
Interest paid	(5,150)	–	–
NET CASH USED IN OPERATING ACTIVITIES	(5,393)	(421)	(233)
INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment	2,265	1,030	–
Purchase of property, plant and equipment	–	(548)	–
NET CASH FROM INVESTING ACTIVITIES	2,265	482	–
FINANCING ACTIVITIES			
Loans advanced from related parties	41,220	20,523	260
Repayment of bank loans	(38,110)	(20,600)	–
NET CASH FROM (USED IN) FINANCING ACTIVITIES	3,110	(77)	260
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(18)	(16)	27
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	81	63	47
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	63	47	74

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION AND BASIS OF PREPARATION OF FINANCIAL INFORMATION

Concordia was incorporated in Macau with limited liability and engaged in property development. The address of the registered office and principal place of business of Concordia is Rua de Pequim ns 244 e 246 Macau Finance Centre 11 Andar I e J em Macau.

The Financial Information is presented in Macau Patacus, which is the same as the functional currency of Concordia.

On 5th October, 2005, certain shareholders of Concordia (the "Concordia Vendors") have entered into a sale and purchase agreement (the "Concordia Agreement") with San Lun Mang Investimentos, Limitada ("XLM"), a shareholder of Concordia, to dispose of:

(i) their shareholdings in Concordia, representing 77.1% issued share capital of Concordia;

(ii) their loans and interest receivables due from Concordia of an aggregate amount of approximately MOP1,013 million as at 31st December, 2005 (the "First Sale Loan"); and

(iii) the Second Sale Loan as defined below.

The completion of the Concordia Agreement (the "Concordia Completion") is scheduled on 26th May, 2006. As a condition of the Concordia Agreement, the Concordia Vendors will prior to the Concordia Completion advance an additional amount of approximately MOP700 million (the "Second Sale Loan") to Concordia to procure Concordia to fully settle all its liabilities except for the First Sale Loan and certain loans and interest thereof due to the shareholders of Concordia, other than the Concordia Vendors, as at 31st December, 2005.

Pursuant to a shareholder agreement of Best Profit Holdings Limited ("Best Profit") (the "Shareholder Agreement"), which holds 99% issued share capital of XLM, entered into on 23rd December, 2005, all the shareholders of Best Profit agreed to provide the required funding to XLM to complete the Concordia Agreement. The shareholders further agreed, after the Concordia Completion, to provide in aggregate not more than MOP200 million as the working capital of Best Profit and its subsidiaries including Concordia, mainly for obtaining the new concession or renewal from the Government of Macau for an extension of lease term of the leasehold land, details of which are set out in Note 13.

As at 31st December, 2005, Concordia had net current liabilities of approximately MOP1,998 million. Unless upon the Concordia Completion, Concordia shall be in doubt in repaying its liabilities as shown on the balance sheet as at 31st December, 2005 as they fall due. Accordingly, the Financial Information has not been prepared on a going concern basis.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

For the purpose of preparing this report and for the year ended 31st December, 2005, Concordia has applied, for the first time, a number of new HKFRSs, Hong Kong Accounting Standards ("HKAS(s)") issued by the HKICPA that are effective for the accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and statement of changes in equity. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to Concordia's accounting policies in the following areas that have an effect on how the results for the current/or prior accounting years are prepared and presented.

Financial assets and financial liabilities other than debt and equity securities

Prior to the application of HKAS 39 "Financial instruments: Recognition and Measurement", interest-free non-current bank loan was stated at the nominal amount. HKAS 39 requires all financial assets and financial liabilities to be measured at fair value on initial recognition. Such interest-free loan is measured at amortised cost determined using the effective interest method at subsequent balance sheet dates. Concordia has applied the relevant transitional provisions in HKAS 39. As a result of this change in the accounting policy, the carrying amount of the loan as at 1st January, 2005 has been decreased by MOP17,316,000 in order to state the loan at amortised cost in accordance with HKAS 39. Concordia's accumulated losses as at 1st January, 2005 has been decreased by MOP17,316,000. Loss for the year ended 31st December, 2005 has been increased by MOP13,630,000 due to the recognition of imputed interest expense (see below for financial impact).

The effects of the changes in the accounting policies described above on the results for the Relevant Periods are as follows:

	2003 MOP'000	2004 MOP'000	2005 MOP'000
Imputed interest expense on non-current interest-free bank loan and increase in loss for the year	–	–	13,630

The cumulative effects of the application of the new HKFRSs on 1st January, 2005 are summarised below:

	As at 31st December 2004 (originally stated) MOP'000	Adjustments MOP'000	As at 1st January, 2005 (restated) MOP'000
Balance sheet items			
Impact of HKAS 39:			
Non-current interest-free bank loan and total effect on liabilities	118,110	(17,316)	100,794
Accumulated losses and total effect on equity	2,055,614	(17,316)	2,038,298

There is no financial impact on Concordia's equity on 1st January, 2003 and 2004.

Concordia has not early applied the following new standards and interpretations that have been issued by the HKICPA but are not yet effective. The directors of Concordia anticipate that the application of these standards or interpretations will have no material impact on its Financial Information.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option2[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment[3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 financial reporting in hyperinflationary economies[4]
HK(IFRIC) – INT 8	Scope of HKFRS 2[5]
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives[6]

[1] Effective for accounting periods beginning on or after 1st January, 2007.
[2] Effective for accounting periods beginning on or after 1st January, 2006.
[3] Effective for accounting periods beginning on or after 1st December, 2005.
[4] Effective for accounting periods beginning on or after 1st March, 2006.
[5] Effective for accounting periods beginning on or after 1st May, 2006.
[6] Effective for accounting periods beginning on or after 1st June, 2006.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared under the historical cost basis and in accordance with HKFRSs issued by HKICPA. All HKFRSs effective for the accounting period beginning on 1st January, 2005 together with the relevant transitional provisions have been adopted in preparing the Financial Information.

Revenue recognition

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

Leasing

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

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

Foreign currencies

In preparing the Financial Information of Concordia, transactions in currencies other than the functional currency of Concordia (foreign currencies) are recorded at its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Taxation

Taxation represents the sum of the tax currently payable and deferred taxation.

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

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

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

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

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and accumulated impairment loss.

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

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

Leasehold land under development for future owner-occupied purpose

When the leasehold land are in the course of development for production, rental or for administrative purposes, it is classified as prepaid lease payments and amortised over a straight line basis over the lease terms. During the construction period, the amortisation charge provided for the leasehold land is included as part of costs of buildings under construction.

Impairment

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

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

Financial instruments

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

Financial assets

Concordia's financial assets are classified into loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of financial assets are set out below.

Loans and receivables

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

Financial liabilities and equity

Financial liabilities and equity instruments issued by Concordia are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of Concordia after deducting all of its liabilities.

Financial liabilities

Financial liabilities including bank borrowings, other payables and loans from related parties and shareholders are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Derecognition

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

For financial liabilities, they are removed from Concordia's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumption 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 years, are discussed below.

Allowance on loans to related companies

Concordia performs ongoing credit evaluations of its related companies, as determined by the review of their current credit information. Concordia continuously monitors collections and maintains a provision for estimated credit losses based upon its historical experience and any specific collection issues that it has identified. While such credit losses have historically been within Concordia expectations and the provisions established, there is no guarantee that it will continue to experience the same credit loss that it has had in the past.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Major financial instruments comprise bank and other borrowings and shareholders' loans. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manners.

Interest rate risk

Concordia's exposure to interest rate risks relates primarily to the debt obligations, including bank and other borrowings and shareholders' loan. Concordia has not entered into any interest rate hedging contracts or any other derivative financial instrument. However, management monitors the related interest rate exposure closely and consider hedging significant interest rate exposures should the need arise.

Credit risk

With respect to credit risk arising from the other financial assets of Concordia which comprise cash and cash equivalents and loans to related companies, the exposure to credit risk arising from default of the counter parties is limited as the counter parties have good relationships with Concordia and Concordia does not expect to incur a significant loss for uncollected advances/ deposits from these entities.

Liquidity risk

Concordia's objective is to maintain a balance between continuity of funding and the flexibility through the use of bank and other borrowings. Unless upon the Concordia Completion, Concordia shall be in doubt in repaying its liabilities as they fall due.

6. BUSINESS AND GEOGRAPHICAL SEGMENT

No geographical segment information is presented as all the activities of Concordia during the Relevant Periods were carried out in Macau and all assets and liabilities of Concordia were located in Macau at the balance sheet dates.

No business segment information is presented for Relevant Periods as there was no operation during the Relevant Periods.

7. GAIN ON DEBT RESTRUCTURING

In 2003, Concordia entered into certain debt restructuring agreements with banks to reduce its liabilities as owed to the banks. The reduction in the liabilities was recognised as a gain on debt restructuring in the period it arose. The details of the debt restructuring are set out in note 19.

8. FINANCE COSTS

	Year ended 31st December, 2003 MOP'000	2004 MOP'000	2005 MOP'000
Interest on:			
Bank borrowings wholly repayable within five years	5,941	–	13,630
Loans from related companies	20,517	25,948	8,579
Loans from shareholders	68,368	68,555	22,478
	94,826	94,503	44,687

9. TAXATION

No provision for Macau Complementary tax or Hong Kong Profits Tax had been made for the Relevant Periods as Concordia had no assessable profits.

The tax charge for the Relevant Periods can be reconciled to the loss before taxation per the income statement as follows:

	2003 MOP'000	2004 MOP'000	2005 MOP'000
Loss before taxation	(40,394)	(109,484)	(62,280)
Tax at Macau Complementary tax rate	(6,362)	(17,244)	(7,474)
Tax effect of income that is not taxable in determining taxable profit	(11,603)	(112)	(28)
Tax effect of expenses that are not deductible in determining taxable profit	17,965	17,356	7,502
Tax charge for the year	–	–	–

There were no significant deferred taxation for the Relevant Periods or at the respective balance sheet dates.

10. LOSS FOR THE YEAR

	Year ended 31st December, 2003 MOP'000	2004 MOP'000	2005 MOP'000
Loss for the year has been arrived at after charging:			
Directors' remuneration	–	–	–
Other staff costs	132	132	91
Total staff costs	132	132	91
Auditors' remuneration	15	15	8
Depreciation of property, plant and equipment	223	72	–
Loss on disposal of property, plant and equipment	5,180	789	2,337

11. DIVIDEND

No dividend has been paid by Concordia during the Relevant Periods.

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Motor vehicles	Furniture, fixtures and equipment	Total
	MOP'000	*MOP'000*	*MOP'000*	*MOP'000*	*MOP'000*
COST					
At 1st January, 2003	16,849	1,366	1,300	1,136	20,651
Disposals	(8,430)	–	–	–	(8,430)
At 31st December, 2003	8,419	1,366	1,300	1,136	12,221
Additions	–	489	–	59	548
Disposals	(1,819)	(1,366)	(1,300)	(1,136)	(5,621)
At 31st December, 2004	6,600	489	–	59	7,148
Disposals	(6,600)	(489)	–	(59)	(7,148)
At 31st December, 2005	–	–	–	–	–
DEPRECIATION					
At 1st January, 2003	2,151	1,229	1,300	1,123	5,803
Provided for the year	73	137	–	13	223
Eliminated on disposals	(985)	–	–	–	(985)
At 31st December, 2003	1,239	1,366	1,300	1,136	5,041
Provided for the year	72	–	–	–	72
Eliminated on disposals	–	(1,366)	(1,300)	(1,136)	(3,802)
At 31st December, 2004	1,311	–	–	–	1,311
Provided for the year	–	–	–	–	–
Eliminated on disposals	(1,311)	–	–	–	(1,311)
At 31st December, 2005	–	–	–	–	–
NET BOOK VALUES					
At 31st December, 2003	7,180	–	–	–	7,180
At 31st December, 2004	5,289	489	–	59	5,837
At 31st December, 2005	–	–	–	–	–

The above items of property, plant and equipment are depreciated on a straight line basis at the following rates per annum:

Buildings	2%
Leasehold improvements	20%
Motor vehicles	20%
Furniture, fixtures and equipment	20%

The buildings were situated in Macau.

13. PREPAID LEASE PAYMENTS

In 1975, Concordia was granted by the Government of Macau a piece of leasehold land with a lease term of twenty-five years. In 1993, Concordia further entered into an agreement (the "Agreement") with the Government of Macau in which Concordia could retain a portion of the leasehold land for developing for commercial, hotel and residential use (the "Land"). Amongst the conditions of the Agreement, Concordia was required to complete the site formation and road construction on the land, surrender the remaining portion of the land to the Government of Macau, pay land rent and land premium in aggregate of MOP662 million by instalments to the Government of Macau. At 31st December, 2005, part of the land rent, land premium and interest accrued thereon of approximately MOP249 million payable to the Government of Macau has been overdue (the "Overdue Amount") and not yet been settled by Concordia. Based on a written reply from the Government of Macau in October 2003, the approval for the renewal of lease term of the Land will be considered after submission of a proposal for settlement of the Overdue Amount and a development plan for the Land to the Government of Macau. Concordia is in the course of obtaining a new concession or renewal from the Government of Macau for an extension of the lease term of the Land for twenty five years commencing from its expiry in 2000.

Up to the expiry of the lease term in 2000, constructions cost, expenses and borrowing costs capitalised for the development of the Land was fully amortised and charged to accumulated losses at 31st December, 2000. Construction cost, expenses and borrowing costs in relation to the development of the Land subsequent to the expiry of the lease term are recognised in the income statement in the period in which they are incurred.

14. LOANS TO RELATED COMPANIES

	As at 31st December,		
	2003	**2004**	**2005**
	MOP'000	*MOP'000*	*MOP'000*
新創興國際投資有限公司			
– interest bearing at 14.4% per annum	2,884	2,884	2,884
– interest-free	6,058	6,475	6,611
集平實業有限公司			
– interest bearing at 14.4% per annum	2,060	2,060	2,060
– interest-free	3,813	4,110	4,208
粵中發展有限公司 - interest free	22,660	22,660	–
	37,475	38,189	15,763

The above companies have common shareholders or directors with Concordia.

The loans to related companies were unsecured and were repayable on demand.

The directors consider that the carrying amounts of loans to related companies approximate their fair values at the respective balance sheet dates.

15. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by Concordia and short-term bank deposits with an original maturity of three months or less. The carrying amounts of these assets approximate their fair values at the respective balance sheet dates.

The credit risk on liquid funds is limited because the counterparties are banks with good reputations.

16. OTHER PAYABLES

	As at 31st December,		
	2003	**2004**	**2005**
	MOP'000	*MOP'000*	*MOP'000*
Government land premium payable	140,782	140,782	140,782
Government interest payable	74,836	88,335	102,679
Government land rent and interest payable	3,790	4,704	5,617
	219,408	233,821	249,078

According to the Agreement, Concordia was required to pay the land rent, land premium and interest accrued thereon to the Government of Macau. The balances are overdue and have to be settled before obtaining a new concession or renewal from the Government of Macau for an extension of the lease term of the Land.

The directors consider that the carrying amounts of other payables approximate their fair values at the respective balance sheet dates.

17. LOANS FROM RELATED PARTIES

	As at 31st December,		
	2003	**2004**	**2005**
	MOP'000	*MOP'000*	*MOP'000*
粵中發展有限公司	165,538	200,772	179,766
中山市財政局	74,646	81,675	83,980
實利地產置業發展有限公司	9,170	10,404	10,808
岐江（澳門）發展有限公司	44,234	47,208	48,184
	293,588	340,059	322,738

The above parties have common shareholders or directors with Concordia.

At 31st December, 2003 and 2004, except for the balance with 粵中發展有限公司 of MOP716,000 and MOP1,410,000, respectively, which were interest-free, the loans from related parties were unsecured, bore interest at 14.4% per annum and were repayable on demand. All balances at 31st December, 2005 are interest free.

The directors consider that the carrying amounts of loans to related parties approximate their fair values at the respective balance sheet dates.

18. LOANS FROM SHAREHOLDERS

	As at 31st December,		
	2003	**2004**	**2005**
	MOP'000	*MOP'000*	*MOP'000*
澳信聯實業有限公司	441,745	466,200	474,218
吳鋼	198,357	209,332	212,930
新興中發展有限公司	297,513	313,975	319,372
崔樂奇	7,346	7,753	7,886
XLM	–	–	77,545
吳漢疇	114,871	121,373	39,005
Orient Town Limited	–	–	6,955
志濠投資有限公司	24,487	25,842	26,287
姚開	8,571	9,045	9,200
孫觀	143,252	151,177	153,777
	1,236,142	1,304,697	1,327,175

The amounts were unsecured, bore interest at 14.4% per annum at 31st December, 2003 and 2004 and were repayable on demand. The amounts are interest-free at 31st December, 2005.

The directors consider that the carrying amounts of loans from shareholders approximate their fair values at the respective balance sheet dates.

19. BANK LOANS

	As at 31st December,		
	2003	**2004**	**2005**
	MOP'000	*MOP'000*	*MOP'000*
The borrowings are repayable as follows:			
Within one year	20,600	–	114,424
More than one year but not exceeding two years	–	118,110	–
More than two years but not exceeding five years	118,110	–	–
	138,710	118,110	114,424
Less: Amount due within one year shown under current liabilities	(20,600)	–	(114,424)
Amount due after one year	118,110	118,110	–

At the respective balance sheet dates, all the bank loans of Concordia were secured by certain of its interest in leasehold land as set out in note 13.

The carrying amounts of the bank loans are denominated in the following currencies:

	As at 31st December,		
	2003	**2004**	**2005**
	MOP'000	*MOP'000*	*MOP'000*
Hong Kong dollars	58,710	38,110	36,921
Macau Patacus	80,000	80,000	77,503
	138,710	118,110	114,424

For the year ended 31st December, 2003, the average and effective interest rate of the bank loans was 11.3%. For the period from March 2003 to December 2005, the banks ceased to charge any interest, details of which are set out below. The imputed interest rate of the bank loans for the year ended 31st December, 2005 was 12.6%.

The fair value of the above borrowings estimated by discounting their future cash flows at the prevailing market borrowing rates at the respective balance sheet dates for similar borrowings are as follows:

	As at 31st December,		
	2003	**2004**	**2005**
	MOP'000	*MOP'000*	*MOP'000*
Fair value	109,388	100,794	114,424

On 7th March, 2003, Concordia had entered into an agreement with a bank in which:

a. Concordia gave the bank an unconditional right to sell on its behalf certain leasehold land pledged against the loan facilities granted by the bank;

b. Concordia paid HK$30,000,000 (equivalent to approximately MOP30,900,000) as partial principal repayment of loans which is charged at fixed interest rate of 12.6% and HK$5,000,000 (equivalent to approximately MOP5,150,000) as full settlement of the interest payable to the bank of MOP56,943,000 in September 2003;

c. Concordia would fully repay the remaining loan principal of HK$37,000,000 (equivalent to approximately MOP38,110,000) and MOP80,000,000 to the bank on or before 7th March, 2006, in an aggregate of approximately MOP118,110,000; and

d. The bank would not charge any interest on the remaining loan principal and not to exercise its unconditional right to sell the leasehold land on behalf of Concordia before 7th March, 2006.

In addition, on 18th December, 2003, Concordia had also entered into an agreement with another bank in which the bank agreed to waive a portion of its loan and interest due from Concordia such that the total outstanding amount was reduced from MOP48,978,000 to HK$27,000,000 (equivalent to approximately MOP27,810,000) on the conditions that:

a. Concordia repaid HK$7,000,000 (equivalent to approximately MOP7,210,000) to the bank on the date of the agreement; and

b. Concordia repaid the remaining HK$20,000,000 (equivalent to approximately MOP20,600,000) to the bank before 30th April, 2004 by two equal instalments.

The bank loan was fully repaid in 2004.

20. SHARE CAPITAL

	Number of shares	**Amount**
		MOP'000
Quota shares of MOP1,000 each:		
Authorised, issued and fully paid	100,000	100,000

21. CAPITAL RESERVE

The capital reserve represents the excess amount contributed by the shareholders of Concordia over its issued share capital at the date of allotment.

22. MAJOR NON-CASH TRANSACTIONS

During the year ended 31st December, 2005, the loan from a related party was settled by the disposal of a property at an agreed value of MOP3,500,000 and offsetting the loan due to the same related party of MOP22,660,000.

23. PLEDGE OF ASSETS

At each of the balance sheet dates, the banking facilities granted by the banks to Concordia were secured by certain leasehold land of Concordia which has no carrying value.

24. RELATED PARTY DISCLOSURES

During the Relevant Periods, Concordia had the following transactions with related parties:

	Year ended 31st December,		
Name of related parties	**2003**	**2004**	**2005**
	MOP'000	*MOP'000*	*MOP'000*
Interest charge:			
粵中發展有限公司	10,378	14,710	4,895
中山市財政局	6,553	7,029	2,305
岐江（澳門）發展有限公司	2,966	2,975	975
實利地產置業發展有限公司	621	1,234	405
澳信聯實業有限公司	24,388	24,455	8,018
吳鋼	10,944	10,974	3,598
新興中發展有限公司	16,418	16,463	5,397
崔樂奇	405	406	133
Goal Oriental Finance Inc.	–	–	1,311
吳漢疇	6,484	6,502	821
志濠投資有限公司	1,351	1,355	444
姚開	473	474	156
孫觀	7,904	7,926	2,599
	88,885	94,503	31,057

Name of related parties	Year ended 31st December, 2003 MOP'000	2004 MOP'000	2005 MOP'000
Interest income:			
集平實業有限公司	297	298	97
新創興國際投資有限公司	415	416	137
	712	714	234
Sale proceeds on disposal of property, plant and equipment:			
粵中發展有限公司	–	–	3,500

B. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Concordia in respect of any periods subsequent to 31st December, 2005.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

1. THREE-YEAR FINANCIAL SUMMARY

Set out below is a summary of the audited financial information on the Group for the three years ended 31st March, 2005 and the unaudited financial information on the Group for the six months ended 30th September, 2005 and six months ended 30th September, 2004 extracted from the relevant annual reports and interim reports of the Company:

	For the year ended 31st March,			For the six months ended 30th September,	
	2005	**2004**	**2003**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	(Unaudited)
Results					
Turnover	379,396	63,514	41,276	426,380	175,398
Cost of sales	(259,478)	(55,429)	(38,742)	(370,651)	(125,505)
Allowance for properties held for sale	–	(6,006)	–	–	–
Gross profit	119,918	2,079	2,534	55,729	49,893
Profit (loss) from operations	19,140	(22,236)	(59,122)	(7,001)	3,460
Finance costs	(7,379)	(15,585)	(5,156)	(9,940)	(4,011)
Loss on disposal of discontinuing operations	–	–	(713)	–	–
Gain (loss) on disposal of subsidiaries	–	30	(341)	–	–
Profit (loss) before taxation	11,761	(37,791)	(65,332)	(16,941)	(551)
Taxation	(1,823)	–	–	(819)	(466)
Profit (loss) before minority interests	9,938	(37,791)	(65,332)	(17,760)	(1,017)
Minority interests	–	8,179	13,776	–	–
Profit (loss) for the year	9,938	(29,612)	(51,556)	(17,760)	(1,017)
Earnings (loss) per share					
– Basic	6.2 cents	(25.0 cents)	(45.0 cents)	(4.4 cents)	(0.8 cents)
– Diluted	5.0 cents	N/A	N/A	N/A	N/A

	For the year ended 31st March,			As at 30th September,	
	2005	**2004**	**2003**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	(Unaudited)
Assets and liabilities					
Non-current assets	89,648	8,580	19,360	77,944	92,784
Current assets	388,865	223,681	329,518	1,363,781	251,510
Total assets	478,513	232,261	348,878	1,441,725	344,294
Current liabilities	139,162	102,085	193,078	126,646	184,140
Non-current liabilities	95,744	–	–	903,299	30,112
Total liabilities	234,906	102,085	193,078	1,029,945	214,252
Minority interests	–	–	(1,812)	924	–
Net assets attributable to Shareholders	243,607	130,176	157,612	410,856	130,042

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31ST MARCH, 2005

The following is a reproduction of the text of the audited consolidated financial statements of the Group together with the accompanying notes contained in pages 19 to 72 of the annual report of the Company for the year ended 31st March, 2005:

CONSOLIDATED INCOME STATEMENT

		For the year ended 31st March,	
		2005	**2004**
	Notes	*HK$'000*	*HK$'000*
Turnover	*4*	379,396	63,514
Cost of sales		(259,478)	(55,429)
Allowance for properties held for sale		–	(6,006)
Gross profit		119,918	2,079
Other operating income		2,139	7,267
Gain (loss) on disposal of investments in securities		30	(13,059)
Doubtful debts (provided) recovered		(1,729)	20
Distribution costs		(57,942)	–
Administrative expenses		(34,215)	(11,383)
Other operating expenses		(567)	–
Amortisation of goodwill		(1,051)	–
Unrealised holding (loss) gain on other investments		(4,226)	1,640
Loss on disposal of investment properties		(3,217)	–
Deficit arising on revaluation of investment properties		–	(8,800)
Profit (loss) from operations	*5*	19,140	(22,236)
Finance costs	*6*	(7,379)	(15,585)
Gain on disposal of subsidiaries		–	30
Profit (loss) before taxation		11,761	(37,791)
Taxation	*8*	(1,823)	–
Profit (loss) before minority interests		9,938	(37,791)
Minority interests		–	8,179
Profit (loss) for the year		9,938	(29,612)
Earnings (loss) per share	*9*		
– Basic		6.2 cents	(25.0 cents)
– Diluted		5.0 cents	N/A

CONSOLIDATED BALANCE SHEET

		At 31st March,	
		2005	**2004**
	Notes	*HK$'000*	*HK$'000*
Non-current assets			
Investment properties	*10*	–	8,200
Property, plant and equipment	*11*	65,748	380
Intangible assets	*13*	2,015	–
Goodwill	*14*	21,885	–
Interest in an associate	*15*	–	–
		89,648	8,580
Current assets			
Inventories	*16*	59,280	–
Properties held for sale, at net realisable value		58,536	116,846
Investments in securities	*17*	10,289	16,388
Loan receivables	*18*	31,500	–
Debtors, deposits and prepayments	*19*	38,280	10,311
Pledged bank deposits		3,000	–
Bank balances and cash		187,980	80,136
		388,865	223,681
Current liabilities			
Creditors and accrued charges	*20*	62,952	7,641
Tax payable		1,041	–
Obligations under a finance lease			
– due within one year	*21*	23	–
Promissory note payables	*22*	13,000	–
Bank and other borrowings			
– due within one year	*23*	62,146	94,444
		139,162	102,085
Net current assets		249,703	121,596
Total assets less current liabilities		339,351	130,176

		At 31st March,	
		2005	**2004**
	Notes	*HK$'000*	*HK$'000*
Non-current liabilities			
Obligations under a finance lease			
– due after one year	*21*	119	–
Bank and other borrowings			
– due after one year	*23*	5,625	–
Convertible note payables	*25*	90,000	–
		95,744	–
		243,607	130,176
Capital and reserves			
Share capital	*26*	3,610	1,277
Reserves		239,997	128,899
		243,607	130,176

BALANCE SHEET

		At 31st March,	
		2005	**2004**
	Notes	*HK$'000*	*HK$'000*
Non-current assets			
Property, plant and equipment	*11*	3	4
Interests in subsidiaries	*12*	104,428	65,535
		104,431	65,539
Current assets			
Debtors and prepayments		221	1,393
Loan receivable	*18*	10,500	–
Bank balances and cash		153,190	383
		163,911	1,776
Current liabilities			
Creditors and accrued charges		1,601	717
Promissory note payables	*22*	6,500	–
Other borrowings – due within one year	*23*	7,940	600
		16,041	1,317
Net current assets		147,870	459
Total assets less current liabilities		252,301	65,998
Non-current liability			
Convertible note payables	*25*	90,000	–
		162,301	65,998
Capital and reserves			
Share capital	*26*	3,610	1,277
Reserves	*28*	158,691	64,721
		162,301	65,998

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st March, 2005

	Share capital	Share premium	Capital redemption reserve	Other reserve	Special reserve	Translation reserve	(Deficit) accumulated profit	Total
	HK$'000	HK$'000	HK$'000	HK$'000 (note)	HK$'000 (note)	HK$'000	HK$'000	HK$'000
At 1st April, 2003	234,375	334,999	646	–	(8,908)	–	(403,500)	157,612
Capital reorganisation								
– capital reduction *(note 26(1a))*	(233,203)	–	–	233,203	–	–	–	–
– cancellation of share premium *(note 26(1d))*	–	(334,999)	–	334,999	–	–	–	–
– set-off against deficit *(note 26(1))*	–	–	–	(535,894)	–	–	535,894	–
Exercise of share options *(note 26(2))*	105	2,071	–	–	–	–	–	2,176
Loss for the year	–	–	–	–	–	–	(29,612)	(29,612)
At 31st March, 2004	1,277	2,071	646	32,308	(8,908)	–	102,782	130,176
Exchange differences arising on operations outside Hong Kong and gain not recognised in the income statement	–	–	–	–	–	627	–	627
Exercise of share options *(note 26(2))*	12	227	–	–	–	–	–	239
Issue of shares *(note 26(3))*	1,750	78,500	–	–	–	–	–	80,250
Conversion of convertible notes *(note 26(4))*	571	24,429	–	–	–	–	–	25,000
Expenses incurred in connection with issue of shares	–	(2,623)	–	–	–	–	–	(2,623)
Profit for the year	–	–	–	–	–	–	9,938	9,938
At 31st March, 2005	3,610	102,604	646	32,308	(8,908)	627	112,720	243,607

Note: Other reserve of the Group represents net balance from capital reduction, cancellation of share premium and set-off against the deficit pursuant to the capital reorganisation on 15th April, 2003.

The special reserve of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired and the nominal amount of the share capital of the Company issued as consideration under the group reorganisation in 1994.

CONSOLIDATED CASH FLOW STATEMENT

	Notes	For the year ended 31st March, 2005 HK$'000	2004 HK$'000
OPERATING ACTIVITIES			
Profit (loss) from operations		19,140	(22,236)
Adjustments for:			
Allowance for properties held for sale		–	6,006
Allowance for amount due from associate		17	–
Amortisation of intangible assets		71	–
Amortisation of goodwill		1,051	–
Interest income		(595)	(5,720)
Depreciation and amortisation of property, plant and equipment		8,836	183
Doubtful debts provided (recovered)		1,729	(20)
Loss (gain) on disposal of property, plant and equipment		66	(1,053)
Deficit arising on revaluation of investment properties		–	8,800
(Gain) loss on disposal of investments in securities		(30)	13,059
Loss on disposal of investment properties		3,217	–
Write-off of intangible assets		645	–
Unrealised holding loss (gain) on other investments		4,226	(1,640)
Release of negative goodwill		(2,224)	(747)
Operating cash flows before movements in working capital		36,149	(3,368)
Increase in amount due from associate		(17)	–
Decrease in inventories		1,073	–
Decrease in properties held for sale		60,534	41,144
Increase in debtors, deposits and prepayments		(4,514)	(884)
Increase (decrease) in creditors and accrued charges		4,900	(5,431)
Cash generated from operations		98,125	31,461
Overseas taxation paid		(768)	–
Interest paid		(4,261)	(16,899)
Loan arrangement fees paid		–	(1,800)
NET CASH FROM OPERATING ACTIVITIES		93,096	12,762

		For the year ended 31st March,	
		2005	**2004**
	Notes	*HK$'000*	*HK$'000*
INVESTING ACTIVITIES			
Proceeds from disposal of investment properties		4,983	–
Proceeds from disposal of investments in securities		1,903	10,376
Interest received		296	5,720
Proceeds from disposal of property, plant and equipment		476	2,850
Disposal of subsidiaries (net of cash and cash equivalents disposed of)	*29*	–	10
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	*30*	(22,861)	–
Increase in loan receivables		(31,500)	–
Purchase of property, plant and equipment		(3,081)	–
Increase in pledged bank deposits		(3,000)	–
Development cost incurred		(1,467)	–
Acquisition of investments in securities		–	(5,170)
NET CASH (USED IN) FROM INVESTING ACTIVITIES		(54,251)	13,786
FINANCING ACTIVITIES			
Proceeds from issue of convertible notes		100,000	–
New bank and other borrowings raised		96,225	59,016
Proceeds from issue of shares		80,489	2,176
New loans from minority shareholders of a subsidiary		–	15,309
Repayment of bank and other borrowings		(205,596)	(143,025)
Expenses paid in connection with issue of shares		(2,623)	–
Repayment of obligations under a finance lease		(16)	–
NET CASH FROM (USED IN) FINANCING ACTIVITIES		68,479	(66,524)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		107,324	(39,976)
CASH AND CASH EQUIVALENTS AT 1ST APRIL		80,136	120,112
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		520	–
CASH AND CASH EQUIVALENTS AT 31ST MARCH, represented bank balances and cash		187,980	80,136

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the Stock Exchange.

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 37.

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In year 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards ("HKFRSs") (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005 except for HKFRS 3 "Business Combinations". The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st March, 2005.

HKFRS 3 is applicable to business combinations for which the agreement date is on or after 1st January, 2005. The Group has not entered into any business combination for which the agreement date is on or after 1st January, 2005. Therefore HKFRS 3 did not have any impact on the Group for the year ended 31st March, 2005.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position of the Group are prepared and presented.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties and certain investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st March each year.

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

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of subsidiaries and associates at the date of acquisition.

Goodwill is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of associates is included with the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition over the cost of acquisition.

Negative goodwill is presented separately in the balance sheet as a deduction from assets. To the extent that such negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised as income immediately.

Interests in subsidiaries

Interests in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Interest in an associate

The consolidated income statement includes the Group's share of the post-acquisition results of its associate for the year. In the consolidated balance sheet, interest in an associate is stated at the Group's share of the net asset of the associate, less any identified impairment losses.

Revenue recognition

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

Services income is recognised when services are provided.

Income from properties held for sale is recognised on the execution of binding sales agreement.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Rental income, including rentals invoiced in advance, from properties under operating leases, is recognised on a straight-line basis over the terms of the relevant lease.

Profits and losses arising on trading in securities are recognised on a trade-date basis.

Dividend income from investments is recognised when the right to receive payment has been established.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuation at the balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a surplus subsequently arises, the surplus is credited to the income statement to the extent of the deficit previously charged.

On the disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on investment properties except where the term of the relevant lease is twenty years or less.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and amortisation and accumulated impairment losses.

Depreciation and amortisation are provided to write off items of property, plant and equipment, over their estimated useful lives, using the straight-line method, at the following rates per annum:

Land use rights	Over the terms of the relevant right
Leasehold land and leasehold improvements	Over the terms of the lease
Buildings	4% or over the remaining terms of the relevant lease, if shorter
Plant and machineries	5% – 15%
Furniture, fixtures and equipment	10% – $33^1/_3$%
Motor vehicles	10% – 20%

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Impairment

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

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

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are carried at fair value, with unrealised gains and losses included in net profit or loss for the year.

Inventories

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

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Net realisable value is determined by reference to estimated sales proceeds less estimated selling expenses.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Convertible notes

Convertible notes are separately disclosed and regarded as liabilities unless conversion actually occurs.

Assets held under finance leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the rental expenses are charged to the income statement on a straight-line basis over the relevant lease term.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

Loan arrangement fees represent expenses incurred in obtaining long-term secured bank loan facilities. Such expenses are deferred and amortised to the income statement over the repayment term of the loan on a straight-line basis to provide a constant periodic rate of charge.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in the profit or loss for the year.

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Taxation

Income tax expenses represent the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes income statement items that are never taxable or deductible.

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

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

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

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

Retirement benefit costs

The pension costs charged to the income statement represent the contributions payable in the current year to the Group's Mandatory Provident Fund Scheme and defined contribution retirement scheme.

4. TURNOVER

Turnover represents the aggregate of the net amounts received and receivable from third parties, less returns and allowance and is summarised as follows:

	2005	**2004**
	HK$'000	*HK$'000*
Sale of properties	91,609	47,276
Trading of motorcycles	11,737	15,864
Medicine and health food	275,952	–
Rental income	98	374
	379,396	63,514

The outgoings arising from rental income were negligible in both years.

5. PROFIT (LOSS) FROM OPERATIONS

	2005	**2004**
	HK$'000	*HK$'000*
Profit (loss) from operations has been arrived at after charging:		
Auditors' remuneration		
– current year	1,310	653
– underprovision in previous year	75	249
	1,385	902
Staff costs, including directors' emoluments	40,992	3,933
Retirement benefits scheme contributions, net of forfeited contributions of HK$65,000 (2004: HK$77,000)	1,768	23
Total staff costs	42,760	3,956
Less: Amount capitalised in intangible assets	(10)	–
	42,750	3,956
Cost of inventories recognised as an expense	241,700	55,429
Depreciation and amortisation of property, plant and equipment:		
– assets owned by the Group	8,810	183
– an asset held under a finance lease	26	–
Amortisation of intangible assets	71	–
Allowance for properties held for sale	–	6,006
Allowance for amount due from associate	17	–
Loss on disposal of property, plant and equipment	66	–
and after crediting:		
Gain on disposal of property, plant and equipment	–	(1,053)
Interest income	(595)	(5,720)
Release of negative goodwill (included in cost of sales)	(2,224)	(747)

6. FINANCE COSTS

	2005 *HK$'000*	2004 *HK$'000*
Interest on bank and other borrowings wholly repayable within five years	5,677	15,105
Interest on obligations under a finance lease	14	–
Interest on convertible notes wholly repayable within five years	368	–
Loan arrangement fees	1,320	480
	7,379	15,585

7. DIRECTORS' EMOLUMENTS AND HIGHEST PAID INDIVIDUALS

A. Directors' emoluments

	2005 *HK$'000*	2004 *HK$'000*
Fees:		
Executive directors	–	–
Non-executive director	–	–
Independent non-executive directors	96	20
	96	20
Other emoluments paid to executive directors:		
Salaries and other benefits	268	2,574
Retirement benefits scheme contributions	2	39
	270	2,613
	366	2,633

The directors' emoluments were within the following bands:

	Number of directors	
	2005	**2004**
Nil – HK$1,000,000	8	7
HK$1,500,001 – HK$2,000,000	–	1

During the year ended 31st March, 2005, one director waived emoluments of HK$240,000. No directors waived any emoluments during the year ended 31st March, 2004.

B. Highest paid individuals

Of the five individuals with the highest emoluments in the Group, one (2004: three) were directors of the Company whose emoluments are included in (A) above.

The emoluments of the remaining four (2004: two) individuals were as follows:

	2005	2004
	HK$'000	*HK$'000*
Salaries and other benefits	1,535	486
Retirement benefits scheme contributions	57	22
	1,592	508

Their emoluments were below HK$1,000,000.

During the year, no emoluments were paid by the Group to the five highest paid individuals, including directors and employees, as an inducement to join or upon joining the Group or as compensation for loss of office.

8. TAXATION

	2005	2004
	HK$'000	*HK$'000*
Current tax:		
Hong Kong Profits Tax	5	–
Taxation in other jurisdictions	1,818	–
	1,823	–

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profits for the year.

Taxation arising in other jurisdictions is calculated at rates prevailing in the relevant jurisdiction.

During the year ended 31st March, 2004, no provision for Hong Kong Profits Tax was made for the Group as the Company and its subsidiaries had no assessable profit for that year.

Details of deferred taxation are set out in note 24.

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

	2005	2004
	HK$'000	*HK$'000*
Profit (loss) before taxation	11,761	(37,791)
Tax at the Hong Kong Profits Tax rate of 17.5%	2,058	(6,613)
Tax effect of expenses not deductible for tax purpose	3,653	673
Tax effect of income not taxable for tax purpose	(1,167)	(1,406)
Tax effect of deferred tax asset not recognised	4,805	7,379
Utilisation of tax losses previously not recognised	(7,020)	(33)
Effect of tax exemptions granted to subsidiaries in the People's Republic of China (the "PRC")	(841)	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	335	–
Taxation for the year	1,823	–

9. EARNINGS (LOSS) PER SHARE

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

	2005	2004
	HK$'000	*HK$'000*
Earnings:		
Profit (loss) for the year and earnings (loss) for the purpose of basic earnings (loss) per share	9,938	(29,612)
Effect of dilutive potential ordinary shares		
– Interest on convertible notes	304	
Earnings (loss) for the purpose of diluted earnings (loss) per share	10,242	
Number of shares:		
Weighted average number of shares for the purpose of basic earnings (loss) per share	160,809,612	118,228,175
Effect of dilutive potential ordinary shares		
– share options	26,804	
– convertible notes	42,356,597	
Weighted average number of shares for the purpose of diluted earnings per share	203,193,013	

No diluted loss per share was presented for the year ended 31st March, 2004 because the exercise of the share options would result in a decrease of net loss per share.

10. INVESTMENT PROPERTIES

	THE GROUP
	HK$'000
VALUATION	
At 1st April, 2004	8,200
Disposals	(8,200)
At 31st March, 2005	–

During the year ended 31st March, 2005, the Group disposed of all of its investment properties at a consideration of HK$4,983,000. The loss arising on disposal amounting to HK$3,217,000 had been charged to the consolidated income statement.

The Group's investment properties were situated in Hong Kong and were held under medium term leases.

11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Leasehold improvements	Plant and machineries	Furniture, fixtures and equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE GROUP						
COST						
At 1st April, 2004	–	–	–	717	238	955
Currency realignment	–	207	–	82	30	319
Arising on acquisition of subsidiaries	4,186	46,769	14,749	4,385	1,460	71,549
Additions	–	1,743	19	511	808	3,081
Disposals	–	(1,581)	(353)	(378)	(511)	(2,823)
At 31st March, 2005	4,186	47,138	14,415	5,317	2,025	73,081
DEPRECIATION, AMORTISATION AND IMPAIRMENT						
At 1st April, 2004	–	–	–	460	115	575
Currency realignment	–	124	–	64	15	203
Provided for the year	85	6,208	834	1,379	330	8,836
Eliminated on disposals	–	(1,509)	(70)	(371)	(331)	(2,281)
At 31st March, 2005	85	4,823	764	1,532	129	7,333
NET BOOK VALUES						
At 31st March, 2005	4,101	42,315	13,651	3,785	1,896	65,748
At 31st March, 2004	–	–	–	257	123	380

The leasehold land and buildings of the Group were held under medium-term land use rights in the PRC.

At 31st March, 2005, the net book values of property, plant and equipment of the Group included an amount of approximately HK$127,000 (2004: Nil) in respect of an asset held under a finance lease.

At 31st March, 2005, the property, plant and equipment of the Group amounting to approximately HK$11,959,000 (2004: Nil) were pledged to a bank to secure general banking facilities granted to the Group.

	Furniture and fixtures
	HK$'000
THE COMPANY	
COST	
At 1st April, 2004 and 31st March, 2005	6
DEPRECIATION	
At 1st April, 2004	2
Provided for the year	1
At 31st March, 2005	3
NET BOOK VALUES	
At 31st March, 2005	3
At 31st March, 2004	4

12. INTERESTS IN SUBSIDIARIES

	2005	**2004**
	HK$'000	*HK$'000*
Unlisted shares, carrying value	183,277	183,277
Amounts due from subsidiaries	646,247	607,354
	829,524	790,631
Less: Impairment losses	(725,096)	(725,096)
	104,428	65,535

The carrying value of the unlisted shares is based on the book values of the underlying net assets of the subsidiaries attributable to the Company as at the date on which the Company became the holding company of the Group under the group reorganisation in 1994, less dividends distributed from pre-reorganisation reserves of the subsidiaries.

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment. In the opinion of the directors, the Company will not demand repayment within twelve months from the balance sheet date and the amounts are therefore shown as non-current.

For the year ended 31st March, 2004, an impairment loss of HK$88,926,000 had been recognised in respect of the investment in and advances to subsidiaries to their recoverable amounts.

Particulars of the principal subsidiaries at 31st March, 2005 are set out in note 37.

13. INTANGIBLE ASSETS

	HK$'000
THE GROUP	
COST	
Arising on acquisition of subsidiaries	1,264
Additions	1,467
Written-off	(645)
At 31st March, 2005	2,086
AMORTISATION	
Provided for the year and at 31st March, 2005	71
NET BOOK VALUE	
At 31st March, 2005	2,015

The amount represents the development costs incurred on Chinese medicines and pharmaceutical products, and is deferred and amortised, using the straight-line method, over a period of five years from date of commencement of commercial operation.

During the year, the directors of the Company reviewed the net recoverable amount of the Group's development costs in view of the current technological development and economic conditions. The technological development of certain drug manufacturing techniques have been prolonged and may no longer warrant future economic benefits adequate to support current capitalisation of the development costs. As a result, the carrying amount of the related development costs has been fully written off during the year.

In the opinion of the directors of the Company, the remaining intangible assets are worth at least their carrying amount at the balance sheet date.

At 31st March, 2005, other than the amount of HK$439,000 which related to products in stage of development, the remaining intangible assets had been put into commercial use.

14. GOODWILL

	HK$'000
THE GROUP	
COST	
Arising on acquisition of subsidiaries and at 31st March, 2005	22,936
AMORTISATION	
Charge for the year and balance at 31st March, 2005	1,051
NET BOOK VALUE	
At 31st March, 2005	21,885

The amortisation period adopted for goodwill is 20 years.

15. INTEREST IN AN ASSOCIATE

	THE GROUP	
	2005	**2004**
	HK$'000	*HK$'000*
Amount due from associate	17	–
Less: Allowance	(17)	–
	–	–

The amount due from associate is unsecured, interest-free and has no fixed terms of repayment. In the opinion of the directors, the Group will not demand repayment within twelve months from the balance sheet date and the amount is therefore shown as non-current.

At 31st March, 2005, the Group had interest in the following associate:

Name of associate	Form of business structure	Place of incorporation/ operation	Issued and fully paid share capital	Percentage of issued share capital indirectly held by the Company	Principal activity
Jean-Bon Pharmaceutical Technology Company Limited	Incorporated	Hong Kong	HK$2 ordinary shares	50%	Inactive

16. INVENTORIES

	THE GROUP	
	2005	**2004**
	HK$'000	*HK$'000*
Raw materials	16,792	–
Work in progress	1,588	–
Finished goods	40,900	–
	59,280	–

Included above are finished goods of HK$38,360,000 (2004: Nil) carried at net realisable value.

17. INVESTMENTS IN SECURITIES

	THE GROUP Other investments	
	2005	**2004**
	HK$'000	*HK$'000*
Equity securities:		
Listed in Hong Kong, at market value	10,289	16,388

18. LOAN RECEIVABLES

	THE GROUP		THE COMPANY	
	2005	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Principal	31,500	–	10,500	–

The loans are unsecured, bear interest at Hong Kong prime rate plus 2% per annum and are repayable on demand.

19. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group allows credit period ranging from 0 to 30 days to its trade customers.

The following is an aged analysis of trade debtors at the balance sheet date:

	THE GROUP	
	2005	**2004**
	HK$'000	*HK$'000*
0 – 60 days	16,336	4,799
61 – 90 days	11,336	–
	27,672	4,799
Other debtors, deposits and prepayments	10,608	5,512
	38,280	10,311

20. CREDITORS AND ACCRUED CHARGES

The following is an aged analysis of trade creditors at the balance sheet date:

	THE GROUP	
	2005	**2004**
	HK$'000	*HK$'000*
0 – 60 days	20,206	488
61 – 90 days	20,037	–
Over 90 days	4,470	1,283
	44,713	1,771
Other creditors and accrued expenses	18,239	5,870
	62,952	7,641

21. OBLIGATIONS UNDER A FINANCE LEASE

	THE GROUP			
	Minimum lease payments		Present value of minimum lease payments	
	2005	2004	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amount payable under a finance lease:				
Within one year	36	–	23	–
In the second to fifth year inclusive	122	–	119	–
	158	–	142	–
Less: Future finance charges	(16)	–	–	–
Present value of lease obligations	142	–	142	–
Less: Amount due within one year shown under current liabilities			(23)	–
Amount due after one year			119	–

It is the Group's policy to lease a motor vehicle under a finance lease. The lease term is approximately three years.

For the year ended 31st March, 2005, the effective borrowing rate is 7.5%. Interest rate was fixed at the contract date.

The obligations under a finance lease of the Group are secured by the lessor's charge over the leased asset.

22. PROMISSORY NOTE PAYABLES

The promissory note payables of the Group and the Company are unsecured, bear interest at 5.5% per annum and are repayable on 6th May, 2005.

23. BANK AND OTHER BORROWINGS

	THE GROUP		THE COMPANY	
	2005	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bank loans, secured	54,207	87,844	–	–
Other borrowings, unsecured	13,564	6,600	7,940	600
	67,771	94,444	7,940	600
The maturity profile of the above loans and borrowings is as follows:				
Within one year or on demand	62,146	94,444	7,940	600
More than one year, but not exceeding two years	5,625	–	–	–
	67,771	94,444	7,940	600
Less: Amount due within one year shown under current liabilities	(62,146)	(94,444)	(7,940)	(600)
Amount due after one year	5,625	–	–	–

Included in other borrowings of the Group were HK$7,940,000 and HK$5,624,000 which bear interest at 12% per annum and at Hong Kong prime rate plus 2% per annum, respectively.

The other borrowing of the Company bears interest at 12% per annum.

24. DEFERRED TAXATION

The followings are the major deferred tax liabilities (asset) recognised and movements thereon during the current and prior reporting periods:

	Accelerated tax depreciation	**Deferred development costs**	**Tax losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1st April, 2003 and 31st March, 2004	–	–	–	–
Arising on acquisition of subsidiaries	3,263	–	(3,263)	–
(Credit) charge to income for the year	(730)	353	377	–
At 31st March, 2005	2,533	353	(2,886)	–

At 31st March, 2005, the Group has unused tax losses of HK$679,816,000 (2004: HK$538,966,000) available for offset against future profits and deductible temporary differences associated with property, plant and equipment of HK$216,000 (2004: associated with investment properties and property, plant and equipment of HK$25,504,000). A deferred tax asset has been recognised in respect of HK$16,492,000 (2004: Nil) of such losses. No deferred tax asset has been recognised in respect of the remaining unused tax losses of HK$663,324,000 (2004: HK$538,966,000) and the deductible temporary differences due to the unpredictability of future profit streams. Tax losses may be carried forward indefinitely.

25. CONVERTIBLE NOTE PAYABLES

	THE GROUP AND THE COMPANY 2005 HK$'000	2004 HK$'000
Principal	90,000	–

On 6th May, 2004 upon acquisition of subsidiaries as set out in note 30, the Company issued HK$15 million 2% unsecured convertible notes due 2006 at conversion price of HK$0.45. The HK$15 million 2% convertible notes due 2006 were converted into 33,333,331 ordinary shares of HK$0.01 each in the capital of the Company at conversion price of HK$0.45 as set out in note 26(4).

On 23rd February, 2005, the Company issued HK$100 million 2% unsecured convertible notes due 2008 at conversion price of HK$0.42 (subject to adjustment). The convertible notes carry interest at 2% per annum, will mature on 23rd February, 2008 (or the next following business day if it is not a business day) and are transferable but may not be transferred to a connected person of the Company without prior written consent of the Company. The holders of the convertible notes have the rights to convert the convertible notes into shares of HK$0.01 each of the Company at any time during the period from 23rd February, 2005 to 23rd February, 2008. During the year, HK$10 million 2% unsecured convertible notes due 2008 were converted into 23,809,520 ordinary shares of HK$0.01 each in the capital of the Company at conversion price of HK$0.42 as set out in note 26(4). The remaining HK$90 million 2% unsecured convertible notes due 2008 were outstanding at 31st March, 2005.

26. SHARE CAPITAL

	Number of shares	Amount HK$'000
Authorised:		
At 1st April, 2003, at HK$0.10 each	4,000,000,000	400,000
Capital reorganisation		
– Share sub-division *(note 1b)*	796,000,000,000	–
– Share consolidation *(note 1c)*	(760,000,000,000)	–
At 31st March, 2004 and 31st March, 2005, at HK$0.01 each	40,000,000,000	400,000
Issued and fully paid:		
At 1st April, 2003, at HK$0.10 each	2,343,753,121	234,375
Capital reorganisation		
– Capital reduction *(note 1a)*	–	(233,203)
– Share consolidation *(note 1c)*	(2,226,565,465)	–
Exercise of share options *(note 2)*	10,510,000	105
At 31st March, 2004, at HK$0.01 each	127,697,656	1,277
Exercise of share options *(note 2)*	1,155,000	12
Issue of shares *(note 3)*	175,000,000	1,750
Conversion of convertible notes *(note 4)*	57,142,851	571
At 31st March, 2005, at HK$0.01 each	360,995,507	3,610

Notes:

(1) Pursuant to an announcement dated 6th March, 2003 (the "Announcement") and resolutions passed on 14th April, 2003, a capital reorganisation (the "Capital Reorganisation") was passed with effect from 15th April, 2003 which involved:

(a) (i) the nominal value of all issued ordinary shares of HK$0.10 each in the share capital of the Company (the "Share(s)") was reduced by HK$0.0995 each by cancelling an equivalent amount of paid-up capital of the Share so that the nominal value of each such Share was reduced from HK$0.10 to HK$0.0005. Accordingly, based upon 2,343,753,121 Shares in issue as at the date of the Announcement, the issued share capital of the Company of HK$234,375,000 would be reduced by HK$233,203,000 to HK$1,172,000 (the "Capital Reduction"); and

(ii) the credit arising from such reduction had been credited to the contributed surplus account of the Company;

(b) every unissued share of HK$0.10 was sub-divided into 200 unissued shares of HK$0.0005 each;

(c) every 20 issued and unissued shares of HK$0.0005 each in the capital of the Company were consolidated into one new ordinary share of HK$0.01 each in the share capital of the Company following the Capital Reorganisation (the "Consolidated Share(s)"). On such basis and after the Capital Reduction, there were 117,187,656 Consolidated Shares in issue (the "Share Consolidation"); and

(d) the share premium as at 31st January, 2003 in the share premium account of the Company was cancelled and the credit arising therefrom was credited to the contributed surplus account of the Company.

Part of the credit transferred to the contributed surplus account of the Company mentioned in (a)(ii) and (d) above had been used to set off against the deficit of the Company as at 31st January, 2003. According to the unaudited management accounts of the Company as at 31st January, 2003, the deficit of the Company amounted to approximately HK$535.9 million.

(2) On 23rd February, 2004, 24th February, 2004, 5th March, 2004 and 19th April, 2004, the Company issued 3,510,000, 5,845,000, 1,155,000 and 1,155,000 ordinary shares of HK$0.01 each, respectively, for consideration of HK$0.207 per share upon exercise of share options granted to certain employees and consultants.

(3) On 15th December, 2004, the Company entered into a share placing agreement with a placing agent for the placing of 150,000,000 new ordinary shares of HK$0.01 each in the capital of the Company at an issue price of HK$0.40 per share, on a best effort basis to not less than six placing share subscribers (the "Share Placing"). On the same date, the Company also entered into a convertible note placing agreement with the placing agent for a placing of HK$100 million 2% convertible notes due 2008 at an initial conversion price of HK$0.42 per share, representing a discount of approximately 8.7% to the closing price of HK$0.46 per share as quoted on the Stock Exchange on 10th December, 2004, on a best effort basis to not less than six convertible note subscribers (the "Convertible Note Placing"). The net proceeds of approximately HK$35 million and HK$90 million would be used to finance the repayment of certain short-term borrowings and the expansion of the Group's investment properties portfolio, respectively. The balance of HK$30 million would be used as general working capital. The new shares rank pari passu with other shares in issue in all respects.

On 28th December, 2004, the Company entered into another share placing agreement with a placing agent for a placing of 25,000,000 new ordinary shares of HK$0.01 each in the capital of the Company at an issue price of HK$0.81 per share, representing a discount of 19.0% to the price of HK$1.00 per share as quoted on the Stock Exchange on 23rd December, 2004 on a best effort basis to not less than six placees. The net proceeds of HK$19.25 million would be used as general working capital. These shares were issued under the general mandate granted to the directors at the annual general meeting of the Company held on 31st August, 2004 and rank pari passu with all the other shares in issue in all respects.

(4) In December 2004 and February 2005, the HK$15,000,000 2% convertible notes due 2006 and HK$10,000,000 2% convertible notes due 2008 were converted into 33,333,331 and 23,809,520 ordinary shares of HK$0.01 each in the capital of the Company at conversion prices of HK$0.45 and HK$0.42 per share, respectively. The new shares rank pari passu with all the other shares in issue in all respects.

27. SHARE OPTIONS

Scheme adopted on 28th February, 1994 (the "1994 Scheme")

The 1994 Scheme was adopted on 28th February, 1994 for the primary purpose of providing incentives to directors and eligible employees and was expired on 27th February, 2004.

At 31st March, 2005, the number of shares in respect of which options had been granted and remained outstanding under the 1994 Scheme was 27,300, representing approximately 0.02% of the shares of the Company in issue at that date.

Pursuant to a resolution passed on 26th August, 2002, the 1994 Scheme was terminated. After the termination of 1994 Scheme, no more share options can be granted under the scheme and the outstanding share options under it are remain exercisable until they expire.

Scheme adopted on 26th August, 2002 (the "2002 Scheme")

Following the termination of the 1994 Scheme in August 2002, the 2002 Scheme was adopted pursuant to a resolution passed on 26th August, 2002 for the primary purpose of providing incentives to eligible persons and will expire on 25th August, 2012. Under the 2002 Scheme, the Board of Directors of the Company may grant share options to the following eligible persons to subscribe for shares in the Company:

(i) employees including executive directors of the Company, its subsidiaries and any companies in which the Company holds any equity interest; or

(ii) non-executive directors of the Company, its subsidiaries and any companies in which the Company holds any equity interest; or

(iii) suppliers or customers; or

(iv) consultants, advisers or agents.

Share options granted should be accepted within 28 days of the date of grant, upon payment of HK$1 per each grant of share options. The exercise price is determined at the highest of: (i) the closing price of the shares on the date of grant of the share option; or (ii) the average closing price of shares on the five trading days immediately preceding the date of grant; or (iii) the nominal value of shares on the date of grant.

Share options may be exercised in accordance with the terms of the 2002 Scheme at any time after the date upon which the option is granted and accepted and prior to the expiry of ten years from that date.

At 31st March, 2005, no option under the 2002 Scheme was outstanding. The maximum number of shares in respect of which share options under the 2002 Scheme may be granted when aggregated with the maximum number of shares in respect of which options may be granted under all the other schemes (the "Scheme Limit") is 10% of shares in issue on the adoption date of the 2002 Scheme. The Scheme Limit may be refreshed by a resolution in shareholders' meeting such that the total number of shares which may be issued upon exercise of all options to be granted under the 2002 Scheme and any other schemes shall not exceed 10% of the shares in issue as at the date of such shareholder's approval. However, the Scheme Limit and any increase in the Scheme Limit shall not result in the number of shares which may be issued upon exercise of all outstanding share options granted under the 2002 Scheme and other schemes exceed 30% of the shares in issue from time to time. No person shall be granted a share option, within 12-month period of the date of grant, exceeds 1% of the shares in issue as at the date of grant.

The following table discloses details of the Company's share options held by employees (including directors) and movements in such holdings during the year:

Option type	Outstanding at 1.4.2004	Adjustment during the year	Granted during the year	Exercised during the year	Cancelled during the year	Outstanding at 31.3.2005
1994 Scheme	27,300	–	–	–	–	27,300
2002 Scheme	1,155,000	–	–	(1,155,000)	–	–
	1,182,300	–	–	(1,155,000)	–	27,300

Option type	Outstanding at 1.4.2003	Adjustment during the year *(Note)*	Granted during the year	Exercised during the year	Cancelled during the year	Outstanding at 31.3.2004
1994 Scheme	11,889,000	(11,294,550)	–	–	(567,150)	27,300
2002 Scheme	–	–	11,665,000	(10,510,000)	–	1,155,000
	11,889,000	(11,294,550)	11,665,000	(10,510,000)	(567,150)	1,182,300

The market price of the shares was HK$0.33 (2004: ranged from HK$0.40 to HK$0.43) on the exercise date of the options.

Details of the 1994 Scheme held by the directors during the year ended 31st March, 2004 included in the above table are as follows:

Year	Outstanding at 1st April	Adjustment during the year *(Note)*	Cancelled during the year	Outstanding at 31st March
2004	4,580,000	(4,351,000)	(229,000)	–

There was no option granted to directors under the 2002 Scheme.

Details of the share options outstanding at 31st March, 2004 and 2005 are as follows:

Date of grant	Exercisable period	Exercise price	Number of shares to be issued upon exercise of the share options	
		HK$	**2005**	**2004**
		(Note)	*(Note)*	*(Note)*
1994 Scheme				
19.6.1997	19th June, 1997 to 18th June, 2007	21.84	4,800	4,800
2.2.1998	2nd February, 1998 to 1st February, 2008	2.00	2,000	2,000
17.11.1999	17th November, 1999 to 16th November, 2009	2.34	10,500	10,500
14.3.2000	14th March, 2000 to 13th March, 2010	6.60	10,000	10,000
			27,300	27,300
2002 Scheme				
7.1.2004	9th January, 2004 to 8th January, 2014	0.207	–	1,155,000
			27,300	1,182,300

Note: With effect from 15th April, 2003, every 20 issued and unissued shares of HK$0.0005 each in the capital of the Company was consolidated into one new ordinary share of HK$0.01 each in the share capital of the Company following the Capital Reorganisation. Accordingly, the exercise price and the number of share options were adjusted.

Total consideration received during the year ended 31st March, 2004 from employees and consultants for taking up the options granted amounted to HK$10.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

28. RESERVES

	Share premium HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000 (Note)	Deficit HK$'000	Total HK$'000
THE COMPANY					
At 1st April, 2003	334,999	646	173,869	(587,984)	(78,470)
Capital reorganisation					
– Capital reduction *(note 26(1a))*	–	–	233,203	–	233,203
– Cancellation of share premium *(note 26(1d))*	(334,999)	–	334,999	–	–
– Set-off against the deficit *(note 26(1))*	–	–	(535,894)	535,894	–
Exercise of share options *(note 26(2))*	2,071	–	–	–	2,071
Loss for the year	–	–	–	(92,083)	(92,083)
At 31st March, 2004	2,071	646	206,177	(144,173)	64,721
Exercise of share options *(note 26(2))*	227	–	–	–	227
Issue of shares *(note 26(3))*	78,500	–	–	–	78,500
Conversion of convertible notes *(note 26(4))*	24,429	–	–	–	24,429
Expenses incurred in connection with issue of shares	(2,623)	–	–	–	(2,623)
Loss for the year	–	–	–	(6,563)	(6,563)
At 31st March, 2005	102,604	646	206,177	(150,736)	158,691

Note: The contributed surplus of the Company represents:

(i) the difference between the underlying net assets of the subsidiaries acquired by the Company at the date of the group reorganisation in 1994 less any dividends distributed from the pre-reorganisation reserves and the nominal amount of the Company's share capital issued as consideration for the acquisition; and

(ii) net balance from capital reduction, cancellation of share premium and set-off against the deficit pursuant to the capital reorganisation on 15th April, 2003.

In addition to the accumulated profits of the Company, under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is also available for distribution to shareholders. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

(a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the directors, the Company's reserves available for distribution to shareholders as at 31st March, 2005 was HK$55,441,000 (2004: HK$62,004,000).

29. DISPOSAL OF SUBSIDIARIES

	2004
	HK$'000
Net assets disposed of:	
Creditors and accrued charges	(20)
Gain on disposal of subsidiaries	30
Total consideration	10
Satisfied by:	
Cash	10
Net cash inflow arising on disposal:	
Cash consideration	10

The subsidiaries disposed of during the year ended 31st March, 2004 had no contribution to the Group's turnover and had a loss of HK$39,000 included in the Group's results from operations.

30. ACQUISITION OF SUBSIDIARIES

In May 2004, the Group acquired 100% of the issued share capital of Tung Fong Hung Investment Limited and its subsidiaries and the remaining 50% of the issued share capital of Pacific Wins Development Ltd. for considerations of HK$42 million and HK$28 million, respectively. The acquisitions have been accounted for by using the purchase method of accounting.

The effect of the acquisition is summarised as follows:

	2005	**2004**
	HK$'000	*HK$'000*
NET ASSETS ACQUIRED		
Property, plant and equipment	71,549	–
Intangible assets	1,264	–
Inventories	60,353	–
Debtors, deposits and prepayments	26,205	–
Tax recoverable	14	–
Bank balances and cash	23,274	–
Creditors and accrued charges	(48,613)	–
Obligations under a finance lease	(149)	–
Bank and other borrowings	(82,698)	–
Minority interests	–	(124,879)
	51,199	(124,879)
Goodwill	22,936	–
Total consideration	74,135	(124,879)
SATISFIED BY		
Cash	42,000	–
Promissory notes	13,000	–
Convertible notes	15,000	–
Legal and professional fees	4,135	261
Waiver of loans from former minority shareholder	–	(125,140)
	74,135	(124,879)
Net cash outflow arising on acquisition		
Cash consideration	(42,000)	–
Legal and professional fees	(4,135)	–
Bank balances and cash acquired	23,274	–
	(22,861)	–

The subsidiaries acquired during the year contributed HK$275,952,000 (2004: HK$11,158,000) to the Group's turnover and a profit of HK$2,888,000 (2004: HK$1,895,000) to the Group's results from operations.

31. CONTINGENT LIABILITIES

At 31st March, 2005, the Group had given an indemnity to the purchaser relating to unrecorded taxation liabilities, if any, and warranties relating to the affairs and businesses of a subsidiary disposed of in the previous year. The maximum aggregate liability of the Group in respect of all claims for breach of the warranties shall, when taken together with the aggregate liability of the Group in respect of all claims under the indemnity, not exceed the sum of HK$60,000,000 (2004: HK$60,000,000). All related claims may be brought against the Group up to the expiry of 10 years from 31st March, 1998.

At 31st March, 2005, the Company had outstanding corporate guarantees amounting to approximately HK$41,082,000 (2004: HK$114,000,000) issued in favour of banks to secure general banking facilities granted by the banks to its subsidiaries and had given guarantees to security companies in respect of the obligations of security accounts opened in the security companies by its subsidiaries.

32. CAPITAL COMMITMENTS

	THE GROUP	
	2005	**2004**
	HK$'000	*HK$'000*
Capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of property, plant and equipment	2,550	–

33. OPERATING LEASE COMMITMENTS

The Group as lessee

	THE GROUP	
	2005	**2004**
	HK$'000	*HK$'000*
Property rentals paid by the Group during the year in respect of:		
Minimum lease payments	19,162	–
Contingent rents	3,811	–
	22,973	–

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2005	**2004**
	HK$'000	*HK$'000*
Within one year	19,280	–
In the second to fifth year inclusive	18,710	–
	37,990	–

Operating lease payments represent rentals payable by the Group for certain of its office premises and outlets. Leases are negotiated for an average term of three years and rentals are either fixed or, in addition to the fixed rentals, contingent based on a fixed percentage of the monthly gross turnover of the outlets, for an average term of three years.

The Group as lessor

The property rental income earned during the year was HK$98,000 (2004: HK$374,000).

The investment property was expected to generate rental yields of 4.56% for the year ended 31st March, 2004 on an ongoing basis.

At 31st March, 2005, the Group had no operating lease commitment.

At 31st March, 2004, the Group had contracted tenants for the future minimum lease payments amounting to HK$90,000 which fall due within one year.

34. PLEDGE OF ASSETS

At 31st March, 2005, the Group's bank and other borrowings were secured by the following:

(a) legal charges over the property, plant and equipment of Jean-Marie Pharmacal Company Limited, a subsidiary of the Company with a carrying value of HK$11,959,000 (2004: Nil);

(b) bank deposits of HK$3,000,000 (2004: Nil); and

(c) legal charges over the properties held for sale of the Group with a carrying value of HK$58,536,000 (2004: HK$116,846,000).

In addition to (c) indicated above, at 31st March, 2004, the Group's bank and other borrowings were also secured by the following:

(a) legal charges over the investment properties of a subsidiary, Fountain Property Limited, with a carrying value of HK$8,200,000;

(b) a share charge of a subsidiary Master Super Development Limited ("Master Super");

(c) a floating charge on all the assets, including but not limited to the uncalled capital, of Master Super;

(d) assignments of the right, title, interest and benefits in and under all the existing and future building contracts in respect of the Group's properties held for sale in Hong Kong;

(e) the benefit under all insurance policies of the Group's properties held for sale in Hong Kong;

(f) the future sales proceeds, rentals and other earnings generated from the Group's properties held for sale; and

(g) subordination of shareholders' loans of Master Super.

35. RETIREMENT BENEFITS SCHEMES

The Group operates a defined contribution retirement benefits scheme for eligible employees. The assets of the scheme are separately held in funds under the control of trustees.

The cost charged to the consolidated income statement represents contributions payable to the fund by the Group at rates specified in the rules of the scheme. Where there are employees who leave the scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

At the balance sheet dates, the Group had no significant forfeited contributions, which arose upon employees leaving the retirement benefits scheme and which are available to reduce the contributions payable by the Group in future years.

With effect from 1st December, 2000, the Group has also joined a Mandatory Provident Fund Scheme (the "MPF Scheme") for employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Scheme Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee.

Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. The contributions arising from the MPF Scheme charged to the income statement represent contributions payable to the funds by the Group at rates specified in the rules of the scheme. No forfeited contribution is available to reduce the contribution payable in future years.

36. POST BALANCE SHEET EVENTS

Subsequent to 31st March, 2005, the Group has the following significant post balance sheet events:

(a) Pursuant to the announcement on 20th April, 2005 and the circular dated 23rd May, 2005, on 8th April, 2005, the Company entered into seven subscription agreements with each of the subscribers. On 20th April, 2005, the Company entered into another two subscription agreements and a placing agreement with each of the subscribers and a placing agent, respectively. Each of the subscription agreements and the placing agreement are not inter-conditional on each other.

Of the nine subscribers, seven of them are fund subscribers who are funds managed by global asset management firms, with the remaining two subscribers being Loyal Concept Limited ("Loyal Concept") and Kopola Investment Company Limited ("Kopola"). Pursuant to the subscription agreements, the fund subscribers, Loyal Concept and Kopola have in aggregate conditionally agreed to subscribe by cash for the HK$956 million zero coupon convertible notes due 2010 proposed to be issued by the Company pursuant to the subscription agreements (the "Subscription Convertible Notes") with principal amounts of HK$356 million, HK$450 million and HK$150 million, respectively (the "Subscription"). Loyal Concept is an indirect wholly-owned subsidiary of Hanny Holdings Limited ("Hanny"), a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange. Loyal Concept and Hanny are not connected persons of the Company. Kopola is 50% held by Mr. Ho Hau Chong, Norman ("Mr. Ho"), the deputy chairman and independent non-executive director of the Company, and therefore an associate of Mr. Ho. As Mr. Ho is a connected person of the Company under Rule 14A.11 of the Listing Rules. Therefore, the subscription of the Subscription Convertible Notes by Kopola constitutes a connected transaction of the Company under the Listing Rules.

Pursuant to the placing agreement, the placing agent will procure, on a best effort basis, no less than six placees to subscribe by cash for the HK$44 million zero coupon convertible notes due 2010 proposed to be issued by the Company (the "Placing Convertible Notes") with a principal amount of HK$44 million (the "Placing"). None of the placees will be a subscriber.

Upon full conversion of the Subscription Convertible Notes at initial conversion price of HK$0.44 per share (subject to adjustment), a total of 2,172,727,272 new ordinary shares will be issued.

Assuming all the HK$44 million Placing Convertible Notes are successfully placed by the placing agent, upon full conversion of the Placing Convertible Notes at the initial conversion price of HK$0.44 per share (subject to adjustment), a total of 100,000,000 new ordinary shares will be issued.

The total gross proceeds from the Subscription and the Placing amount to HK$956 million and HK$44 million, respectively. Therefore, the maximum total gross proceeds from the Subscription and the Placing amount to HK$1,000 million. Net proceeds of approximately HK$996 million will be used to finance the expansion of the investment property portfolio of the Company.

(b) Pursuant to the announcement on 3rd June, 2005, a subsidiary of the Company and an independent third party (the "Vendor") signed a non-binding letter of intent with a view to negotiating with the Vendor a possible acquisition from the Vendor 50% of its ownership and interest in certain land located in Macau (the "Acquisition"), which initially is intended for redevelopment purposes, at the initial consideration of HK$495 million. Formal agreement in respect of the Acquisition has not been entered into up to the date of the financial statements.

37. SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31st March, 2005 are as follows:

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share/ registered capital	Percentage of issued share/ registered capital held by the Company Directly %	Indirectly %	Principal activities
Asia Progress Investments Limited	British Virgin Islands	US$1 ordinary share	–	100	Investment holding
Cheung Tai Hong (B.V.I.) Limited	British Virgin Islands	US$50,000 ordinary shares	100	–	Investment holding
Cheung Tai Hong, Limited	Hong Kong	HK$2,000 ordinary shares	–	100	Investment holding
		HK$500,000 non-voting deferred shares *(note 1)*	–	–	
Cheung Tai Hong Holdings (Motor Vehicle) Limited	Hong Kong	HK$10,000 ordinary shares	–	100	Trading of motorcycles and spare parts
Champion Palace Development Limited	Hong Kong	HK$2 ordinary shares	–	100	Properties holding in the PRC
Exalt Investment Limited	Hong Kong	HK$10,000 ordinary shares	–	100	Investment holding
Fountain Property Limited	Hong Kong	HK$2 ordinary shares	–	100	Property investment
Handsworth Investments Limited	British Virgin Islands	US$1 ordinary share	–	100	Investment holding
Jean-Marie Wellness Biotech Corporation Limited	British Virgin Islands	US$2 ordinary shares	–	100	Investment holding
Jean-Marie Pharmacal Company Limited	Hong Kong	HK$812,600 ordinary shares	–	100	Manufacture and sales of pharmaceutical products
Jean-Marie Pharmacal Management Limited	Hong Kong	HK$2 ordinary shares	–	100	Investment holding
Jumbo Ever Limited	Hong Kong	HK$2 ordinary shares	–	100	Investment holding
Master Super	Hong Kong	HK$100 ordinary shares	–	100	Property holding and sale

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share/ registered capital	Percentage of issued share/ registered capital held by the Company Directly %	Indirectly %	Principal activities
Pacific Essence Limited	British Virgin Islands	US$1 ordinary share	–	100	Investment holding
Pacific Wins Development Ltd.	British Virgin Islands	US$1,000 ordinary shares	–	100	Investment holding
Sound Advice Investments Limited	British Virgin Islands	US$100 ordinary shares	–	100	Investment holding
Tung Fong Hung Investment Limited	British Virgin Islands	US$10,000 ordinary shares	–	100	Investment holding
Tung Fong Hung Nominees Limited	British Virgin Islands	US$2 ordinary shares	–	100	Provision of nominee services
Tung Fong Hung (China) Limited	Hong Kong	HK$2 ordinary shares	–	100	Distribution of Chinese medicine and health food
Tung Fong Hung Foods Limited	Hong Kong	HK$2 ordinary shares	–	100	Distribution of health food
Tung Fong Hung Foods Company, B.C. Limited	Canada	CAD360 common	–	100	Distribution of health food
Tung Fong Hung Medicine (BVI) Limited	British Virgin Islands	HK$0.2 ordinary share	–	100	Investment holding
Tung Fong Hung Medicine Company, Limited	Hong Kong	HK$1,001 ordinary shares	–	100	Retailing of Chinese medicine and foodstuffs
Tung Fong Hung Medicine Company (Macau) Limited	Macau	MOP100,000 quota capital	–	100	Retailing of Chinese medicine and foodstuffs
TFH Management Limited	Hong Kong	HK$2 ordinary shares	–	100	Provision of management services
TFH Manufacturing Company Limited	Hong Kong	HK$2 ordinary shares	–	100	Processing, packaging and distribution of Chinese medicine and foodstuffs
TFH (China) Holdings Limited	Hong Kong	HK$2 ordinary shares	–	100	Investment holding
Total Pacific Limited	Hong Kong	HK$2 ordinary shares	–	100	Investment holding

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share/ registered capital	Percentage of issued share/ registered capital held by the Company Directly %	Indirectly %	Principal activities
Universal Focus Limited	British Virgin Islands	US$1 ordinary share	–	100	Investment holding
廣州市東方紅保健品有限公司	PRC *(note 2)*	HK$2,500,000	–	100	Distribution of Chinese medicine and health food
深圳市東方紅保健品有限公司	PRC *(note 3)*	RMB1,000,000	–	100	Distribution of Chinese medicine and health food
東方紅(中山)保健食品廠有限公司	PRC *(note 2)*	USD1,000,000	–	100	Processing and wholesaling of health food
黑龍江金保華農業有限公司	PRC *(note 2)*	HK$14,000,000	–	100	Cultivation and sales of potatoes
哈爾濱東方綠種業有限公司	PRC *(note 3)*	RMB1,100,000	–	100	Sales of potatoes seeds

Notes:

(1) The non-voting deferred shares which are not held by the Group practically carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the respective companies nor to participate in any distribution on winding up.

(2) The subsidiaries are wholly-owned foreign enterprises.

(3) The subsidiaries are wholly-owned domestic enterprises.

None of the subsidiaries had any debt securities outstanding at the balance sheet date or at any time during the year.

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

38. SEGMENT INFORMATION

Business segments

For management purposes, the Group is currently organised into three operating divisions. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Medicine and health food	–	manufacture and sales of medicine and health food
Property	–	property investment and development
Motorcycles	–	trading of motorcycles and spare parts

Segment information about these businesses is presented below:

2005

	Medicine and health food HK$'000	Motorcycles HK$'000	Property HK$'000	Unallocated HK$'000	Consolidated HK$'000
INCOME STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2005					
Turnover	275,952	11,737	91,707	–	379,396
Segment results	2,888	542	27,160	–	30,590
Unallocated corporate expenses					(11,450)
Profit from operations					19,140
Finance costs					(7,379)
Profit before taxation					11,761
Taxation					(1,823)
Profit for the year					9,938
BALANCE SHEET AT 31ST MARCH, 2005					
ASSETS					
Segment assets	218,491	2,019	62,156	–	282,666
Unallocated corporate assets	–	–	–	195,847	195,847
Consolidated total assets					478,513
LIABILITIES					
Segment liabilities	57,986	753	1,636	–	60,375
Unallocated corporate liabilities	–	–	–	174,531	174,531
Consolidated total liabilities					234,906
OTHER INFORMATION					
Depreciation and amortisation	8,652	–	–	184	8,836
Amortisation of intangible assets	71	–	–	–	71
Amortisation of goodwill	1,051	–	–	–	1,051
Write-off of intangible assets	645	–	–	–	645
Capital additions	74,627	–	–	3	74,630
Development cost incurred	2,731	–	–	–	2,731
Goodwill	22,936	–	–	–	22,936
Doubtful debt provided (recovered)	1,741	–	–	(12)	1,729
Loss on disposal of investment properties	–	–	(3,217)	–	(3,217)
Release of negative goodwill	–	–	(2,224)	–	(2,224)

2004

	Motorcycles *HK$'000*	Property *HK$'000*	Unallocated *HK$'000*	Consolidated *HK$'000*
INCOME STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2004				
Turnover	15,864	47,650	–	63,514
Segment results	664	(9,641)	–	(8,977)
Unallocated corporate expenses				(13,259)
Loss from operations				(22,236)
Finance costs				(15,585)
Gain on disposal of subsidiaries		20	10	30
Loss before taxation				(37,791)
Taxation				–
Loss before minority interests				(37,791)
Minority interests				8,179
Loss for the year				(29,612)
BALANCE SHEET AT 31ST MARCH, 2004				
ASSETS				
Segment assets	1,977	132,995	–	134,972
Unallocated corporate assets				97,289
Consolidated total assets				232,261
LIABILITIES				
Segment liabilities	1,157	6,295	–	7,452
Unallocated corporate liabilities				94,633
Consolidated total liabilities				102,085
OTHER INFORMATION				
Depreciation and amortisation	–	2	181	183
Allowance for properties held for sale	–	6,006	–	6,006
Deficit arising on revaluation of investment properties	–	8,800	–	8,800
Release of negative goodwill	–	(747)	–	(747)
Doubtful debt provided (recovered)	–	37	(57)	(20)

Geographical segments

The Group's operations are principally located in Hong Kong, the PRC and other countries including Canada, Taiwan, Singapore and Macau. The Group's administrative function was carried out in Hong Kong and the PRC.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods:

	Sales revenue by geographical market		**Profit (loss) from operations**	
	2005	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	288,326	63,514	32,941	(11,131)
PRC	60,687	–	4,358	1,548
Other countries	30,383	–	(1,329)	–
	379,396	63,514	35,970	(9,583)
Corporate expenses			(16,830)	(12,653)
Profit (loss) from operations			19,140	(22,236)

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		**Additions to property, plant and equipment, intangible assets and goodwill**	
	2005	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	387,351	232,261	99,348	–
PRC	78,351	–	857	–
Other countries	12,811	–	92	–
	478,513	232,261	100,297	–

3. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2005

The following is a reproduction of the text of the unaudited consolidated financial statements of the Group together with the accompanying notes contained in pages 4 to 21 of the interim report of the Company for the six months ended 30th September, 2005:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th September, 2005

		Six months ended	
		30.9.2005	**30.9.2004**
		(unaudited)	**(unaudited)**
	NOTES	*HK$'000*	*HK$'000*
Turnover	*4*	426,380	175,398
Cost of sales		(370,651)	(125,505)
Gross profit		55,729	49,893
Other income		6,830	289
Distribution costs		(33,043)	(24,733)
Administrative expenses		(20,099)	(13,651)
Other expenses		(304)	–
Gain arising from change in fair value of financial assets at fair value through profit or loss		216	–
Gain on disposal of investments in securities		–	53
Amortisation of goodwill arising on acquisition of subsidiaries		–	(478)
Impairment loss recognised in respect of goodwill arising from acquisition of subsidiaries		(11,000)	–
Loss on disposal of investment properties		–	(3,217)
Unrealised holding loss of investments held for trading/other investments		(5,330)	(4,696)
Finance costs	*5*	(9,940)	(4,011)
Loss before taxation	*6*	(16,941)	(551)
Taxation	*7*	(819)	(466)
Loss for the period attributable to equity holders of the parent		(17,760)	(1,017)
Loss per share	*9*		
– Basic		(4.4 cents)	(0.8 cents)
– Diluted		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

At 30th September, 2005

	NOTES	30.9.2005 (unaudited) HK$'000	31.3.2005 (restated) HK$'000
Non-current assets			
Property, plant and equipment	10	62,666	64,353
Prepaid lease payments		1,350	1,365
Intangible assets		3,043	2,015
Goodwill		10,885	21,885
		77,944	89,618
Current assets			
Inventories		73,377	59,280
Debtors, deposits and prepayments	11	429,610	38,280
Loan receivables		49,814	31,500
Prepaid lease payments		30	30
Properties held for sale		58,547	58,536
Investments in securities		–	10,289
Investments held for trading		53,052	–
Financial assets at fair value through profit or loss		26,840	–
Pledged bank deposits		3,000	3,000
Bank balances and cash		669,511	187,980
		1,363,781	388,895
Current liabilities			
Creditors and accrued charges	12	77,145	62,772
Tax payable		62	1,041
Obligations under a finance lease – due within one year		33	23
Promissory note payables		–	13,000
Convertible note payables	13	353	180
Bank and other borrowings – due within one year		49,053	62,146
		126,646	139,162
Net current assets		1,237,135	249,733
Total assets less current liabilities		1,315,079	339,351
Non-current liabilities			
Obligations under a finance lease – due after one year		91	119
Bank and other borrowings – due after one year		1,875	5,625
Convertible note payables	13	901,333	84,803
		903,299	90,547
Net assets		411,780	248,804
Capital and reserves			
Share capital	15	4,086	3,610
Reserves		406,770	245,194
Equity attributable to equity holders of the parent		410,856	248,804
Minority interests		924	–
Total equity		411,780	248,804

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September, 2005

	Attributable to equity holders of the parent										
	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Capital reserve HK$'000	Other reserve HK$'000	Special reserve HK$'000	Translation reserve HK$'000	Accumulated profits HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1st April, 2004	1,277	2,071	646	–	32,308	(8,908)	–	102,782	130,176	–	130,176
Exchange differences arising on operations outside Hong Kong and income recognised directly in equity	–	–	–	–	–	–	645	–	645	–	645
Loss for the period	–	–	–	–	–	–	–	(1,017)	(1,017)	–	(1,017)
Total recognised income and expense for the period	–	–	–	–	–	–	645	(1,017)	(372)	–	(372)
Exercise of share options	11	227	–	–	–	–	–	–	238	–	238
At 30th September, 2004	1,288	2,298	646	–	32,308	(8,908)	645	101,765	130,042	–	130,042
Exchange differences arising on operations outside Hong Kong and loss recognised directly in equity	–	–	–	–	–	–	(18)	–	(18)	–	(18)
Profit for the period	–	–	–	–	–	–	–	13,279	13,279	–	13,279
Total recognised income and expense for the period	–	–	–	–	–	–	(18)	13,279	13,261	–	13,261
Recognition of equity component of convertible notes	–	–	–	3,466	–	–	–	–	3,466	–	3,466
Exercise of share options	1	–	–	–	–	–	–	–	1	–	1
Issue of shares	1,750	78,500	–	–	–	–	–	–	80,250	–	80,250
Conversion of convertible notes	571	24,182	–	(346)	–	–	–	–	24,407	–	24,407
Expenses incurred in connection with issue of shares	–	(2,623)	–	–	–	–	–	–	(2,623)	–	(2,623)
At 31st March, 2005 as restated	3,610	102,357	646	3,120	32,308	(8,908)	627	115,044	248,804	–	248,804
Exchange differences arising on operations outside Hong Kong and income recognised directly in equity	–	–	–	–	–	–	31	–	31	–	31
Loss for the period	–	–	–	–	–	–	–	(17,760)	(17,760)	–	(17,760)
Total recognised income and expense for the period	–	–	–	–	–	–	31	(17,760)	(17,729)	–	(17,729)
Recognition of equity component of convertible notes	–	–	–	160,914	–	–	–	–	160,914	–	160,914
Conversion of convertible notes	476	19,084	–	(693)	–	–	–	–	18,867	–	18,867
Capital contribution of minority shareholders	–	–	–	–	–	–	–	–	–	924	924
At 30th September, 2005	4,086	121,441	646	163,341	32,308	(8,908)	658	97,284	410,856	924	411,780

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th September, 2005

	Six months ended	
	30.9.2005	**30.9.2004**
	(unaudited)	**(unaudited)**
	HK$'000	*HK$'000*
Net cash from operating activities	4,072	59,470
Net cash used in investing activities		
Proceeds from disposal of investments held for trading	282,406	1,416
Refundable earnest monies paid	(390,000)	–
Acquisition of investments held for trading	(326,500)	–
Other investing cash flows	(45,268)	(19,136)
	(479,362)	(17,720)
Net cash from (used in) financing activities		
Proceeds from issue of convertible notes	988,867	–
New bank and other borrowings raised	473	56,536
Repayment of promissory notes	(13,000)	–
Repayment of bank and other borrowings	(17,316)	(112,844)
Other financing cash flows	(2,234)	(2,696)
	956,790	(59,004)
Net increase (decrease) in cash and cash equivalents	481,500	(17,254)
Cash and cash equivalents at beginning of the period	187,980	80,136
Effect of foreign exchange rate changes	31	527
Cash and cash equivalents at end of the period	669,511	63,409
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	669,511	64,025
Bank overdrafts	–	(616)
	669,511	63,409

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30th September, 2005

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st March, 2005 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("**HKFRS(s)**"), Hong Kong Accounting Standards ("**HKAS(s)**") and Interpretations (hereinafter collectively referred to as "**new HKFRSs**") issued by the HKICPA that are effective for the accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented:

Business Combinations

In the current period, the Group has applied the transitional provisions of HKFRS 3 "Business Combinations" to goodwill acquired in business combinations for which the agreement date was before 1st January, 2005. The principal effects of the application of the transitional provisions of HKFRS 3 to the Group are summarised below:

Goodwill

In previous periods, goodwill arising on acquisitions after 1st April, 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1st April, 2005 onwards and goodwill will be tested for impairment at least annually or in the financial year in which the acquisition takes place. Goodwill arising on acquisitions after 1st January, 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period. Comparative figures for 2004 have not been restated.

Share-based Payments

In the current period, the Group has applied HKFRS 2 "Share-based Payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("**equity-settled transactions**"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("**cash-settled transactions**"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1st April, 2005. In relation to share options granted before 1st April, 2005, the Group has not applied HKFRS 2 to share options granted on or before 7th November, 2002 and share options that were granted after 7th November, 2002 and had vested before 1st April, 2005 in accordance with the relevant transitional provisions. However, the Group is still required to apply HKFRS 2 retrospectively to share options that were granted after 7th November, 2002 and had not yet vested on 1st April, 2005. Because there were no unvested share options at 1st April, 2005 and no share options have been granted during the period, the adoption of HKFRS 2 has had no impact on the Group's results for the current or prior accounting periods.

Financial Instruments

In the current period, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Convertible notes

HKAS 32 requires an issuer of a compound financial instrument (that contains both financial liability and equity components) to separate the compound financial instrument into its liability and equity components on its initial recognition and to account for these components separately. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. The principal impact of HKAS 32 on the Group is in relation to convertible loan note payables issued by the Company that contain both liability and equity components. The liability component is classified as a liability while the equity component is grouped under the reserves of the Company. Previously, convertible note payables were classified as liabilities on the balance sheet. Because HKAS 32 requires retrospective application, comparative figures have been restated. Liabilities as at 31st March, 2005 have been decreased by HK$5,197,000 with an increase in accumulated profits of HK$2,324,000 and an increase in reserves by HK$2,873,000.

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31st March, 2005, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("**SSAP 24**"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in the profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1st April, 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity, respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

On 1st April, 2005, the Group classified and measured its debt and equity securities in accordance with the requirements of HKAS 39. Investments in securities classified under current assets with a carrying amount of HK$10,289,000 were classified to investments held for trading.

Financial assets and financial liabilities other than debt and equity securities

From 1st April, 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method. During the period, the Group has acquired and designed all equity-linked notes as "financial assets at fair value through profit or loss". The adoption of HKAS 39 has had no material effect in the Group's accumulated profits.

Owner-occupied Leasehold Interest in Land

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current period, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see Note 3 for the financial impact). Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

Potential Impact of New HKFRSs not yet Adopted

The Group has not early applied the following new HKFRSs that have been issued but are not effective:

HKAS 1 (Amendment)	Capital Disclosures
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendments)	Financial Guarantee Contracts
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 4	Determining whether an Arrangement Contains a Lease
HK(IFRIC) – Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC) – Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described in note 2 on the results for the current and prior periods are as follows:

	Effect of adopting	Six months ended 30.9.2005	30.9.2004
		HK$'000	*HK$'000*
Increase in impairment loss recognised in respect of goodwill arising from acquisition of subsidiaries	HKFRS 3	(573)	–
Decrease in amortisation of goodwill	HKFRS 3	573	–
Increase in interest on the liability component of convertible notes	HKAS 32	(7,443)	–
Gain arising from changes in fair value of financial assets at fair value through profit or loss	HKAS 39	216	–
Increase in loss for the period		(7,227)	–

The cumulative effects of the application of the new HKFRSs as at 31st March, 2005 and 1st April, 2005 are summarised below:

	As at 31st March, 2005 (originally stated)	Effect of HKAS 17	Effect of HKAS 32	As at 31st March, 2005 (restated)	Effect of HKAS 39	As at 1st April, 2005 (restated)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance sheet items						
Property, plant and equipment	65,748	(1,395)	–	64,353	–	64,353
Prepaid lease payment	–	1,395	–	1,395	–	1,395
Investments in securities	10,289	–	–	10,289	(10,289)	–
Investments held for trading	–	–	–	–	10,289	10,289
Creditors and accrued charges	(62,952)	–	180	(62,772)	–	(62,772)
Convertible note payables						
– current portion	–	–	(180)	(180)	–	(180)
– non-current portion	(90,000)	–	5,197	(84,803)	–	(84,803)
Total effects on assets and liabilities	(76,915)	–	5,197	(71,718)	–	(71,718)
Share premium	102,604	–	(247)	102,357	–	102,357
Accumulated profits	112,720	–	2,324	115,044	–	115,044
Capital reserve – equity component of convertible notes	–	–	3,120	3,120	–	3,120
Total effects on equity	215,324	–	5,197	220,521	–	220,521

4. SEGMENT INFORMATION

For management purposes, the Group is currently organised into four main operating segments-manufacturing and trading of medicine and health foods, motorcycles, property development and securities investment. These divisions are the bases on which the Group reports its primary segment information.

Six months ended 30th September, 2005

	Medicine and health food HK$'000	Motorcycles HK$'000	Property HK$'000	Securities investment HK$'000	Consolidated HK$'000
TURNOVER					
External sales	138,427	5,547	–	282,406	426,380
SEGMENT RESULTS	5,878	186	259	(1,190)	5,133
Unallocated corporate income					5,313
Unallocated corporate expenses					(6,447)
Impairment loss recognised in respect of goodwill arising from acquisition of subsidiaries	(11,000)	–	–	–	(11,000)
Finance costs					(9,940)
Loss before taxation					(16,941)
Taxation					(819)
Loss for the period					(17,760)

Six months ended 30th September, 2004

	Medicine and health food HK$'000	Motorcycles HK$'000	Property HK$'000	Consolidated HK$'000
TURNOVER				
External sales	107,080	7,673	60,645	175,398
SEGMENT RESULTS	601	253	9,611	10,465
Unallocated corporate expenses				(7,005)
Finance costs				(4,011)
Loss before taxation				(551)
Taxation				(466)
Loss for the period				(1,017)

5. FINANCE COSTS

	Six months ended	
	30.9.2005	**30.9.2004**
	HK$'000	*HK$'000*
Interest on:		
Bank and other borrowings wholly repayable within five years	1,555	2,719
Promissory notes	210	290
Convertible notes	8,175	122
Loan arrangement fees	–	880
	9,940	4,011

6. LOSS BEFORE TAXATION

	Six months ended	
	30.9.2005	**30.9.2004**
		(restated)
	HK$'000	*HK$'000*
Loss before taxation has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	4,923	4,209
Amortisation of prepaid lease payments	15	12
Amortisation of intangible assets included in administrative expenses	29	4
Loss on disposal of property, plant and equipment	260	53
Bad debts recovered	–	(1)

7. TAXATION

The taxation represents provision for income tax in the People's Republic of China (the "**PRC**").

No provision for Hong Kong Profits Tax has been made as the Company and its subsidiaries had no assessable profit for both periods.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

8. DIVIDENDS

No dividends were paid during the period (six months ended 30th September, 2004: Nil). The directors do not recommend the payment of an interim dividend.

9. LOSS PER SHARE

The calculation of the basic loss per share attributable to equity holders of the parent is based on the following data:

	Six months ended 30.9.2005 HK$'000	Six months ended 30.9.2004 HK$'000
Loss for the period	17,760	1,017
	Number of shares	**Number of shares**
Weighted average number of ordinary shares for the purpose of basic loss per share	403,150,067	128,739,049

No diluted loss per share has been presented because the exercise of the share options and the conversion of the convertible notes would result in a decrease in loss per share.

10. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK$4,092,000 on acquisition of property, plant and equipment. In addition, the Group disposed of certain plant and equipment with a carrying amount of approximately HK$856,000 for proceeds of HK$596,000, resulting in a loss on disposal of approximately HK$260,000.

At 30th September, 2005, certain equipment of the Group with an aggregate net book value of approximately HK$11,587,000 (31st March, 2005: HK$11,959,000) were pledged to a bank to secure general banking facilities granted to the Group.

11. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group allows credit period ranging from 0 to 30 days to its trade customers.

The following is an aged analysis of trade debtors at the balance sheet date:

	30.9.2005 *HK$'000*	**31.3.2005** *HK$'000*
0 – 30 days	18,247	16,067
31 – 60 days	1,044	269
61 – 90 days	775	11,336
Over 90 days	849	–
	20,915	27,672
Refundable earnest money *(Note)*	390,000	–
Other debtors, deposits and prepayments	18,695	10,608
	429,610	38,280

Note: In June 2005, a wholly-owned subsidiary of the Company and an independent third party (the "**Vendor**") signed a non-binding letter of intent with a view of negotiating a possible acquisition from the Vendor of 50% of its ownership and interest in certain land located in Macau which is initially intended for redevelopment purposes, at an initial consideration of HK$495 million. Upon signing of the letter of intent, an amount of HK$10 million was paid by the Group as refundable earnest money.

In addition, further amounts of refundable earnest money of HK$230 million and HK$150 million, were paid separately by the Group with a view of negotiating possible acquisitions of ownership and interest in certain land located in Macau and properties located in the PRC.

On completion of the above possible acquisitions, the Company intends to hold the properties as investment properties.

No formal agreement in respect of the possible acquisitions has been entered into up to the date of the interim report. In the opinion of the directors of the Company, the possible acquisitions may or may not materialise, therefore, the refundable earnest money is classified as current assets accordingly.

12. CREDITORS AND ACCRUED CHARGES

The following is an aged analysis of trade creditors at the balance sheet date:

	30.9.2005	**31.3.2005**
		(restated)
	HK$'000	*HK$'000*
0 – 60 days	39,625	20,206
61 – 90 days	4,100	20,037
Over 90 days	8,857	4,470
	52,582	44,713
Other creditors and accrued expenses	24,563	18,059
	77,145	62,772

13. CONVERTIBLE NOTE PAYABLES

On 23rd February, 2005, the Company issued HK$100 million 2% unsecured convertible notes due 2008 at conversion price of HK$0.42 (subject to adjustment). The convertible notes carry interest at 2% per annum, will mature on 23rd February, 2008 (or the next following business day if it is not a business day) and are transferable but may not be transferred to a connected person of the Company without prior written consent of the Company. The holders of the convertible notes have the rights to convert the convertible notes into shares of HK$0.01 each of the Company at any time during the period from 23rd February, 2005 to 23rd February, 2008. During the period from 1st October, 2004 to 31st March, 2005 and during the six months ended 30th September, 2005, HK$10 million and HK$20 million 2% unsecured convertible notes due 2008 were converted into 23,809,520 and 47,619,046 ordinary shares, respectively, of HK$0.01 each in the capital of the Company at conversion price of HK$0.42.

On 8th April, 2005, the Company entered into seven subscription agreements with seven subscribers. On 20th April, 2005, the Company entered into another two subscription agreements and a placing agreement with two subscribers and a placing agent, respectively. Each of the subscription agreements and the placing agreement were not inter-conditional on each other.

Of the nine subscribers, seven of them were subscribers whose funds were managed by global asset management firms (the "**Fund Subscribers**"), with the remaining two subscribers being Loyal Concept Limited ("**Loyal Concept**") and Kopola Investment Company Limited ("**Kopola**"). Pursuant to the subscription agreements, the Fund Subscribers in aggregate, Loyal Concept and Kopola had conditionally agreed to subscribe by cash for HK$956 million unsecured zero coupon convertible notes due 2010 proposed to be issued by the Company pursuant to the subscription agreements (the "**Subscription Convertible Notes**") with principal amounts of HK$356 million, HK$450 million and HK$150 million, respectively (the "**Subscription**"). Loyal Concept is an indirect wholly-owned subsidiary of Hanny Holdings Limited ("**Hanny**"), a company incorporated in Bermuda with limited liability and the shares of which are listed on the Stock Exchange. Loyal Concept and Hanny were not connected persons of the Company. Kopola is 50% held by Mr. Ho Hau Chong, Norman ("**Mr. Ho**"), the deputy chairman and non-executive director of the Company, and therefore an associate of Mr. Ho. As Mr. Ho was a connected person of the Company under Rule 14A.11 of the Listing Rules on the Stock Exchange, Kopola was regarded as a connected person of the Company.

Pursuant to the placing agreement, the placing agent would procure, on a best effort basis, no less than six placees to subscribe by cash for HK$44 million unsecured zero coupon convertible notes due 2010 proposed to be issued by the Company (the "**Placing Convertible Notes**") pursuant to the placing agreement with a principal amount of HK$44 million (the "**Placing**"). The terms of the Subscription Convertible Notes and Placing Convertible Notes are identical.

Upon full conversion of the Subscription Convertible Notes at initial conversion price of HK$0.44 per ordinary share of HK$0.01 each in the share capital of the Company (subject to adjustment), a total of 2,172,727,272 new ordinary shares, which would fall to be issued by the Company upon the exercise of the conversion rights attached to the Subscription Convertible Notes will be issued.

Upon full conversion of the Placing Convertible Notes at the initial conversion price of HK$0.44 per share (subject to adjustment), a total of 100,000,000 new ordinary shares, which would fall to be issued by the Company upon the exercise of the conversion rights attached to the Placing Convertible Notes, will be issued.

The Subscription and the Placing completed on 11th August, 2005. The total gross proceeds from the Subscription and the Placing amounted to HK$956 million and HK$44 million, respectively. Therefore, the total gross proceeds from the Subscription and the Placing amounted to HK$1,000 million. After deducting related expenses of approximately HK$11 million, approximately HK$989 million will be used to finance the expansion of the investment property portfolio of the Company.

As at 30th September 2005, no Subscription Convertible Notes and Placing Convertible Notes had been converted.

14. DEFERRED TAXATION

The following are the major deferred tax liability (asset) provided for and movements thereon during the current and prior reporting periods:

	Accelerated tax depreciation	**Deferred development costs**	**Tax losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1st April, 2004	–	–	–	–
Arising on acquisition of subsidiaries	3,263	–	(3,263)	–
(Credit) charge to income for the year	(730)	353	377	–
At 31st March, 2005	2,533	353	(2,886)	–
(Credit) charge to income for the period	(1,347)	180	1,167	–
At 30th September, 2005	1,186	533	(1,719)	–

At 30th September, 2005, the Group has unused tax losses of HK$680,532,000 (31st March, 2005: HK$679,816,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$9,823,000 (31st March, 2005: HK$16,492,000) of such losses. No deferred tax asset has been recognised in respect of the remaining unused tax losses of HK$670,709,000 (31st March, 2005: HK$663,324,000) and the deductible temporary differences due to the unpredictability of future profit streams. Tax losses may be carried forward indefinitely.

15. SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 1st April, 2005 and 30th September, 2005	40,000,000,000	400,000
Issued and fully paid:		
At 1st April, 2005	360,995,507	3,610
Conversion of convertible notes	47,619,046	476
At 30th September, 2005	408,614,553	4,086

16. OPERATING LEASE COMMITMENTS

The Group as lessee

	Six months ended	
	30.9.2005	**30.9.2004**
	HK$'000	*HK$'000*
Property rentals paid by the Group during the period in respect of:		
Minimum lease payments	11,244	7,812
Contingent rents	3,571	1,421
	14,815	9,233

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	30.9.2005	**31.3.2005**
	HK$'000	*HK$'000*
Within one year	28,491	19,280
In the second to fifth year inclusive	28,080	18,710
	56,571	37,990

Operating lease payments represent rentals payable by the Group for certain of its office premises, factory premises and outlets. Leases are negotiated for an average term of three years and rentals are either fixed or, in addition to the fixed rentals, contingent rental based on a fixed percentage of the monthly gross turnover of the outlets.

17. ACQUISITION OF A SUBSIDIARY

On 20th September, 2005, the Group acquired the entire issued share capital of China–HK International Finance Limited for a cash consideration of approximately HK$35,000. This transaction has been accounted for using the purchase method of accounting. The net asset acquired in the transaction mainly represented rental deposit of approximately HK$22,000. The newly acquired subsidiary did not make any significant contribution to turnover or did not have significant effect on loss before taxation of the Group during the period.

18. RELATED PARTY DISCLOSURES

Compensation of key management personnel

The remuneration of directors during the period was as follows:

	Six months ended	
	30.9.2005	**30.9.2004**
	HK$'000	*HK$'000*
Short-term benefits	1,311	282

The remuneration of directors is determined by the remuneration committee having regard to the performance of individuals and market trends.

1. INTRODUCTION

As disclosed in the announcement of the Company dated 7th February, 2006 and the Everight Circular, the Group entered into an agreement to acquire the entire issued share capital of Everight and certain loans (which is to be determined at completion of the Everight Completion) for an aggregate consideration of HK$140 million. Such consideration is to be satisfied as to HK$80 million by cash and HK$60 million by issue of convertible notes of the Company pursuant to the terms of the Everight Acquisition.

On completion of the Everight Acquisition, the Company, Everight and certain other parties shall enter into a shareholders' agreement, pursuant to which Everight shall be responsible for financing the working capital requirement of Smart Sharp Investment Limited (a subsidiary of Everight) and its subsidiaries for the first two years commencing from the date of such shareholders' agreement up to a maximum amount of HK$80 million.

At present, Everight Group operates two golf clubs, one in Lotus Hill, Panyu, Guangdong and one in Yalong Bay, Sanya, Hainan. The major recurring sources of turnover of Everight Group include green fee, membership subscription, food and beverage sale and accommodation and service income. In addition, 95 villas and 76 apartments have been constructed in Panyu for sale with 12 villas (each subject to long term lease) remain unsold. Everight intends to carry out development projects in Panyu for sale and in Yalong Bay for rental and/or time share and/or resort facilities, subject to all governmental and regulatory approvals having been obtained. For further details of the Everight Acquisition, please refer to the Everight Circular.

Information of Everight Group required to be disclosed in this circular under the Listing Rules is set out below:

2. THREE-YEAR FINANCIAL SUMMARY

The following is a reproduction of the summary of the audited financial information on Everight Group for the three years ended 31st December, 2005 contained in the Everight Circular:

	Year ended 31st December,		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Results			
Continuing operations			
Turnover	43,803	46,790	61,337
Cost of sales/services	(13,600)	(9,511)	(16,481)
Gross profit	30,203	37,279	44,856
(Loss) profit before tax	(2,953)	5,525	(10,016)
Taxation	618	(8,105)	(2,619)
Loss for the year from continuing operations	(2,335)	(2,580)	(12,635)
Discontinued operations			
(Loss) profit for the year from discontinued operations	(815)	56	4,129
Loss for the year	(3,150)	(2,524)	(8,506)
Attributable to:			
Equity holders of the parent	(295)	334	(2,949)
Minority interests	(2,855)	(2,858)	(5,557)
	(3,150)	(2,524)	(8,506)
Dividends	Nil	Nil	Nil

	As at 31st December,		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Assets and liabilities			
Non-current assets	217,662	257,355	302,607
Current assets	59,838	39,812	37,872
Total assets	277,500	297,167	340,479
Current liabilities	113,969	139,170	125,528
Non-current liabilities	29,552	25,959	35,804
Total liabilities	143,521	165,129	161,332
Minority interests	94,956	92,393	108,533
Net assets attributable to the shareholders of Everight	39,023	39,645	70,614

3. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF EVERIGHT GROUP

The following is the reproduction of the audited consolidated financial statements of Everight Group together with the accompanying notes contained in pages 88 to 129 of the Everight Circular:

A. FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENTS

	Notes	Year ended 31st December, 2003 *HKD'000*	2004 *HKD'000*	2005 *HKD'000*
Continuing operations				
Turnover	*6*	43,803	46,790	61,337
Cost of sales/services		(13,600)	(9,511)	(16,481)
Gross profit		30,203	37,279	44,856
Other income	*8*	7,229	7,683	2,929
Administrative expenses		(34,793)	(34,826)	(50,001)
Finance costs	*9*	(5,592)	(4,611)	(7,800)
(Loss) profit before tax	*10*	(2,953)	5,525	(10,016)
Taxation	*12*	618	(8,105)	(2,619)
Loss for the year from continuing operations		(2,335)	(2,580)	(12,635)
Discontinued operations				
(Loss) profit for the year from discontinued operations	*13*	(815)	56	4,129
Loss for the year		(3,150)	(2,524)	(8,506)
Attributable to:				
Equity holders of the parent		(295)	334	(2,949)
Minority interests		(2,855)	(2,858)	(5,557)
		(3,150)	(2,524)	(8,506)
Dividends	*14*	Nil	Nil	Nil

CONSOLIDATED BALANCE SHEETS

		As at 31st December,		
	Notes	**2003**	**2004**	**2005**
		HKD'000	*HKD'000*	*HKD'000*
NON-CURRENT ASSETS				
Property, plant and equipment	*16*	169,162	202,205	201,871
Prepaid lease payments	*17*	100,118	98,951	99,091
Pomelo trees	*18*	4,396	5,276	–
Loan receivables	*19*	331	140	125
Negative goodwill	*20*	(56,481)	(50,126)	–
Deferred tax assets	*35*	136	909	1,520
		217,662	257,355	302,607
CURRENT ASSETS				
Inventories	*22*	12,353	10,956	4,273
Loan receivables	*19*	104	93	18
Trade and other receivables	*23*	13,534	20,204	18,607
Prepaid lease payments	*17*	2,249	2,274	2,331
Amounts due from customers for contract works	*24*	5,346	–	–
Amounts due from related companies	*25*	10	33	172
Amount due from a director	*26*	175	189	67
Amount due from a minority shareholder of a subsidiary	*27*	2	2	2
Amount due from a shareholder	*28*	19	38	33
Tax recoverable		250	251	257
Bank balances and cash	*29*	25,796	5,772	12,112
		59,838	39,812	37,872
CURRENT LIABILITIES				
Trade and other payables	*30*	18,173	30,938	39,021
Amount due to ultimate holding company	*31*	12,690	12,455	–
Amounts due to related companies	*25*	13,658	15,117	15,837
Amount due to a director	*26*	3,525	2,233	3,709
Amounts due to minority shareholders of subsidiaries	*27*	4,776	4,949	4,429
Amount due to a shareholder	*28*	18	18	18
Unsecured loan from a minority shareholder of a subsidiary	*32*	–	4,695	3,364
Unsecured loans from related companies	*33*	1,500	11,502	6,538
Bank and other borrowings – due within one year	34	49,231	43,192	40,423
Tax liabilities		10,398	14,071	12,189
		113,969	139,170	125,528

	Notes	As at 31st December, 2003 HKD'000	2004 HKD'000	2005 HKD'000
NET CURRENT LIABILITIES		(54,131)	(99,358)	(87,656)
TOTAL ASSETS LESS CURRENT LIABILITIES		163,531	157,997	214,951
NON-CURRENT LIABILITIES				
Unsecured loans from related companies	*33*	10,000	5,000	10,837
Bank and other borrowings – due after one year	*34*	18,755	15,023	17,303
Deferred tax liabilities	*35*	797	5,936	7,664
		29,552	25,959	35,804
		133,979	132,038	179,147
CAPITAL AND RESERVES				
Share capital	*36*	47,413	47,413	47,413
Reserves		(8,390)	(7,768)	23,201
Equity attributable to equity holders of the parent		39,023	39,645	70,614
Minority interests		94,956	92,393	108,533
		133,979	132,038	179,147

BALANCE SHEETS

	Notes	**As at 31st December, 2003** *HKD'000*	**2004** *HKD'000*	**2005** *HKD'000*
NON-CURRENT ASSET				
Investments in subsidiaries	*21*	47,403	47,403	47,403
CURRENT ASSETS				
Amount due from a subsidiary		–	–	7,463
CURRENT LIABILITIES				
Other payables		11	22	49
Amount due to a related company	*25*	87	99	110
Amount due to a shareholder	*28*	18	18	18
Bank and other borrowings	*34*	–	–	7,500
		116	139	7,677
NET CURRENT LIABILITIES		(116)	(139)	(214)
		47,287	47,264	47,189
CAPITAL AND RESERVES				
Share capital	*36*	47,413	47,413	47,413
Reserves	*37*	(126)	(149)	(224)
		47,287	47,264	47,189

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the parent					
	Share capital *HKD'000*	Translation reserve *HKD'000*	Accumulated (losses) profits *HKD'000*	Total *HKD'000*	Minority interests *HKD'000*	Total *HKD'000*
At 1st January, 2003, originally stated	47,413	–	(5,017)	42,396	98,114	140,510
Effect of changes in accounting policies *(note 2A)*	–	242	(2,969)	(2,727)	–	(2,727)
At 1st January, 2003, restated	47,413	242	(7,986)	39,669	98,114	137,783
Exchange differences arising on translation of foreign operations and expense recognised directly in equity	–	(351)	–	(351)	(303)	(654)
Loss for the year	–	–	(295)	(295)	(2,855)	(3,150)
Total recognised income and expense for the year	–	(351)	(295)	(646)	(3,158)	(3,804)
At 31st December, 2003	47,413	(109)	(8,281)	39,023	94,956	133,979
Exchange differences arising on translation of foreign operations and income recognised directly in equity	–	288	–	288	295	583
Profit (loss) for the year	–	–	334	334	(2,858)	(2,524)
Total recognised income and expense for the year	–	288	334	622	(2,563)	(1,941)
At 31st December, 2004	47,413	179	(7,947)	39,645	92,393	132,038
Effects of changes in accounting policies *(note 2A)*	–	–	31,596	31,596	18,530	50,126
At 1st January, 2005	47,413	179	23,649	71,241	110,923	182,164
Exchange differences arising on translation of foreign operations and income recognised directly in equity	–	2,322	–	2,322	3,167	5,489
Loss for the year	–	–	(2,949)	(2,949)	(5,557)	(8,506)
Total recognised income and expense for the year	–	2,322	(2,949)	(627)	(2,390)	(3,017)
At 31st December, 2005	47,413	2,501	20,700	70,614	108,533	179,147

CONSOLIDATED CASH FLOW STATEMENTS

	Notes	As at 31st December, 2003	2004	2005
		HKD'000	HKD'000	HKD'000
OPERATING ACTIVITIES				
Loss for the year		(3,150)	(2,524)	(8,506)
Adjustments for:				
Income tax expense		(618)	8,105	2,619
Interest expenses		5,592	4,611	7,800
Interest income		(224)	(80)	(67)
Depreciation and amortisation of property, plant and equipment		9,531	10,176	12,518
Release of prepaid lease payments to income statement		1,841	1,839	2,112
Release of negative goodwill to income statement		(6,355)	(6,355)	–
Write-off of bad and doubtful debts		112	–	2,135
Write-off of pomelo trees		–	–	490
Allowance for bad and doubtful debts		1,240	1,313	898
Written back of allowance for inventories		–	–	(57)
Loss (gain) arising from changes in fair value less estimated point-of-sale cost of pomelo trees		324	(334)	(2,753)
Loss (gain) on disposal and write-off of property, plant and equipment		97	(40)	78
Gain on disposal of subsidiaries		–	–	(1,991)
Operating cash flows before movements in working capital		8,390	16,711	15,276
Decrease in inventories		6,332	1,536	5,393
Increase in trade and other receivables		(3,618)	(7,983)	(1,438)
Decrease in amounts due from customers for contract works		486	5,346	–
Increase in trade and other payables		313	12,765	8,397
Increase in amounts due from related companies		(10)	(23)	(139)
Decrease (increase) in amount due from a director		221	(14)	122
(Increase) decrease in amount due from a shareholder		(19)	(19)	5
Cash generated from operations		12,095	28,319	27,616
Enterprise income tax paid		(385)	(67)	(3,390)
Interest paid		(5,797)	(5,744)	(6,963)
NET CASH FROM OPERATING ACTIVITIES		5,913	22,508	17,263

	Notes	As at 31st December, 2003 HKD'000	2004 HKD'000	2005 HKD'000
INVESTING ACTIVITIES				
Interest received		224	80	67
Proceeds from disposal of property, plant and equipment		2,663	622	1,472
(Increase in) repayment of loan receivables		(435)	202	90
Purchase of property, plant and equipment		(19,961)	(41,874)	(10,191)
Additions to prepaid lease payments		(4,179)	(997)	(124)
Additions to pomelo trees		(748)	(678)	(172)
Decrease in cash and cash equivalents from disposal of subsidiaries (net of cash and cash equivalents disposed of)	38	–	–	(22)
NET CASH USED IN INVESTING ACTIVITIES		(22,436)	(42,645)	(8,880)
FINANCING ACTIVITIES				
New bank and other borrowings raised		78,477	30,966	14,308
Loan from related companies		10,000	5,002	–
Advance from (repayment to) ultimate holding company		4,653	(235)	(315)
Advance from (repayment to) minority shareholders of subsidiaries		764	173	(520)
Advance from a shareholder		18	–	–
Loan from (repayment to) a minority shareholder of a subsidiary		–	4,695	(1,331)
Repayment of bank and other borrowings		(41,823)	(40,818)	(15,962)
Advance to related companies		(4,525)	–	–
(Repayment to) advance from related companies		(5,314)	1,459	732
(Repayment to) advance from a director		(3,256)	(1,292)	1,476
NET CASH FROM (USED IN) FINANCING ACTIVITIES		38,994	(50)	(1,612)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		22,471	(20,187)	6,771
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		2,771	25,796	5,772
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		554	163	(431)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash		25,796	5,772	12,112

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION AND BASIS OF PRESENTATION OF FINANCIAL INFORMATION

Everight was incorporated on 11th August, 1992 in Hong Kong with limited liability and acts as an investment holding company. The address of the registered office and the principal place of business of Everight is at 7th Floor, First Commercial Building, 33-35 Leighton Road, Hong Kong. Its ultimate holding company is Green Label Investments Limited, a company established in the British Virgin Islands.

The principal activities of the Everight Group are development and operation of golf resort and hotel and property development.

On 8th October, 2004, Hainan Golf Jet Tour Limited, a subsidiary of Everight which was incorporated in Hong Kong, was deregistered. On 31st October, 2005, Everight disposed of the entire interest in Green Farm Limited 綠怡果園有限公司 ("Green Farm"), a company incorporated in Hong Kong on 18th August, 2000 and its subsidiary, 廣東曲江綠怡果園有限公司 ("曲江果園"), a company established in the PRC on 25th October, 1999.

The financial information has been prepared on a going concern basis because the Group, upon completion of the proposed acquisition, has agreed to provide adequate funds to enable the Everight Group to meet its financial obligations, as they fall due for the foreseeable future.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

For the year ended 31st December, 2005, the Everight Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRS(s)"), Hong Kong Accounting Standards ("HKAS(s)") and Interpretations ("INTs") (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Everight Group's accounting policies in the following areas that have an effect on how the results for the current and/or prior accounting years are prepared and presented.

Business combinations

In 2005, the Everight Group has applied HKFRS 3 "Business Combinations" which is effective for business combinations for which the agreement date is on or after 1st January, 2005. The principal effects of the application of HKFRS 3 to the Everight Group are summarised below:

Excess of the Everight Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Everight Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Everight Group derecognised all negative goodwill on 1st January, 2005. Corresponding adjustments to the Everight Group's accumulated profits of HKD31,596,000 and minority interest of HKD18,530,000, respectively, have been made.

Owner-occupied leasehold interest in land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Everight Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and building elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see note 2A for the financial impact).

Pomelo trees

In previous years, the pomelo trees under non-current assets were carried at cost less amortisation over their estimated useful life. In accordance with HKAS 41 "Agriculture", they should be measured on initial recognition and at each balance sheet date at its fair value less estimated point-of-sale costs. This adoption of new accounting policy has been applied retrospectively (see note 2A for the financial impact).

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effect of the changes in the accounting policies described in note 2 on the results for the current and prior years are as follows:

	2003	**2004**	**2005**
	HKD'000	*HKD'000*	*HKD'000*
Decrease in negative goodwill released to income	–	–	6,355
(Increase) decrease in fair value of pomelo trees (credited) debited to the income statement	324	(334)	(2,753)

The cumulative effect of the application of the new HKFRSs to the Everight Group's equity on 1st January, 2003 is summarised below:

	As at 1st January, 2003 (originally stated)	**Adjustments**	**As at 1st January, 2003 (restated)**
	HKD'000	*HKD'000*	*HKD'000*
Impact of HKAS 41:			
Accumulated losses	(5,017)	(2,969)	(7,986)
Translation reserve	–	242	242
	(5,017)	(2,727)	(7,744)

The cumulative effect of the application of the new HKFRSs on 31st December, 2003 are summarised below:

	As at 31st December, 2003 (originally stated)	**Adjustments**	**As at 31st December, 2003 (restated)**
	HKD'000	*HKD'000*	*HKD'000*
Impact of HKAS 17:			
Property, plant and equipment	271,529	(102,367)	169,162
Prepaid lease payments	–	102,367	102,367
Impact of HKAS 41:			
Pomelo trees	7,434	(3,038)	4,396
Total effects on assets	278,963	(3,038)	275,925
Accumulated (losses) profits	(4,988)	(3,293)	(8,281)
Translation reserve	(364)	255	(109)
	(5,352)	(3,038)	(8,390)

The cumulative effect of the application of the new HKFRSs on 31st December, 2004 and 1st January, 2005 are summarised below:

	As at 31st December, 2004 (originally stated)	Adjustments	As at 31st December, 2004 (restated)	Adjustments	As at 1st January, 2005 (restated)
	HKD'000	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*
Impact of HKAS 17:					
Property, plant and equipment	303,430	(101,225)	202,205	–	202,205
Prepaid lease payments	–	101,225	101,225	–	101,225
Impact of HKAS 41:					
Pomelo trees	7,960	(2,684)	5,276	–	5,276
Impact of HKFRS 3:					
Derecognition of negative goodwill	(50,126)	–	(50,126)	50,126	–
Total effects on assets	261,264	(2,684)	258,580	50,126	308,706
Accumulated (losses) profits	(4,984)	(2,963)	(7,947)	31,596	23,649
Minority interests	92,393	–	92,393	18,530	110,923
Translation reserve	(100)	279	179	–	179
Total effects on equity	87,309	(2,684)	84,625	50,126	134,751

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

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	The effects of changes in foreign exchange rates-net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market-waste electrical and electronic equipment[3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

[1] Effective for annual periods beginning on or after 1st January, 2007.
[2] Effective for annual periods beginning on or after 1st January, 2006.
[3] Effective for annual periods beginning on or after 1st December, 2005.
[4] Effective for annual periods beginning on or after 1st March, 2006.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis except for pomelo trees, which are measured at fair values, as explained in the accounting policies set out below. The Financial Information have been prepared in accordance with the following accounting policies which conform with the accounting principles generally accepted in Hong Kong.

Basis of consolidation

The Financial Information incorporates the financial statements of Everight and entities controlled by Everight. Control is achieved where Everight has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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

All significant intra-group transactions, balances, income and expenses within the Everight Group are eliminated on consolidation.

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

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Everight Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date.

Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions").

A discount on acquisition arising on an acquisition of a subsidiary for which an agreement date is on or after 1st January, 2005 represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in profit or loss.

As explained in note 2A above, all negative goodwill as at 1st January, 2005 has been derecognised with a corresponding adjustment to the Everight Group's accumulated profits and minority interests.

Interest in subsidiaries

Interests in subsidiaries are included in Everight's balance sheet at cost less any identified impairment loss.

Revenue recognition

Revenue from sale of properties in the ordinary course of business is recognised when the significant risks and rewards of ownership of the properties are transferred to the buyers.

Services income in relation to hotel and golf operations are recognised when the services are provided.

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

Golf membership fees are recognised upon approval of members' applications by the management committee of the golf operations.

Golf subscription fees are recognised on an accrual basis.

Golf membership transfer fees are recognised upon approval of the transfer by the management committee of the golf operations.

Revenue from construction contract is recognised on the percentage of completion method, measured by reference to the estimated total contract costs.

A gain or loss arising in initial recognition of pomelo trees at fair value less estimated point-of-sale costs and from a change in fair value less estimated point-of-sales costs of pomelo trees is dealt with in the income statement when it arises.

A gain or loss arising on initial recognition of pomelos at fair value less estimated point-of-sale costs is dealt with in the income statement when it arises.

Building management fee income is recognised on an appropriate basis over the relevant period in which the services are rendered.

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

Property, plant and equipment

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

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

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

Leasehold land and buildings under development for future owner-occupied purpose

When the leasehold land and buildings are in the course of development for production, rental or for administrative purposes, the leasehold land component is classified as a prepaid lease payments and amortised over a straight-line basis over the lease term. During the construction period, the amortisation charge provided for the leasehold land is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as an amount due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as an amount due to customers for contract work. Amounts received before the related work is performed are included in the balance sheet, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the balance sheet under trade and other receivables.

Operating leases

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

Pomelo trees

Pomelo trees are on initial recognition and at each balance sheet date measured at their fair values less estimated point-of-sale costs. The fair value of pomelo trees is determined based on market prices of pomelo trees of similar age.

Inventories and pomelos

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

Inventories of unsold properties are stated at the lower of cost and net realisable value. Cost is determined by apportionment of the total land and development costs attributable to the unsold properties.

At the point of harvest, pomelos are stated at their fair values less estimated point-of-sale costs. The gain or loss arising from a change in fair value less estimated point-of-sale costs at the point of harvest is included in the profit or loss for the period in which it arises. The fair values of pomelos are determined based on market prices in the local area.

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

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

Retirement benefit costs

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as expenses as they fall due.

Taxation

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

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

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

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

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

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

Financial instruments

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

Loans and receivables

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

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including trade and other payables, amount due to ultimate holding company, amounts due to related companies, amount due to a director, amounts due to minority shareholders of subsidiaries, amount due to a shareholder, unsecured loan from a minority shareholder of a subsidiary, unsecured loans from related companies and bank and other borrowings are subsequently measured at amortised cost, using effective interest rate method.

Equity instruments

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

Derecognition

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

For financial liabilities, they are removed from the Everight Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration received or receivable is recognised in profit or loss.

Impairment losses

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

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

4. CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Key sources of estimation uncertainty

The key assumption 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 years, are discussed below.

Depreciation and amortisation of property, plant and equipment

The Everight Group's net book values of property, plant and equipment as at 31st December, 2003, 2004 and 2005 were HKD169,162,000, HKD202,205,000 and HKD201,871,000 respectively. The Everight Group depreciates the property, plant and equipment, after taking into account their estimated residual value, on a straight line basis over their estimated useful lives as set out in note 16. The estimated useful lives and dates that the Everight Group places the assets into productive use reflect the directors' estimate of the periods that the Everight Group intends to derive future economic benefits from the use of the Everight Group's property, plant and equipment.

Allowance on trade receivables

The Everight Group performs ongoing credit evaluations of its customers and adjust credit limits based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit information. The Everight Group continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon its historical experience and any specific customer collection issues that it has identified. While such credit losses have historically been within the Everight Group's expectations and the provisions established, there is no guarantee that it will continue to experience the same credit loss that it has had in the past.

Inventory valuation method

Inventory is valued using the cost method, which values inventory at the lower of cost or net realisable value. Cost is determined using the weighted average method. The estimated net realisable value is generally merchandise selling price less selling expenses. The Everight Group reviews its inventory levels in order to identify slow-moving merchandise and use markdowns to clear merchandise.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Everight Group's major financial instruments include bank deposit, trade receivables and trade payables, unsecured loan from a minority shareholder of a subsidiary, unsecured loans from related companies and bank and other borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Certain bank loans of the Everight Group are denominated in foreign currencies (see note 34). The Everight Group currently does not have a foreign currency hedging policy in respect of foreign currency debt. However, management monitors the related foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

Credit risk

The Everight Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December, 2003, 2004 and 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Everight Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Everight Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of Everight consider that the Everight Group's credit risk is significantly reduced.

Certain bank balances and cash are denominated in Renminbi (see note 29) which were subject to foreign exchange control. The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

Liquidity risk

The Everight Group expects to have the financial support by the Company to maintain continuity of funding.

6. TURNOVER

Turnover represents the net amounts received and receivable for hotel operations, sales of properties, revenue from construction contracts, golf membership fees, golf subscription fees and handling fees, green fees, practice balls and cart rental, food and beverage sales, pro shop sales, building management fee income and sales of pomelos.

	Year ended 31st December,		
	2003	**2004**	**2005**
	HKD'000	*HKD'000*	*HKD'000*
Continuing operations			
Hotel operations	4,499	4,228	7,050
Sales of properties	10,689	8,955	9,027
Revenue from construction contracts	1,057	835	–
Golf membership fees, golf subscription fees and handling fees	7,055	11,847	16,295
Green fees, practice balls and cart rental	16,154	17,660	30,194
Food and beverage sales	6,660	6,627	7,703
Pro shop sales	967	965	1,397
Building management fee income	980	1,001	1,407
Less: Sales and other taxes	(4,258)	(5,328)	(11,736)
	43,803	46,790	61,337
Discontinued operations			
Sales of pomelos	894	605	434
	44,697	47,395	61,771

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Everight Group is currently organised into two operating divisions, namely, property and golf resort and hotel. These divisions are the basis on which the Everight Group reports its primary segment information.

Principal activities are as follows:

Property	– Property development and sales
Golf resort and hotel	– Development and operation of golf resort and hotel

The Group was also involved in the production and sales of pomelos. That operation was discontinued on 31st October, 2005 (see note 13).

For the year ended 31st December, 2003

	Continuing operations				Discontinued operations	
	Property	Golf resort and hotel	Others	Sub-total	Production and sales of pomelo	Total
	HKD'000	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*
TURNOVER						
External sales	10,949	31,797	1,057	43,803	894	44,697
RESULTS						
Segment results	(4,417)	1,034	(13)	(3,396)	(815)	(4,211)
Unallocated corporate expenses				(320)	–	(320)
Release of negative goodwill to income statement				6,355	–	6,355
Finance costs				(5,592)	–	(5,592)
Loss before tax				(2,953)	(815)	(3,768)
Taxation				618	–	618
Loss for the year				(2,335)	(815)	(3,150)
ASSETS						
Segment assets	12,535	283,654	5,346	301,535	6,058	307,593
Negative goodwill				(56,481)	–	(56,481)
Unallocated corporate assets				26,331	57	26,388
Total assets						277,500
LIABILITIES						
Segment liabilities	2,786	14,774	71	17,631	542	18,173
Unallocated corporate liabilities				125,348	–	125,348
Total liabilities						143,521
OTHER INFORMATION						
Write-off of bad and doubtful debts	–	112	–	112	–	112
Allowance for bad and doubtful debts	–	1,240	–	1,240	–	1,240
Release of prepaid lease payments to income statement	–	1,841	–	1,841	–	1,841
Capital expenditure	83	24,249	–	24,332	13	24,345
Depreciation and amortisation	19	9,323	–	9,342	189	9,531
Loss on disposal and write-off of property, plant and equipment	–	–	46	46	51	97
Loss arising from changes in fair value less estimated point-of-sale costs of pomelo trees	–	–	–	–	324	324

For the year ended 31st December, 2004

	Continuing operations				Discontinued operations	
	Property	Golf resort and hotel	Others	Sub-total	Production and sales of pomelo	Total
	HKD'000	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*
TURNOVER						
External sales	9,351	36,604	835	46,790	605	47,395
RESULTS						
Segment results	(623)	4,335	86	3,798	56	3,854
Unallocated corporate expense				(17)	–	(17)
Release of negative goodwill to income statement				6,355	–	6,355
Finance costs				(4,611)	–	(4,611)
Profit before tax				5,525	56	5,581
Taxation				(8,105)	–	(8,105)
(Loss) profit for the year				(2,580)	56	(2,524)
ASSETS						
Segment assets	11,208	321,720	3	332,931	7,162	340,093
Negative goodwill				(50,126)	–	(50,126)
Unallocated corporate assets				6,937	263	7,200
Total assets						297,167
LIABILITIES						
Segment liabilities	1,759	28,631	61	30,451	487	30,938
Unallocated corporate liabilities				134,191	–	134,191
Total liabilities						165,129
OTHER INFORMATION						
Allowance for bad and doubtful debts	–	1,313	–	1,313	–	1,313
Release of prepaid lease payments to income statement	–	1,839	–	1,839	–	1,839
Capital expenditure	28	43,970	–	43,998	6	44,004
Depreciation and amortisation	30	9,971	–	10,001	175	10,176
Gain arising from changes in fair value less estimated point-of-sale costs of pomelo trees	–	–	–	–	334	334

For the year ended 31st December, 2005

	Continuing operations				Discontinued operations	
	Property	Golf resort and hotel	Others	Sub-total	Production and sales of pomelo	Total
	HKD'000	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*
TURNOVER						
External sales	9,476	51,861	–	61,337	434	61,771
RESULTS						
Segment results	(5,353)	3,206	(103)	(2,250)	2,138	(112)
Unallocated corporate income				34	–	34
Gain on disposal of subsidiaries				–	1,991	1,991
Finance costs				(7,800)	–	(7,800)
(Loss) profit before tax				(10,016)	4,129	(5,887)
Taxation				(2,619)	–	(2,619)
(Loss) profit for the year				(12,635)	4,129	(8,506)
ASSETS						
Segment assets	6,692	319,624	36	326,352	–	326,352
Unallocated corporate assets				14,127	–	14,127
Total assets						340,479
LIABILITIES						
Segment liabilities	2,507	36,428	86	39,021	–	39,021
Unallocated corporate liabilities				122,311	–	122,311
Total liabilities						161,332
OTHER INFORMATION						
Write-off of bad and doubtful debts	–	2,135	–	2,135	–	2,135
Allowance for bad and doubtful debts	–	898	–	898	–	898
Release of prepaid lease payments to income statement	–	2,112	–	2,112	–	2,112
Capital expenditure	58	10,149	–	10,207	108	10,315
Depreciation and amortisation	30	12,328	–	12,358	160	12,518
Loss on disposal and write-off of property, plant and equipment	–	78	–	78	–	78
Gain arising from changes in fair value less estimated point-of-sale costs of pomelo trees	–	–	–	–	2,753	2,753

Geographical segments

During the Relevant Periods, over 90% of the Everight Group's operations and assets are located in the PRC and therefore no geographical segments is presented.

8. OTHER INCOME

	Continuing operations Year ended, 31st December,			Discontinued operations Year ended 31st December,			Total Year ended 31st December,		
	2003	2004	2005	2003	2004	2005	2003	2004	2005
	HKD'000	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*
Interest income	224	80	67	–	–	–	224	80	67
Gain on disposal of property, plant and equipment	–	40	–	–	–	–	–	40	–
Release of negative goodwill to income statement	6,355	6,355	–	–	–	–	6,355	6,355	–
Written back of allowance for inventories	–	–	57	–	–	–	–	–	57
Others	650	1,208	2,805	69	33	36	719	1,241	2,841
	7,229	7,683	2,929	69	33	36	7,298	7,716	2,965

9. FINANCE COSTS

	Continuing operations Year ended, 31st December,			Discontinued operations Year ended 31st December,			Total Year ended 31st December,		
	2003	2004	2005	2003	2004	2005	2003	2004	2005
	HKD'000	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*
Interest on:									
Bank borrowings wholly repayable within five years	2,282	2,752	3,473	–	–	–	2,282	2,752	3,473
Bank borrowings not wholly repayable within five years	205	1,133	–	–	–	–	205	1,133	–
Other borrowings not wholly repayable within five years	1,829	867	2,741	–	–	–	1,829	867	2,741
Loans from related parties wholly repayable within five years	1,481	992	1,586	–	–	–	1,481	992	1,586
Total borrowing costs	5,797	5,744	7,800	–	–	–	5,797	5,744	7,800
Less: amount capitalised	(205)	(1,133)	–	–	–	–	(205)	(1,133)	–
	5,592	4,611	7,800	–	–	–	5,592	4,611	7,800

Borrowing costs capitalised during each of the two years ended 31st December, 2004 arose on the general borrowing pool and are calculated by applying capitalisation rate of 6.34% to expenditure on qualifying assets.

10. (LOSS) PROFIT BEFORE TAX

	Continuing operations Year ended, 31st December,			Discontinued operations Year ended 31st December,			Total Year ended 31st December,		
	2003	2004	2005	2003	2004	2005	2003	2004	2005
	HKD'000	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*
(Loss) profit before tax has been arrived at after charging (crediting):									
Staff costs, included directors' emoluments *(note 11)*	14,282	19,351	17,479	210	125	97	14,492	19,476	17,576
Retirement benefit scheme contributions	73	78	116	–	–	–	73	78	116
Total staff costs	14,355	19,429	17,595	210	125	97	14,565	19,554	17,692
Less: amount capitalised	(1,057)	(3,719)	(162)	–	–	–	(1,057)	(3,719)	(162)
	13,298	15,710	17,433	210	125	97	13,508	15,835	17,530
Auditors' remuneration	248	203	262	20	29	24	268	232	286
Release of prepaid lease payments to income statement	2,254	2,274	2,301	–	–	–	2,254	2,274	2,301
Less: amount capitalised	(413)	(435)	(189)	–	–	–	(413)	(435)	(189)
	1,841	1,839	2,112	–	–	–	1,841	1,839	2,112
Write-off of pomelo trees	–	–	–	–	–	490	–	–	490
Write-off of bad and doubtful debts	112	–	2,135	–	–	–	112	–	2,135
Allowance for bad and doubtful debts	1,240	1,313	898	–	–	–	1,240	1,313	898
Cost of inventories recognised as an expense	7,968	3,591	8,554	839	105	300	8,807	3,696	8,854
Depreciation and amortisation of property, plant and equipment	9,342	10,001	12,358	189	175	160	9,531	10,176	12,518
(Gain) loss arising from changes in fair value less estimated point-of-sale cost of pomelo trees	–	–	–	324	(334)	(2,753)	324	(334)	(2,753)
Loss on deregistration of a subsidiary	–	45	–	–	–	–	–	45	–
Loss on disposal and write-off of property, plant and equipment	46	–	78	51	–	–	97	–	78

11. DIRECTORS' AND EMPLOYEES' REMUNERATIONS

Directors' remuneration

The emoluments paid or payable to each of the two (2003 and 2004: two) directors were as follows:

	Lai Tsan Tung, David	**Chan Jink Chou, Eric**	**2003 Total**
	HKD'000	*HKD'000*	*HKD'000*
Fees	–	–	–
Other emoluments			
Salaries and other benefits	1,200	53	1,253
	1,200	53	1,253

	Lai Tsan Tung, David	**Chan Jink Chou, Eric**	**2004 Total**
	HKD'000	*HKD'000*	*HKD'000*
Fees	–	–	–
Other emoluments			
Salaries and other benefits	600	79	679
	600	79	679

	Lai Tsan Tung, David	**Chan Jink Chou, Eric**	**2005 Total**
	HKD'000	*HKD'000*	*HKD'000*
Fees	325	175	500
Other emoluments			
Salaries and other benefits	650	80	730
	975	255	1,230

Employees' emoluments

The five highest paid individuals include two (2003 and 2004: one) directors of Everight, details of whose emoluments are set out above. Emoluments of the remaining three (2003 and 2004: four) highest paid individuals are as follows:

	Year ended 31st December,		
	2003	**2004**	**2005**
	HKD'000	*HKD'000*	*HKD'000*
Salaries and other benefits	1,402	1,482	1,243
Contributions to retirement benefit schemes	24	32	10
	1,426	1,514	1,253

The emoluments of each of the above highest paid individuals in the Everight Group during the Relevant Periods were below HKD1,000,000.

During the Relevant Periods, no emoluments were paid by the Everight Group to any of the directors of Everight or the five highest paid individuals as an inducement to join or upon joining the Everight Group or as compensation for loss of office. None of the directors has waived any emoluments during the Relevant Periods.

12. TAXATION

	Continuing operations Year ended, 31st December,			Discontinued operations Year ended 31st December,			Total Year ended 31st December,		
	2003	2004	2005	2003	2004	2005	2003	2004	2005
	HKD'000	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*
The (credit) charge comprises:									
Enterprise Income Tax in the PRC	577	3,739	1,502	–	–	–	577	3,739	1,502
Deferred tax (note 35)	(1,195)	4,366	1,117	–	–	–	(1,195)	4,366	1,117
	(618)	8,105	2,619	–	–	–	(618)	8,105	2,619

No provision for Hong Kong Profits Tax has been made as the Everight Group's profit neither arised in, nor derived from, Hong Kong.

The provision for the PRC Enterprise Income Tax is calculated at a range of 15% to 33% of the estimated assessable profits for the year determined in accordance with the relevant income tax rules and regulations in the PRC.

Details of deferred tax liabilities are set out in note 35.

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

	2003	2004	2005
	HKD'000	*HKD'000*	*HKD'000*
(Loss) profit before tax			
– Continuing operations	(2,953)	5,525	(10,016)
– Discontinued operations	(815)	56	4,129
	(3,768)	5,581	(5,887)
Tax at the income tax rate of 33%	(1,243)	1,842	(1,943)
Tax effect of expenses not deductible for tax purpose	1,697	7,018	3,022
Tax effect of income not taxable for tax purpose	(2,655)	(2,288)	(726)
Tax effect of tax losses/deductible temporary differences not recognised	1,346	3,024	1,092
Utilisation of tax losses previously not recognised	–	(740)	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	237	(751)	1,174
Tax (credit) charge for the year	(618)	8,105	2,619

The State Administration of Taxation in the PRC promulgated a circular to all local tax authorities requiring them to levy land appreciation tax on property developers. During the Relevant Periods, certain subsidiaries of Everight are subject to land appreciation tax in the PRC in respect of sales of properties. In the opinion of the directors, based on the opinion from the legal advisors, Everight Group is unlikely to receive demands from the local tax authorities for the payment of land appreciation tax in respect of sales of properties. The Everight Group has not, however, been able to secure written confirmation of the local tax authorities, and the directors consider the chance that land appreciation tax might be levied is less than probable. Accordingly, no provisions for land appreciation tax have been made in the Financial Information. Should such levies take place, the land appreciation tax attributable to Everight Group will amount to approximately HKD3,442,000, HKD5,235,000 and HKD5,952,000 as at 31st December, 2003, 2004 and 2005, respectively.

13. DISCONTINUED OPERATIONS

In October 2005, the directors resolved to dispose of the Everight Group's entire interest in Green Farm and its subsidiary (the "Green Farm Group") which was engaged in production and sale of pomelos. The disposal was completed on 31st October, 2005, on which date control of the Green Farm Group was passed to the acquirer.

The (loss) profit for each of two years ended 31st December, 2004 and the period ended 31st October, 2005 from the discontinued operations are analysed as follows:

	Year ended 31st December, 2003	Year ended 31st December, 2004	Period ended 31st October, 2005
	HKD'000	*HKD'000*	*HKD'000*
(Loss) profit of discontinued operations for the year/period *(note 13(a))*	(815)	56	2,138
Gain on disposal of subsidiaries *(note 38)*	–	–	1,991
	(815)	56	4,129

(a) Income statement

The results of the discontinued operations for each of two years ended 31st December, 2004 and the period ended 31st October, 2005 are as follows:

	Year ended 31st December, 2003	Year ended 31st December, 2004	Period ended 31st October, 2005
	HKD'000	*HKD'000*	*HKD'000*
Sales of pomelos	894	605	434
Cost of pomelo sold	(894)	(605)	(434)
(Loss) gain arising from changes in fair value less estimated point-of-sale costs of pomelo trees	(324)	334	2,753
Other income	69	33	36
Administrative expenses	(560)	(311)	(651)
(Loss) profit before tax	(815)	56	2,138
Income tax expense	–	–	–
(Loss) profit for the year/period	(815)	56	2,138

(b) Cash flow statement

The cash flows of the discontinued operations for each of two years ended 31st December, 2004 and the period ended 31st October, 2005 are as follows:

	Year ended 31st December,		Period ended 31st October,
	2003	**2004**	**2005**
	HKD'000	*HKD'000*	*HKD'000*
Net cash used in operating activities	(127)	(410)	(1,189)
Net cash used in investing activities	(758)	(684)	(108)
Net cash from financing activities	1,264	980	1,002
Net increase (decrease) in cash and cash equivalents	379	(114)	(295)

(c) Fair value of pomelos

Fair value and saleable output of pomelos are analysed as follows:

	Year ended 31st December,		Period ended 31st October,
	2003	**2004**	**2005**
	HKD'000	*HKD'000*	*HKD'000*
Fair values less estimated point-of-sale costs	635	933	–
	Kg	*Kg*	*Kg*
Saleable output	495,000	722,708	–

14. DIVIDENDS

No dividends were paid or proposed by Everight during the Relevant Periods, nor has any dividend been proposed since 31st December, 2005.

15. EARNINGS PER SHARE

No calculation of earnings per share for the Relevant Periods is presented as the information is considered not meaningful for the purpose of this report.

16. PROPERTY, PLANT AND EQUIPMENT

	Golf resort, hotel properties and buildings	Leasehold improvements	Plant, equipment and fixtures	Motor vehicles	Utensils	Construction in progress	Total
	HKD'000	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*
Everight Group							
COST							
At 1st January, 2003	169,863	2,493	30,888	6,645	1,067	27,428	238,384
Exchange adjustments	(765)	(7)	(271)	(27)	(5)	–	(1,075)
Additions	10	–	4,278	742	–	15,136	20,166
Transfer from prepaid lease payments	–	–	–	–	–	413	413
Disposals and write-off	(82)	(1,764)	(590)	(1,991)	–	–	(4,427)
At 31st December, 2003	169,026	722	34,305	5,369	1,062	42,977	253,461
Exchange adjustments	402	1	64	7	1	–	475
Additions	–	–	2,821	514	–	39,672	43,007
Transfer from prepaid lease payments	–	–	–	–	–	435	435
Transfer	59,468	–	–	–	–	(59,468)	–
Disposals and write-off	(141)	–	(572)	(432)	–	–	(1,145)
At 31st December, 2004	228,755	723	36,618	5,458	1,063	23,616	296,233
Exchange adjustments	5,433	14	907	201	25	452	7,032
Additions	1,059	72	1,452	446	–	7,162	10,191
Transfer from prepaid lease payments	–	–	–	–	–	189	189
Disposals and write-off	(220)	–	(114)	(821)	–	(1,219)	(2,374)
Disposal of subsidiaries *(note 38)*	(978)	(569)	(335)	(164)	–	–	(2,046)
At 31st December, 2005	234,049	240	38,528	5,120	1,088	30,200	309,225
DEPRECIATION AND AMORTISATION							
At 1st January, 2003	46,778	1,024	24,425	3,505	1,066	–	76,798
Exchange adjustments	(227)	(3)	(112)	(16)	(5)	–	(363)
Provided for the year	7,478	84	1,349	620	–	–	9,531
Eliminated on disposals and write-off	–	(932)	(274)	(461)	–	–	(1,667)
At 31st December, 2003	54,029	173	25,388	3,648	1,061	–	84,299
Exchange adjustments	76	–	34	5	1	–	116
Provided for the year	8,231	62	1,373	510	–	–	10,176
Eliminated on disposals and write-off	(37)	–	(137)	(389)	–	–	(563)
At 31st December, 2004	62,299	235	26,658	3,774	1,062	–	94,028
Exchange adjustments	1,601	6	607	136	25	–	2,375
Provided for the year	10,045	63	2,004	406	–	–	12,518
Eliminated on disposals and write off	(59)	–	(50)	(715)	–	–	(824)
Disposal of subsidiaries *(note 38)*	(353)	(171)	(148)	(71)	–	–	(743)
At 31st December, 2005	73,533	133	29,071	3,530	1,087	–	107,354
NET BOOK VALUES							
At 31st December, 2003	114,997	549	8,917	1,721	1	42,977	169,162
At 31st December, 2004	166,456	488	9,960	1,684	1	23,616	202,205
At 31st December, 2005	160,516	107	9,457	1,590	1	30,200	201,871

The above items of property, plant and equipment are depreciated, after taking into account their estimated residual value, on a straight-line basis as follows:

Golf resort, hotel properties and buildings	5-20 years
Leasehold improvements	6-20 years
Plant, equipment and fixtures	3-15 years
Motor vehicles	5-12 years
Utensils	3-5 years

All the Everight Group's golf resort, hotel properties, buildings and construction in progress are situated in the PRC and are held under medium term land use rights.

At 31st December, 2005 the Everight Group has pledged hotel properties having a net book value of HKD18,851,000 (2003: HKD21,171,000; 2004: HKD19,806,000) to secure general banking facilities granted to the Everight Group.

At 31st December, 2005, included in construction in progress are staff costs capitalised of HKD162,000 and prepaid lease payments capitalised of HKD189,000.

At 31st December, 2003 and 2004, included in construction in progress are net interest capitalised of HKD205,000 and HKD1,133,000, respectively, staff costs capitalised of HKD1,057,000 and HKD3,719,000, respectively, and prepaid lease payments capitalised of HKD413,000 and HKD435,000, respectively.

17. PREPAID LEASE PAYMENTS

	Everight Group		
	2003	**2004**	**2005**
	HKD'000	*HKD'000*	*HKD'000*
Balance at beginning of the year	100,901	102,367	101,225
Exchange adjustments	(459)	135	2,374
Additions	4,179	997	124
Released for the year	(2,254)	(2,274)	(2,301)
Balance at the end of the year	102,367	101,225	101,422
Less: Amount to be released to consolidated income statement within one year	(2,249)	(2,274)	(2,331)
Non-current portion	100,118	98,951	99,091

The carrying amount represented prepayment for medium-term land use rights situated in the PRC.

18. POMELO TREES

	Everight Group As at 31st December, 2003	2004	2005
	HKD'000	*HKD'000*	*HKD'000*
Reconciliation of carrying amounts of pomelo trees:			
Carrying amount at 1st January	3,967	4,396	5,276
Exchange adjustments	(19)	7	90
Additions	748	678	172
Write-off	–	–	(490)
(Loss) gain arising from changes in fair value less estimated point-of-sale costs	(300)	195	2,753
Disposal of subsidiaries	–	–	(7,801)
Carrying amount at 31st December	4,396	5,276	–
Quantities of pomelo trees	39,103	39,103	–

19. LOAN RECEIVABLES

	Everight Group As at 31st December, 2003	2004	2005
	HKD'000	*HKD'000*	*HKD'000*
Loan receivables	435	233	143
Less: Amount due within one year shown under current assets	(104)	(93)	(18)
Amount due after one year	331	140	125

The loans are secured, bear interest at prevailing market rate in the PRC and are receivable by half-yearly instalments over 10 years from the drawn down date of the loans. The directors consider that the carrying amounts of loan receivables approximate their fair values at the respective balance sheet dates.

20. NEGATIVE GOODWILL

	Everight Group *HKD'000*
GROSS AMOUNT	
At 1st January, 2003, 31st December, 2003 and 31st December, 2004	63,550
Derecognised upon the application of HKFRS 3	(63,550)
At 31st December, 2005	–
RELEASE TO INCOME	
At 1st January, 2003	714
Released in the year	6,355
At 31st December, 2003	7,069
Released in the year	6,355
At 31st December, 2004	13,424
Derecognised upon the application of HKFRS 3	(13,424)
At 31st December, 2005	–
CARRYING AMOUNTS	
At 31st December, 2003	56,481
At 31st December, 2004	50,126
At 31st December, 2005	–

The negative goodwill was released to income on straight-line basis over 10 years. As explained in note 2, all negative goodwill arising on acquisitions prior to 1st January, 2005 was derecognised as a result of the application of HKFRS 3.

21. INVESTMENTS IN SUBSIDIARIES

	As at 31st December,		
	2003	2004	2005
	HKD'000	*HKD'000*	*HKD'000*
Unlisted shares, at cost	47,403	47,403	47,403

22. INVENTORIES

	Everight Group As at 31st December,		
	2003	2004	2005
	HKD'000	*HKD'000*	*HKD'000*
Properties held for sale	10,335	8,692	3,293
Pomelos	38	366	–
Finished goods	1,084	1,058	661
Consumables	896	840	319
	12,353	10,956	4,273

23. TRADE AND OTHER RECEIVABLES

Everight Group

Everight Group generally allows an average credit period of 60 to 180 days to its trade customers.

The aged analysis of the Everight Group's trade receivables as at each of the balance sheet dates are as follows:

	As at 31st December,		
	2003	**2004**	**2005**
	HKD'000	*HKD'000*	*HKD'000*
Trade receivables:			
0-30 days	4,833	6,880	2,833
31-60 days	315	380	84
61-90 days	297	505	83
91-180 days	326	653	604
181-365 days	2,730	2,004	21
1 to 2 years	759	5,394	6,443
Over 2 years	95	186	5,223
	9,355	16,002	15,291
Other receivables:			
Advances to staff	50	88	19
Deposits and prepayments	2,365	3,065	2,508
Others	1,764	1,049	789
	4,179	4,202	3,316
	13,534	20,204	18,607

The directors consider that the carrying amounts of trade and other receivables approximate their fair values at the respective balance sheet dates.

24. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORKS

	Everight Group As at 31st December,		
	2003	**2004**	**2005**
	HKD'000	*HKD'000*	*HKD'000*
Contracts in progress at the balance sheet date:			
Contract costs incurred	5,472	6,174	–
Recognised profits less recognised losses	1,584	1,784	–
	7,056	7,958	–
Less: Progress billings	(1,710)	(7,958)	–
	5,346	–	–

25. AMOUNTS DUE FROM/TO RELATED COMPANIES

Name of related company	*Notes*	Everight Group As at 31st December, 2003 *HKD'000*	2004 *HKD'000*	2005 *HKD'000*
Amounts due from related companies:				
Belair Farm Limited	*(i)*	10	10	10
Green Farm	*(i)*	–	–	2
Lotus Hill Golf Resort Limited	*(i)*	–	23	–
番禺高爾夫球協會	*(v)*	–	–	160
		10	33	172

The above amounts are unsecured, interest-free and have no fixed repayment terms.

Maximum amount outstanding during the Relevant Periods are as follows:

	Everight Group As at 31st December, 2003 *HKD'000*	2004 *HKD'000*	2005 *HKD'000*
Belair Farm Limited	10	10	10
Green Farm	–	–	2
Lotus Hill Golf Resort Limited	–	23	–
番禺高爾夫球協會	–	–	160
	10	33	172

Name of related company	*Notes*	Everight Group As at 31st December, 2003 *HKD'000*	2004 *HKD'000*	2005 *HKD'000*	Everight As at 31st December, 2003 *HKD'000*	2004 *HKD'000*	2005 *HKD'000*
Amounts due to related companies:							
Evervan Holdings Limited ("Evervan")	*(ii)*	133	789	884	–	–	–
Green Valley Golf & Turf Contractors Ltd.	*(vii)*	3,915	3,172	472	–	–	–
L.F. Sam (HK) Ltd.	*(iii)*	577	1,453	1,549	–	–	–
Lotus Hill Golf Resort Limited	*(i)*	29	–	474	–	–	–
Mr. Chang Rong Wu	*(iv)*	4,311	4,543	11,976	87	99	110
廣州市廣榮鞋業有限公司	*(ii)*	4,671	5,019	–	–	–	–
番禺高爾夫球協會	*(v)*	22	141	–	–	–	–
曲江果園	*(vi)*	–	–	482	–	–	–
		13,658	15,117	15,837	87	99	110

Notes:

(i) Mr. Lai Tsan Tung, David and Mr Chan Jink Chou, Eric, directors and ultimate shareholders of Everight, are also the directors and shareholders of the related company.

(ii) Mr. Chang Rong Wu, a director of subsidiaries of Everight, is also a director and a shareholder of the related company.

(iii) Mr. Chan Jink Chou, Eric, a director and an ultimate shareholder of Everight, is also a director and a shareholder of the related company.

(iv) A director of subsidiaries of Everight.

(v) Mr. Lai Tsan Tung, David, a director and an ultimate shareholder of Everight, is the chairman of the association.

(vi) Belair Farm Limited is the sole shareholder of 曲江果園 in which Mr. Lai Tsan Tung, David, a director and an ultimate shareholder of Everight, is also a director and a shareholder of the related company.

(vii) Mr. Lai Tsan Tung, David, a director and an ultimate shareholder of Everight, is also a director and a shareholder of the related company.

The above amounts are unsecured and have no fixed repayment terms. The amount of HKD11,907,000 is bearing interest at rates ranging from 5.25% to 8% per annum (2003: HKD9,058,000 at rates ranging from 5.25% to 12% per annum; 2004: HKD9,933,000 at rates ranging from 5.25% to 8% per annum). The remaining balance of HKD3,930,000 (2003: HKD4,600,000; 2004: HKD5,184,000) is interest-free.

The directors consider that the carrying amounts of the amounts due from/to the related companies approximate their fair values.

26. AMOUNT DUE FROM/TO A DIRECTOR

	Everight Group		
	As at 31st December,		
	2003	**2004**	**2005**
	HKD'000	*HKD'000*	*HKD'000*
Amount due from a director:			
Name of director			
Mr. Chan Jink Chou, Eric	175	189	67

Maximum amount outstanding during the Relevant Periods are as follows:

	Everight Group		
	As at 31st December,		
	2003	**2004**	**2005**
	HKD'000	*HKD'000*	*HKD'000*
Mr. Chan Jink Chou, Eric	175	189	189
Amount due to a director:			
Name of director			
Mr. Lai Tsan Tung, David	3,525	2,233	3,709

The amount due from a director is unsecured, interest-free and has no fixed terms of repayment. The amount due to a director of HKD3,984,000 bears interest at 6.9% to 8% (2003: HKD3,984,000 at 6.9% – 12%; 2004: HKD3,984,000 at 6.9% – 8%) per annum and has no fixed terms of repayment.

The directors consider that the carrying amounts of the amount due from/to a director approximate their fair values at the respective balance sheet dates.

27. AMOUNTS DUE FROM/TO MINORITY SHAREHOLDERS OF SUBSIDIARIES

The amounts are unsecured, interest-free and have no fixed terms of repayment. The directors consider that the carrying amounts of the amounts due from/to minority shareholders of subsidiaries approximate their fair values.

28. AMOUNT DUE FROM/TO A SHAREHOLDER

The amount is unsecured, interest-free and has no fixed terms of repayment. The directors consider that the carrying amount of the amount due from/to a shareholder approximates its fair value.

29. BANK BALANCES AND CASH

Out of bank balances and cash, the following amounts were held in the PRC and were subject to foreign exchange control.

	Everight Group		
	As at 31st December,		
	2003	**2004**	**2005**
	HKD'000	*HKD'000*	*HKD'000*
Bank balances and cash	25,323	5,542	11,770

The carrying amounts of bank balances and cash approximate their fair values at the respective balance sheet dates.

30. TRADE AND OTHER PAYABLES

Everight Group

The aged analysis of the Everight Group's trade payables as at each of the balance sheet dates are as follows:

	As at 31st December,		
	2003	**2004**	**2005**
	HKD'000	*HKD'000*	*HKD'000*
Trade payables:			
0-30 days	3,594	561	598
31-60 days	199	349	340
61-90 days	583	553	351
91-180 days	302	867	720
181-365 days	92	172	45
1 year – 2 years	180	213	133
Over 2 years	525	316	303
	5,475	3,031	2,490
Other payables:			
Accruals	2,529	3,966	3,189
Deposits received	1,325	1,107	1,198
Receipt in advance	1,691	7,924	10,158
Construction cost payable	315	3,779	2,950
Other tax payable	6,239	10,192	17,207
Others	599	939	1,829
	12,698	27,907	36,531
	18,173	30,938	39,021

The directors consider that the carrying amounts of trade and other payables approximate their fair values at the respective balance sheet dates.

31. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

At 31st December, 2003 and 2004, the amount of the Everight Group was unsecured, interest-free and had no fixed terms of repayment. The directors consider that the carrying amount of amount due to ultimate holding company approximate its fair value. During the year ended 31st December, 2005, the amount due to ultimate holding company was settled by setting off against certain amounts due from related companies.

32. UNSECURED LOAN FROM A MINORITY SHAREHOLDER OF A SUBSIDIARY

The loan of the Everight Group is borrowed from 番禺市旅遊總公司 which is a minority shareholder of a subsidiary. The loan is unsecured, bears interest at prevailing market rate in the PRC and is repayable on demand. The directors consider that the carrying amount of unsecured loan from a minority shareholder of a subsidiary approximates its fair value at respective balance sheet dates.

33. UNSECURED LOANS FROM RELATED COMPANIES

		Everight Group As at 31st December,		
Name of related companies	**Notes**	**2003**	**2004**	**2005**
		HKD'000	*HKD'000*	*HKD'000*
Evervan	*(i)*	10,000	15,000	15,837
番禺高爾夫球協會	*(ii)*	1,500	1,502	1,538
		11,500	16,502	17,375
The unsecured loan are repayable as follows:				
Within one year		1,500	11,502	6,538
More than one year, but not exceeding two years		10,000	5,000	10,837
		11,500	16,502	17,375
Less: Amount due within one year shown under current liabilities		(1,500)	(11,502)	(6,538)
Amount due after one year		10,000	5,000	10,837

Notes:

(i) At 31st December, 2003 and 2004, a loan of HKD10,000,000 was unsecured, bearing interest at 8% per annum and was repayable by two instalments of HKD5,000,000 each on 16th April, 2005 and 15th May, 2005, respectively. In addition, at 31st December, 2004, a loan of HKD5,000,000 is unsecured, bearing interest at 6% per annum and is repayable on 27th May, 2006.

At 31st December, 2005, a loan of HKD10,837,000 is unsecured, bearing interest at 6% per annum and is repayable on 15th May, 2007. The remaining loan of HKD5,000,000 is unsecured, bearing interest at 6% per annum and is repayable on 27th May, 2006.

(ii) The loan is unsecured, bearing interest at 6% per annum and has no fixed terms of repayment.

The directors consider that the carrying amounts of unsecured loans from related companies approximate their fair values at respective balance sheet dates.

34. BANK AND OTHER BORROWINGS

	Everight Group As at 31st December,			Everight As at 31st December,		
	2003	**2004**	**2005**	**2003**	**2004**	**2005**
	HKD'000	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*
Bank loans, secured	67,986	56,338	49,024	–	–	–
Other loans, unsecured	–	1,877	8,702	–	–	7,500
	67,986	58,215	57,726	–	–	7,500

The borrowings are repayable as follows:

Within one year	49,231	43,192	40,423	–	–	7,500
More than one year, but not exceeding two years	3,751	3,755	9,613	–	–	–
More than two years, but not exceeding five years	11,253	9,390	7,690	–	–	–
Over five years	3,751	1,878	–	–	–	–
	67,986	58,215	57,726	–	–	7,500
Less: Amount due within one year shown under current liabilities	(49,231)	(43,192)	(40,423)	–	–	(7,500)
Amount due after one year	18,755	15,023	17,303	–	–	–

At the respective balance sheet dates, the carrying amounts of the borrowings of the Everight Group are denominated in Renminbi except for a loan of HKD7,500,000 at 31st December, 2005 which is denominated in Hong Kong dollars.

The exposure of the Everight Group's fixed-rate borrowings and the contractual maturity dates are as follows:

	As at 31st December,		
	2003	**2004**	**2005**
	HKD'000	*HKD'000*	*HKD'000*
Fixed-rate borrowings:			
Within one year	49,231	43,192	32,923
In more than one year but not more than two years	3,751	3,755	9,613
In more than two years but not more than three years	3,751	3,130	2,563
In more than three years but not more than four years	3,751	3,130	2,563
In more than four years but not more than five years	3,751	3,130	2,564
Over five years	3,751	1,878	–
	67,986	58,215	50,226

In addition, at 31st December, 2005, the Everight Group and Everight have variable-rate borrowing of HKD7,500,000 which carries interest at Hong Kong prime rate plus 2%.

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Everight Group's borrowings are as follows:

	As at 31st December,		
	2003	**2004**	**2005**
Effective interest rate:			
Fixed-rate borrowings	5.58% to 6.34%	5.58% to 7.33%	6.34% to 60.00%
Variable-rate borrowings	–	–	9.75%

The directors consider that the carrying amounts of bank loans approximate their fair values at the respective balance sheet dates.

35. DEFERRED TAX LIABILITIES (ASSETS)

The following are the major deferred tax liabilities (assets) recognised by the Everight Group and movements thereon during the Relevant Periods:

	Accelerated tax depreciation	**Tax losses**	**Total**
	HKD'000	*HKD'000*	*HKD'000*
At 1st January, 2003	2,671	(815)	1,856
(Credit) charge to income statement for the year *(note 12)*	(1,874)	679	(1,195)
At 31st December, 2003	797	(136)	661
Charge (credit) to income statement for the year *(note 12)*	5,139	(773)	4,366
At 31st December, 2004	5,936	(909)	5,027
Charge (credit) to income statement for the year *(note 12)*	1,293	(176)	1,117
At 31st December, 2005	7,229	(1,085)	6,144

The Everight Group had estimated unused tax losses of HKD34,201,000, HKD33,007,000 and HKD30,351,000 at 31st December, 2003, 2004 and 2005, respectively, available for offset against future profits. A deferred tax asset has been recognised in respect of HKD907,000, HKD6,060,000 and HKD7,233,000 of such losses for the years ended 31st December, 2003, 2004 and 2005, respectively. No deferred tax asset has been recognised in respect of the remaining tax losses due to the unpredictability of future profit streams. Tax losses of HKD4,748,000, HKD7,019,000 and HKD9,073,000, respectively, at 31st December, 2003, 2004 and 2005 may be carried forward indefinitely. The remaining tax losses will be expired within 5 years from the respective balance sheet dates.

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred taxation balance for financial reporting purposes:

	As at 31st December,		
	2003	**2004**	**2005**
	HKD'000	*HKD'000*	*HKD'000*
Deferred tax assets	136	909	1,520
Deferred tax liabilities	(797)	(5,936)	(7,664)
	(661)	(5,027)	(6,144)

36. SHARE CAPITAL

	As at 31st December, 2003, 2004 and 2005 *HKD'000*
Authorised:	
50,000,000 ordinary shares of HKD1 each	50,000
Issued and fully paid:	
47,412,692 ordinary shares of HKD1 each	47,413

37. RESERVES

	Accumulated losses *HKD'000*
THE COMPANY	
At 1st January, 2003	(118)
Loss for the year	(8)
At 31st December, 2003	(126)
Loss for the year	(23)
At 31st December, 2004	(149)
Loss for the year	(75)
At 31st December, 2005	(224)

38. DISPOSAL OF SUBSIDIARIES

As explained in note 13, in October 2005, the Everight Group discontinued its production and sale of pomelo operations as a result of the disposal of its entire interest in the Green Farm Group for a consideration of HKD1. The net assets of the Green Farm Group at the date of disposal were as follows:

	HKD'000
Net assets disposed of:	
Property, plant and equipment	1,303
Pomelo trees	7,801
Inventories	1,347
Other receivables	2
Bank balances and cash	22
Trade and other payables	(314)
Amount due to ultimate holding company	(12,140)
Amount due to a related company	(12)
	(1,991)
Gain on disposal of subsidiaries	1,991
	–
Net cash outflow arising on disposal:	
Cash consideration received	–
Bank balances and cash disposed of	(22)
	(22)

The impact of the Green Farm Group on the Everight's results and cash flows in the current and prior periods is disclosed in note 13.

39. OPERATING LEASE COMMITMENTS

The Everight Group as lessee:

Minimum lease payments paid under operating leases during the Relevant Periods:

	Year ended 31st December,		
	2003	**2004**	**2005**
	HKD'000	*HKD'000*	*HKD'000*
Premises	275	122	223

At the respective balance sheet dates, the Everight Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 31st December,		
	2003	**2004**	**2005**
	HKD'000	*HKD'000*	*HKD'000*
Within one year	225	346	89
In the second to fifth year inclusive	437	581	–
Over five years	12,497	12,390	–
	13,159	13,317	89

Operating lease payments represent rentals payable by the Everight Group for certain of its premises. Leases are negotiated and rentals are fixed for an average term ranging from 2 to 50 years.

40. CAPITAL COMMITMENT

At 31st December, 2005, the Everight Group had capital expenditure of HKD5,194,000 (2003: HKD8,718,000; 2004: HKD3,984,000) in respect of the construction of properties contracted for but not provided in the financial information.

41. PLEDGE OF ASSETS

At the respective balance sheet dates, the Everight Group had the following assets pledged to banks to secure the general banking facilities granted to the Everight Group:

	As at 31st December,		
	2003	**2004**	**2005**
	HKD'000	*HKD'000*	*HKD'000*
Prepaid lease payments	45,209	44,225	66,529
Hotel properties	21,171	19,806	18,851
	66,380	64,031	85,380

42. RETIREMENT BENEFIT SCHEMES

In accordance with the relevant PRC rules and regulations, the Everight Group is required to establish a defined contribution plan managed by the relevant local government authority in the PRC and to make contributions for their eligible employees.

With effect from 1st December, 2000, the Everight Group has also joined a Mandatory Provident Fund Scheme (the "MPF Scheme") for employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Scheme Ordinance. The assets of the MPF Scheme are held separately from those of the Everight Group in funds under the control of an independent trustee.

Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Everight Group with respect to the MPF Scheme is to make the required contributions under the scheme. The contributions arising from the MPF Scheme charged to the income statement represent contributions payable to the funds by the Everight Group at rates specified in the rules of the scheme. No forfeited contribution is available to reduce the contribution payable in future years.

43. RELATED PARTY DISCLOSURES

(a) Related party transactions

During the Relevant Periods, the Everight Group had the following significant transactions with related parties:

Related parties	*Notes*	**Nature of transactions**	**Year ended 31st December, 2003** *HKD'000*	**2004** *HKD'000*	**2005** *HKD'000*
Director:					
Mr. Lai Tsan Tung, David		Interest expense	21	247	308
Related companies:					
Mr. Chang Rong Wu	*(i)*	Interest expense	694	619	1,277
蓮花山房地產開發公司	*(ii)*	Commission fee	47	19	42
番禺高爾夫球協會	*(iii)*	Interest expense	75	135	91
番禺市旅遊總公司	*(ii)*	Interest expense	870	–	374
		Management fee paid	479	282	285
		Waive of interest expense	–	678	566
Evervan	*(iv)*	Interest expense	536	857	931
Magnum Company Limited	*(v)*	Management fee paid	480	240	435
Lotus Hill Golf Resort Limited	*(vi)*	Management fee paid	120	119	79
L.F. Sam (HK) Ltd.	*(v)*	Interest expense	–	–	190

Notes:

(i) A director of subsidiaries of Everight.

(ii) Minority shareholders of subsidiaries of Everight.

(iii) Mr. Lai Tsan Tung, David, a director and an ultimate shareholder of Everight, is the chairman of the association.

(iv) Mr. Chang Rong Wu, a director of subsidiaries of Everight, is also a director and a shareholder of the related company.

(v) Mr. Chan Jink Chou, Eric, a director and an ultimate shareholder of Everight, is also a director and a shareholder of the related company.

(vi) Mr. Lai Tsan Tung, David and Mr. Chan Jink Chou, Eric, directors and ultimate shareholders of Everight, are also directors and shareholders of the related company.

In addition to the above, Everight disposed of its entire interest in the Green Farm Group to Belair Farm Limited for a consideration of HKD1.

Compensation of key management personnel

The remuneration of directors and other members of key management during the year are as follows:

	Year ended 31st December, 2003	2004	2005
	HKD'000	*HKD'000*	*HKD'000*
Short-term benefits	1,253	679	1,230
Post-employment benefits	–	–	–
Other long-term benefits	–	–	–
	1,253	679	1,230

The remuneration of directors and key executives is determined by the board of directors of Everight having regard to the performance of individuals and market trends.

(b) Details of balances with related parties as at the respective balance sheet dates are set out on the consolidated balance sheets and in notes 25, 26, 27, 28, 31, 32 and 33.

B. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Everight or any of the companies comprising the Everight Group in respect of any period subsequent to 31st December, 2005.

4. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP IMMEDIATELY AFTER COMPLETION OF THE EVERIGHT ACQUISITION

Set out below is the unaudited pro forma financial information of the Group immediately after completion of the Everight Acquisition extracted from the Everight Circular:

A. Introduction

The accompanying unaudited pro forma financial information of the Group as enlarged by the Everight Acquisition has been prepared to illustrate the effect of the Everight Acquisition. The consideration for the Everight Acquisition will be settled as to HK$80 million by cash and as to HK$60 million by issue of the Notes.

The unaudited pro forma combined balance sheet of the Group as enlarged by the Everight Acquisition is prepared based upon the unaudited consolidated balance sheet of the Group as at 30th September, 2005, which has been extracted from the interim report of the Company for the six months ended 30th September, 2005 and the audited consolidated balance sheet of the Everight Group as at 31st December, 2005 as extracted from the accountants' report set out in Appendix II to the Everight Circular as if the Everight Acquisition has been completed on 30th September, 2005.

The unaudited pro forma combined income statement and cash flow statement of the Group as enlarged by the Everight Acquisition are prepared based on the audited consolidated income statement and cash flow statement of the Group for the year ended 31st March, 2005 as extracted from the annual report of the Company for the year ended 31st March, 2005, and the audited consolidated income statement and cash flow statement of the Everight Group for the year ended 31st December, 2005 as extracted from the accountants' report set out in Appendix II to the Everight Circular as if the Everight Acquisition has been completed on 1st April, 2004.

In 2004, the Hong Kong Institute of Certified Public Accountants issued a number of new or revised Hong Kong Accounting Standards ("**HKAS**") and Hong Kong Financial Reporting Standards which are applicable to accounting periods beginning on or after 1st January, 2005 (hereinafter collectively referred to the "**new HKFRSs**").

For the purpose of preparing the unaudited pro forma combined income statement and cash flow statement of the Group as enlarged by the Everight Acquisition for the year ended 31st March, 2005, the financial information of the Group have been restated where appropriate using the new HKFRSs. The restatement adjustments are summarised in note 3 below.

The unaudited pro forma financial information is prepared to provide information on the Group as enlarged by the Everight Acquisition as a result of completion of the Everight Acquisition. As it is prepared for illustrative purposes only, it does not purport to represent what the results or financial position of the Group as enlarged by the Everight Acquisition are on the completion of the Everight Acquisition.

B. Unaudited pro forma combined balance sheet of the Group after completion of the Everight Acquisition

	The Group as at 30th September, 2005	Everight Group as at 31st December, 2005	Combined	Pro forma adjustment *(Note 1)*	Pro forma adjustment *(Note 2)*	The Group after Everight Completion
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
NON-CURRENT ASSETS						
Properties, plant and equipment	62,666	201,871	264,537			264,537
Prepaid lease payments	1,350	99,091	100,441			100,441
Intangible assets	3,043	–	3,043			3,043
Goodwill	10,885	–	10,885	53,772		64,657
Loan receivables		125	125			125
Deferred tax assets	–	1,520	1,520			1,520
	77,944	302,607	380,551	53,772	–	434,323
CURRENT ASSETS						
Inventories	73,377	4,273	77,650			77,650
Loan receivables	49,814	18	49,832			49,832
Debtors, deposits and prepayments	429,610	18,607	448,217			448,217
Prepaid lease payments	30	2,331	2,361			2,361
Properties held for sale	58,547	–	58,547			58,547
Investments held for trading	53,052	–	53,052			53,052
Financial assets at fair value through profit or loss	26,840	–	26,840			26,840
Amount due from related parties	–	172	172			172
Amount due from a director of Everight	–	67	67			67
Amount due from minority shareholders of subsidiaries	–	2	2	15,614		15,616
Amount due from a shareholder of Everight	–	33	33			33
Tax recoverable	–	257	257			257
Pledged bank deposits	3,000	–	3,000			3,000
Bank balances and cash	669,511	12,112	681,623	(80,000)	(7,500)	594,123
	1,363,781	37,872	1,401,653	(64,386)	(7,500)	1,329,767

	The Group as at 30th September, 2005 HK$'000	Everight Group as at 31st December, 2005 HK$'000	Combined HK$'000	Pro forma adjustment (Note 1) HK$'000	Pro forma adjustment (Note 2) HK$'000	The Group after Everight Completion HK$'000
CURRENT LIABILITIES						
Creditors and accrued charges	77,145	39,021	116,166		(26)	116,140
Amounts due to related companies		15,837	15,837			15,837
Amount due to director of Everight		3,709	3,709			3,709
Amount due to minority shareholders of subsidiaries		4,429	4,429			4,429
Amount due to a shareholder of Everight		18	18			18
Obligation under a finance lease due within one year	33	–	33			33
Unsecured loan from a minority shareholder of a subsidiary	–	3,364	3,364			3,364
Unsecured loans from related companies	–	6,538	6,538			6,538
Bank and other borrowings due within one year	49,053	40,423	89,476		(7,500)	81,976
Convertible note payables	353	–	353			353
Tax liabilities	62	12,189	12,251			12,251
	126,646	125,528	252,174	–	(7,526)	244,648
NET CURRENT ASSETS (LIABILITIES)	1,237,135	(87,656)	1,149,479	(64,386)	26	1,085,119
NON-CURRENT LIABILITIES						
Obligations under a finance lease due after one year	91	–	91			91
Unsecured loans from related companies	–	10,837	10,837			10,837
Bank and other borrowings due after one year	1,875	17,303	19,178			19,178
Convertible note payables	901,333	–	901,333	49,247		950,580
Deferred tax liabilities		7,664	7,664			7,664
	903,299	35,804	939,103	49,247	–	988,350
	411,780	179,147	590,927	(59,861)	26	531,092
CAPITAL AND RESERVES						
Share capital	4,086	47,413	51,499	(47,413)		4,086
Reserves	406,770	23,201	429,971	(12,448)	26	417,549
Equity attributable to equity holders of the parent	410,856	70,614	481,470	(59,861)	26	421,635
Minority interests	924	108,533	109,457	–		109,457
	411,780	179,147	590,927	(59,861)	26	531,092

C. Unaudited pro forma combined income statement of the Group after completion of the Everight Acquisition

	The Group for the year ended 31st March, 2005 (Originally stated)	Adjustments on adoption of new HKFRSs *(Note 3)*	The Group for the year ended 31st March, 2005 (Restated)	Everight Group for the year ended 31st December, 2005	Combined	Pro forma adjustment *(Note 2)*	Pro forma adjustment *(Note 4)*	The Group after Everight Completion
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Continuing operations								
Turnover	379,396		379,396	61,337	440,733			440,733
Cost of sales/services	(259,478)		(259,478)	(16,481)	(275,959)			(275,959)
Gross profit	119,918	–	119,918	44,856	164,774			164,774
Other income	2,139		2,139	2,929	5,068			5,068
Gain on disposal of investments in securities	30		30	–	30			30
Doubtful debts provided	(1,729)		(1,729)	–	(1,729)			(1,729)
Distribution costs	(57,942)		(57,942)	–	(57,942)			(57,942)
Administrative expenses	(34,215)	2,500	(31,715)	(50,001)	(81,716)			(81,716)
Other operating expenses	(567)		(567)	–	(567)			(567)
Amortisation of goodwill	(1,051)		(1,051)	–	(1,051)			(1,051)
Unrealised holding loss on other investments	(4,226)		(4,226)	–	(4,226)			(4,226)
Loss on disposal of investment properties	(3,217)		(3,217)	–	(3,217)			(3,217)
Finance costs	(7,379)	(176)	(7,555)	(7,800)	(15,355)	26	(2,955)	(18,284)
Profit (loss) before taxation	11,761	2,324	14,085	(10,016)	4,069	26	(2,955)	1,140
Taxation	(1,823)		(1,823)	(2,619)	(4,442)			(4,442)
Profit (loss) for the year from continuing operations	9,938	2,324	12,262	(12,635)	(373)	26	(2,955)	(3,302)
Discontinued operations								
Profit for the year from discontinued operations	–	–	–	4,129	4,129	–	–	4,129
Profit (loss) for the year	9,938	2,324	12,262	(8,506)	3,756	26	(2,955)	827
Attributable to:								
Equity holders of the parent	9,938	2,324	12,262	(2,949)	9,313	26	(2,955)	6,384
Minority interests	–	–	–	(5,557)	(5,557)	–	–	(5,557)
	9,538	2,324	12,262	(8,506)	3,756	26	(2,955)	827

D. Unaudited pro forma combined cash flow statement of the Group after completion of the Everight Acquisition

	The Group for the year ended 31st March, 2005 *(Note 3)*	Everight Group for the year ended 31st December, 2005	Combined	Pro forma adjustment *(Note 1)*	Pro forma adjustment *(Note 2)*	The Group after Everight Completion
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
OPERATING ACTIVITIES						
Cash generated from operations	98,125	27,616	125,741			125,741
Overseas taxation paid	(768)	(3,390)	(4,158)			(4,158)
Interest paid	(4,261)	(6,963)	(11,224)			(11,224)
Net cash from operating activities	93,096	17,263	110,359	–	–	110,359
INVESTING ACTIVITIES						
Interest received	296	67	363			363
Proceeds from disposal of investment properties	4,983	–	4,983			4,983
Proceeds from disposal of investment in securities	1,903	–	1,903			1,903
Proceeds from disposal of property, plant and equipment	476	1,472	1,948			1,948
(Repayment) raise of loan receivables	(31,500)	90	(31,410)			(31,410)
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	(22,861)	–	(22,861)	(74,228)		(97,089)
Purchase of property, plant and equipment	(3,081)	(10,191)	(13,272)			(13,272)
Increase in pledged bank deposits	(3,000)	–	(3,000)			(3,000)
Development cost incurred	(1,467)	–	(1,467)			(1,467)
Additions to prepaid lease payments	–	(124)	(124)			(124)
Additions of pomelo trees	–	(172)	(172)			(172)
Decrease in cash and cash equivalents from disposal of subsidiaries	–	(22)	(22)			(22)
Net cash used in investing activities	(54,251)	(8,880)	(63,131)	(74,228)	–	(137,359)

	The Group for the year ended 31st March, 2005 (Note 3) HK$'000	Everight Group for the year ended 31st December, 2005 HK$'000	Combined HK$'000	Pro forma adjustment (Note 1) HK$'000	Pro forma adjustment (Note 2) HK$'000	The Group after Everight Completion HK$'000
FINANCING ACTIVITIES						
Proceeds from issue of convertible notes	100,000	–	100,000			100,000
New bank and other borrowings raised	96,225	14,308	110,533		(7,500)	103,033
Proceeds from issue of shares	80,489	–	80,489			80,489
Advance from related companies	–	732	732			732
Repayment of bank and other borrowings	(205,596)	(15,962)	(221,558)			(221,558)
Advance from a director of Everight	–	1,476	1,476			1,476
Expenses paid in connection with issue of shares	(2,623)	–	(2,623)			(2,623)
Repayment of obligation under a finance lease	(16)	–	(16)			(16)
Repayment to minority shareholders of subsidiaries	–	(520)	(520)			(520)
Repayment to a minority shareholder of a subsidiary	–	(1,331)	(1,331)			(1,331)
Repayment to Green Label	–	(315)	(315)			(315)
Net cash generated by financing activities	68,479	(1,612)	66,867	–	(7,500)	59,367
Net increase (decrease) in cash and cash equivalents	107,324	6,771	114,095	(74,228)	(7,500)	32,367
Cash and cash equivalents at beginning of the year	80,136	5,772	85,908	(5,772)		80,136
Effect of foreign exchange rate changes	520	(431)	89	–		89
Cash and cash equivalents at end of the year, represented by bank balances and cash	187,980	12,112	200,092	(80,000)	(7,500)	112,592

E. Notes:

(1) These represent the elimination of the capital and reserves of Everight upon the Everight Acquisition for a total consideration of HK$140 million which is to be financed by internal cash resources of approximately HK$80 million and issue of the Notes of approximately HK$60 million, respectively. With reference to the net asset value of Everight attributable to shareholders of Everight as at 31st December, 2005 of HK$70,614,000, representing share capital of HK$47,413,000 and reserves of HK$23,201,000, and the vendors' indemnity for the tax provision of HK$15,614,000 attributable to the Group in case assessment is received from the relevant tax authority, goodwill of HK$53,772,000 arises on the Everight Acquisition. After the Everight Acquisition, the vendors will become minority shareholders of subsidiaries.

As at 1st January, 2005, Everight Group had cash and cash equivalents of HK$5,772,000, which was assumed to be acquired by the Group upon Everight Acquisition and therefore for presentation purpose, such amount is deducted from the cash consideration.

In accordance with HKAS 32, the liability component and the equity component of the Notes should be separately accounted for. The liability component is included in non-current liabilities while the equity component is included in shareholder's equity. Both liability and equity components are stated at fair values. If there are any transaction costs involved, they would usually be allocated to the liability and equity components of the Notes based on the proportion of their respective fair value. For the purpose of compiling this unaudited pro forma combined balance sheet of the Group as enlarged by the Everight Acquisition, the fair value of the liability component of the Notes as at 30th September, 2005 is HK$49,247,000 estimated by the Company using the effective interest method and the fair value of the equity component of the Notes as at 30th September, 2005 is HK$10,753,000 (included in the adjustment to reserves). The final fair value of the liability component of the Notes at the completion date may be different to the amount of HK$49,247,000 million as at 30th September, 2005.

(2) These represent the elimination of the loan advanced by the Group to Everight as at 31st December, 2005 of HK$7.5 million (of which HK$3 million and HK$4.5 million were drawn down on 5th December, 2005 and 28th December, 2005 respectively) upon consolidation of the Everight Group to the Group and the relevant interest of HK$26,000 accrued from the dates of drawdown to 31st December, 2005.

(3) These represent (i) a decrease in administrative expenses of approximately HK$2.5 million, representing the issue expenses incurred for the 2005 February Note setoff against the equity component and liability component of the 2005 February Note on a pro-rata basis; and accordingly, (ii) an increase in interest expenses of approximately HK$176,000 on the liability component of the 2005 February Note for the year ended 31st March, 2005 as if the new HKFRSs were adopted. The adoption of the new HKFRSs did not result in any pro forma adjustments on the cash flow statement of the Group.

(4) This represents the estimated interest expenses accrued on the liability component of the Notes issued as part of the consideration for the Everight Acquisition as set out in note 1 above, assuming an effective interest rate of 6.0% per annum, which represents estimated fair market interest rate of bank loan or non-convertible bond currently for the Group.

5. FINANCIAL AND TRADING PROSPECT OF EVERIGHT GROUP

Yalong Bay in Sanya is one of the preferred destinations for leisure traveling in the PRC, in particular for the northerners during the winter season. After the scheduled expansion of the golf course from existing 18 holes to 27 holes and completion of the club house and ancillary facilities, full operation of the Sanya Golf Club is expected in late 2006 which will be in time to capture business growth in the peak season.

Yalong Bay has already been developed into a high-end leisure spot with numerous international well-known hotels being established. The development of hotel and resort facilities within the Sanya Golf Club is in the conceptual design stage. It is currently planned that around 70 to 80 quality, single-storey and low-density villas will be built to provide private and perfect vacation hide-away for golfers and guests. The management of Everight anticipates that the package sale of room accommodation and enjoyment of golfing will be well received by the vacationers which will contribute considerable recurring revenue for the future growth of Everight Group.

Additional lighting facility has lately been completed in the Lotus Hill Golf Club so as to expand its capacity for night-golfing to generate additional revenue. The lease term of the Lotus Hill Golf Club will expire by mid-2007. In light of the established track record and relationship, the management of Everight is confident on the renewal of the lease upon its expiry.

Guangzhou is an affluent city with rapid growth in its economy and there are increasing demands for quality residential units. Application for the development of additional villas in Panyu is in progress. It is planned that 70 to 80 luxurious villas will be built by phases for sale which will accelerate the future growth of Everight Group.

1. UNAUDITED PRO FORMA FINANCIAL INFORMATION ON ORIENT TOWN GROUP IMMEDIATELY AFTER COMPLETION OF THE CONCORDIA ACQUISITION

A. Introduction

The accompanying unaudited pro forma financial information on Enlarged Orient Town Group has been prepared to illustrate the effect of the proposed Concordia Acquisition. The consideration for the Concordia Acquisition of HK$1,850 million will be settled by cash, which is to be financed by loans from the shareholders of Best Profit.

The unaudited pro forma combined balance sheet of Enlarged Orient Town Group is prepared based on the consolidated balance sheet of Orient Town Group and the balance sheet of Concordia as at 31st December, 2005 as extracted from the accountants' reports set out in Appendix I and Appendix II to this circular respectively as if the Concordia Acquisition has been completed on 31st December, 2005.

The unaudited pro forma combined income statement and cash flow statement of Enlarged Orient Town Group are prepared based on the consolidated income statement and cash flow statement of Orient Town Group and the income statement and cash flow statement of Concordia for the period or year ended 31st December, 2005 as extracted from the accountants' reports set out in Appendix I and Appendix II to this circular respectively as if Orient Town has been incorporated on and the Concordia Acquisition has been completed on 1st January, 2005.

The unaudited pro forma financial information is prepared to provide information on Enlarged Orient Town Group as a result of completion of the Concordia Acquisition. As it is prepared for illustrative purpose only, it does not purport to represent what the results or financial position of Enlarged Orient Town Group are on completion of the Concordia Acquisition.

For the purpose of preparing this pro forma financial information, the financial information on Concordia as set out in Appendix II to this circular, which is originally stated in Macau Patacas, is translated into Hong Kong dollars at the exchange rate of HK$1 to MOP1.03.

B. Unaudited pro forma combined balance sheet of Enlarged Orient Town Group

	Orient Town Group as at 31st December, 2005 *(Note 7)* HK$'000	Concordia as at 31st December, 2005 *(Note 8)* HK$'000	Combined HK$'000	Pro forma adjustment *(Note 1)* HK$'000	Pro forma adjustment *(Note 2)* HK$'000	Pro forma adjustment *(Note 3)* HK$'000	Pro forma adjustment *(Note 4)* HK$'000	Enlarged Orient Town Group HK$'000
NON-CURRENT ASSETS								
Available-for-sale investment	13,236	–	13,236			202,746	(215,982)	–
Deposits paid for the acquisition of additional interest in an investee	610,000	–	610,000			(610,000)		–
Goodwill	–	–	–				2,155,378	2,155,378
	623,236	–	623,236	–	–	(407,254)	1,939,396	2,155,378
CURRENT ASSETS								
Other receivables	17,752	–	17,752					17,752
Amount due from a minority shareholder of a subsidiary	68,875	–	68,875					68,875
Loan to an investee	82,036	–	82,036		(6,750)	1,647,254	(1,722,540)	–
Loans to related companies	–	15,303	15,303		(15,303)			–
Bank balances and cash	2	72	74	1,248,229	6,750	(1,240,000)		15,053
	168,665	15,375	184,040	1,248,229	(15,303)	407,254	(1,722,540)	101,680
CURRENT LIABILITIES								
Other payables	2,213	241,823	244,036		(241,823)			2,213
Loans from related parties	–	313,338	313,338		(313,338)			–
Loans from shareholders	–	1,288,519	1,288,519		650,949		(1,722,540)	216,928
Loan from ultimate holding company	356,024	–	356,024	162,979				519,003
Loans from minority shareholders of a subsidiary	396,750	–	396,750	200,250				597,000
Loan from Million Orient	–	–	–	885,000				885,000
Bank loans	–	111,091	111,091		(111,091)			–
	754,987	1,954,771	2,709,758	1,248,229	(15,303)	–	(1,722,540)	2,220,144
NET CURRENT LIABILITIES	(586,322)	(1,939,396)	(2,525,718)	–	–	407,254	–	(2,118,464)
	36,914	(1,939,396)	(1,902,482)	–	–	–	1,939,396	36,914
CAPITAL AND RESERVES								
Share capital	1	97,087	97,088				(97,087)	1
Reserves	36,913	(2,036,483)	(1,999,570)				2,036,483	36,913
	36,914	(1,939,396)	(1,902,482)	–	–	–	1,939,396	36,914

C. Unaudited pro forma combined income statement of Enlarged Orient Town Group

	Orient Town Group for the period ended 31st December, 2005 *(Note 7)* *HK$'000*	Concordia for the year ended 31st December, 2005 *(Note 8)* *HK$'000*	Combined *HK$'000*	Pro forma adjustment *(Note 5)* *HK$'000*	Pro forma adjustment *(Note 6)* *HK$'000*	Enlarged Orient Town Group *HK$'000*
Turnover	–	–	–			–
Interest income	79	227	306			306
Gain on partial disposal of interest in a subsidiary	78,875	–	78,875		9,175	88,050
Administrative expenses	(1,031)	(17,308)	(18,339)			(18,339)
Finance costs	(11,010)	(43,385)	(54,395)	26,486		(27,909)
Forfeited deposit paid on acquisition of XLM	(30,000)	–	(30,000)			(30,000)
Profit (loss) for the period/year	36,913	(60,466)	(23,553)	26,486	9,175	12,108

D. Unaudited pro forma combined cash flow statement of Enlarged Orient Town Group

	Orient Town Group for the period ended 31st December, 2005 *(Note 7)* *HK$'000*	Concordia for the year ended 31st December, 2005 *(Note 8)* *HK$'000*	Combined *HK$'000*	Pro forma adjustment *(Note 1)* *HK$'000*	Pro forma adjustment *(Note 2)* *HK$'000*	Pro forma adjustment *(Note 3)* *HK$'000*	Enlarged Orient Town Group *HK$'000*
OPERATING ACTIVITIES							
Net cash used in operating activities	(18,594)	(226)	(18,820)	–	–	–	(18,820)
INVESTING ACTIVITIES							
Interest received	79	–	79				79
Deposits paid for acquisition of additional interest in an investee	(610,000)	–	(610,000)			610,000	–
Acquisition of a subsidiary	(93,248)	–	(93,248)			(1,849,954)	(1,943,202)
Deposit paid on acquisition of XLM	(30,000)	–	(30,000)				(30,000)
Proceeds from partial disposal of interest in a subsidiary	10,000	–	10,000				10,000
Repayment of loan to an investee	–	–	–		6,750		6,750
Net cash used in investing activities	(723,169)	–	(723,169)	–	6,750	(1,239,954)	(1,956,373)
FINANCING ACTIVITIES							
Proceed from issue of share capital	1	–	1				1
Loan from Million Orient	–	–	–	885,000			885,000
Loan from ultimate holding company	345,014	–	345,014	162,979			507,993
Loans from minority shareholders of a subsidiary	396,750	–	396,750	200,250			597,000
Loan advanced from a related company	–	252	252				252
Net cash from financing activities	741,765	252	742,017	1,248,229	–	–	1,990,246
Net increase in cash and cash equivalents	2	26	28	1,248,229	6,750	(1,239,954)	15,053
Cash and cash equivalents at beginning of the year	–	46	46			(46)	–
Cash and cash equivalents at end of the year (represented by bank balances and cash)	2	72	74	1,248,229	6,750	(1,240,000)	15,053

E. Notes

1. The adjustments represent the additional shareholder's loans received and receivable by Orient Town Group from Million Orient, the Vendor and the other two shareholders of Best Profit subsequent to 31st December, 2005 to facilitate completion of the Concordia Acquisition with details set out below:

	Received in February 2006	**Receivable before completion of the Concordia Acquisition**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Million Orient	–	885,000	885,000
The Vendor	105,000	57,979	162,979
Two shareholders of Best Profit	45,000	155,250	200,250
	150,000	1,098,229	1,248,229

2. Pursuant to the Concordia Acquisition Agreement, the Concordia Vendors shall advance an additional shareholder's loan of approximately HK$663,423,000 to Concordia to settle all the liabilities of Concordia, except for certain loan and interest due to shareholders of Concordia (including the Concordia Vendors) of approximately HK$216,928,000.

These adjustments represent the manner in which the aforesaid liabilities will be settled with details set out below:

	HK$'000	*HK$'000*
Balance per Concordia's balance sheet at 31st December, 2005 (amounts being translated from MOP into HK$):		
Other payables		241,823
Repayment of loans from other shareholders of Concordia including HK$6,750,000 due to Orient Town Group *(item a)*		12,474
Loans from related parties	313,338	
Less: Setoff with loans to related parties	(15,303)	
		298,035
Bank loans		111,091
Additional shareholder's loan to be advanced by Concordia *(item b)*		663,423

The net effect of items (a) and (b) above is an increase of loans from shareholders of HK$650,949,000.

3. The adjustments represent the cash consideration paid or payable to the Concordia Vendors for the acquisition of the Concordia Sale Shares and Concordia Sale Debts with details set out below:

	HK$'000
Cash consideration paid or payable:	
– paid prior to 31st December, 2005	610,000
– paid in February 2006	150,000
– payable in May 2006	1,090,000
	1,850,000
Concordia Sale Debts	(1,647,254)
Consideration for Concordia Sale Shares	202,746

As at 1st January, 2005, Concordia had cash and cash equivalents of HK$46,000 which was assumed to be acquired by Orient Town Group upon Concordia Acquisition and therefore for presentation purpose of the unaudited pro forma combined cash flow statement, such amount is deducted from the cash consideration.

The Concordia Sale Debts of HK$1,647,254,000 is estimated as the sum of the shareholder's loan and related interest due by Concordia to the Concordia Vendors as at 31st December, 2005 of approximately HK$983,831,000 and the additional advance from the Concordia Vendors to Concordia of HK$663,423,000 as mentioned in (2) above.

4. The adjustments represent the elimination of the investment in Concordia with the capital and reserves of Concordia and the Concordia Sale Debts. The estimated premium of HK$2,155,378,000 paid for the Concordia Acquisition is recognised as goodwill and will be carried at cost less accumulated impairment loss.

5. If the Concordia Sale Debts were acquired by XLM on 1st January, 2005, the interest expense accrued on the Concordia Sale Debts from 1st January, 2005 to 30th April, 2005 (being the date when all shareholders of Concordia agreed to cease charging interest on their respective loans to Concordia) of approximately HK$26,486,000 should have been eliminated on consolidation.

6. This adjustment represents the increase in gain on partial disposal of 30% interest in Best Profit which is equivalent to the relevant portion of the post acquisition loss of Concordia consolidated.

7. The reporting accountants were unable to form an opinion on the consolidated financial information of Orient Town Group for the period ended 31st December, 2005, details of which are set out in Appendix I to this circular.

8. A qualified opinion was issued by the reporting accountants on the financial information of Concordia for the year ended 31st December, 2005, details of which are set out in Appendix II to this circular.

2. UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE GROUP IMMEDIATELY AFTER THE COMPLETION OF THE ACQUISITION AND THE CONCORDIA ACQUISITION

A. Introduction

The accompanying unaudited pro forma financial information on the Group has been prepared to illustrate the effect of the proposed Acquisition. The consideration for the Acquisition of HK$280 payable upon Completion and the advance of HK$885 million by Million Orient to Orient Town to be made on the later of the Completion Date or 12th May, 2006 (or such other date as may be agreed by Million Orient and Orient Town) will be settled by cash from internal resources of the Group.

The unaudited pro forma combined balance sheet of the Enlarged Group is prepared based on the unaudited consolidated balance sheet of the Group at 30th September, 2005, as extracted from the interim report of the Company for the six months ended 30th September, 2005, and the unaudited pro forma combined balance sheet of Orient Town Group as at 31st December, 2005 as extracted from section (1) in this appendix, as if the Acquisition and the Concordia Acquisition have been completed on 31st December, 2005.

The unaudited pro forma combined income statement and cash flow statement of the Enlarged Group are prepared based on the audited income statement and cash flow statement of the Group for the year ended 31st March, 2005 and the unaudited income statement and cash flow statement of Orient Town Group as extracted from section (1) in this appendix, as if Orient Town has been incorporated on, and the Acquisition and Concordia Acquisition have been completed on 1st April, 2004.

The unaudited pro forma financial information is prepared to provide information on the Enlarged Group as a result of completion of the Acquisition and the Concordia Acquisition. As it is prepared for illustrative purpose only, it does not purport to represent what the results or financial position of the Enlarged Group are on completion of the Acquisition and the Concordia Acquisition.

B. Unaudited pro forma combined balance sheet of the Enlarged Group

	The Group as at 30th September, 2005	Pro forma adjustment *(Note 2)*	Pro forma adjustment *(Note 3)*	The Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
NON-CURRENT ASSETS				
Property, plant and equipment	62,666			62,666
Prepaid lease payments	1,350			1,350
Intangible assets	3,043			3,043
Interest in an associate	–	14,766		14,766
Loan receivable from an associate	–		885,000	885,000
Goodwill	10,885			10,885
	77,944	14,766	885,000	977,710
CURRENT ASSETS				
Inventories	73,377			73,377
Debtors, deposits and prepayments	429,610		(240,000)	189,610
Loan receivables	49,814			49,814
Prepaid lease payments	30			30
Properties held for sale	58,547			58,547
Investments in securities	53,052			53,052
Financial assets at fair value through profit or loss	26,840			26,840
Pledged bank deposits	3,000			3,000
Bank balances and cash	669,511		(645,000)	24,511
	1,363,781	–	(885,000)	478,781

	The Group as at 30th September, 2005	Pro forma adjustment *(Note 2)*	Pro forma adjustment *(Note 3)*	The Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
CURRENT LIABILITIES				
Creditors and accrued charges	77,145			77,145
Tax payable	62			62
Obligations under a finance lease due within one year	33			33
Convertible notes payable	353			353
Bank and other borrowings due within one year	49,053			49,053
	126,646	–	–	126,646
NET CURRENT ASSETS	1,237,135	–	(885,000)	352,135
NON-CURRENT LIABILITIES				
Obligations under a finance lease due after one year	91			91
Bank and other borrowings due after one year	1,875			1,875
Convertible note payables	901,333			901,333
	903,299	–	–	903,299
NET ASSETS	411,780	14,766	–	426,546
CAPITAL AND RESERVES				
Share capital	4,086			4,086
Reserves	406,770	14,766		421,536
Equity attributable to equity holders of the parent	410,856	14,766	–	425,622
Minority interests	924			924
	411,780	14,766	–	426,546

C. Unaudited pro forma combined income statement of the Enlarged Group

	The Group for the year ended 31st March, 2005 (Originally stated)	Adjustments on adoption of new HKFRSs *(Note 1)*	The Group for the year ended 31st March, 2005 (Restated)	Pro forma adjustment *(Note 4)*	The Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	379,396		379,396		379,396
Cost of sales	(259,478)		(259,478)		(259,478)
Gross profit	119,918	–	119,918	–	119,918
Other income	2,139		2,139		2,139
Gain on disposal of investments in securities	30		30		30
Doubtful debts provided	(1,729)		(1,729)		(1,729)
Distribution costs	(57,942)		(57,942)		(57,942)
Administrative expenses	(34,215)	2,500	(31,715)		(31,715)
Other operating expenses	(567)		(567)		(567)
Amortisation of goodwill	(1,051)		(1,051)		(1,051)
Unrealised holding loss on other investments	(4,226)		(4,226)		(4,226)
Loss on disposal of investment properties	(3,217)		(3,217)		(3,217)
Share of result of an associate	–		–	4,843	4,843
Finance costs	(7,379)	(176)	(7,555)		(7,555)
Profit before taxation	11,761	2,324	14,085	4,843	18,928
Taxation	(1,823)		(1,823)		(1,823)
Profit for the year	9,938	2,324	12,262	4,843	17,105

D. Unaudited pro forma combined cash flow statement of the Enlarged Group

	The Group for the year ended 31st March, 2005	**Pro forma adjustment**	**The Enlarged Group**
		(Note 3)	
	HK$'000	*HK$'000*	*HK$'000*
OPERATING ACTIVITIES			
Cash generated from operations	98,125		98,125
Overseas taxation paid	(768)		(768)
Interest paid	(4,261)		(4261)
Net cash from operating activities	93,096	–	93,096
INVESTING ACTIVITIES			
Interest received	296		296
Proceeds from disposal of investment properties	4,983		4,983
Proceeds from disposal of investment in securities	1,903		1,903
Proceeds from disposal of property, plant and equipment	476		476
Repayment of loan receivables	(31,500)		(31,500)
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	(22,861)		(22,861)
Purchase of property, plant and equipment	(3,081)		(3,081)
Increase in pledged bank deposits	(3,000)		(3,000)
Development cost incurred	(1,467)		(1,467)
Advance to an associate	–	(885,000)	(885,000)
Net cash used in investing activities	(54,251)	(885,000)	(939,251)

	The Group for the year ended 31st March, 2005	Pro forma adjustment *(Note 3)*	The Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*
FINANCING ACTIVITIES			
Proceeds from issue of convertible notes	100,000		100,000
New bank and other borrowings raised	96,225		96,225
Proceeds from issue of shares	80,489		80,489
Repayment of bank and other borrowings	(205,596)		(205,596)
Expenses paid in connection with issue of shares	(2,623)		(2,623)
Repayment of obligation under a finance lease	(16)		(16)
Net cash generated by financing activities	68,479	–	68,479
Net increase (decrease) in cash and cash equivalents	107,324	(885,000)	(777,676)
Cash and cash equivalents at beginning of the year	80,136		80,136
Effect of foreign exchange rate changes	520		520
Cash and cash equivalents at end of the year, represented by bank balances and cash	187,980	(885,000)	(697,020) *(Note 5)*

E. Notes:

(1) The adjustments represent (i) a decrease in administrative expenses of approximately HK$2.5 million, representing the issue expenses incurred for the 2005 February Note setoff against the equity component and liability component of the 2005 February Note on a pro-rata basis; and accordingly, (ii) an increase in interest expenses of approximately HK$176,000 on the liability component of the 2005 February Note for the year ended 31st March, 2005 as if the new HKFRSs were adopted. The adoption of the new HKFRSs did not result in any pro forma adjustments on the consolidated cash flow statement of the Group.

(2) For the preparation of the unaudited pro forma combined balance sheet of the Enlarged Group, it is assumed that the Completion had taken place on 30th September, 2005. The adjustments represent the recognition of interest in an associate which is stated at the share of net asset value of Orient Town Group pursuant to the acquisition of 40% equity interest of the issued share capital of Orient Town for a cash consideration of HK$280. A discount on acquisition of approximately HK$14.8 million arises on the Acquisition, representing the difference between the Consideration and the 40% share of

net asset value of Enlarged Orient Town Group of HK$36,914,000 as at 31st December, 2005. In accordance with Hong Kong Financial Reporting Standard 3 "Business Combination" issued by The Hong Kong Institute of Certified Public Accountants, such negative goodwill is recognised in the income statement immediately.

For the preparation of the unaudited pro forma combined income statement, it is assumed that the Completion had taken place on the later of 1st April, 2004 or the date of incorporation of Orient Town. Orient Town was incorporated on 1st June, 2005, on which date its net asset value was equal to its issued share capital. Since the cash consideration of HK$280 represents 40% of the nominal value of the share capital of Orient Town, there is no discount on acquisition to be recognised in the income statement.

(3) The adjustments represent the Shareholder's Loan of HK$885 million to be advanced to Orient Town according to the Acquisition Agreement, of which HK$645 million will be payable in cash from internal resources of the Group on the later of the Completion Date or 12th May, 2006 (or such other date as may be agreed between Million Orient and Orient Town), and the remaining HK$240 million will be satisfied by utilisation of earnest money paid by the Group.

(4) The adjustments represent share of results of Orient Town Group of a net profit HK$4.8 million, calculated with reference to the 40% equity interest to be acquired by the Group and the pro forma combined net profit of Enlarged Orient Town Group of HK$12.1 million.

(5) Since the pro forma combined cash flow statement of the Enlarged Group is prepared as if the Completion had taken place on 1st April, 2004, there would be a cash shortfall of approximately HK$697.0 million on 31st March, 2005 as shown in the unaudited pro forma combined cash flow statement of the Enlarged Group. In 2005 August, HK$988.9 million was raised from issuing the 2005 August Note received by the Group, details of which had been disclosed in the interim report of the Group for the six months ended 30th September, 2005.

3. REPORT FROM THE REPORTING ACCOUNTANTS

The following is the text of a report, prepared for inclusion in this circular, received from Deloitte Touche Tohmatsu, the independent reporting accountants.

ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF CHEUNG TAI HONG HOLDINGS LIMITED

We report on the unaudited pro forma financial information of Cheung Tai Hong Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors for illustrative purposes only, to provide information about how the proposed acquisition of Orient Town Limited and Empresa De Fomento Industrial E Comercial Concórdia, S.A. might have affected the financial information presented, for inclusion in Appendix V to the circular dated 29th May, 2006 (the "Circular"). The basis of preparation of the unaudited pro forma financial information is set out on pages 174 to 186 of the Circular.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group as at 30th September, 2005 or at any future date; or
- the results and cash flows of the Group for the year ended 31st March, 2005 or any future period.

Opinion

In our opinion:

a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

b) such basis is consistent with the accounting policies of the Group; and

c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 29th May, 2006

1. MANAGEMENT DISCUSSION AND ANALYSIS

(a) THE GROUP

The following is the reproduction of the management discussion and analysis as contained in the interim report of the Company for the six months ended 30th September, 2005 and the annual reports of the Company for the year ended 31st March, 2003, 2004 and 2005:

For the six months ended 30th September, 2005

BUSINESS REVIEW

The Group's turnover for the six months ended 30th September, 2005 was approximately HK$426.4 million, representing an increase of 143% as compared with the comparative period of HK$175.4 million. This substantial increase is mainly due to the expansion in the activity of securities investment, being part of the Group's strategy in short term treasury management, which contributed HK$282.4 million to the Group's turnover during the period under review.

During the period, an impairment loss for goodwill of HK$11.0 million has been charged to the income statement. In addition, due to the adoption of new accounting standard, there was an increase in interest expense of HK$7.4 million on the liability component of convertible notes. As a result, the Group incurred a loss for the period of HK$17.8 million as compared with that of the comparative period of HK$1.0 million. The loss per share for the current period was 4.4 cents.

Property Investment

During the period, the Group has been actively looking for investment opportunities in properties. As stated in the announcement made by the Company on 26th October, 2005, the Group has proceeded to a more advanced stage in relation to negotiation for a possible acquisition of property interest in Macau. In addition, the Group has been in discussions in respect of possible acquisitions of property interests and sporting facilities in the People's Republic of China (the "**PRC**") and Hong Kong. Further announcements will be made by the Company as and when appropriate.

There are 24 residential units and 1 commercial unit at Talon Tower on Connaught Road West remain unsold.

Securities Investment

During the period, the Group has expanded its activity in securities investment with an aim to maximise the short term yield from the surplus cash balances. There was a realised gain of HK$4.1 million recognised for the period. Due to the short term market fluctuation, there was an unrealised loss of HK$5.3 million which was calculated with reference to the market price at the period end and a net loss of HK$1.2 million was reported for this segment. At the period end, the Group held investments in securities in aggregate of HK$79.9 million, which mainly represents shares or equity-linked notes in renowned companies listed in Hong Kong, the United States and Japan.

Medicine Retailing and Manufacturing

Since Tung Fong Hung Investment Limited and Jean-Marie Pharmacal Company Limited (collectively the "**Medicine Business**") were acquired by the Group around end of April 2004, their results for five months ended 30th September, 2004 had been accounted for by the Group in the comparative period. After taking into account of this factor, the performance of the Medicine Business for the current period shows a moderate growth as compared with the comparative period. The segment turnover and profit achieved for the period were HK$138.4 million (2004: HK$107.1 million) and HK$5.9 million (2004: HK$0.6 million) respectively.

FINANCIAL REVIEW

During the period, an aggregate amount of HK$20 million of the 3-year convertible notes was converted into approximately 47.6 million shares in the Company and the outstanding amount of the 3-year convertible notes at the period end was HK$70 million. To strengthen its resources for expanding the activity in property investment, the Group has further issued 5-year convertible notes in August 2005 to raise HK$1,000 million, which can be converted into shares of the Company at an initial conversion price of HK$0.44 per share and repayable at the fifth anniversary from the issue date (or the next following business day if it is not a business day) unless they are previously converted, redeemed or purchased and cancelled, and be redeemed at 110 percent of their principal amount. In accordance with the new accounting standard adopted by the Group during the period, an amount of HK$160.9 million representing the estimated equity component of the 5-year convertible notes was recorded to increase the capital reserve of the Group. As a result, after offset by the loss of HK$17.8 million incurred for the period, the net asset value of the Group was increased by 66% from HK$248.8 million at 31st March, 2005 to HK$411.8 million at the period end.

The Group adopts a prudent funding and treasury policy with regard to its overall business operations. In addition to the above convertible note payables in aggregate of HK$1,070 million outstanding at the period end, a variety of credit facilities is maintained so as to meet its working capital requirements of the Group. At the end of the period, total bank borrowings amounted to HK$50.9 million, of which HK$49.0 million is repayable within one year and the remaining HK$1.9 million is repayable after one year.

The net gearing ratio of the Group, calculated with reference to the total of bank loans of HK$50.9 million and the fair value of the liability component of convertible note payables of HK$901.7 million, setoff with the bank and cash balances of HK$672.5 million, and the Group's shareholders' funds of HK$410.9 million, was 0.7 at 30th September, 2005.

All the bank borrowings were interest-bearing with reference to Hong Kong inter-bank offer rate, London inter-bank offer rate or prime rate. The management believes that interest remains stable in the capital market and therefore no hedge is to be made against interest rate fluctuation. Most of the assets and liabilities of the Group were denominated in Hong Kong dollars, and hence the Board considers that the Group was not subject to any material exchange rate exposure.

NUMBER OF EMPLOYEES, REMUNERATION POLICIES AND SHARE OPTION SCHEME

As at 30th September, 2005, the number of employees was 527 (31st March, 2004: 515). Employees are remunerated according to their qualifications and experience, job nature and performance, under the pay scales aligned with market conditions. During the period, the Group had also provided other benefits such as medical, insurance cover and retirement schemes to the employees.

OUTLOOK

Continued prosperity in the Hong Kong property is expected for the coming year though there may be some short term adjustments due to the rising interest rate and the unpredictable outbreak of avian flu. The strong economy of the surrounding areas, in particular Macau becomes a hot spot for vacation, will definitely accelerate their demand for high quality residential and commercial buildings. The Group is actively and cautiously exploring suitable investment opportunities, with its primarily focus on the property markets in Hong Kong, the PRC and Macau, for its future growth.

PLEDGE OF ASSETS

As at 30th September, 2005, the Group's property held for sale in an aggregate value of approximately HK$58.5 million, bank balance of HK$3.0 million, and certain property, plant and equipment of a subsidiary of the Company of approximately HK$11.6 million had been pledged to banks and financial institutions to secure general credit facilities granted to the Group.

CONTINGENT LIABILITIES

As at the period end, the Group had contingent liabilities in respect of a tax indemnity given upon disposal of a subsidiary at HK$60 million.

SECURITIES IN ISSUE

During the period, the Company had issued 47,619,046 ordinary shares upon conversion of convertible notes at the conversion price of HK$0.42 per share. In addition, share options of 27,300 shares were cancelled and there were no share options granted and outstanding at the period end.

As at 30th September, 2005, there were 408,614,553 shares in issue. Save as disclosed above, there was no movement in the issued share capital during the period.

For the year ended 31st March, 2005

BUSINESS REVIEW

The Group's turnover for the year ended 31st March, 2005 was approximately HK$379.4 million, representing a significant increase of approximately 500% as compared to the last corresponding year of HK$63.5 million. In addition, the Group has achieved a turn-around and resulted in a profit of HK$9.9 million for current year as compared with a loss of HK$29.6 million in 2004. The substantial increase in turnover was mainly due to the newly acquired medicine business in May 2004 and improved bottom line was due to the increase in sale of properties benefiting from the strong recovery in the property market in Hong Kong.

Property Development

During the year, there were further sales of 16 residential units and 2 commercial units at Talon Tower on Connaught Road West, which recorded a turnover of HK$91.7 million with a gross profit of HK$29.2 million. As at 31st March, 2005, there remain unsold units of 24 residential units and 1 commercial unit.

Medicine Retailing and Manufacturing

Subsequent to the acquisition of the interest in the Chinese medicine retailer, "Tung Fong Hung", and the western pharmaceutical manufacturer, Jean-Marie Pharmacal Company Limited ("**Jean-Marie**"), the Group has diversified into the medicine business and owned a reputable medicine brand name and a chain of retail stores spanning across Hong Kong, the Mainland China, Macau, Canada, Taiwan and Singapore. The division currently operates a total number of approximately 70 retail outlets in these regions and generated a total turnover of HK$276.0 million for the period under review. By taking advantage of the progressively economic recovery in Hong Kong and the continued robust economic growth in the Mainland China in particular, the business achieved a rebound in sales from last year.

The western pharmaceutical manufacturer, Jean-Marie, is putting efforts in expanding its distribution network and enhancing its production efficiency. Sales to the local government are a new stream of business since Jean-Marie was licensed with the GMP (Good Manufacturing Practice) standard. The Group is also devoting resources to obtain licenses of its products in Hong Kong and potential markets aiming for a sale breakthrough. As Jean-Marie is still in transition of rationalizing its business, it recorded an operating loss for the period under review.

FINANCIAL REVIEW, LIQUIDITY AND CAPITAL RESOURCES

As at 31st March, 2005, the net asset value of the Group was HK$243.6 million, which showed an increase of 87% as the capital base has been enlarged by the issue of approximately 175 million and 57.1 million ordinary shares upon placement and conversion of convertible notes respectively making an aggregate proceed of HK$105.2 million.

The Group adopts a prudent funding and treasury policy with regard to its overall business operations. A variety of credit facilities is maintained so as to meet its working capital requirements. As at the year end, promissory note payables, bank and other borrowings in aggregate amounted to HK$80.8 million of which some HK$13.0 million of the outstanding amount was used to finance the acquisition of the medicine business during the year and the remaining HK$67.8 million was for working capital. Some HK$75.2 million of the outstanding borrowing is repayable within 1 year while the remaining HK$5.6 million is repayable after one year. In addition, during the year, the Company has issued convertible notes in the amount of HK$100 million, which are convertible into shares in the Company at an initial conversion price of HK$0.42 per share, interest is charged at 2% per annum and repayable at the third anniversary from the issue date. Before the year end, convertible notes in an aggregate principal amount of HK$10 million were converted into ordinary shares at the conversion price of HK$0.42 per share. The balance in an aggregate principal amount of HK$90 million will be redeemed on 23rd February, 2008 (or the next following business day if it is not a business day) unless they are previously converted, redeemed or purchased and cancelled.

At 31st March, 2005, the Group maintained bank and cash balances of approximately HK$191.0 million and is in a net cash position. After the enlargement of the capital base, the gearing ratio of the Group, calculated with reference to the total of promissory note payables, bank and other borrowings of HK$80.8 million and the Group's shareholders' funds of HK$243.6 million, substantially reduced to 0.3 as compared with 0.7 as at 31st March, 2004.

Most of the bank and other borrowings were interest bearing with reference to Hong Kong inter-bank offer rate or prime rate. The management believes that interest remains to be low in the capital market and therefore no hedge was made against interest rate fluctuation. Most of the assets and liabilities of the Group were denominated in Hong Kong dollars, the Board thus considered that the Group was not subject to any material exchange rate exposure.

NUMBER OF EMPLOYEES, REMUNERATION POLICIES AND SHARE OPTION SCHEME

As a result of the acquisition of the medicine business, the number of employees increased to 515 persons as at 31st March, 2005 (2004: 11 persons). Employees are remunerated according to qualifications and experience, job nature and performance, with pay scale aligned with market conditions. During the year, the Group also provided other benefits such as medical, insurance cover and retirement schemes to the employees.

OUTLOOK

Continued prosperity in the Hong Kong property market is expected for the coming year. Leveraging on the Group's extensive experience in the property business, the Group will further explore investment opportunities in high quality residential and commercial buildings with a view to expand and enhance its property investment portfolio. During the year, through the placement of shares and issue of convertible notes, the Group has raised approximately HK$180 million. The Group has further proceeded to raise another HK$1,000 million through the issue of 5-year convertible notes, which completion is expected to be around end of July 2005. Having abundant resources, the Group is actively and cautiously exploring suitable investment opportunities, with its primary focus on the property markets in Hong Kong, the Mainland China and Macau, for its future growth.

PLEDGE OF ASSETS

As at 31st March, 2005, the Group's property held for sale with an aggregate value of approximately HK$58.5 million, bank balance of HK$3.0 million and property, plant and equipment of certain subsidiaries of the Company of approximately HK$12.0 million have been pledged to banks and financial institutions to secure general credit facilities granted to the Group.

CONTINGENT LIABILITIES

As at the year end, the Group has contingent liabilities in respect of a tax indemnity given on disposal of a subsidiary in prior year of HK$60 million.

MATERIAL ACQUISITIONS

During the year, the Group acquired the entire issued share capital of Tung Fong Hung Investment Limited ("**Tung Fong Hung**") and the remaining 50% of the issued share capital of Pacific Wins Development Ltd., not being held by Tung Fong Hung for considerations of HK$42 million and HK$28 million respectively. As a result of the acquisition, the Group commences to engage in the manufacturing and retailing of medicine and health food.

SECURITIES IN ISSUE

During the year, there were the following movements in the issued share capital of the Company:

(a) placement of 25,000,000 and 150,000,000 shares at HK$0.81 and HK$0.40 each respectively;

(b) issue of 33,333,331 and 23,809,520 shares upon conversion of convertible notes at conversion prices of HK$0.45 and HK$0.42 per share respectively; and

(c) issue of 1,155,000 shares at HK$0.207 each upon exercise of share options.

As at the year end, there were 360,995,507 shares in issue. Save as disclosed above, there was no movement in the issued share capital during the period.

For the year ended 31st March, 2004

BUSINESS REVIEW

The Group's turnover for the year ended 31st March, 2004 was approximately HK$63,514,000, representing a significant increase of 54% from that of last year. The improvement in turnover was mainly attributable to the increase in sales proceeds from the Group's property development project at Sheung Wan, namely Talon Tower. During the year, the Group recorded a net loss of approximately HK$29,612,000. This represents a reduced loss of 43% from last year. The significant improvement in the Group's result was mainly due to the appreciation in value of the properties of the Group due to the recent recovery of the property market. The sales of motorcycles also made a satisfactory contribution to the Group.

Property Development

Talon Tower is a 26-storey commercial and residential building. With the recent recovery of the property market and the active sale and marketing effort, satisfactory sales was recorded in the first quarter of 2004. Nearly half of the units were sold now.

Sales of approximately HK$47,276,000 were achieved during the year. The proceeds from the sales had been wholly used to repay its bank loan. Since the completion of construction, no finance cost had been capitalized. Excluding the allowance made for devaluation, property sales yielded an approximate gross profit of HK$5,973,000.

To take advantage of the improved sentiment in the property market since late 2003, the Group acquired the remaining 40% interest in Talon Tower in December, 2003. The acquisition enables better efficiency in the sale team, there had been marked improvement in sale performance thereafter. The proceeds from sales helped to reduce the bank borrowing and thus improve the gearing position of the Group.

Trading of Motorcycles

The Group continues to be the distributor of Suzuki motorcycles in Hong Kong and Macau. The turnover for the year was approximately HK$15,864,000 which showed an increase of 37% as compared with that of last year, as a result of the popularity of scooter in the region. The business made a contribution to the Group of approximately HK$664,000 during the year.

FINANCIAL REVIEW

As at 31st March, 2004, the net asset value of the Group was HK$130,176,000, which showed a decrease of 17% over that of last year. The drop was attributable to the net loss reported for the year. The Group maintained a bank balances and cash of approximately HK$80,136,000, while bank and other borrowings had decreased from HK$178,453,000 to HK$94,444,000. These bank and other borrowings comprised mainly the project loans relating to Talon Tower, which amounted to HK$86,771,000 at the year end date and were bearing interest with reference to Hong Kong interbank offer rate. In view of the low interest environment, the Group made no hedge against interest rate fluctuation. The gearing ratio of the Group (the ratio of total liabilities over total assets) was 43% (2003: 55%).

Most of the assets and liabilities of the Group were denominated in Hong Kong dollars, the Board considered the Group was not subject to any material exchange rate exposure.

On 15th April, 2003, the Group underwent a capital reorganisation ("**Capital Reorganisation**") involving capital reduction, share sub-division, share consolidation and share premium cancellation that led to the nominal value of the shares of the Company being reduced to HK$0.01 each.

REWARDS FOR EMPLOYEES

As at 31st March, 2004, the Group employed 10 persons in Hong Kong and 1 person in the PRC. The total personnel expenses amounted to approximately HK$3,956,000 (2003: HK$6,347,000). Employees are remunerated according to qualifications and experience, job nature and performance, as well as market conditions. The Group also provides other benefits such as medical and dental insurance cover and provident fund scheme to the employees. During the year, the Group issued 10,510,000 new shares to employees and consultants at HK$0.207 per share pursuant to the 2002 Option Scheme, raising HK$2,176,000. The proceeds were used as working capital. There was no share option granted to any director during the year.

PROSPECTS

Since late 2003, property buyers have been restoring confidence in the property market following the economic recovery in Hong Kong led by the Government's active policies in the individual travel permit by PRC tourists and the CEPA. The Board is confident that the property development will bring better return to the Group. In addition, with the proceeds from sales of units in Talon Tower, the bank loans are further reduced. This creates strength to the Group for other investment opportunities.

In May 2004, the Group acquired 100% interest in Tung Fong Hung Group ("**TFH**"). TFH is principally engaged in the manufacture and sale of "Tung Fong Hung" branded Chinese pharmaceutical and health products in Hong Kong, Mainland China, Taiwan, Canada, Macau and Singapore. It is also engaged in the production and distribution of western pharmaceutical products in Hong Kong. The Board perceives the investment will bring in favourable benefits to the Group as Tung Fong Hung will continue to grow with profitable returns in pace with the increase in health awareness of the public and the surge in the number of incoming PRC visitors.

For the year ended 31st March, 2003

BUSINESS REVIEW

The Group's turnover for the year was approximately HK$41,276,000, representing a decrease of 8% over the same period of last year. Turnover was mainly derived from the sale of properties and trading of motorcycles and spare parts. During the year, the Group recorded a loss of approximately HK$51,556,000, an improvement of 13% compared with last year's result. The loss for the year is mainly due to deficit arising on revaluation of investment properties of HK$1,500,000 and the impairment loss arising on the properties under development of approximately HK$25,421,000 and unrealised holding loss on other investments of approximately HK$19,583,000.

Property Development

The Group owns 60% interest in a property development project in Sheung Wan, namely Talon Tower. The superstructure construction for the project was completed and the sales activity has begun since November 2002. As at 31st March, 2003, approximately HK$21,825,000 of sales was achieved. The proceeds from the sale have been used to repay its bank loan so that the Group's gearing position can be improved. However, in view of the sluggish property market in Hong Kong, the Group had provided an impairment loss of approximately HK$25,421,000 in respect of the Talon Tower during the year.

Trading of Motorcycles

The Group continues to be the distributor of Suzuki motorcycles in Hong Kong and Macau. The turnover for the year was approximately HK$11,562,000 which has increased by 16% as compared with last year. The business incurred a loss of approximately HK$225,000 during the year.

Electrical and Mechanical Engineering and Distribution

Due to the unsatisfactory performance in electrical and mechanical engineering and distribution, the Group disposed of the business to an independent third party in August 2002 at a loss of approximately HK$713,000.

FINANCIAL REVIEW

The net asset value of the Group as at 31st March, 2003 was HK$157,612,000, which was a decrease of 8% over last year end date. It was mainly attributed by the impairment loss arising on the properties under development of approximately HK$25,421,000, deficit on revaluation of investment properties of HK$1,500,000 and unrealised holding loss on other investments of approximately HK$19,583,000 respectively. The Group maintained a high cash balance of approximately HK$120,112,000. On the other hand, the secured bank and other borrowings of the Group, which were denominated in Hong Kong dollars and were bearing interest with reference to prime rate, had increased slightly from HK$174,996,000 to approximately HK$178,453,000 as at 31st March, 2003. Secured loans for Talon Tower of approximately HK$168,688,000 was matured in December 2002, and the lending bank had conditionally agreed to extend the repayment date. In view of the relative low interest rate, the Group made no hedge for those floating prime rate based borrowings. The gearing ratio (the ratio of total liabilities over total assets) was 55% (2002: 53%).

Most of the assets and liabilities of the Group are denominated in Hong Kong dollars, the Board considered the Group is not subject to any material exchange rate exposure.

On 28th May, 2002, the Group entered into a conditional placing agreement with a placing agent, whereby the placing agent agreed to place, on a fully underwritten basis, 390,000,000 new shares at the placing price of HK$0.10 per placing share. The net proceeds from the placing was approximately HK$38,000,000, out of which HK$20,000,000 would be used to finance the development of the Group's property in Hong Kong and the balance of approximately HK$18,000,000 would be used as general working capital. The placing was completed on 12th June, 2002.

On 6th March, 2003, the Group proposed a capital reorganisation (the "**Capital Reorganisation**") involving capital reduction, share sub-division, share consolidation and share premium cancellation. Details were set out in the circular sent to the shareholders on 21st March, 2003. The Capital Reorganisation was approved in a shareholders' meeting and became effective on 15th April, 2003.

REWARDS FOR EMPLOYEES

As at 31st March, 2003, the Group employed 11 persons in Hong Kong. The total personnel expenses amounted to approximately HK$6,347,000 (2002: HK$15,697,000). Employees are remunerated according to qualifications and experience, job nature and performance, as well as market conditions. The Group also provides other benefits such as medical and dental insurance cover and retirement benefits schemes to the employees. There was no share option granted to any director and employee during the year.

PROSPECTS

The Group continues to suffer loss from property development business as a result of persistent downturn in the overall business environment and high unemployment rate, coupled with the outbreak of atypical pneumonia since February 2003. In view of the adverse situation, the directors will take a prudent approach in directing the business. Stringent cost saving measures are implemented during the year and thereby reducing the expenditure of the Group to a lower level. Continuous efforts have been made to seek business opportunities that will yield positive returns.

(b) ORIENT TOWN GROUP

For the period from 1st June, 2005 (date of incorporation) to 31st December, 2005

BUSINESS REVIEW

Orient Town and its subsidiaries were incorporated during 2005 for the designated purpose of acquiring a controlling interest in Concordia, a company which owns 14 parcels of leased land situated in Macau. Orient Town, through a subsidiary, Best Profit, has acquired the entire registered capital of XLM which in turn holds an 5.9% equity interest in Concordia. XLM has entered into the Concordia Agreement with the Concordia Vendor to acquire an 77.1% equity interest in Concordia which completion is scheduled on 26th May, 2006.

During the period, Orient Town has disposed of its 30% shareholdings in Best Profit and a gain of approximately HK$78.9 million was recorded which was partly offset by the forfeited deposit of HK$30.0 million paid on acquisition of XLM. Financial expenses of approximately HK$11.0 million was incurred for arranging a bank guarantee in respect of the consideration payable for the Concordia Acquisition and a net profit of approximately HK$36.9 million was recorded for the period ended 31st December, 2005.

BORROWING AND GEARING

A loan of approximately HK$356.0 million from the Vendor (the ultimate holding company of Orient Town) and loans in aggregate amount of approximately HK$396.8 million from the minority shareholders of a subsidiary were drawn down during the period mainly to finance the instalment payment of HK$610.0 million of the Concordia Consideration and the acquisition of the entire registered capital of XLM. The remaining portion of the Concordia Consideration is to be financed by additional loans to Orient Town from its shareholders. All the lenders shall not demand repayment unless approved by the board of directors of Best Profit. All these loans were denominated in Hong Kong dollars and interest will be charged at the best lending rate as quoted by The Hongkong and Shanghai Banking Corporation Limited from time to time with effect from the completion of the Concordia Acquisition.

At 31st December, 2005, the consolidated net asset value of Orient Town is approximately HK$36.9 million. The gearing ratio, calculated with reference to the total liabilities of HK$755.0 million and the total assets of HK$791.9 million, is approximately 1.0 as at 31st December, 2005.

(c) CONCORDIA

For the year ended 31st December, 2005

BUSINESS REVIEW

There was an overdue land lease premium of approximately MOP140.8 million due to the Government of Macau and the penalty interest for the year ended 31st December, 2005 of approximately MOP14.3 million was included in the administrative expenses. During the year, all shareholders and affiliates of a holding company of Concordia agreed to cease charging interest on the loans due from Concordia with effect from 1st May, 2005. After partially set off by the increase in interest expense of MOP13.6 million on adoption of new accounting standard to restate a bank loan at fair value (details as set out in note 2 to the financial statements), finance costs were substantially reduced from MOP94.5 million for the year ended 31st December, 2004 to MOP44.7 million for the year ended 31st December, 2005. Loss for the year ended 31st December, 2005 was MOP62.2 million, showing a decrease of about MOP47.2 million from the loss of MOP109.4 million as reported for the year ended 31st December, 2004.

BORROWING AND GEARING

As at 31st December, 2005, total borrowings amounted to MOP1,764.3 million (2004: MOP1,762.9 million) which included bank loans of MOP114.4 million (2004: MOP118.1 million). In accordance with a debt restructuring agreement signed in 2003, among other matters, the lending bank agreed to cease charging interest on the outstanding principal which shall be repaid in full by March 2006. Other borrowings included loans from shareholders of approximately MOP1,327.2 million and affiliates of the holding company of approximately MOP322.7 million, all of which had no fixed terms of repayment.

Except for certain bank loan of MOP36.9 million which was denominated in Hong Kong dollars, all the borrowings were denominated in Macau Patacas.

Due to the expiry of the land lease in 2000, all unamortised cost in relation to the land lease had been written off which resulted in a substantial deficit of approximately MOP1,656.9 million. As at 31st December, 2005, there was a net deficiency in shareholders' fund of approximately MOP1,997.6 million (2004: MOP1,952.6 million). The gearing ratio, calculated with reference to total liabilities of MOP2,013.4 million and total assets of MOP15.8 million, is approximately 127.4.

For the year ended 31st December, 2004

BUSINESS REVIEW

There was an overdue land lease premium of approximately MOP140.8 million due to the Government of Macau and the penalty interest for the year ended 31st December, 2004 of approximately MOP13.5 million was included in the administrative expenses. Finance costs of approximately MOP94.5 million (2003: MOP94.8 million) mainly represented the charge calculated at 14.4% over the loans from the Concordia's shareholders and affiliates of a holding company. Loss for the year ended 31st December, 2004 was MOP109.5 million, showing an increase of about MOP69.1 million from the loss of MOP40.4 million as reported for the year ended 31st December, 2003.

BORROWING AND GEARING

As at 31st December, 2004, total borrowings amounted to approximately MOP1,762.9 million (2003: MOP1,668.4 million) which included bank loans of approximately MOP118.1 million (2003: MOP138.7 million). In accordance with a debt restructuring agreement signed in 2003, among other matters, the lending bank agreed to cease charging interest on the outstanding principal which shall be repaid in full by March 2006. Other borrowings included loans from shareholders of approximately MOP1,304.7 million and affiliates of the holding company of approximately MOP340.1 million, all of which had no fixed terms of repayment.

Except for certain bank loan of MOP38.1 million which was denominated in Hong Kong dollars, all the borrowings were denominated in Macau Patacas.

Due to the expiry of the land lease in 2000, all unamortised cost in relation to the land lease had been written off which resulted in a substantial deficit of approximately MOP1,656.9 million. As at 31st December, 2004, there was a net deficiency in shareholders' fund of approximately MOP1,952.6 million (2003: MOP1,843.1 million). The gearing ratio, calculated with reference to total liabilities of MOP1,996.7 million and total assets of MOP44.1 million, is approximately 45.3.

For the year ended 31st December, 2003

BUSINESS REVIEW

During the year, the Concordia entered into separate debt restructuring agreements with two lending banks in which the lenders agreed to waive certain principal and interest due by the Concordia. As a result, a gain from debt restructuring of approximately MOP73.0 million was recognised. Penalty interest of approximately MOP12.7 million in respect of an overdue land lease premium of approximately MOP140.8 million owed to the Government of Macau for year ended 31st December, 2003 was included in the administrative expenses. Finance costs of approximately MOP94.8 million mainly represented the charge calculated at 14.4% over the loans from Concordia's shareholders and affiliates of a holding company. Loss for the year ended 31st December, 2003 was MOP40.4 million.

BORROWING AND GEARING

As at 31st December, 2003, total borrowings amounted to MOP1,668.4 million which included bank loans of MOP138.7 million. In accordance with the debt restructuring agreements entered into between Concordia and the lending banks during the year, among other matters, the lenders agreed to cease charging interest on the outstanding principal of which MOP20.6 million was repayable in 2004 while another MOP118.1 million should be repaid in full by March 2006. Other borrowings included loans from shareholders of approximately MOP1,236.1 million and affiliates of the holding company approximately MOP293.6 million, all of which had no fixed terms of repayment.

Except for certain bank loan of MOP58.7 million which was denominated in Hong Kong dollars, all the borrowings were denominated in Macau Patacas.

Due to the expiry of the land lease in 2000, all unamortised cost in relation to the land lease had been written off which resulted in a substantial deficit of approximately MOP1,656.9 million. As at 31st December, 2003, there was a net deficiency in shareholders' fund of approximately MOP1,843.1 million. The gearing ratio, calculated with reference to total liabilities of MOP1,887.8 million and total assets of MOP44.7 million, is approximately 42.2.

2. FINANCIAL AND TRADING PROSPECT OF THE GROUP, ORIENT TOWN AND CONCORDIA

(a) The Group

As mentioned in the 2004-2005 annual report and the 2005-2006 interim report, the Group has been actively exploring business opportunities with primary focus on property development and investment. In addition to the Acquisition, the Group has entered into the Everight Acquisition to acquire the entire issued share capital of Everight which involves two golf club operations and certain property interests in the PRC for a total consideration of HK$140 million. The Group is open for other potential investments which fit the Group's expansion strategy.

After Completion and Everight Completion, the property development in the PRC and Macau is expected to accelerate the future growth of the Enlarged Group. On the other hand, the Group will also extend its principal activities to golf resort and hotel business, which will widen and diversify the recurring source of revenue of the Enlarged Group.

(b) Orient Town and Concordia

Upon Completion and completion of the Concordia Acquisition, Concordia will become an indirect subsidiary of Orient Town. Since Orient Town and its existing subsidiaries are newly incorporated for the designated purpose to acquire the investment in Concordia, they have no other business activities.

The core business of Concordia is holding of the Property, the lease of which expired in 2000. The legal adviser of the Company in respect of Macau law is of the view that the Government of Macau will grant the Renewal to Concordia, subject to the settlement of overdue land premium, interest accrued thereon and additional premium payable on renewal. Upon detailed investigation by the legal adviser of the Company in respect of Macau law, no matter, event or circumstance or impediment (whether legal or otherwise) is noted which may hinder, affect or delay Concordia from obtaining the Renewal. In light of the legal opinion from the Company's Macau legal adviser and the latest progress of negotiation with the Government of Macau, the Directors are optimistic on the Renewal which is expected to be obtained within six months upon submission of the settlement proposal and the development plan.

The total gross area of the Property is 208,490m^2 with a total construction site area of 55,652m^2. It is preliminarily planned that luxurious residential properties including service apartments with carparks and club house facilities of gross saleable area of approximately 600,000m^2 will be built on the site by phases principally for sale. Most of the construction cost is expected to be financed by banking facilities. The development plan is in conceptual design stage and has not been submitted to the Government of Macau.

Due to the recent opening up of the casino business, tourism in Macau is enjoying a rapid growth which in turn boosts its economy in various sectors. It is generally anticipated that there will be a significant rise in the future population of Macau, which includes certain number of expatriates of the high income cluster. The Macau property market has been strong on all sectors, including residential, shops, office, hotels and industrial properties. In this respect, quality residential units, which are currently of limited supply in Macau, will suit the increasing demand for better living conditions of the Macau residents in line with the ongoing improvement of their household income. The Directors believe that the investment in Concordia will contribute a substantial return to Orient Town.

3. STATEMENT OF INDEBTEDNESS

(a) Borrowings

As at the close of business on 31st March, 2006, being the latest practicable date for the purpose of ascertaining certain information relating to this indebtedness statement, the Enlarged Group (including Everight Group) had the following borrowings:

	Notes	The Group HK$'000	Everight Group HK$'000	Enlarged Group HK$'000
Secured bank loans	*(i)*	45,170	47,435	92,605
Obligations under finance leases	*(i)*	239	–	239
Unsecured other loans				
– minority shareholders of subsidiaries		–	6,388	6,388
– related parties	*(ii)*	–	29,946	29,946
– a director		–	4,030	4,030
– independent third parties		–	4,352	4,352
		–	44,716	44,716
		45,409	92,151	137,560

Notes:

(i) The bank loans and obligations under finance leases are secured by certain of the Enlarged Group's property, plant and equipment, interest in land use rights, properties for sale and bank deposits with an aggregate carrying value of approximately HK$157.8 million as at 31st March, 2006.

(ii) The unsecured loan due to a related party of HK$15.8 million was guaranteed by certain beneficial shareholders of Everight.

As at 31st March, 2006, an independent third party has given guarantee to a bank in respect of credit facilities granted to the Group of which HK$5.6 million was utilised.

(b) Debt securities

As at the close of business on 31st March, 2006, the Group had outstanding convertible notes of principal amount of HK$976,000,000, which are convertible into approximately 2,218.2 million Shares at the then conversion price of HK$0.44 per Share respectively. The carrying amount of the convertible notes on the balance sheet at 31st March, 2006 was HK$838,241,000.

(c) Contingent liabilities

At 31st March, 2006, the Enlarged Group had contingent liabilities in respect of a tax indemnity given on disposal of a subsidiary in previous year of HK$60 million.

Save as aforesaid and apart from intra-group liabilities and normal trade payables and bills payable, as at the close of business of 31st March, 2006, none of the companies of the Enlarged Group had any outstanding mortgages, charges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptances credits or any guarantees or other material contingent liabilities.

Except for the conversion of the convertible notes of principal amount and carrying amount on the balance sheet of HK$394.0 million and HK$339.2 million respectively, the directors have confirmed that there has been no material change in the indebtedness of the Enlarged Group since 31st March, 2006.

For the purpose of the above statement of indebtedness, foreign currency amounts have been translated into Hong Kong dollars at the approximate rates of exchange prevailing at the close of business on 31st March, 2006.

4. WORKING CAPITAL

The Directors are of the opinion that after taking into account the internal resources available, banking facilities and loan from other parties, the Group (including Everight Group) will have sufficient working capital for its normal business for the next 12 months from the date of this circular.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31st March, 2005 (being the date to which the latest published audited financial statements of the Company were made up).

The following is the text of a letter, a summary of valuation and valuation certificates prepared for inclusion in this circular received from RHL Appraisal Ltd., an independent valuer, in connection with its valuation as at 31st March, 2006 of the properties of the Group.

永利行評值顧問有限公司 | RHL Appraisal Ltd
Surveying Practices – Corporate Valuation and Property Consultancy
Lincense No.: C-015672

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29th May, 2006

The Directors
Cheung Tai Hong Holdings Limited
29th Floor, Paul Y. Centre
51 Hung To Road
Kwun Tong, Kowloon
Hong Kong

Dear Sirs,

Re: Valuation of Various Properties in Hong Kong and the People's Republic of China (the "PRC")

1. INSTRUCTIONS

In accordance with the instructions from **Cheung Tai Hong Holdings Limited** (referred to as the "**Company**") for us to value certain properties held by the Company or its subsidiaries (the Company and the subsidiaries are altogether referred to as the "**Group**") in Hong Kong and the PRC (the "**Properties**"), we confirm that we have carried out property inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing our opinion of the market value of the Properties as at 31st March, 2006 (referred to as the "**valuation date**").

2. BASIS OF VALUATION

The valuation is our opinion of the market value which we would define as intended to mean the estimated amount for which a Property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably prudently and without compulsion.

3. VALUATION METHODOLOGY

The properties which are owner-occupied or left vacant have been valued by the comparison method assuming sale with the benefit of immediate vacant possession and by reference to comparable sales evidence as available on the market.

For the property which is leased to third parties, we have also adopted the investment method on the basis of capitalisation of the net incomes during the unexpired terms of existing tenancies with due allowance for reversionary income potential.

4. ASSUMPTIONS

Our valuations have been made on the assumption that the owners sell the Properties in the market in their existing state without the benefit of deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangements which would serve to affect the values of the Properties.

Unless stated as otherwise, the Properties which are held by the owners on long term Government Leases and Land Use Rights Contracts, we have assumed that the owners have free and uninterrupted right to use the Properties for the whole of the unexpired term of their respective Government Leases or Land Use Rights Contracts. Vacant possession is assumed for properties owned and occupied by the owner.

Unless stated as otherwise, we have also assumed that the owners of the Properties have the rights to sell, mortgage, charge or otherwise dispose of them to any third party at a consideration without payment of any additional premium or substantial fee to government authorities.

Other special assumptions in relation to each property, if any, have been stated out in the footnotes of the valuation certificates for each corresponding property.

5. TITLE INVESTIGATION

We have been, in some instances, provided with extracts of title documents relating to the Properties. In addition, we have caused searches to be made at the Land Registry for the property in Hong Kong. However, we have not searched the original documents to verify ownership or to verify the existence of any lease amendments which do not appear on the copies handed to us. All documents have been used for reference only.

In respect of the properties located in the PRC, we have relied on the legal opinions given by the PRC legal advisers, 廣東東方金源律師事務所 (Jin & Partners Law Firm), to the Company, on the relevant laws and regulations in the PRC and on the nature of the owners' interests in the properties as at the valuation date.

6. LIMITING CONDITIONS

We have inspected the exterior of all properties valued and, where possible, the interior of the Properties but no structural surveys has been made. In the course of our inspection, we did not note any serious defects. We are not, however, able to report that the Properties are free from rot, infestation or any other structural defects. No tests were carried out on any of the services. All dimensions, measurements and areas are only approximates.

We have relied to a considerable extent on the information provided by the Company and have accepted advice given to us by the Company on such matters as statutory notices, easements, tenure, occupation, site and floor areas and in the identification of the Properties.

No allowance has been made in our valuation for any charges, mortgages or amount owing on the Properties nor for any expense or taxation which may be incurred in effecting a sale. We have assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We have also advised by the Company's confirmation that no material facts have been omitted from the information supplied.

7. REMARKS

We have valued the Properties in Hong Kong Dollars ($). The conversion of Renminbi (RMB) into Hong Kong Dollars is based on the factor of $1.00 to RMB1.034 with reference to the prevailing exchange rate on the valuation date.

Our valuations have been prepared in accordance with the HKIS Valuation Standards on Properties (1st Edition) and complied with all the requirements contained in the Listing Rules and Practice Note 12 issued by The Stock Exchange of Hong Kong Limited.

We enclosed herewith the summary of valuation and the valuation certificates.

Yours faithfully,
For and on behalf of
RHL Appraisal Ltd.

Tse Wai Leung
BSc MFin MRICS MHKIS RPS (GP)
Director

Sandra S.W. Lau
MFin MHKIS AAPI RPS (GP)
Director

Tse Wai Leung, who is a member of the Royal Institution of Chartered Surveyors, a member of the Hong Kong Institute of Surveyor, a Registered Professional Surveyor in General Practice and a qualified real estate appraiser in the PRC. Sandra S. W. Lau, who is a member of the Hong Kong Institute of Surveyors, an Associate of the Australian Property Institute and a Registered Professional Surveyor in General Practice. Both of them have over ten years' experience in valuation of properties in Hong Kong, in Macau and in the PRC.

SUMMARY OF VALUATION

Group I – Property interests held by the Group in Hong Kong

	Property	Capital value in existing state as at 31st March, 2006
1.	All Office Units on 1/F, Residential Units 5A, 6B, 7A, 7B, 8B, 9B, 9C, 10B, 10C, 11B, 11C, 12B, 12C, 13B, 13C, 15B, 21A, 22B, 22C, 23C, 25B, 25C, 26B, 27B Talon Tower No. 38 Connaught Road West Sheung Wan Hong Kong	HK$97,000,000
	Sub-total:	**HK$97,000,000**

Group II – Property interests held by the Group in the PRC

2.	Units 2301 and 2302 on 23rd Floor Block Xixia, Han Yuan Hedong Residential Area Mingyue 1st Road Dongshan District Guangzhou City Guangdong Province the PRC	HK$3,000,000
3.	Unit 403 on 4th Floor Ruikun Court, Ruian Garden Cuijing Road Xi District Zhongshan City Guangdong Province the PRC	HK$240,000
4.	Dong Fang Hong Factory Complex in High Technology Industrial Development Zone Shalang Town, Zhongshan City Guangdong Province the PRC	HK$2,070,000

	Property		Capital value in existing state as at 31st March, 2006
5.	Building and Land at No.2 Lian Road Composite Industrial Zone Haerbin Economic and Technology Development Area Haerbin City Heilongjiang Province the PRC		HK$5,660,000
		Sub-Total:	HK$10,970,000
		Grand-Total:	HK$107,970,000

VALUATION CERTIFICATE

Group I – Property interests held by the Group in Hong Kong

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 31st March, 2006
1. All office units on 1/F, Residential Units 5A, 6B, 7A, 7B, 8B, 9B, 9C, 10B, 10C, 11B, 11C, 12B, 12C, 13B, 13C, 15B, 21A, 22B, 22C, 23C, 25B, 25C, 26B, 27B Talon Tower No. 38 Connaught Road West Sheung Wan Hong Kong 497, 516, 520, 617/67361th share of lot and in Marine Lot No. 522, the Remaining Portion of Inland Lot No. 3267, the Remaining Portion of Inland Lot No. 7129, the Remaining Portion of Section B of Marine Lot No. 237, and the Remaining Portion of Inland Lot No. 3268 (the "Lot")	Talon Tower is a 25-storey residential/commercial building completed in 2002. The ground floor units are designated for retail/office uses, the 1/F and 2/F are designated for commercial uses, 3/F is used as the recreation room, 5/F to 28/F units are for residential uses (4/F, 14/F and 24/F are omitted). The property comprises all office units on the 1/F and a total of 24 residential units within the subject building. The total gross floor area of the property is approximately 1,936.36 square metres (20,843 square feet) including office area of 371.61 square metres (4,000 square feet). The property is held under Government Leases for a term of 999 years, commencing on 1st December, 1900. The total current government rent payable for the Lot is HK$32.8 per annum.	The office units on 1/F with a gross floor area of 371.61 square metres (4,000 square feet) is subject to a tenancy commencing on 15th February, 2005 at a monthly rent of HK$52,000. Residential Unit 9C with a gross floor area of 66.61 square metres (717 square feet) is subject to a tenancy commencing on 1st August, 2005 at a monthly rent of HK$10,000. Residential Unit 10C, 11C and 12C with a gross floor area of 66.61 square metres each (717 square feet) are subject to individual tenancies all commencing on 1st June, 2005 at a monthly rent of HK$10,000 each. All the above tenancies shall be terminated upon disposal of the concerned properties by the landlord. The remaining units are currently vacant.	HK$97,000,000

Notes:

1. The registered owner of the property is Master Super Development Limited, a wholly-owned subsidiary of the Company.

2. Occupation Permit No. HK39/2002 of the subject building was issued and registered vide Memorial No. UB8825786 dated 20th September, 2002.

3. Office Unit 5A is subject to a Second Legal Charge and a Legal Charge in aggregate of HK$15 million both in favor of Wing Hang Bank Limited vide Memorial Nos. 05021801070048 and 05021801070036 dated 4th February, 2005 and 4th February, 2005 respectively.

4. Office Units 9B, 9C, 10B, 10C, 11C, 12B, 12C, 13B, 15B, 21A, 22B, 22C, 23C, 25B, 25C, 26B and 27B are subject to a Mortgage and a Second Mortgage in aggregate of HK$39.5 million both in favour of Dah Sing Bank Limited vide Memorial Nos. UB9279603 and UB9471440 dated 28th June, 2004 and 24th January, 2005 respectively.

VALUATION CERTIFICATE

Group II – Property interests held by the Group in the PRC

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 31st March, 2006
2. Units 2301 and 2302 on 23rd Floor Block Xixia Han Yuan Hedong Residential Area Mingyue 1st Road Dongshan District Guangzhou City Guangdong Province the PRC	The property comprises two residential units on 23rd Floor of a 36-storey residential building completed in 2004. The total gross floor area of the property is approximately 274.69 square metres. The property is held for a term of 70 years commencing on 18th October, 2001.	As at the valuation date, the property was occupied by the owner as staff quarters.	HK$3,000,000

Notes:

1. As stipulated in two sets of Building and Land Ownership Certificate dated 21st October, 2005, the property is held by Guangzhou Tung Fong Hung Health Foods Company Limited (廣州市東方紅保健品有限公司), which is a wholly-owned subsidiary of the Company.

2. As revealed by two receipts both issued by 廣州市漢源房地產發展有限公司 on 8th September, 2005, a total sum of RMB2,512,395 of the purchase price has been paid by Guangzhou Tung Fong Hung Health Foods Company Limited (廣州市東方紅保健品有限公司) in acquiring the property.

3. The legal opinion from the PRC legal adviser to the Company on the property is summarised as follows:

   3.1 The property is held by Guangzhou Tung Fong Hung Health Foods Company Limited (廣州市東方紅保健品有限公司), which is a wholly-owned subsidiary of the Company;

   3.2 The property can be freely transferred, mortgaged or leased;

   3.3 The property is protected by law; and

   3.4 Up to the date of the PRC legal opinion, the property is free from any encumbrances.

VALUATION CERTIFICATE

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 31st March, 2006
3. Unit 403 on 4th Floor Ruikun Court Ruian Garden Cuijing Road Xi District Zhongshan City Guangdong Province the PRC	The property comprises a residential unit on 4th Floor of a 7-storey residential building completed in 2001. The gross floor area of the property is approximately 124.43 square metres. The property is held for a term expiring on 20th October, 2062.	As at the valuation date, the property was occupied by the owner as staff quarter.	HK$240,000

Notes:

1. As specified in the Land Use Rights Certificate dated 19th July, 2005, the land use rights in the property are held by Exalt Investment Limited (顯揚投資有限公司), a wholly-owned subsidiary of the Company, for a term expiring on 20th October, 2062.

2. As stipulated in the Building and Land Ownership Certificate dated 19th July, 2005, the property is held by Exalt Investment Limited (顯揚投資有限公司) for residential purpose.

3. The legal opinion from the PRC legal adviser to the Company on the property is summarised as follows:

   3.1 The property is held by Exalt Investment Limited (顯揚投資有限公司);

   3.2 The property can be freely transferred, mortgaged or leased;

   3.3 The property is protected by law; and

   3.4 Up to the date of the PRC legal opinion, the property is free from any encumbrances.

VALUATION CERTIFICATE

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 31st March, 2006
4. Dong Fang Hong Factory Complex in High Technology Industrial Development Zone Shalang Town Zhongshan City Guangdong Province the PRC	The property comprises a parcel of land with an area of 2,750.30 square metres on which a 2-storey factory building was completed in 1992. The gross floor area of the factory building is 2,958.50 square metres. The subject land is held for a term expiring on 11th November, 2043 for industrial use.	As at the valuation date, the property was occupied by the owner as a production plant.	HK$2,070,000

Notes:

1. As specified in a Land Use Rights Certificate dated 26th March, 1999, the subject land is held by Champion Palace Development Limited (冠堡發展有限公司), a wholly-owned subsidiary of the Company, for industrial use for a term expiring on 11th November, 2043.

2. As stipulated in the Building and Land Ownership Certificate dated 16th July, 1999, the property is held by Champion Palace Development Limited (冠堡發展有限公司).

3. The legal opinion from the PRC legal adviser to the Company on the property is summarised as follows:

   3.1 The property is held by Champion Palace Development Limited (冠堡發展有限公司);

   3.2 The property can be freely transferred, mortgaged or leased;

   3.3 The property is protected by law; and

   3.4 Up to the date of the PRC legal opinion, the property is free from any encumbrances.

VALUATION CERTIFICATE

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 31st March, 2006
5. Buildings and Land at No.2 Lian Road Composite Industrial Zone Haerbin Economic and Technology Development Area Haerbin City Heilongjiang Province the PRC	The property comprises a parcel of land with an area of 12,651.80 square metres on which a 3-storey office building, two single storey godown buildings and a 2-storey godown building are erected. They were completed in between 2001 to 2005. The total gross floor area of the buildings is 4,062.91 square metres which is broken down as follows:	As at the valuation date, the property was occupied by the owner as farm product storage and ancillary offices.	HK$5,660,000

Use	Storey	G.F.A. *(sq.m.)*
Office	3	1,269.87
Godown	1	980.56
Godown	2	1,010.48
Godown	1	802.00
Total:		4,062.91

The subject land is held for a term expiring on 18th April, 2052 for agricultural facility uses.

Notes:

1. As specified in a Land Use Rights Certificate dated 1st April, 2002, the subject land property is held by Heilongjiang Jumbo Ever Agriculture Co. Ltd. (黑龍江金保華農業有限公司), a wholly-owned subsidiary of the Company, for agricultural facility use for a term expiring on 18th April, 2052.

2. As stipulated in 3 sets of Building Ownership Certificate, the aforesaid buildings (except a single storey godown building with a gross floor area of 850 square metres) is held by Heilongjiang Jumbo Ever Agriculture Co. Ltd. (黑龍江金保華農業有限公司).

3. The legal opinion from the PRC legal adviser to the Company on the property is summarised as follows:

   3.1 The land use rights in the property is held by Heilongjiang Jumbo Ever Agriculture Co. Ltd. (黑龍江金保華農業有限公司) for a term of 50 years expiring on 18th April, 2052 for agricultural facility uses;

   3.2 The aforesaid building (except a single storey godown building with a gross floor area of 802 square metres) are held by Heilongjiang Jumbo Ever Agriculture Co. Ltd. (黑龍江金保華農業有限公司);

   3.3 The property (except a single storey godown building with a gross floor area of 802 square metres) can be freely transferred, mortgaged or leased;

   3.4 The property (except a single storey godown building with a gross floor area of 802 square metres) is protected by law;

   3.5 The Building and Land Ownership Certificate for the single storey godown building, which is newly constructed by Heilongjiang Jumbo Ever Agriculture Co. Ltd. (黑龍江金保華農業有限公司), with a gross floor area of 802 square metres is under application. Upon obtaining the Building and Land Ownership Certificate, the single storey godown building can be freely transferred, mortgaged or leased; and

   3.6 Up to the date of the PRC legal opinion, the land use rights in the property and the aforesaid buildings (except a single storey godown building with a gross floor area of 802 square metres) is free from any encumbrances.

The following is the text of a letter prepared for inclusion in this circular received from S.H. Ng & Co., Ltd. and Wai & Ko Real Estate Ltd., both being independent valuers, in connection with their valuation as at 31st March, 2006 of the Property.

29th May, 2006

The Directors
Cheung Tai Hong Holdings Limited
29th Floor, Paul Y. Centre
51 Hung To Road
Kwun Tong, Kowloon
Hong Kong

Dear Sirs,

ESTRADA DE SEAC PAI VAN, MACAU, CHINA (THE "PROPERTY")

We refer to the instructions from Cheung Tai Hong Holdings Limited (the "Company") for us to provide you with our opinion of the "Site Value" and the "Gross Development Value" of the above property in accordance with the development proposal prepared by LKPL Architects (the "Architect"), an architectural firm. We understand that our opinion of value will be included in the circular of the Company for the purpose of complying with the relevant requirements of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). We confirm that we have carried out inspection, made relevant enquiries and obtained such other further information as we consider necessary for the purpose of providing you with our opinion of the open market value of the Property as at today's date.

Our valuation of the Property or property interests is our opinion of the open market value which we would define as intended to mean "the best price at which the sale of an interest in a property might reasonably be expected to have been completed unconditionally for cash consideration on the date of valuation assuming:–

a) a willing seller;

b) that, prior to the date of valuation, there had been a reasonable period, having regard to the nature of the property and the state of the market, for the proper marketing of the interest, for the arrangement of price and terms and for the completion of sale;

c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;

d) that no account is taken of any additional bid by a prospective purchaser with a special interest; and

e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion".

Our valuations have been made on the assumption that the owner sells the Property or the property interests on the open market in its existing state without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the value of the Property.

We have valued the Property on an open market basis as a site ready for development in its existing state by reference to the comparable site sales in the vicinity of the Property. We have also carried out a residual valuation to counter check on our opinion of value. Residual Value is arrived at from the total Gross Sale Value and deducting from it the total cost of construction, including costs of financing, as well as any premium due and profit for the developer. We have carried out inspection of the Property. However, we have not carried out geotechnical survey on the site to verify the suitability of the soil for construction. We have assumed that the site is in normal condition and would not incur extraordinary cost to the development.

Our opinion of the Gross Sale Value of the Property is our estimated sale value of the development after completion. We have made reference to the achieved sales comparable and offers for similar types of developments in Coloane and Taipa.

As the Property is held by the owner on lease, we have assumed that the grantee or the user of the Property has free and uninterrupted rights to use and/or to assign the Property or property interests for the whole of the unexpired term of the lease. We have assumed that all consents, approvals and licenses from the Government of Macau for the legal use of the Property had been granted. According to our standard practice, we must state that we have not taken into account of any tax liabilities, which might affect the net profit or the value of the Property.

In valuing the property interest, we have complied with all the requirements contained in Chapter 5 to the Listing Rules and the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors effective from 1st January, 2005.

We would like to point out that the Government of Macau may charge a premium on land calculated in accordance with the regulations currently in force in Macau under the Administrative Regulation No. 16/2004. However it should be noted that, as with all new developments in Macau as well as those that are to be re-started for development, the final premium is subject to negotiation. This is particularly true of large projects, such as the subject development. We have assumed in our valuation that land premium, if required, had already been paid.

We have relied to a very considerable extent on the information given by the Company and have accepted advice given to us on such matters as statutory notices, easements, tenure, lettings, site and floor areas and all other relevant matters.

We have been supplied with the title documents relating to the Property. However, we have not searched the original documents to verify ownership or to verify any lease amendments, which may not appear on the copies handed to us. All documents and leases have been used for reference only and all dimensions measurements and areas are approximate only. No on site measurements have been taken.

No allowance has been made in our report for any charges, mortgages or amount owing on the Property nor for any expenses or taxation, which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Property is free from encumbrances, restrictions and out-goings of an onerous nature which could affect value.

We have no reason to doubt the truth and accuracy of the information provided to us by the Company. We consider that we have been provided with sufficient information to reach an informed view, and have no reason to suspect that any material information has been withheld.

Title and Ownership Particulars

The registered owner of the Property is Empresa De Fomento Industrial E Comercial Concórdia, S.A. ("Concordia"). (Chinese translation is Lun Sang Fat Chin Ku Fan Yao Han Cong Si and English translation is Concord Industrial and Commercial Development Enterprise Limited).

Under the terms of the Sino-Portugese Agreement, all property is considered to be held for a period of 50 years from 20th December, 1999, on which date the Territory reverted to the Chinese Sovereignty.

The Property is registered in the Boletim Official de Macau (Macau Government Gazette) by reference to a registration document dated 23rd November, 1993 to comprise a total of 14 lots as follows (in square metres):–

		Permitted Gross Floor Area			
Lot	**Site Area**	**Residential**	**Commercial**	**Entertainment**	**Equipment**
A	5,344	54,903	7,692	16,186	3,345
B	2,346	16,586	3,053	7,206	–
C	3,763	32,316	5,143	11,177	–
D	3,915	34,888	5,102	11,913	3,345
E	2,998	34,888	3,620	7,638	1,100
F	3,231	40,031	3,857	9,403	224
G	4,169	34,888	5,766	12,755	3,345
H	6,828	50,755	8,977	17,833	875
I	3,778	32,827	4,673	11,142	–
J	4,856	45,240	6,151	14,201	–
L	3,922	31,724	5,029	11,557	–
M	3,924	36,687	4,891	10,271	875
N	2,343	22,676*	–	2,343	–
O	4,235	38,715*	9,345	12,706	–

Note: N* for Hotel use and O* for Escritorio use.

According to the 50/81 Order, the annual ground rents for the "Property" are to be assessed at MOP $10 per sq.m. during the construction period. After completion and issue of the occupation permit to be assessed as follows (reassessed every 5 years):–

Residential – MOP $10 per sq.m. of gross area.
Commercial – MOP $15 per sq.m. of gross area.
Hotel – MOP $15 per sq.m. of gross area.
Office – MOP $15 per sq.m. of gross area.
Car Park – MOP $10 per sq.m. of gross area.

We have been supplied with the following documents (in Chinese and Portuguese) which relate to the land ownership, joint venture of the related parties and the development of the subject property interests, the salient points of which are mentioned as follows (translation only):–

The Tender Document

The tender document was prepared by Messrs. Leonel Alberto Alves, a Notary Public in Macau. The tender was for the 77.10% shares (by means of shares transfer) being held by Concordia together with 77.10% of "a first loan" for the amount of MOP $469,165,000 together with the related interest payment and 77.10% of "a third loan" for the amount of MOP $700,000,000 together with the related interest payment.

Documents included therein are:–

Attachment 1 – draft copy of shares sale/purchase and pre-transfer contract

Attachment 2 – copies of the lots grant and related amendments

Attachment 3 – copies of the written report issued by the Macau Government Gazette

Attachment 4 – copies of the "Concordia's report and Memorandum and Articles of Association"

Attachment 5 – copies of document dated 7th October, 2003 issued by the Transport and Public Works Department (No.446/8082.04/DSODEP/2003)

Legal Opinion

The legal opinion on the subject land lease whether should be a Renewal or a New Concession had been opined by Mr. Leong Hon Man (an Advogado) in his letter dated 25th May, 2006:–

In accordance with the practice of the Government of Macau in similar cases, the concessionaire should request a new concession, instead of renewal of the concession terminated in 2000.

There is no legislation on regulations about the premium policy in case of a new concession followed by the termination of the concession period. For other cases the Government of Macau should take into consideration the difference between a genuine new concession (40% of the expected profit for the land premium is chargeable) and a new concession as successive of an old concession, whose construction works have not been completed due to reasonable justifications.

Government of Macau has already expressed the position to negotiate the concession contract after full payment of the land premium and interest. The land premium will not be the same as any other new concession without any historical background.

Location of the Development

The development occupies a large site on the northwestern side of Estrada de Seac Pai Van, in the area called S. Francisco Xavier (Coloane). It is located on the western side of Coloane Island to the south of the recently formed Cotai district in Macau.

Coloane was originally the furthest island to the south of Macau proper and Taipa. It is linked to Taipa by the Taipa – Coloane Causeway and to Macau proper by the Macau – Taipa Bridge and the Ponte de Amizade Friendship Bridge, and the recently opened "all weather" bridge. It has recently been announced that a tunnel is to be constructed between Macau and Taipa but no fixed date has been given for its commencement.

Existing State and Condition

At the time of our inspection on 24th October, 2005, the site was lying wasted and grown with shrubs and with some dump waste found on various parts.

The site on the whole is low-lying and was formed, laid out and all services including roads, electricity and drainage were connected. The site is ready for immediate development in accordance with the format set out in the "Boletim Oficial de Macau" dated 15th December, 1993.

The Site

An irregular shaped site with a total gross area of 208,490 sq.m. (2,244,186 sq.ft.). It is formed by 14 smaller lots to provide a total construction site area of 55,652 sq.m. (5.5652 hectares) with the remainder of the area given over for use as roads and public facilities.

The Development Proposal

The proposed development stands on a site with a total gross site area of 123,525 sq.m. (including internal access roads). Lots A-J, and L-O amount to 55,652 sq.m., and Lots R-X amount to 28,572 sq.m.

We have been provided with a development proposal of the Property prepared by the Architect originally for Orient Town Limited (the developer) in September 2005. The development is planned to be developed in five (5) phases, to comprise 15 high-rise residential towers built over podium floors, and service apartments cum hotel over an egg podium 1 & 2. The total gross floor area for each phase is as follows (in sq.m.):–

	Phase I	**Phase II**	**Phase III**	**Phase IV**	**Total**
Residential	203,130 (1,500 units)	68,625 (500 units)	79,605 (600 units)	101,565 (750 units)	452,925 (3,350 units)
Commercial	5,220	43,442	23,527	2,278	74,467
Service Apartment	–	38,760	–	–	38,760
Hotel	–	23,460	–	–	23,460
Parking	74,400 (2,125 nos.)	17,597 (500 nos.)	19,092 (545 nos.)	46,440 (1,300 nos.)	157,529 (4,470 nos.)
Total	282,750	191,884	122,224	150,283	747,141

Note: Additional equipment area required is 13,109 sq.m.

The residential and commercial buildings are planned in a semi-circular shape around Phase V of the development, which is planned as a recreational area to provide facilities such as club-house, soccer field, basket-ball field, tennis courts and children playgrounds involving no building area.

We were informed that the project is currently at the overall scheme design stage. Foundation work is expected to commence in early 2007 with Phase I of the development is expected for completion by late 2008.

The Macau Property Market

The Macau property market has been strong on all sectors, that is residential, shops, office, hotels and industrial properties. This is due to the recent opening up of the casino business in Macau and the entrance of the Las Vegas type of casinos into the market.

Tourism figures rose 40% in 2004, and it is estimated that it will rise another 30% by the end of 2005. Once the "complete entertainment" facilities currently under construction in Cotai come into business (such as the City of Dreams and the Venetian Macau), then Macau can expect an even greater growth in tourism.

It is generally understood that the anticipated future population of Macau is expected to rise from the present population of 461,000 residents to approximately 1,000,000 which represents an increase of over 100% on the present population. With the increase in population in mind as well as the number of tourists expected, the route of the proposed mass transit system is already under consideration and a provisional route plan has been drawn up.

The general residential market has much improved due to the improved demand from the local residents for owner occupation and hope for further improvement in value in the future. Many properties were being sold for use as a "pied a terre" by the "high rollers" who wish to have a guaranteed place to stay when visiting Macau, while others are being sold to Hong Kong residents for retirement and to mainland Chinese who wish to obtain residents' rights in Macau.

The average increase in property prices over the past year was about 30% with higher increases than that in developments in Coloane. In respect of well-located residential and shop properties, increase in value of over 100% was achieved.

The situation seems set to continue within the foreseeable future with the Secretary for Transport and Public Works stating that "whilst the Cotai reclamation is relatively straight forward, future reclamations will be constrained by the need to preserve harbour landscapes and so on".

The Cotai area where the Property lies deserves special mention. It is estimated that some 13,000 hotelrooms will be available within a comparatively short time span, together with the other facilities including golf, go-kart and all the usual entertainment expected in a holiday resort with top line theater shows.

The Comparables

In the course of our valuation, we have been able to gather information from our enquiry with the developers, local agents and from the newspapers. We sourced information from published public documents, local licensed agents such as Midland Realty and Centaline, the Government servants by Mr. A.G. Wilkinson and transactions reported and recorded by other local agents. Some of the actual and asking sales of sites and the sales and rentals on the residential, commercial, serviced apartment units and hotels in the Taipa and Coloane districts (some of the building names are translation only) are as follows:–

Land Price

We have noted some land sales in various parts of Macau within year 2005 and 2006 and two property valuations carried out by qualified valuers for public document purposes. We have used these comparables as a reference to our opinion of the land value of the subject development.

Location	Approx. Land Area/ Gross Building Area	Asking/ Achieved Price *(HK$)*	Accommodation Value *(HK$/sq.m. or sq.ft.)* *(Note)*
Macau Victoria Hotel, Ha Sac Beach, Coloane	4,484 sq.m. (123 rooms) + 30 car parks (not yet complete)	$60,000,000 Land: $10,500,000 Construction: $39,640,000	$13,381 (asking)
Close to Century Hotel, Taipa	5,249 sq.m.	$45,000,000	$8,573
Land at Holland Garden, Macau Proper	27,406 sq.ft.	$235,000,000	$8,575
Reclamation Area close to Hyatt Hotel/ University, Taipa	929,023 sq.ft. (site area: 92,902 sq.ft.)	–	$4,306 (claimed)
Lot No. 21202, Estrada De Seac Pai Wan, S. Francisco Xavier, Coloane	A piece of land for non-industrial purposes. Site area is 9,045 sq.m. Plot ratio is 10 for domestic use and 15 for non-domestic use.	Valuation: as at 7th September, 2005 as stated in a public document for Cheuk Nang (Holdings) Limited was at $1,050,000,000.	$11,608 (for domestic use) or $7,740 (for non-domestic use)
City of Dreams site in Cotai, Taipa	Site with an area of 113,325 sq.m., with total gross floor area of 452,400 sq.m. (two 4-star hotels, one 5-star hotel, two residential/ serviced apartment towers, casino, retail complex, entertainment hall and theater etc.	Land Premium: $509,000,000 Land cost: $1,680,000,000 Valuation: as at 11th May, 2005 as stated in a public document for Melco Hotels was at $4,500,000,000.	$4,839 (based on land cost + premium) or at $9,947 (based on valuation)

Note: Asking price is an offer price not yet achieved. Claimed price is a price already achieved but with insufficient details of the transaction available.

Residential Properties (prices achieved in October 2005 – February 2006)

	Address of Property (-/L represents level)	Gross Area *(sq.ft.)*	Consideration *(HK$)*	Unit rate *(HK$/sq.ft.)*
1	Unit G L/L, Supreme City, Taipa	2,060	$3,450,000	$1,675
2	Unit D H/L, Super City, Taipa	2,060	$5,400,000	$2,621
3	Unit L M/L, Li Tao Mansion, Taipa	1,063	$1,920,000	$1,806
4	Unit D L/L, Tai Chung Hwa Plaza, Taipa	1,000	$1,500,000	$1,500
5	Unit H L/L, Pat Tat Garden, Taipa	700	$980,000	$1,400
6	Unit I H/L, Lee Yuen, Oceanland Garden, Taipa	1,100	$1,900,000	$1,727
7	Duplex, Scenic Garden, Taipa	3,600	$5,500,000	$1,527
8	The Pacifica Garden, Taipa	1,200-1,700	–	$1,500 up
9	Unit D L/L, Yang Garden, Oceanland Garden, Taipa	1,200	$1,680,000	$1,400
10	Unit H H/L, Lee Mau Mansion, Flower City, Taipa	1,422	$2,480,000	$1,744
11	Kingsville, Rue, Dr. Sun Yat Sin, Taipa	1,421-3,810	–	$3,000 up
12	Unit I M/L, Lee Yuen, Oceanland Garden, Taipa	1,011	$1,400,000	$1,307

Serviced Apartment (asking price and rentals quoted by agent)

Address/District	Gross Area	Asking Price *(HK$)*	Remarks
Pretty Court, Pak Lai Po Garden Block 3, Taipa	1,211 sq.ft.- 1,713 sq.ft. Total: 133,933 sq.ft.	$235,000,000 (including $20,000,000 renovation cost)	Recently completed 27-storey (5/F-27/F) serviced apartment building. Expected rental at HK$10-HK$12 per sq.ft. per month. Averaged sale price at HK$1,755 per sq.ft.

Commercial Properties (around third quarter of 2005)

Address/District	Gross Area	Asking/ Achieved Price/Rent *(HK$)*	Unit Rate *(HK$/sq.ft.)*
Shop C G/F, Kin Hwa San Chuen, Ha Sac Wan, Coloane	4,000 sq.ft.	$1,920,000	$480.00
Shop N G/F, Nam San Garden, Taipa	720 sq.ft.	$7,500 per month	$10.42
Shop B G/F, Tai Chung Hwa Plaza, Taipa	1,200 sq.ft.	$41,000 per month	$34.17
Bar City, Taipa	1,000 sq.ft.	$3,000,000	$3,000.00

Coloane, where the Property is situated, is a better location for high-class residential and hotel developments as compared to Taipa. Cotai in Coloane is a more recently promoted commercial/residential development area in Macau. However, there are only few developments in Cotai, and therefore only limited number of property transactions were concluded. We have therefore also referred to some more recent property developments and their transacted prices in Taipa for reference purposes.

Carpark Transactions

Carparks are mostly transacted between HK$130,000 to HK$250,000 each, dependent on the floor level and location.

Building Costs

The building costs on various components of the proposed development are extracted from the quarterly price index prepared by Messrs. Levett and Bailey Quantity Surveyors Ltd ("Levett & Bailey"), a quantity surveyor firm. The construction costs are based on prices obtained by competitive tendering for lump sum fixed price contracts with a normal contract period and are based on normal advice be sought.

	High Quality *(MOP/sq.m.)*	Medium Quality *(MOP/sq.m.)*	Ordinary Quality *(MOP/sq.m.)*
Office	$8,900-$11,600	$7,500-$9,000	$6,100-$7,900
Residential	$6,300-$8,300	$5,100-$6,700	$4,300-$5,300

Hotel (including furniture, fittings and equipment)

5-star between MOP $14,500-MOP $17,500 per sq.m.

4-star between MOP $11,300-MOP $13,500 per sq.m.

Car parks with 2 basement levels between MOP $4,200 to MOP $5,800 per sq.m.

The Valuation

We are instructed to provide our opinion on the "Site Value" and on the "Gross Development Value" of the Property in accordance with the development magnitude as permitted under the original land grant (as more clearly stated in the paragraph headed "Title and Ownership Particulars" above). Bearing in mind the above our opinion of value are as follows:–

Gross Sale Value

The "Gross Sale Value" is the total aggregate sale value of the development assuming to be completed and available for sale as at the date of valuation. It is arrived at on the assumption that all floor areas available for sale were sold at the date of valuation on strata title basis. Our opinion of the 'Gross Sale Value' on each component of the development is made by reference to recent comparable transactions and offers for similar type of properties in the vicinity of the development.

We understand that the development will be built in five phases, however for the purpose of assessment we have assumed that the sale prices on the various components of the development will be stable throughout the development period. The estimated 'Gross Sale Value' of development is as follows:–

		HK$
Residential (High Quality) – 452,925 sq.m. at $16,500 per sq.m.	=	7,473,000,000
Commercial – 74,467 sq.m. at $38,000 per sq.m.	=	2,829,746,000
Office – 38,760 sq.m. at $8,600 per sq.m.	=	333,336,000
Hotel – 23,460 sq.m. (assumed a 380 room 4-star hotel at $1,500,000 per room)	=	570,000,000
Carparks – 157,529 sq.m. (nos. 4,470) at $200,000 per carpark	=	894,000,000
Total Value	=	12,100,082,000
Say	:	HK$12,100,000,000

Note: The sale prices of residential unit, commercial unit, office unit and carparks used above are arrived at with reference to the comparables set out above having taken into account of the quality of the development, the anticipated population in the neighbourhood of the development and the commercial norm. Such sale prices generally fall within the mid range of the prices represented by the comparables.

The sale prices of hotel room are principally based on cost of construction as there were hardly any hotel transactions in Macau.

Site Value

We have arrived at our opinion of the open market value of the Property by means of direct comparison method from the available recorded land sales and by reference to the valuations provided by professional valuers in two public documents.

However, we are mindful of the fact that it is not easy to confirm the exact detail of the land sales in Macau due to the land registration system and the practices etc. We have therefore also made reference to the 'residual method' of valuation in order to cross check our opinion of the value of the Property. 'Residual Value' is the remaining value after deduction of all costs, fees, finance charges and possible developer's profit incurred in the construction of the development from the 'Gross Sale Value' of the entire development.

Residual Valuation Parameters:–

Cost of construction: based on the costs of construction advised by a practising architect in Macau and by reference to. Levett & Bailey's quarterly average costs.

Professional fees: taken at 6% on costs of construction, to include architect, engineers, land surveyor and quantity surveyor fees.

Finance charge taken at 7.5% p.a. (current prime lending rate) for 1/2 of 3 years (normal construction period).

Developer's profit taken at 15% on gross development value (in line with developer's current expectation).

Present value of residual site taken at 7.5% for 3 years.

	HK$
The estimated Gross Sale Value	12,100,000,000
Less: The estimated costs of construction (including finance charges, professional fees and developer's profit but excluding tax and Government premium)	7,840,000,000
	4,260,000,000
Present value 7.5% for 3 years	0.8049
Residual Site Value :	3,428,874,000
	(say : HK$3,429,000,000)

Opinion of Value

Bearing in mind the above our opinion of open market value of the Property (1) as a site ready for development after payment of land premium and (2) the total gross sale value after completion in accordance with the permitted development magnitude described and mentioned above and assuming available for sale with the benefit of vacant possession as at 31st March, 2006 are as follows (before tax):–

Clear Site Value:–

HK$3,429,000,000 (Hong Kong Dollars Three Billion Four Hundred and Twenty Nine Million Only). 77.10% value is HK$2,643,759,000 (Hong Kong Dollars Two Billion Six Hundred and Forty Three Million and Seven Hundred and Fifty Nine Thousand Only).

Gross Sale Value:–

HK$12,100,000,000 (Hong Kong Dollars Twelve Billion One Hundred Million Only). 77.10% value is HK$9,329,100,000 (Hong Kong Dollars Nine Billion Three Hundred and Twenty Nine Million and One Hundred Thousand Only).

Yours faithfully,
For and on behalf of
Wai & Ko Real Estate Ltd.
A. G. Wilkinson
FRICS, FHKIS, FCIArb, CRA

Yours faithfully,
For and on behalf of
S.H. Ng & Co., Ltd.
Ng Sai Hee
FHKIS, MCIREA, RPS (GP)

Mr. A.G. Wilkinson is a Fellow of the Royal Institution of Chartered Surveyor and a Fellow of The Hong Kong Institute of Surveyors. He has over 50 years worldwide experience in valuation and is a practising valuation surveyor stationed in Macau since 1991 up to the present.

Mr. S.H. Ng is a Fellow of The Hong Kong Institute of Surveyors, a Registered Professional Surveyor and is an approved valuer under the Hong Kong Stock Exchange list of valuers. He has over 30 years valuation experience in Hong Kong, Macau, China and South East Asia and is a practising valuation surveyor stationed in Hong Kong.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

(a) Interests of Directors or chief executive of the Company

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") adopted by the Company, to be notified to the Company and the Stock Exchange, were as follows:

Interest in the Shares and underlying Shares under equity derivatives (as defined in Part XV of the SFO)

Name of Director	Long position/ Short position	Capacity	Number of Shares held	Number of underlying Shares (under equity derivatives of the Company)	Aggregate interest	Approximate percentage of issued share capital of the Company
Ho Hau Chong, Norman ("**Mr. Ho**")	Long position	Interest of controlled corporation	102,272,726 *(Note)*	113,636,363 *(Note)*	215,909,089	14.14

Note: Each of Mr. Ho, a non-executive Director, and his brother, Mr. Ho Hau Hay, Hamilton, owns 50% interest in Kopola Investment Company Limited ("**Kopola**") which beneficially owns 102,272,726 Shares and HK$50 million 2005 August Note.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or (b) were required, pursuant to section 352 of the SFO to be entered in the register referred to therein, or (c) were required, pursuant to the Model Code adopted by the Company, to be notified to the Company and the Stock Exchange.

(b) Interest of Shareholders discloseable pursuant to the SFO

As at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company based on the register maintained by the Company pursuant to Part XV of the SFO, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Enlarged Group (including Everight Group) or had any option in respect of such capital:

(i) Interests in the Shares

Name of Shareholder	Long position/ Short position	Capacity	Number of Shares held	Approximate percentage of issued share capital of the Company
Loyal Concept Limited ("**Loyal Concept**")	Long position	Beneficial owner	356,137,272 *(Note 1)*	23.32
Hanny Magnetics (B.V.I.) Limited ("**Hanny Magnetics**")	Long position	Interest of controlled corporation	356,137,272 *(Note 1)*	23.32
Hanny Holdings Limited ("**Hanny Holdings**")	Long position	Interest of controlled corporation	356,137,272 *(Note 1)*	23.32

Name of Shareholder	Long position/ Short position	Capacity	Number of Shares held	Approximate percentage of issued share capital of the Company
Kopola	Long position	Beneficial owner	102,272,726 *(Note 2)*	6.70
Mr. Ho	Long position	Interest of controlled corporation	102,272,726 *(Note 2)*	6.70
Ho Hau Hay, Hamilton	Long position	Interest of controlled corporation	102,272,726 *(Note 2)*	6.70
Shepherd Investments International, Ltd. ("**Shepherd**")	Long position	Beneficial owner	96,854,727 *(Note 3)*	6.34
Stark Asia Master Fund, Ltd. ("**Stark Asia**")	Long position	Beneficial owner	61,363,636 *(Note 3)*	4.02
Stark International	Long position	Beneficial owner	37,726,090 *(Note 3)*	2.47
Stark Investments (Hong Kong) Limited ("**Stark HK**")	Long position	Investment manager	207,602,727 *(Note 3)*	13.60
OZ Asia Master Fund, Ltd. ("**OZ Asia**")	Long position	Beneficial owner	22,306,818 *(Note 4)*	1.46
OZ Master Fund, Ltd. ("**OZ Master**")	Long position	Beneficial owner	91,215,909 *(Note 4)*	5.97
OZ Management, L.L.C. ("**OZ Management**")	Long position	Investment manager	113,522,727 *(Note 4)*	7.44
Gandhara Master Fund Ltd. ("**Gandhara**")	Long position	Investment manager	145,000,000	9.50

(ii) Interests in the underlying Shares under equity derivatives (as defined in Part XV of the SFO)

Name of Shareholder	Long position/ Short position	Capacity	Number of underlying Shares (under equity derivatives of the Company)	Approximate percentage of issued share capital of the Company
Loyal Concept	Long position	Beneficial owner	1,135,714,285 *(Note 1)*	74.39
Hanny Magnetics	Long position	Interest of controlled corporation	1,135,714,285 *(Note 1)*	74.39
Hanny Holdings	Long position	Interest of controlled corporation	1,135,714,285 *(Note 1)*	74.39
Kopola	Long position	Beneficial owner	113,636,363 *(Note 2)*	7.44
Mr. Ho	Long position	Interest of controlled corporation	113,636,363 *(Note 2)*	7.44
Ho Hau Hay, Hamilton	Long position	Interest of controlled corporation	113,636,363 *(Note 2)*	7.44
Shepherd	Long position	Beneficial owner	97,159,091 *(Note 3)*	6.36
Stark Asia	Long position	Beneficial owner	58,295,454 *(Note 3)*	3.82
Stark International	Long position	Beneficial owner	38,863,637 *(Note 3)*	2.55
Stark HK	Long position	Investment manager	215,909,091 *(Note 3)*	14.14
OZ Asia	Long position	Beneficial owner	95,746,363 *(Note 4)*	6.27
OZ Master	Long position	Beneficial owner	122,875,000 *(Note 4)*	8.05

Name of Shareholder	Long position/ Short position	Capacity	Number of underlying Shares (under equity derivatives of the Company)	Approximate percentage of issued share capital of the Company
OZ Management	Long position	Investment manager	219,051,363 *(Note 4)*	14.35
PMA Capital Management Limited	Long position	Investment manager	100,000,000	6.55
Harmony Investment Fund Limited	Long position	Investment manager	114,285,714	7.49
Gandhara	Long position	Investment manager	357,142,857	23.39

Notes:

1. Hanny Holdings and Hanny Magnetics were taken to have an interest in 356,137,272 Shares and HK$330 million 2005 August Note held by Loyal Concept since Loyal Concept is a wholly-owned subsidiary of Hanny Magnetics which, in turn, is a wholly-owned subsidiary of Hanny Holdings, shares of which are listed on the Stock Exchange.

2. Each of Mr. Ho, a non-executive Director, and his brother, Mr. Ho Hau Hay, Hamilton owns 50% interest in Kopola which beneficially owns 102,272,726 Shares and HK$50 million 2005 August Note.

3. Stark HK was taken to have an interest in 207,602,727 Shares and HK$95 million 2005 August Note held by Centar Investments (Asia) Ltd., Shepherd, Stark Asia and Stark International.

4. OZ Management was taken to have an interest in 113,522,727 Shares and HK$67,050,000 2005 August Note held by OZ Asia and OZ Master.

Save as disclosed above, as at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company based on the register maintained by the Company pursuant to Part XV of the SFO, no other persons (not being a Director or chief executive of the Company) had, or deemed to have, any interest or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, nor were there any persons, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Enlarged Group (including Everight Group) or held any option in respect of such capital.

(c) Competing interests

As at the Latest Practicable Date, interests of the Directors and their respective associates in competing businesses were as follows:

Name of Director	Name of company	Nature of competing business	Nature of interest
Cheung Hon Kit ("**Mr. Cheung**")	Wing On Travel (Holdings) Limited and its subsidiaries	Property business in the PRC	As the managing director
	A non wholly-owned subsidiary of China Strategic Holdings Limited	Property business in the PRC	As a director
	China Development Limited	Property investment in Hong Kong	As a director and shareholder
	Artnos Limited	Property investment in Hong Kong	As a director and shareholder
	Co-Forward Development Ltd	Property investment in Hong Kong	As a director and shareholder
	Orient Centre Limited	Property investment in Hong Kong	As a shareholder
	Super Time Limited	Property investment in Hong Kong	As a director and shareholder
	Asia City Holdings Ltd	Property investment in Hong Kong	As a director and shareholder
	Supreme Best Ltd	Property investment in Hong Kong	As a shareholder
Mr. Ho	Miramar Hotel and Investment Company, Limited and its subsidiaries	Property investment, property development and sales	As a director

Name of Director	Name of company	Nature of competing business	Nature of interest
Lo Lin Shing, Simon ("**Mr. Lo**")	The Kwong Sang Hong International Limited and its subsidiaries	Property development, sales of properties and property leasing	As a director
	Besteam Limited and its subsidiaries	Property development and property investment	As a director
	New World Cyberbase Limited and its subsidiaries	Property investment	As the chairman and an executive director

Mr. Cheung is the chairman of the Company who is principally responsible for the Group's strategic planning and management of the operations of the Board. His role is clearly separated from that of the managing Director, Mr. Chan Fut Yan, who is principally responsible for the Group's operation and business development. Mr. Ho and Mr. Lo, being non-executive Directors, do not participate in the daily management of the Group.

In addition, any significant business decision of the Group is to be determined by the Board. A Director who has interest in the subject matter being resolved will abstain from voting. In view of the above, the Board considers that the interests of Mr. Cheung, Mr. Ho and Mr. Lo in other companies will not prejudice their capacity as Directors nor compromise the interest of the Company and the Shareholders.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or their respective associates was interested in any business apart from the Group's businesses which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

(d) Other interests

The Board confirmed that none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Group (including Everight Group).

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been, since 31st March, 2005 (being the date to which the latest published audited accounts of the Company were made up), (i) acquired or disposed of by; or (ii) leased to; or (iii) proposed to be acquired or disposed of by; or (iv) proposed to be leased to, any member of the Group (including Everight Group).

3. MATERIAL CONTRACTS

The following are contracts (not being contracts entered into in the ordinary course of business) entered into by the Group (including Everight Group) within the two years preceding the Latest Practicable Date and which are or may be material:

1. the sale and purchase agreement dated 19th March, 2004 entered into between China Strategic Holdings Limited as vendor and Cheung Tai Hong (B.V.I.) Limited, a wholly-owned subsidiary of the Company, as purchaser in relation to the acquisition of 100% equity interest in Tung Fong Hung Investment Limited at a consideration of HK$42 million of which HK$35.5 million was paid in cash and HK$6.5 million by the issue of a promissory note;

2. the sale and purchase agreement dated 19th March, 2004 entered into between Chelson Limited as vendor and Cheung Tai Hong (B.V.I.) Limited, a wholly-owned subsidiary of the Company, as purchaser and the Company as guarantor in relation to the acquisition of 50% equity interest in Pacific Wins Development Ltd. at a consideration of HK$28 million of which HK$6.5 million was paid in cash, HK$6.5 million by the issue of a promissory note and HK$15 million by the issue of a convertible note;

3. the sale and purchase agreement dated 16th July, 2004 entered into between Fountain Property Limited, a wholly-owned subsidiary of the Company as vendor, and Earn City Limited as purchaser, in relation to the disposal of the food court on 2nd Floor, Hunghom Commercial Centre, Nos. 37-39 Ma Tau Wai Road, Kowloon, Hong Kong at a cash consideration of HK$5 million;

4. the placing agreement dated 15th December, 2004 entered into between the Company and Tai Fook Securities Company Limited as placing agent in relation to the issue of the 2005 February Note;

5. the placing agreement dated 15th December, 2004 entered into between the Company and Tai Fook Securities Company Limited as placing agent in relation to the placing of 150 million new Shares at HK$0.4 per Share by the Company;

6. the placing agreement dated 28th December, 2004 entered into between the Company and Tai Fook Securities Company Limited as placing agent in relation to the placing of 25 million new Shares at HK$0.81 per Share by the Company;

7. seven subscription agreements dated 8th April, 2005 entered into between the Company and each of the seven subscribers respectively whose funds were managed by global asset management firms in relation to HK$356 million of the 2005 August Note;

8. the subscription agreement dated 20th April, 2005 entered into between the Company and Kopola as subscriber in relation to HK$150 million of the 2005 August Note;

9. the subscription agreement dated 20th April, 2005 entered into between the Company and Loyal Concept as subscriber in relation to HK$450 million of the 2005 August Note;

10. the placing agreement dated 20th April, 2005 entered into between the Company and Tai Fook Securities Company Limited as placing agent in relation to HK$44 million of the 2005 August Note;

11. the sale and purchase agreement dated 2nd February, 2006 entered into between Green Label Investments Limited, Concord Link Development Limited, Magnum Company Limited and Mr. Ku Yuet Kan, Tony as vendors, New Smarten Limited, a wholly-owned subsidiary of the Company as purchaser, Mr. Chan Jink Chou, Eric and Mr. Lai Tsan Tung, David as guarantors, in relation to the Everight Acquisition;

12. the Acquisition Agreement;

13. the Deed of Guarantee;

14. the conditional subscription agreement dated 27th April, 2006 entered into between the Company and Hanny Holdings as subscriber in relation to HK$270 million of the 2006 Note;

15. four conditional subscription agreements dated 27th April, 2006 entered into between the Company and each of Centar Investments (Asia) Ltd., Shepherd, Stark Asia and Stark International as subscribers in relation to an aggregate of HK$123 million of the 2006 Note;

16. the conditional subscription agreement dated 27th April, 2006 entered into between the Company and ITC Corporation Limited as subscriber in relation to HK$30 million of the 2006 Note;

17. 11 conditional subscription agreements dated 27th April, 2006 entered into between the Company and 11 subscribers which are funds managed by global asset management firms as subscribers in relation to HK$577 million of the 2006 Note; and

18. the placing agreement dated 27th April, 2006 entered into between the Company and CLSA Limited as placing agent in relation to the placing of 833,332,000 new Shares at HK$0.60 per Share by the Company.

4. CLAIMS AND LITIGATIONS

As at the Latest Practicable Date, no member of the Group (including Everight Group) was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Group (including Everight Group).

5. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have been named in this circular or have given opinions or advice which are contained in this circular:

Name	Qualification
Deloitte Touche Tohmatsu ("**DTT**")	Certified public accountants
廣東東方金源律師事務所 (Jin & Partners Law Firm, "**Jin & Partners**")	PRC lawyers
Leong Hon Man	Macau lawyer
RHL Appraisal Ltd. ("**RHL**")	Professional valuers
S.H. Ng & Co., Ltd. ("**S.H. Ng & Co**")	Professional valuers
Wai & Ko Real Estate Ltd. ("**Wai & Ko**")	Professional valuers

Each of DTT, Jin & Partners, Leong Hon Man, RHL, S.H. Ng & Co and Wai & Ko has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter or references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of DTT, Jin & Partners, Leong Hon Man, RHL, S.H. Ng & Co and Wai & Ko had any shareholding, directly or indirectly, in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, none of DTT, Jin & Partners, Leong Hon Man, RHL, S.H. Ng & Co and Wai & Ko had any direct or indirect interests in any assets which had been, since 31st March, 2005 (being the date to which the latest published audited accounts of the Company were made up), (i) acquired or disposed of by; or (ii) leased to; or (iii) proposed to be acquired or disposed of by; or (iv) proposed to be leased to, any member of the Group (including Everight Group).

6. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with the Company or any member of the Group which does not expire or is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the Company's principal place of business in Hong Kong at 29/F., Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong, from the date of this circular and up to and including 15th June, 2006:

- the memorandum and bye-laws of the Company;
- the memorandum and articles of association of Everight;
- the material contracts referred to in the section headed "Material contracts" in this appendix;
- the published audited consolidated financial statements of the Company for each of the two financial years ended 31st March, 2005;
- the circular of the Company dated 23rd May, 2005 in respect of the issue of the 2005 August Note;
- the interim report of the Company for the six months ended 30th September, 2005;
- the audited consolidated financial statements of Everight Group for the three years ended 31st December, 2005;
- the Everight Circular;
- the accountants' report of Orient Town Group, the text of which is set out in Appendix I to this circular;
- the accountants' report of Concordia, the text of which is set out in Appendix II to this circular;
- the accountants' report on the unaudited pro forma financial information on Enlarged Orient Town Group and the Enlarged Group as set out in Appendix V to this circular;
- valuation reports of properties of the Enlarged Group, the text of which are set out in Appendix VII to this circular; and
- the letters of consent referred to under the section headed "Experts and consents" in this appendix.

8. MISCELLANEOUS

- The qualified accountant of the Company is Cheung Chi Kit, *CPA, A.C.S., A.C.I.S.*

- The company secretary of the Company is Yan Ha Hung, Loucia, *MBA, A.C.S., A.C.I.S.*

- The registered office of the Company is at Clarendon House, Church Street, Hamilton HM 11, Bermuda.

- The Company's principal place of business in Hong Kong is situated at 29/F., Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong.

- The branch share registrars and transfer office of the Company is Secretaries Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

- The English text of this circular prevails over the Chinese text.

祥泰行集團有限公司*
CHEUNG TAI HONG HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 199)

NOTICE IS HEREBY GIVEN that a special general meeting of Cheung Tai Hong Holdings Limited (the "**Company**") will be held on Thursday, 15th June, 2006 at 11:00 a.m. at Conference Room, 11/F., Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong, for the purpose of considering and, if thought fit, passing, with or without modification, the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT**:

(a) the sale and purchase agreement dated 29th March, 2006 (the "**Acquisition Agreement**", a copy of which has been produced to this meeting marked "A" and initialled by the chairman of the meeting for the purpose of identification) entered into between Million Orient Limited ("**Million Orient**"), a wholly-owned subsidiary of the Company as purchaser and Pacific Wish Limited (the "**Vendor**") as vendor in relation to (i) the sale and purchase of 280 shares of HK$1.00 each in the share capital of Orient Town Limited ("**Orient Town**") (representing 40% of the issued share capital of Orient Town); (ii) the advance of a shareholder's loan in the amount of HK$885 million by Million Orient to Orient Town; and (iii) the grant of an option by the Vendor to Million Orient in relation to acquisition of 70 shares of Orient Town held by the Vendor, the performance and implementation of the transactions contemplated under the Acquisition Agreement be and are hereby confirmed, approved and ratified; and

(b) the directors of the Company be and are hereby authorised to do all such acts and things and execute all such documents as they in their absolute discretion consider necessary or expedient to give effect to the Acquisition Agreement and the implementation of all transactions contemplated thereunder."

Yours faithfully,
By order of the Board
Cheung Tai Hong Holdings Limited
Yan Ha Hung, Loucia
Company Secretary

Hong Kong, 29th May, 2006

* *For identification purpose only*

Registered office:
Clarendon House
Church Street
Hamilton HM 11
Bermuda

Principal place of business in Hong Kong:
29/F., Paul Y. Centre
51 Hung To Road
Kwun Tong, Kowloon
Hong Kong

Notes:

(1) A member entitled to attend and vote at the above meeting may appoint a proxy to attend and, on a poll vote on his behalf, and such proxy need not be a member of the Company. A form of proxy for use at the meeting is enclosed.

(2) In order to be valid, the form of proxy, together with any power of attorney or authority under which it is signed or a certified copy of that power of attorney or authority, must be deposited at the Company's branch share registrars and transfer office, Secretaries Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

(3) Completion and return of the form of proxy will not preclude a shareholder of the Company from attending and voting in person at the meeting convened or any adjournment thereof and in such event, the authority of the proxy shall be deemed to be revoked.

(4) In case of joint holders of any share, if more than one of such joint holders be present at any meeting, the vote of the senior who tenders a vote shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register in respect of the joint holding.

As at the date hereof, the board of directors of the Company comprises Mr. Cheung Hon Kit (Chairman) and Mr. Chan Fut Yan (Managing Director) as executive directors, Mr. Ho Hau Chong, Norman (Deputy Chairman) and Mr. Lo Lin Shing, Simon as non-executive directors, and Mr. Wong Chi Keung, Alvin, Mr. Kwok Ka Lap, Alva and Mr. Chui Sai Cheong as independent non-executive directors.