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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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**APPLIED DEVELOPMENT HOLDINGS LTD.**

**實力建業集團有限公司 \***

*(Incorporated in Bermuda with limited liability)*  
**(Stock Code : 519)**

### VERY SUBSTANTIAL DISPOSAL

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A notice convening a special general meeting of Applied Development Holdings Limited to be held at Kennedy Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Central, Hong Kong on 30 December 2008 (Tuesday) at 10:00 a.m. is set out on pages 96 to 97 of this circular. Whether or not shareholders are able to attend the meeting in person, they are advised to read the notice and complete the enclosed form of proxy in accordance with the instructions printed thereof as soon as possible and return it to the Company's head office and principal place of business at Units 3402-03, 34/F China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding such meeting. Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the meeting or any adjourned meeting if they so wish.

8 December 2008

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## DEFINITIONS

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

|                         |   |
|-------------------------|---|
| “Agreement”             | the agreement dated 3 November 2008 entered into between the Purchaser, and the Seller in relation to the disposal of the Sale Shares   |
| “AppliedLand”           | AppliedLand Limited, a company incorporated in Hong Kong and a wholly owned subsidiary of the Company   |
| “Board”                 | the board of Directors  |
| “BVI”                   | the British Virgin Islands  |
| “Company”               | Applied Development 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   |
| “Director(s)”           | the director(s) of the Company  |
| “Disposal”              | the disposal of the Sale Shares   |
| “Group”                 | the Company and its subsidiaries  |
| “Hong Kong” or “HK”     | the Hong Kong Special Administrative Region of the PRC  |
| “Hot Spring Property”   | a piece of land of approximately 9 hectares which includes property number 60004 in the Borough of San Felix, Province of Chiriqui, Panama  |
| “Latest Practical Date” | 3 December 2008 being the latest practicable date prior to the printing of this circular for ascertaining certain information for inclusion in this circular  |
| “Listing Rules”         | the Rules Governing the Listing of Securities on the Stock Exchange   |
| “Panama”                | the Republic of Panama  |
| “Panama Land”           | a piece of land of approximately 494 hectares which includes property numbers 41583, 41619, 4920, 4924, 4944, 4945, 4921, 4943, 4942, 4923, 4936, 4935, 6921, 1807, 20435, 33248 and 35039 in Boca Chica, District of San Lorenzo, Province of Chiriqui, Panama |
| “Panama Project”        | the Hot Spring Property and the Panama Land   |

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## DEFINITIONS

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|----------------------------|--|
| “Playa Grande Companies”   | Playa Grande Development and Playa Grande Hot Spring   |
| “Playa Grande Development” | Playa Grande Development Holdings Inc., a company incorporated in Panama and an indirectly wholly owned subsidiary of the Company  |
| “Playa Grande Hot Spring”  | Playa Grande Hot Spring Development Holdings, Inc, a company incorporated in Panama and an indirectly wholly owned subsidiary of the Company   |
| “PRC”                      | the People’s Republic of China, which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region and Taiwan  |
| “Purchaser”                | J&J Land Acquisitions and Development LLC, a company incorporated in the United States of America which is independent of the Company, its subsidiaries and their respective connected persons   |
| “Remaining Group”          | the Group excluding the Playa Grande Companies   |
| “Rodriguez Family”         | the family of Felipe Ariel Rodriguez, Eduardo Olmedo Cortes Altuna, Reyna Ines Rodriguez Wittgreen and Felipe Rodriguez Marin  |
| “Rodriguez Land”           | a total of approximately 5.5 hectares from the Panama Land, 2.5 hectares of which is within the golf residential area of the Panama Land, retained by the Rodriguez Family   |
| “Sale Shares”              | 2 fully paid ordinary shares of US\$100 each in the capital of Playa Grande Development Holdings Inc., representing the entire issued share capital of Playa Grande Development Holdings Inc., and 2 fully paid ordinary shares of US\$100 each in the capital of Playa Grande Hot Spring Development Holdings, Inc, representing the entire issued share capital of Playa Grande Hot Spring Development Holdings, Inc |
| “Seller”                   | AppliedLand  |
| “SFO”                      | the Securities and Futures Ordinance (Cap.571 of the laws of Hong Kong)  |
| “SGM”                      | the special general meeting of the Company to be held for the Shareholders to consider and, if thought fit, approve the Agreement and the transactions contemplated thereunder   |

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## DEFINITIONS

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|------------------|--|
| “Share(s)”       | share(s) of HK\$0.01 each in the share capital of the Company              |
| “Shareholder(s)” | holder(s) of the Shares  |
| “Stock Exchange” | the Stock Exchange of Hong Kong Limited                                    |
| “HK\$”           | Hong Kong dollars, the lawful currency of Hong Kong                        |
| “US\$”           | United States dollars, the lawful currency of the United States of America |
| “%”              | Percent  |

*Unless otherwise specified in this circular, sums in US\$ have been translated into HK\$ in this circular, for illustration only, at the rate of US\$1.00 to HK\$7.80. No representation is made that any amounts in US\$ or HK\$ could have been or could be converted at that rate or at any other rate.*

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## LETTER FROM THE BOARD

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**APPLIED DEVELOPMENT HOLDINGS LTD.**

**實力建業集團有限公司 \***

*(Incorporated in Bermuda with limited liability)*  
**(Stock Code : 519)**

*Executive Directors*

Mr. Hung Kin Sang, Raymond (*Managing Director*)  
Ms. Hung Wong Kar Gee, Mimi (*Chairman*)  
Mr. Hung Kai Mau, Marcus  
Mr. Fang Chin Ping

*Registered Office*

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

*Independent Non-executive Directors*

Mr. Lo Yun Tai  
Mr. Lun Tsan Kau  
Mr. Lam Ka Wai, Graham

*Head Office and Principal Place  
of Business:*

Units 3402-3, 34/F  
China Merchants Tower  
Shun Tak Centre  
168-200 Connaught Road Central  
Hong Kong

3 December 2008

*To the Shareholders*

Dear Sir/Madam,

## **VERY SUBSTANTIAL DISPOSAL**

### **INTRODUCTION**

### **THE AGREEMENT**

It was announced on 18 September 2008 that the Company signed a letter of intent in respect of the Disposal. In a further announcement dated 4 November 2008, it was announced that, among other things, after trading hours on 3 November 2008, the Seller, a wholly-owned subsidiary of the Company, entered into the Agreement pursuant to which the Purchaser agreed to purchase and the Seller agreed to sell the Sale Shares, representing the entire issued share capital in the Playa Grande Companies for an aggregate consideration of US\$39 million (approximately HK\$304.2 million) which shall be paid in cash on or before 30 December 2008. The Playa Grande Companies are the legal and beneficial owners of the Panama Project. The completion of the sale of the Sale Shares is conditional upon the result of the due diligence exercise on the Playa Grande Companies being to the satisfaction of the Purchaser, and on the passing by the Shareholders of all necessary resolutions at the SGM approving the Agreement and the transactions contemplated thereunder.

\* for identification purpose only

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## LETTER FROM THE BOARD

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As one of the relevant percentage ratios calculated under Chapter 14 of the Listing Rules in respect of the disposal of the Sale Shares exceeds 75%, the transactions contemplated under the Agreement constitute a very substantial disposal of the Company under the Listing Rules and is therefore subject to the approval by the Shareholders at the SGM. As the Purchaser is independent of the Company and its connected persons and no Shareholder has a material interest in the Agreement which is different from that of the other Shareholders, no Shareholder is required to abstain from voting in respect of the resolution to approve the disposal of the Sale Shares at the SGM.

The purpose of this circular is to provide Shareholders with, among other things, further details of the Agreement, information relating to the Group and the Purchaser, the notice of the SGM, a property valuation report on the Panama Project, and other information as required under the Listing Rules.

### THE AGREEMENT

**Date** : 3 November 2008

**Parties** : The Seller

The Purchaser

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, the Purchaser and its ultimate beneficial shareholder are independent of the Company, its subsidiaries and their respective connected persons.

### Due diligence

Pursuant to the Agreement, the Purchaser will have up to 30 December 2008 to conduct a due diligence investigation on the Playa Grande Companies and the Panama Project, to decide if the Panama Project is suitable for the Purchaser's development plans. If the result of the due diligence investigation is not to the Purchaser's satisfaction, the sale and purchase of the Sale Shares will not proceed.

### Assets to be disposed of

The Sale Shares represent the entire issued share capital of the Playa Grande Companies. Prior to Completion, both Playa Grande Development and Playa Grande Hot Spring are wholly-owned subsidiaries of AppliedLand. The Playa Grande Companies are principally engaged in resort and property development, and are the legal and beneficial owners of the Panama Project. In particular, Playa Grande Development is the owner of the Panama Land and Playa Grande Hot Spring is the owner of the Hot Spring Property. The Panama Project is currently held by the Group for development, and was acquired by the Group at an aggregate total cost of US\$20.25 million (approximately HK\$157.95 million). After the acquisition of the Panama Project, the Group has developed a master plan for the project, devised golf course routing plans, conducted market studies, environmental studies, IRR studies, and various other studies and tests on the project.

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## LETTER FROM THE BOARD

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For the two financial years ended 30 June 2007 and 30 June 2008, the net profits before and after taxation and extraordinary items attributable to Playa Grande Development were nil and US\$10,148 (approximately HK\$79,000) respectively. The net loss before and after taxation and extraordinary items attributable to Playa Grande Development for the financial year ended 30 June 2007 was US\$5,232 (approximately HK\$40,800).

For the two financial years ended 30 June 2007 and 30 June 2008, no net profits before and after taxation and extraordinary items attributable to Playa Grande Hot Spring were recorded. The net loss before and after taxation and extraordinary items attributable to Playa Hot Spring for the same period was nil and US\$1,500 (approximately HK\$11,700) respectively.

The total cost and the book value of Panama Project, and the unaudited total asset value attributable to the Sale Shares as at 30 June 2008 amounts to approximately US\$21.4 million (approximately HK\$167 million). As at the same date and as at the date of this announcement, there is an outstanding shareholder's loan due from the Playa Grande Companies to the Group of approximately US\$21.4 million (approximately HK\$167 million). Pursuant to the Agreement whereby the Seller agreed to indemnify the Purchaser against all liabilities resulting from the Seller's actions up to the date of Completion, the Company intends that the amount of shareholder's loan (representing the exact total investment cost in the Panama Project contributed by the Group) will be offset against the consideration payable by the Purchaser on completion of the Agreement. To the best knowledge of the Company, the Playa Grande Companies do not have any liabilities apart from that shareholder's loan which is covered by the indemnity mentioned above.

As the Sale Shares represent the entire issued share capital of the Playa Grande Companies, the Playa Grande Companies will no longer be subsidiaries of the Company after completion of the sale and purchase of the Sale Shares.

### **Consideration**

The full consideration of US\$39 million (approximately HK\$304.2 million) shall be due and payable upon completion of the sale and purchase of the Sale Shares, which is expected to be on or before 30 December 2008. No deposit is required to be paid by the Purchaser. It was announced by the Company in its announcement dated 18 September 2008 that the Purchaser would pay the Company US\$1 million within 91 days of the signing of the Agreement as deposit for the purchase of the Sale Shares. As the anticipated completion date for the Agreement has now been brought forward to on before 30 December 2008, the Purchaser is no longer required to pay any deposit. The Purchaser has further agreed to pay a sum of US\$75,000 (approximately HK\$585,000) to the Seller for due diligence in Hong Kong. The Directors consider that the earlier completion will be to the benefit of the Company as the Company will receive the full consideration at the time it would, under the letter of intent, have received only the US\$1 million as deposit.

The consideration was determined after arm's length negotiations between the Purchaser and the Seller, with reference to the fair value of the Sale Shares and the shareholder's loan due from the Playa Grande Companies as mentioned above. The fair value of the Sale Shares is US\$21.4 million (approximately HK\$167 million), determined on the basis of the book value of the Panama Project, being the only assets of the Playa Grande Companies as at the date of this announcement.



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## LETTER FROM THE BOARD

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### **Condition**

The completion of the sale of the Sale Shares is conditional upon the result of the due diligence exercise on the Playa Grande Companies being to the satisfaction of the Purchaser, and on the passing by the Shareholders of all necessary resolutions at the SGM approving the Agreement and the transactions contemplated thereunder.

### **Completion**

Completion is expected to be on or before 30 December 2008.

### **OTHER TERMS**

Under the Agreement, upon the receipt of the consideration by the Seller, the Seller will transfer to the Buyer possession of all stock certificates, all rights, all land and other holdings, all contracts and agreements in respect of the Panama Project, including the sale and purchase agreement under which the Group originally purchased the Panama Project from the Rodriguez Family under which there are remaining outstanding rights and obligations between the Seller and the Rodriguez Family (further details of which are given below). The Seller will also transfer all claims, all studies and all good name owned or acquired by the Seller in its development of the Panama Project, including all real and intellectual property rights, relationships, business plans, business reports, contracts with suppliers, clients and prospects relating to the Panama Project or owned by the Playa Grande Companies.

The sale and purchase agreement under which the Group originally purchased the Panama Project included terms pursuant to which the Rodriguez Family, the parties from whom the Company purchased the Panama Land, shall have the right to keep 3 hectares with not more than 125 meters of beach front, to be selected by the Company as its sole discretion for family use. In addition, the Rodriguez Family shall have the right to own a piece of land no more than 2.5 hectares within the golf residential area, to be selected by the Company for family use. It was also agreed by both parties to the original sale and purchase agreement that if at any time the Rodriguez Family decided to sell the Rodriguez Land, the Company shall have the first option to buy the Rodriguez Land at a price agreeable to both parties such option to buy to be valid for a period of 45 days from the date of the written notice delivered by the Rodriguez Family to the Company.

Under the Agreement, the Purchaser has agreed to give similar terms to the Rodriguez Family, and the Seller was agreed to transfer in full to the Purchaser all rights granted to the Group by the Rodriguez Family in respect of the Rodriguez Land.

### **INFORMATION ON THE GROUP**

The Group is principally engaged in resort and property development, property and investment holding.

Both of the Playa Grande Companies are investment holding companies whose sole assets are the Panama Project.

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## LETTER FROM THE BOARD

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### INFORMATION ON THE PURCHASER

The Purchaser is a company which has more than 40 years of professional experience, including over 20 years of experience in real estate sales, property development, project management and property management. Its corporate experience includes over US\$200 million (approximately HK\$1,560 million) of projects in Missouri, plus other projects in Nevada, Texas, and international locations.

### REASONS FOR AND BENEFITS OF ENTERING INTO THE AGREEMENT

Since the acquisition of the Panama Project by the Group in 2007, the value of the real estate market in Panama has appreciated. This has partly been driven by the commencement of the project for the expansion of the Panama canal, which was approved on 22 October 2006.

As previously announced, the Group has been approached by other parties who have shown an interest in the Panama Project, but no agreements were reached between them. The Group has decided to enter into Agreement for the sale and purchase of the Playa Grande Companies, as the aggregate consideration offered represents an excess of approximately 82% over the Group's original acquisition price of approximately US\$20.25 million (approximately HK\$157.95 million), taking into account the funds used towards the development of plans and the conducting of market, environmental and IRR studies for the Panama Project. The Board therefore considers that the terms of the Agreement are fair and reasonable, and the entering into of the Agreement is in the interests of the Company and the Shareholders as a whole.

The net proceeds of the disposal of the Sale Shares, after deducting the related expenses, are estimated to be approximately HK\$289 million. As a result of the disposal of the Sale Shares, the Group will recognise an estimated gain on disposal of approximately HK\$122 million, taking into account professional expenses of approximately US\$1.95 million (approximately HK\$15.2 million) incurred in connection with the Disposal, representing approximately 73% over the cost of the investment of the Panama Project when it was acquired by the Group. The Board believes that the return of 73% on this transaction is satisfactory. Approximately 80% of such proceeds are intended to be used as funds for other investment opportunities in the resort and property market (if and when they arise) with the remaining 20% to be used as general working capital of the Group.

### EFFECT OF TRANSACTION ON EARNINGS, ASSETS AND LIABILITIES OF THE GROUP

With reference to the financial information contained in this circular, an estimated unaudited gain on disposal of approximately HK\$122 million, which has taken into account professional expenses of approximately US\$1.95 million (approximately HK\$15.2 million) incurred in connection with the Disposal, will be recorded by the Group as a result of the Disposal and immediate funds of US\$39 million (approximately HK\$304.2 million) will be available to the Group for other investment opportunities in the resort and property market as and when they arise. Based on the audited financial statement as at 30 June 2008, after this recognition of the estimated unaudited gain on disposal of HK\$122 million, the current assets will be increased by HK\$289 million accordingly upon the immediate cash of sales proceeds of US\$39 million (approximately HK\$304.2 million) to be received by 30 December 2008. Based on the audited financial statement as of 30 June 2008 and after taking the net results of the Disposal, the current ratio will also increase to 84.4 times as compared with the current ratio of 33.6 times, stated as the audited financial statements as of 30 June 2008.

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## LETTER FROM THE BOARD

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The Directors believe that there are no significant changes to the assets and liabilities of the Group except the receipt of immediate funds of US\$39 million upon completion of this Disposal which will be invested in new projects which will bring satisfactory return to the Group, as and when opportunities for such new projects arise. As at the date of this circular, the Company has not yet identified any potential investment opportunities for which the sales proceeds will be used.

The Panama Project was completely acquired during the financial year ended 2008 and the total estimated costs invested and contributed by the Group up to date amounts to approximately HK\$167 million which includes the shareholder's loan due from the Playa Grande Companies as mentioned above. As stated in Appendix III of this circular, the total consideration of US\$39 million (HK\$304.2 million) to be received by the Closing Date will make a gain on disposal of HK\$122 million representing the excess of the consideration over the net book value of the Sale Shares of HK\$167 million and the estimated professional expenses of approximately US\$1.95 million (approximately HK\$15.2 million) incurred in connection with the Disposal, as mentioned above. The net total assets of the Group will be increased by this recognition of disposal gain of approximately HK\$122 million after the completion of the Disposal. Furthermore, as stated in Appendix III of this circular, the total liabilities of the Group will remain unchanged after the Disposal based on the audited financial statements as of 30 June 2008. As a result of the disposal of the Sale Shares, the Group will recognise an estimated gain on disposal of approximately HK\$122 million taking into account estimated professional expenses of approximately US\$1.95 million (approximately HK\$15.2 million) incurred in connection with the Disposal, representing approximately 73% over the cost of the investment of the Panama Project when it was acquired by the Group. The Board believes that the return of 73% on this transaction is satisfactory. Approximately 80% of such proceeds are intended to be used as funds for other investment opportunities in the resort and property market (if and when they arise) with the remaining 20% to be used as general working capital of the Group.

### BUSINESS OF THE REMAINING GROUP

After the Disposal, the Remaining Group will have one major investment in the BVI and certain property investments in Hong Kong and PRC with their total investment values of approximately HK\$198,617,000 and HK\$196,610,000 respectively. The business segment of the Remaining Group will be (i) resort and property development and (ii) investments and properties holding.

#### **(i) Resort and Property Development**

##### *BVI Project*

The Company formed a joint venture with InterIsle Holdings Ltd ("InterIsle") to develop a project in the BVI (the "BVI Project"), with size of approximately 660 acres (approximately 267 hectares or 28.75 million square feet). The Group received US\$8 million (approximately HK\$62.4 million) and US\$1.25 million (approximately HK\$9.75 million) in cash from InterIsle in April 2007 and April 2008 respectively, with the balance of US\$22 million secured by a promissory note issued by Quorum Island (BVI) Limited, the jointly controlled entity of the Group and InterIsle, to the Group.

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## LETTER FROM THE BOARD

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As announced by the Company in its interim results announcement dated 17 March, 2008, there was a change in the Prime Minister of the British Virgin Islands in late 2007 and the Virgin Islands Environmental Council (“VIEC”), a non-profit civil environmental organization, has been challenging several development projects in BVI that were approved by the former BVI government, including the BVI Project. The VIEC has filed a judicial challenge against the BVI government challenging the government’s interpretation of the local environmental regulations, and Quorum Island, an interested party to the BVI Project, is actively participating in the defense against the challenge. Judicial proceedings are underway and the Company will provide Shareholders with updates on the status of the proceedings and any final judgment when appropriate. The Company believes that the BVI Project will commence upon the settlement of the challenge, and will provide long-lasting and meaningful economic benefit to the BVI.

The BVI Project is envisioned to be a master-planned resort community which will include: a five-star luxury resort hotel with approximately 200 hotel and condo-hotel units, destination spa, signature restaurant and conference rooms; a first-class marina with approximately 135 slips, including facilities for 15 mega-yachts over 80 feet; an 18-hole Jack Nicklaus Signature golf course and up to 600 high-end residential units including townhomes, beachfront residences, oceanview villas, and secluded mountain estate homes; as well as a unique artisan and retail village at Trellis Bay.

### **(ii) Investments and Properties Holding**

The Group’s investment properties in Hong Kong and the PRC continue to generate a stable rental income to the Group of approximately HK\$5,876,000 for the year ended 30 June 2008. As at 30 June 2008, the net book value of investment properties of the Remaining Group was approximately HK\$190,900,000 (2006: HK\$205,750,000 and 2007: HK\$159,030,000).

## **MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP**

Based on the accountants’ report in Appendix I of this circular which shows the Group’s results for the three years ended 30 June 2006, 2007 and 2008, the Remaining Group’s revenues attributable to the continuing operations of the Group were HK\$8.53 million, HK\$6.79 million and HK\$5.88 million respectively, mainly derived from rental income of investment properties as Playa Grande Companies have contributed no revenues to the Group since their acquisition.

After the Disposal, the Group will no longer have any projects in Panama. The Directors note that in view of the above, the Disposal will not have any material impact on the revenue of the Group. In view of the prospects of the resort and property sector, the Group will continue to be strategically aligned with world-renowned architects, designers and resort developers, to seek other appropriate property investment opportunities in Asia, and to work together to develop future resort projects.

## **LIQUIDITY AND FINANCIAL INFORMATION**

Based on the latest audited balance sheet as at 30 June 2008, the total asset and the net asset of the Remaining Group including the sales proceeds of HK\$304,200,000 was HK\$714,052,000 and HK\$669,094,000 respectively (2006: HK\$498,759,000 and HK\$439,519,000; 2007: HK\$672,230,000 and HK\$534,624,000).

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## LETTER FROM THE BOARD

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The current assets of the Remaining Group comprise short-term promissory notes receivable and other receivables equal to a total sum of over HK\$189.50 million together with a bank balance of HK\$290.80 million, which includes the sales proceeds from the Disposal to be received by 30 December 2008. This amounts in total to HK\$480.30 million, and results in a higher liquidity in current assets held by the Group as compared with the liquidity in current assets held by the Group before the Disposal. It will also substantially fund the Group's further resort projects or property investments when there are good opportunities.

As at the close of business on October 31, 2008 the Remaining Group had (i) outstanding secured bank borrowings of approximately HK\$57,000,000 and (ii) outstanding obligations under finance leases of approximately HK\$599,000.

### EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

The Group does not engage in interest rate or foreign exchange speculative activities. It is the Group's policy to manage foreign exchange risk through matching foreign exchange income with expenses, and where exposure to foreign exchange is anticipated, appropriate hedging instrument will be used. In addition, the majority of the Group's assets were in Hong Kong and US dollars, and hence the exposure to foreign exchange were insignificant to the Group.

### PLEDGE OF ASSETS

Based on the latest balance sheet as at 30 June 2008, the carrying value of investment properties and properties held for sales pledged by the Remaining Group to secure banking facilities amounted to HK\$153,500,000 and nil respectively (2006: HK\$177,000,000 and nil, 2007: HK\$125,000,000 and HK\$59,000,000).

### CAPITAL STRUCTURE

For the past three years ended 30 June 2006, 2007 and 2008, there have been no significant changes to the capital structure of the Remaining Group.

### GEARING RATIO

Based on the latest audited balance sheet as at 30 June 2008, the gearing ratio of the total borrowing of the Remaining Group including sales proceeds of HK\$304,200,000 was 6.4% (2006: 10.95% and 2007: 22.5%), the net asset value of the Remaining Group was HK\$669,094,000 (2006: HK\$439,519,000 and 2007: 534,624,000) and the total borrowing of the Remaining Group was HK\$42,842,000 (2006: HK\$48,135,000 and 2007: HK\$120,391,000). This indicates that the Group still has a strong and healthy liquidity ratio and financial status after the Disposal.

### EMPLOYEES

The total number of employees of the Remaining Group was 21 as at 30 June 2008 (30 June 2006: 37 and 30 June 2007: 26). The Directors expect that the number of the employees at the head office of Hong Kong and overseas project site will increase upon the commencement of the resort development of the Group.

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## LETTER FROM THE BOARD

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### FINANCIAL AND TRADING PROSPECTS OF THE GROUP

After the Disposal, the Directors intend that the Group will continue to engage principally in resort development, property development and property investment. The Directors believe that, under the adverse global economic environment, the rental income from the investment properties under tenancy and the resort development business, both currently held the Remaining Group, may be negatively affected in the coming financial year. In view of the potential for growth of the resort and property sector in future, the Group will seek to expand further its resort business and consolidate its position as a resort developer by exploring new places for resort development in the upcoming years. Furthermore, the immediate funds of US\$39 million (approximately HK\$304.2 million) after the Disposal will provide opportunities for the Group to acquire high-quality resort projects and investment properties.

### CONTINGENT LIABILITIES

As at the close of business on October 31, 2008, the Remaining Group had no contingent liabilities.

### MISCELLANEOUS

Save as disclosed above under “Business of the Remaining Group” the Remaining Group holds no other significant investments and has no other business segments. The Remaining Group also has no future plans for material investments.

### SGM

As one of the relevant percentage ratios calculated under Chapter 14 of the Listing Rules in respect of the disposal of the Sale Shares exceeds 75%, the transactions contemplated under the Agreement constitute a very substantial disposal of the Company under the Listing Rules and is therefore subject to the approval by the Shareholders at the SGM. The SGM will be convened and held for the Shareholders to consider and, if thought fit, to approve the Agreement and the transactions contemplated thereunder.

As the Purchaser is independent of the Company and its connected persons and no Shareholder has a material interest in the Agreement which is different from that of the other Shareholders, no Shareholder is required to abstain from voting in respect of the resolution to approve the disposal of the Sale Shares at the SGM.

### PROCEDURE FOR DEMANDING A POLL

Pursuant to bye-law 66 of the bye-laws, a resolution put to the vote of a meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands) demanded by: (i) the chairman of such meeting; or (ii) at least three members present in person or by proxy or by representative for the time being entitled to vote at the meeting; or (iii) a member or members present in person or by proxy or by representative and representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting; or (iv) by a member

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## LETTER FROM THE BOARD

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or members present in person or by proxy or by representative and holding shares in the Company 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 shares conferring that right.

### RECOMMENDATION

For the reasons stated in the paragraph headed “Reasons for and benefits of entering into the Agreement” above, the Board considers that the terms of the Agreement are fair and reasonable as far as the Shareholders as a whole are concerned. Accordingly, the Board recommends the Shareholders to vote in favour of the resolution at the SGM to approve the Agreement.

### ADDITIONAL INFORMATION

Your attention is also drawn to the financial information relating to the Group and the Remaining Group and other information set out in the appendices to this circular, and the notice of the SGM.

By order of the Board  
**Applied Development Holdings Limited**  
**Hung Kin Sang, Raymond**  
*Managing Director*



*The following is the text of the report, prepared for the purpose of inclusion in this circular, received from our reporting accountants, Mazars CPA Limited, in respect of the financial information of the Group.*

**MAZARS CPA LIMITED**

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The Directors

**Applied Development Holdings Limited**

Unit 3402-03, 34/F  
China Merchants Tower  
Shun Tak Centre  
168-200 Connaught Road Central  
Hong Kong

8th December, 2008

Dear Sirs,

We set out below our report on the financial information (“Financial Information”) of Applied Development Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the three years ended 30th June, 2006, 2007 and 2008 (the “Relevant Periods”) prepared for inclusion in the Company’s circular dated 8th December, 2008 (the “Circular”) in connection with the proposed disposal (the “Disposal”) of the Group’s 100% equity interest in Playa Grande Development Holdings Inc. and Playa Grande Hot Spring Development Holdings, Inc. (collectively the “Playa Grande Companies”), which are principally engaged in resort and property development and are the legal and beneficiary owners of the Group’s certain properties under development in Panama.

The Financial Information comprises the consolidated balance sheet of the Group as at 30th June, 2006, 2007 and 2008 and the consolidated income statements, the consolidated statements of changes in equity and consolidated cash flow statements for each of the Relevant Periods, and a summary of significant accounting policies and other explanatory notes.

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). As at the date of this report, the address of the registered office in Hong Kong and principal place of business of the Company is Unit 3402-03, 34/F., China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

The Company acts as an investment holding company. During the Relevant Periods, the Group was principally engaged in resort and property development; property and investment holding; and manufacturing and trading of electronic products until that business solely operated by the Group’s 51% owned subsidiary was sold during the year ended 30th June, 2008.



As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in note 41 to the Financial Information below. The subsidiaries are either private companies incorporated in Hong Kong or if incorporated outside Hong Kong, have characteristics substantially similar to those of a private company incorporated in Hong Kong.

The Company and its subsidiaries have adopted 30th June as their financial year end date, except for a subsidiary, 盈聯多科技企業(深圳)有限公司 (Quorum Electronics (Shenzhen) Co., Ltd.), established in the People's Republic of China ("PRC") which has adopted 31st December as its financial year end date for statutory financial reporting purpose. Its statutory financial statements were audited by 深圳市天衡會計師有限公司.

The financial statements of the Group and its subsidiaries incorporated in Hong Kong for each of the two years ended 30th June, 2006 and 2007 were audited by Deloitte Touche Tohmatsu, Certified Public Accountants and for the year ended 30th June, 2008 were audited by Mazars CPA Limited.

No audited financial statements have been prepared for those companies incorporated in the British Virgin Islands ("BVI"), Bahamas and Panama as there is no statutory audit requirement.

The Financial Information as set out in this report has been prepared based on the audited consolidated financial statements of the Group for each of the Relevant Periods (hereinafter collectively referred to as the "Underlying Financial Statements") in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), after making such adjustments as are appropriate for the purpose of preparing the Financial Information for inclusion in the circular. The Financial Information also includes the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange.

The directors of the Company are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with HKFRS. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The directors of the Company are also responsible for the contents of the circular in which this report is included.

For the purpose of this report, we have examined the Underlying Financial Statements and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

It is our responsibility to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information set out below, for the purpose of this report and prepared in accordance with the HKFRS, gives a true and fair view of the state of affairs of the Group as at 30th June, 2006, 2007 and 2008, and of the results and cash flows of the Group for each of the Relevant Periods.

## A. FINANCIAL INFORMATION OF THE GROUP

## Consolidated Income Statement

|   |      | 2006                   | 2007                   | 2008                 |
|---|------|------------------------|------------------------|----------------------|
|   | Note | HK\$'000               | HK\$'000               | HK\$'000             |
| <b>Continuing operations</b>                          |      |                        |                        |                      |
| <b>Turnover</b>                                       | 5    | 8,526                  | 6,785                  | 5,876                |
| Other income  | 6    | 22,977                 | 4,179                  | 9,226                |
| Increase in fair value of investment properties       |      | 18,850                 | 10,200                 | 33,950               |
| (Loss) Gain on disposal of subsidiaries               |      | (61)                   | 127,331                | 3,648                |
| Administrative expenses                               |      | (24,087)               | (35,009)               | (31,619)             |
| Share-based payment expenses                          |      | (8,233)                | (379)                  | –                    |
| Finance costs   | 8    | (4,277)                | (1,838)                | (3,907)              |
| Share of results of a jointly controlled entity       |      | –                      | –                      | 298                  |
| <b>Profit before taxation</b>                         |      | 13,695                 | 111,269                | 17,472               |
| Tax (charge) credit                                   | 9    | (786)                  | 59                     | 432                  |
| <b>Profit for the year from continuing operations</b> |      | 12,909                 | 111,328                | 17,904               |
| <b>Discontinued operations</b>                        |      |                        |                        |                      |
| Loss attributable to discontinued operations          | 10   | (2,957)                | (2,013)                | (81)                 |
| <b>Profit for the year</b>                            | 11   | <u>9,952</u>           | <u>109,315</u>         | <u>17,823</u>        |
| <b>Attributable to:</b>                               |      |                        |                        |                      |
| Equity holders of the parent                          |      | 10,757                 | 110,173                | 17,823               |
| Minority interests                                    |      | (805)                  | (858)                  | –                    |
|   |      | <u>9,952</u>           | <u>109,315</u>         | <u>17,823</u>        |
| <b>EARNINGS (LOSS) PER SHARE</b>                      | 14   |                        |                        |                      |
| <i>From continuing and discontinued operations</i>    |      |                        |                        |                      |
| – Basic   |      | <u>1.22 HK cents</u>   | <u>12.83 HK cents</u>  | <u>2.12 HK cents</u> |
| <i>From continuing operations</i>                     |      |                        |                        |                      |
| – Basic   |      | <u>1.56 HK cents</u>   | <u>13.06 HK cents</u>  | <u>2.12 HK cents</u> |
| <i>From discontinued operations</i>                   |      |                        |                        |                      |
| – Basic   |      | <u>(0.34) HK cents</u> | <u>(0.23) HK cents</u> | <u>–</u>             |

**Consolidated Balance Sheet**

|  |             | <b>2006</b>     | <b>2007</b>     | <b>2008</b>     |
|--|-------------|-----------------|-----------------|-----------------|
|  | <i>Note</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| <b>Non-current assets</b>                                      |             |                 |                 |                 |
| Investment properties  | 15          | 207,500         | 159,030         | 190,900         |
| Property, plant and equipment                                  | 16          | 171,307         | 178,313         | 178,429         |
| Other assets   | 17          | 1,701           | 1,846           | 1,846           |
| Interest in a jointly controlled entity                        | 18          | –               | 36,469          | 27,017          |
| Prepaid lease payments –<br>non-current portion                | 19          | 2,003           | 1,957           | 1,712           |
| Available-for-sale investments                                 | 20          | 26,391          | 1,144           | 921             |
| Deposits paid on acquisition of<br>investment properties       |             | –               | 7,756           | –               |
|  |             | <u>408,902</u>  | <u>386,515</u>  | <u>400,825</u>  |
| <b>Current assets</b>  |             |                 |                 |                 |
| Inventories  | 21          | 2,256           | 1,898           | –               |
| Trade and other receivables                                    | 22          | 46,660          | 13,744          | 1,594           |
| Promissory note receivable from<br>a jointly controlled entity | 23          | –               | 171,600         | 171,600         |
| Amount due from a jointly<br>controlled entity                 | 24          | –               | 12,955          | 16,372          |
| Prepaid lease payments –<br>current portion                    | 19          | 46              | 46              | 40              |
| Pledged bank deposits  | 25          | 3,059           | 3,173           | –               |
| Bank balances and cash   | 25          | <u>37,836</u>   | <u>23,299</u>   | <u>1,766</u>    |
|  |             | 89,857          | 226,715         | 191,372         |
| Non-current assets classified<br>as properties held for sale   | 15          | –               | 59,000          | –               |
|  |             | <u>89,857</u>   | <u>285,715</u>  | <u>191,372</u>  |
| <b>Current liabilities</b>                                     |             |                 |                 |                 |
| Trade and other payables                                       | 26          | 10,021          | 7,623           | 2,116           |
| Tax payables   |             | 1,084           | 712             | –               |
| Secured bank borrowings –<br>due within one year               | 27          | 11,374          | 17,853          | 3,000           |
| Obligations under finance leases –<br>due within one year      | 28          | 3,732           | 3,582           | 572             |
| Bank overdrafts  | 25          | <u>4,771</u>    | <u>4,539</u>    | <u>–</u>        |
|  |             | 30,982          | 34,309          | 5,688           |

**APPENDIX I****ACCOUNTANTS' REPORT OF THE GROUP**

|   |             | <b>2006</b>           | <b>2007</b>           | <b>2008</b>           |
|---|-------------|-----------------------|-----------------------|-----------------------|
|   | <i>Note</i> | <i>HK\$'000</i>       | <i>HK\$'000</i>       | <i>HK\$'000</i>       |
| Liabilities directly associated with properties held for sale |             | <u>—</u>              | <u>8,880</u>          | <u>—</u>              |
|   |             | <u>30,982</u>         | <u>43,189</u>         | <u>5,688</u>          |
| <b>Net current assets</b>                                     |             | <u>58,875</u>         | <u>242,526</u>        | <u>185,684</u>        |
|   |             | <u><u>467,777</u></u> | <u><u>629,041</u></u> | <u><u>586,509</u></u> |
| <b>Capital and reserves</b>                                   |             |                       |                       |                       |
| Share capital   | 29          | 9,100                 | 8,804                 | 8,734                 |
| Treasury shares   | 31          | (8,911)               | (8,911)               | (8,911)               |
| Share premium and reserves                                    |             | <u>438,472</u>        | <u>534,731</u>        | <u>547,416</u>        |
| Equity attributable to equity holders of the parent           |             | 438,661               | 534,624               | 547,239               |
| Minority interests  |             | <u>858</u>            | <u>—</u>              | <u>—</u>              |
| <b>Total equity</b>   |             | <u>439,519</u>        | <u>534,624</u>        | <u>547,239</u>        |
| <b>Non-current liabilities</b>                                |             |                       |                       |                       |
| Secured bank borrowings – due after one year                  | 27          | 24,846                | 92,269                | 39,000                |
| Obligations under finance leases – due after one year         | 28          | <u>3,412</u>          | <u>2,148</u>          | <u>270</u>            |
|   |             | <u>28,258</u>         | <u>94,417</u>         | <u>39,270</u>         |
|   |             | <u><u>467,777</u></u> | <u><u>629,041</u></u> | <u><u>586,509</u></u> |

## Consolidated Statement of Changes in Equity

|  | Attributable to equity holders of the parent |                 |               |                       |                                |               |                            |                 |                       |                     |                  |           |                    |
|--|--|-----------------|---------------|-----------------------|--------------------------------|---------------|----------------------------|-----------------|-----------------------|---------------------|------------------|-----------|--------------------|
|  | Share capital                                | Treasury shares | Share premium | Share options reserve | Investment revaluation reserve | Other reserve | Capital redemption reserve | Capital reserve | Distributable reserve | Translation reserve | Retained profits | Sub-total | Minority interests |
|  | HK\$'000                                     | HK\$'000        | HK\$'000      | HK\$'000              | HK\$'000                       | HK\$'000      | HK\$'000                   | HK\$'000        | HK\$'000              | HK\$'000            | HK\$'000         | HK\$'000  | HK\$'000           |
|  |  |                 |               |                       |                                | (Note 1)      |                            | (Note 2,3)      | (Note 4)              |                     |                  |           |                    |
| At 30th June, 2005   |  |                 |               |                       |                                |               |                            |                 |                       |                     |                  |           |                    |
| - as originally stated   | 9,372  | (12,546)        | 1             | -                     | 624                            | 8,551         | 10,931                     | 216,063         | 93,961                | (2,499)             | 75,313           | 399,771   | -                  |
| - effect of adoption of new accounting standards                 | -  | -               | -             | -                     | -                              | -             | -                          | -               | -                     | -                   | -                | -         | 70,298             |
| At 1st July, 2005  | 9,372  | (12,546)        | 1             | -                     | 624                            | 8,551         | 10,931                     | 216,063         | 93,961                | (2,499)             | 75,313           | 399,771   | 70,298             |
| - effect of adoption of new accounting standards                 | -  | -               | -             | -                     | -                              | -             | -                          | (11,453)        | -                     | -                   | 34,002           | 22,549    | -                  |
| At 1st July, 2005 as restated                                    | 9,372  | (12,546)        | 1             | -                     | 624                            | 8,551         | 10,931                     | 204,610         | 93,961                | (2,499)             | 109,315          | 422,320   | 70,298             |
| Loss on fair value changes of available-for-sale investments     | -  | -               | -             | -                     | (244)                          | -             | -                          | -               | -                     | -                   | -                | (244)     | -                  |
| Net expense recognised directly in equity                        | -  | -               | -             | -                     | (244)                          | -             | -                          | -               | -                     | -                   | -                | (244)     | -                  |
| Realised on disposal of available-for-sale investments           | -  | -               | -             | -                     | (316)                          | -             | -                          | -               | -                     | -                   | -                | (316)     | -                  |
| Realised on disposal of treasury shares                          | -  | 3,635           | -             | -                     | -                              | -             | -                          | -               | -                     | -                   | 2,622            | 6,257     | -                  |
| Profit for the year  | -  | -               | -             | -                     | -                              | -             | -                          | -               | -                     | -                   | 10,757           | 10,757    | (805)              |
| Total recognised income and expense for the year                 | -  | 3,635           | -             | -                     | (560)                          | -             | -                          | -               | -                     | -                   | 13,379           | 16,454    | (805)              |
| Waiver of loan from a minority shareholder of a subsidiary       | -  | -               | -             | -                     | -                              | -             | -                          | 428             | -                     | -                   | -                | 428       | -                  |
| Repurchase of own shares   | (272)  | -               | -             | -                     | -                              | -             | 272                        | -               | -                     | -                   | (11,338)         | (11,338)  | -                  |
| Disposal of a subsidiary   | -  | -               | -             | -                     | -                              | -             | -                          | -               | -                     | 2,564               | -                | 2,564     | (68,635)           |
| Recognition of equity-settled share-based payment expenses       | -  | -               | -             | 8,233                 | -                              | -             | -                          | -               | -                     | -                   | -                | 8,233     | -                  |
| At 30th June, 2006   | 9,100  | (8,911)         | 1             | 8,233                 | 64                             | 8,551         | 11,203                     | 205,038         | 93,961                | 65                  | 111,356          | 438,661   | 858                |
| At 1st July, 2006  | 9,100  | (8,911)         | 1             | 8,233                 | 64                             | 8,551         | 11,203                     | 205,038         | 93,961                | 65                  | 111,356          | 438,661   | 858                |
| Gain on fair value changes of available-for-sale investments     | -  | -               | -             | -                     | 2,241                          | -             | -                          | -               | -                     | -                   | -                | 2,241     | -                  |
| Exchange difference arising on translation of foreign operations | -  | -               | -             | -                     | -                              | -             | -                          | -               | -                     | 22                  | -                | 22        | -                  |
| Net income recognised directly in equity                         | -  | -               | -             | -                     | 2,241                          | -             | -                          | -               | -                     | 22                  | -                | 2,263     | -                  |
| Realised on disposal of available-for-sale investments           | -  | -               | -             | -                     | (1,959)                        | -             | -                          | -               | -                     | -                   | -                | (1,959)   | -                  |
| Profit for the year  | -  | -               | -             | -                     | -                              | -             | -                          | -               | -                     | -                   | 110,173          | 110,173   | (858)              |
| Total recognised income and expense for the year                 | -  | -               | -             | -                     | 282                            | -             | -                          | -               | -                     | 22                  | 110,173          | 110,477   | (858)              |
| Repurchase of own shares   | (296)  | -               | -             | -                     | -                              | -             | 296                        | -               | -                     | -                   | (14,893)         | (14,893)  | -                  |
| Recognition of equity-settled share-based payment expenses       | -  | -               | -             | 379                   | -                              | -             | -                          | -               | -                     | -                   | -                | 379       | -                  |
| At 30th June, 2007   | 8,804  | (8,911)         | 1             | 8,612                 | 346                            | 8,551         | 11,499                     | 205,038         | 93,961                | 87                  | 206,636          | 534,624   | -                  |

|  | Attributable to equity holders of the parent |                 |               |                       |                                |               |                            |                 |                       |                     |                  |           |                    |
|--|--|-----------------|---------------|-----------------------|--------------------------------|---------------|----------------------------|-----------------|-----------------------|---------------------|------------------|-----------|--------------------|
|  | Share capital                                | Treasury shares | Share premium | Share options reserve | Investment revaluation reserve | Other reserve | Capital redemption reserve | Capital reserve | Distributable reserve | Translation reserve | Retained profits | Sub-total | Minority interests |
|  | HK\$'000                                     | HK\$'000        | HK\$'000      | HK\$'000              | HK\$'000                       | HK\$'000      | HK\$'000                   | HK\$'000        | HK\$'000              | HK\$'000            | HK\$'000         | HK\$'000  | HK\$'000           |
|  |  |                 |               |                       |                                | (Note 1)      |                            | (Note 2,3)      | (Note 4)              |                     |                  |           |                    |
| At 1st July, 2007  | 8,804  | (8,911)         | 1             | 8,612                 | 346                            | 8,551         | 11,499                     | 205,038         | 93,961                | 87                  | 206,636          | 534,624   | -                  |
| Loss on fair value changes of available-for-sale investments     | -  | -               | -             | -                     | (223)                          | -             | -                          | -               | -                     | -                   | -                | (223)     | -                  |
| Exchange difference arising on translation of foreign operations | -  | -               | -             | -                     | -                              | -             | -                          | -               | -                     | (27)                | -                | (27)      | -                  |
| Net expense recognised directly in equity                        | -  | -               | -             | -                     | (223)                          | -             | -                          | -               | -                     | (27)                | -                | (250)     | -                  |
| Profit for the year  | -  | -               | -             | -                     | -                              | -             | -                          | -               | -                     | -                   | 17,823           | 17,823    | -                  |
| Total recognised income and expense for the year                 | -  | -               | -             | -                     | (223)                          | -             | -                          | -               | -                     | (27)                | 17,823           | 17,573    | -                  |
| Repurchase of own shares   | (76)   | -               | -             | -                     | -                              | -             | 76                         | -               | -                     | -                   | (4,854)          | (4,854)   | -                  |
| Exercise of share options  | 6  | -               | 444           | (126)                 | -                              | -             | -                          | -               | -                     | -                   | -                | 324       | -                  |
| Realised on disposal of a subsidiary                             | -  | -               | -             | -                     | -                              | -             | -                          | (428)           | -                     | -                   | -                | (428)     | -                  |
| At 30th June, 2008   | 8,734  | (8,911)         | 445           | 8,486                 | 123                            | 8,551         | 11,575                     | 204,610         | 93,961                | 60                  | 219,605          | 547,239   | -                  |

*Notes:*

- (1) The other reserve of the Group represents the fair value adjustment at the date of transfer of property, plant and equipment to investment properties.
- (2) The capital reserve of the Group as at 30th June, 2005 included HK\$9,207,000 in respect of goodwill and HK\$20,660,000 in respect of negative goodwill. In accordance with the relevant transitional provisions in HKFRS 3, the Group transferred the goodwill and negative goodwill previously recorded in reserves to retained profits on 1st July, 2005. A corresponding adjustment to the Group's retained profits of HK\$11,453,000 has been made.
- (3) The capital reserve of the Group represented contributed surplus arising from the cancellation of share premium account of the Company pursuant to a special resolution passed by the Company on 22nd February, 1999. The movement for the year ended 30th June, 2006 represented a waiver of loan from a minority shareholder of a subsidiary of the Group which has been realised to profit or loss upon disposal of the subsidiary during the year ended 30th June, 2008.
- (4) The distributable reserve of the Group arose from the cancellation of share capital and share premium account of a subsidiary of the Company, Applied Electronics Limited, pursuant to a scheme of arrangement which became effective on 10th January, 1989.

**Consolidated Cash Flow Statement**

|  | <b>2006</b>     | <b>2007</b>     | <b>2008</b>     |
|--|-----------------|-----------------|-----------------|
| <i>Note</i>  | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| <b>OPERATING ACTIVITIES</b>  |                 |                 |                 |
| Profit before taxation   |                 |                 |                 |
| From continuing operations   | 13,695          | 111,269         | 17,472          |
| From discontinued operations   | (2,935)         | (2,013)         | (81)            |
|  | 10,760          | 109,256         | 17,391          |
| Adjustments for:   |                 |                 |                 |
| Depreciation of property, plant and equipment                                      | 7,036           | 7,703           | 6,381           |
| Dividend income  | (59)            | (805)           | (17)            |
| Finance costs  | 5,265           | 3,878           | 5,028           |
| Gain on disposal of available-for-sale investments                                 | (813)           | (1,959)         | –               |
| Gain on disposal of investment properties  | (1,162)         | –               | (7,152)         |
| Loss (Gain) on disposal of subsidiaries  | 61              | (127,331)       | (3,648)         |
| Impairment loss recognised in respect of trade and other receivables               | 714             | –               | 979             |
| Increase in fair value of investment properties                                    | (19,000)        | (10,530)        | (33,950)        |
| Interest income  | (361)           | (850)           | (161)           |
| Loss on disposal of property, plant and equipment                                  | 461             | –               | 94              |
| Release of prepaid lease payments  | 46              | 46              | 43              |
| Reversal of impairment loss recognised in respect of prepaid lease payments        | (613)           | –               | –               |
| Reversal of impairment loss recognised in respect of property, plant and equipment | (178)           | –               | –               |
| Share of results of a jointly controlled entity                                    | –               | –               | (298)           |
| Share-based payment expenses   | 8,233           | 379             | –               |
| Waiver of other borrowings   | (19,651)        | –               | –               |
| <b>Operating cash flows before changes in working capital</b>                      | <b>(9,261)</b>  | <b>(20,213)</b> | <b>(15,310)</b> |

**APPENDIX I****ACCOUNTANTS' REPORT OF THE GROUP**

|  | <b>2006</b>     | <b>2007</b>     | <b>2008</b>     |
|--|-----------------|-----------------|-----------------|
| <i>Note</i>  | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Changes in working capital:                                      |                 |                 |                 |
| Inventories  | (23)            | 358             | 450             |
| Trade and other receivables                                      | 21,394          | (738)           | 1,370           |
| Trade and other payables   | (7,147)         | (2,398)         | (71)            |
|  |                 |                 |                 |
| <b>Cash generated from (used in) operations</b>                  | <b>4,963</b>    | <b>(22,991)</b> | <b>(13,561)</b> |
| Hong Kong Profits Tax paid                                       | (105)           | (313)           | (280)           |
|  |                 |                 |                 |
| <b>Net cash from (used in) operating activities</b>              | <b>4,858</b>    | <b>(23,304)</b> | <b>(13,841)</b> |
|  |                 |                 |                 |
| <b>INVESTING ACTIVITIES</b>                                      |                 |                 |                 |
| Acquisition of investment properties                             | –               | –               | (26,517)        |
| Advances to a jointly controlled entity                          | –               | (12,955)        | (3,417)         |
| Compensation received from a joint venture partner               | –               | –               | 9,750           |
| Deposits paid on acquisition of investment properties            | –               | (7,756)         | –               |
| Deposits received for properties held for sales                  | –               | 8,880           | –               |
| Dividend received  | 59              | 805             | 17              |
| Increase in pledged bank deposits                                | (90)            | (114)           | (59)            |
| Interest received  | 361             | 850             | 161             |
| Proceeds from disposal of available-for-sale investments         | 7,683           | 27,488          | –               |
| Proceeds from disposal of investment properties                  | 118,162         | –               | 36,477          |
| Proceeds from disposal of properties held for sales              | –               | –               | 50,120          |
| Proceeds from disposal of property, plant and equipment          | 408             | –               | –               |
| Proceeds from disposal of subsidiaries, net                      | 36              | 62,400          | 4,845           |
| Purchase of available-for-sale investments                       | (25,196)        | –               | –               |
| Purchase of property, plant and equipment                        | (57,913)        | (154,473)       | (16,072)        |
| Purchase of other assets   | –               | (145)           | –               |
| Refunds of deposits paid on acquisition of investment properties | –               | –               | 4,948           |
| Repayment of receivable on disposal of subsidiaries              | –               | 33,654          | –               |
|  |                 |                 |                 |
| <b>Net cash from (used in) investing activities</b>              | <b>43,474</b>   | <b>(41,366)</b> | <b>60,253</b>   |



|  | <i>Note</i> | <b>2006</b><br><i>HK\$'000</i> | <b>2007</b><br><i>HK\$'000</i> | <b>2008</b><br><i>HK\$'000</i> |
|--|-------------|--------------------------------|--------------------------------|--------------------------------|
| <b>FINANCING ACTIVITIES</b>  |             |                                |                                |                                |
| Finance charges paid in respect<br>of obligations under finance leases |             | (344)                          | (491)                          | (226)                          |
| Interest paid  |             | (4,921)                        | (3,387)                        | (4,802)                        |
| New bank borrowings raised   |             | 118,320                        | 157,947                        | 47,479                         |
| Proceeds from disposal of treasury shares                              |             | 6,257                          | –                              | –                              |
| Proceeds from exercise of share options                                |             | –                              | –                              | 324                            |
| Repayment of bank borrowings   |             | (136,572)                      | (84,045)                       | (98,656)                       |
| Repayment of obligations under finance<br>leases                       |             | (3,610)                        | (4,788)                        | (2,644)                        |
| Repurchases of own shares  |             | <u>(11,338)</u>                | <u>(14,893)</u>                | <u>(4,854)</u>                 |
| <b>Net cash (used in) from financing activities</b>                    |             | <u>(32,208)</u>                | <u>50,343</u>                  | <u>(63,379)</u>                |
| <b>Net increase (decrease) in cash<br/>and cash equivalents</b>        |             | 16,124                         | (14,327)                       | (16,967)                       |
| <b>Cash and cash equivalents at beginning<br/>of the year</b>          |             | 16,941                         | 33,065                         | 18,760                         |
| Effect of foreign exchange rate changes                                |             | <u>–</u>                       | <u>22</u>                      | <u>(27)</u>                    |
| <b>Cash and cash equivalents at end of the year</b>                    |             | <u><u>33,065</u></u>           | <u><u>18,760</u></u>           | <u><u>1,766</u></u>            |
| <b>Analysis of the balances of cash and<br/>cash equivalents</b>       |             |                                |                                |                                |
| Bank balances and cash   |             | 37,836                         | 23,299                         | 1,766                          |
| Bank overdrafts  |             | <u>(4,771)</u>                 | <u>(4,539)</u>                 | <u>–</u>                       |
|  |             | <u><u>33,065</u></u>           | <u><u>18,760</u></u>           | <u><u>1,766</u></u>            |

**B. NOTES TO FINANCIAL INFORMATION OF THE GROUP****1. GENERAL**

The Company is incorporated in Bermuda as an exempted company with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office in Hong Kong and the principal place of business of the Company is Unit 3402-03, 34/F., China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

The Financial Information are presented in Hong Kong dollar ("HK\$"), which is the functional currency of the Company.

The Company acts as an investment holding company. During the year ended 30th June, 2008, the Group disposed of its entire interest in a 51% owned subsidiary, Wideland Electronics Limited ("Wideland"), to an independent third party. Wideland is principally engaged in manufacturing and trading of electronic products. After the disposal, the Group is principally engaged in resort and property development; property and investment holding. The activities of the principal subsidiaries and a jointly controlled entity of the Group are set out in notes 41 and 18 respectively.

**2. SIGNIFICANT ACCOUNTING POLICIES****Statement of compliance**

The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), which collective term includes all applicable individual HKFRS, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The Financial Information also complies with the applicable disclosure requirements under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). A summary of the principal accounting policies adopted by the Group is set out below.

**Application of new and revised HKFRS**

During the three years ended 30th June, 2006, 2007 and 2008 (the "Relevant Periods"), the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRS") issued by HKICPA, which are effective for the Group's financial year beginning on 1st July, 2005, except for HKAS 40 "Investment Property" and HKAS 21-INT 21 "Income Taxes – Recovery of Revalued Non-Depreciable Assets" of which the Group had early adopted in the consolidated financial statements for the year ended 30th June, 2005. The application of the new HKFRS has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and the consolidated statement of changes in equity. The changes in presentation have been applied retrospectively. The adoption of the new HKFRS has also 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:

*Presentation of financial statements*

In year 2006, the Group has adopted HKAS 1 "Presentation of financial statements" which has affected the presentation of minority interests, share of net post-tax results of associates, jointly controlled entities, discontinued operations and other disclosures. In particular, minority interests have been presented in equity.

*Business combinations*

In year 2006, the 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 for goodwill and negative goodwill previously recognised. The principal effects of the application of transitional provisions of HKFRS 3 to the Group are summarised below:

*Goodwill*

In previous years, goodwill arising on acquisitions prior to 1st July, 2001 was held in reserves. The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously recognised in capital reserve of HK\$9,207,000 has been transferred to the Group’s retained profits on 1st July, 2005.

Excess of the 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”, previously known as “negative goodwill”).

In accordance with HKFRS 3, any discount on acquisition is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous years, negative goodwill arising on acquisitions prior to 1st July, 2001 was held in capital reserve and negative goodwill arising on acquisitions since 1st July, 2001 and prior to 1st July, 2005 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 Group derecognised all negative goodwill on 1st July, 2005 (of which negative goodwill of HK\$20,660,000 was previously recorded in capital reserve and of HK\$22,549,000 was previously presented as a deduction from assets). A corresponding adjustment to the Group’s retained profits of HK\$43,209,000 has been made.

*Share-based payments*

In year 2006, 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. The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to directors and employees of the Group, 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 July, 2005. In relation to share options granted before 1st July, 2005, the Group chooses not to apply HKFRS 2 with respect to share options granted on or before 7th November, 2002 and vested before 1st July, 2005 in accordance with the 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 July, 2005. Because there were no unvested share options at 1st July, 2005, no adjustment to the retained profits on 1st July, 2005 is required.

*Financial instruments*

In year 2006, 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 generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for the Relevant Periods. The principal effects resulting from the implementation of HKAS 39 are summarised below:

*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.

On or before 30th June, 2005, the Group classified and measured its equity securities in accordance with the alternative treatment of Statement of Standard Accounting Practice No. 24 "Accounting for Investments in Securities" ("SSAP 24") issued by the HKICPA. Under SSAP 24, investments in equity securities are classified as "trading securities", "non-trading securities" or "held-to-maturity investments" as appropriate. Both "trading securities" and "non-trading securities" are measured at fair value. Unrealised gains or losses of "trading securities" are reported in profit or loss for the period in which gains or losses arise. Unrealised gains or losses of "non-trading securities" are reported in equity until the securities are sold or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for that period. From 1st July, 2005 onwards, the Group has classified and measured its 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" or "loans and receivables". "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" are measured at amortised cost using the effective interest method after initial recognition.

On 1st July, 2005, the Group classified and measured its investments in equity securities in accordance with the transitional provisions of HKAS 39 as available-for-sale financial assets. The application of these relevant transitional provisions has had no effect on the retained profits on 1st July, 2005.

#### Financial assets and financial liabilities other than equity instruments of the Group

From 1st July, 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than equity instruments (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" or "loans and receivables". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". "Other financial liabilities" are carried at amortised cost using the effective interest method after initial recognition. This change in accounting policy has had no material effect on the results for the Relevant Periods.

#### *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 year 2006, 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 terms on a straight-line basis. This change in accounting policy has been applied retrospectively.

#### *Capital and financial instruments disclosures*

In year 2008, the Group has applied the disclosure requirements under HKAS 1 (Amendment) "Capital disclosures" to provide additional disclosures in relation to the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 4 to the Financial Information. In addition, the Group has also applied the disclosure requirements under HKFRS 7 "Financial instruments: Disclosures" to disclose information for the purpose of evaluating the significance of the group's financial instruments, the nature and risks arising from those financial instruments to which the Group is exposed to and how the entity manages them. The disclosures are included throughout the financial information.

*Summary of effects of the changes in accounting policies*

For the purpose of presenting this Financial Information, the above changes in accounting policies have been applied from 1st July, 2005, the beginning of earliest period presented.

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

|  | <b>2006</b>           | <b>2007</b>     | <b>2008</b>     |
|--|-----------------------|-----------------|-----------------|
|  | <i>HK\$'000</i>       | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Increase in share-based payment expenses               | (8,233)               | –               | –               |
| Decrease in negative goodwill released to other income | <u>(1,308)</u>        | <u>–</u>        | <u>–</u>        |
| Decrease in profit for the year ended 30th June,       | <u><u>(9,541)</u></u> | <u><u>–</u></u> | <u><u>–</u></u> |

The cumulative effects of the application of the new HKFRS, on 30th June, 2005 and 1st July, 2005 are summarised below:

|  | <b>As at<br/>30th June,<br/>2005</b>      | <b>Effect of<br/>HKAS 1</b> | <b>As at<br/>30th June,<br/>2005</b> | <b>Effect of<br/>HKFRS 3</b> | <b>As at<br/>1st July,<br/>2005</b> |
|--|---|-----------------------------|--------------------------------------|------------------------------|-------------------------------------|
|  | (as originally stated)<br><i>HK\$'000</i> | <i>HK\$'000</i>             | (as restated)<br><i>HK\$'000</i>     | <i>HK\$'000</i>              | (as restated)<br><i>HK\$'000</i>    |
| Capital reserve  | 216,063                                   | –                           | 216,063                              | (11,453)                     | 204,610                             |
| Retained profits   | <u>75,313</u>                             | <u>–</u>                    | <u>75,313</u>                        | <u>34,002</u>                | <u>109,315</u>                      |
| Total effects on equity attributable to equity holders of parent | 291,376                                   | –                           | 291,376                              | 22,549                       | 313,925                             |
| Minority interests   | <u>–</u>                                  | <u>70,298</u>               | <u>70,298</u>                        | <u>–</u>                     | <u>70,298</u>                       |
| Total effects on total equity                                    | <u><u>291,376</u></u>                     | <u><u>70,298</u></u>        | <u><u>361,674</u></u>                | <u><u>22,549</u></u>         | <u><u>384,223</u></u>               |
| Minority interests   | <u><u>70,298</u></u>                      | <u><u>(70,298)</u></u>      | <u><u>–</u></u>                      | <u><u>–</u></u>              | <u><u>–</u></u>                     |

**Basis of measurement**

The Financial Information has been prepared on the historical cost basis, except for investment properties and certain financial instruments, which are measured at fair values as explained in the accounting policies set out below.

**Basis of consolidation**

The Financial Information has incorporated the financial statements of the Company 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 the Group.

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

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

### **Subsidiaries**

A subsidiary is an entity in which the Company has the power to govern the financial and operating policies so as to obtain benefits from its activities.

In the Company's balance sheet as set out in note 40, investments in subsidiaries are stated at cost less accumulated impairment losses. The carrying amount of the investments is reduced to its recoverable amount on an individual basis. Results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

### **Investment properties**

Investment properties are land and/or building that are held by owner or lessee under finance lease to earn rental income and/or for capital appreciation. These include properties held for a currently undetermined future use and properties that are held under operating lease, which satisfy the definition of investment property.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise. The fair value of investment properties is based on a valuation by an independent valuer who holds a recognised professional qualification and has recent experience in the location and category of property being valued.

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

### **Property, plant and equipment**

Property, plant and equipment, other than properties under development, are stated at cost less accumulated depreciation and accumulated impairment losses.

Properties under development are stated at cost less accumulated impairment losses. Cost includes development expenditure, borrowing costs capitalised and other directly attributable expenses incurred during the development period.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than properties under development, over their estimated useful lives from the date on which they are available for use and after taking into account of their estimated residual value, using the straight-line method, at the following rates per annum:

|                                   |  |
|-----------------------------------|--|
| Freehold land                     | Nil  |
| Leasehold land and buildings      | Over the shorter of the term of the leases or 25 years, whichever is shorter |
| Leasehold improvements            | 20%  |
| Plant and machinery               | 10% to 25%   |
| Furniture, fixtures and equipment | 10% to 25%   |
| Motor vehicles                    | 10% to 33 $\frac{1}{3}$ %  |
| Motor boats                       | 10% to 20%   |

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

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 profit or loss for the period in which the item is derecognised.

#### **Prepaid lease payments**

Prepaid lease payments are up-front payments to acquire fixed-term interests in lessee-occupied land. The premiums are stated at cost and are amortised over the period of the lease on a straight-line basis to profit or loss.

#### **Other assets**

Other assets are antiques held for long-term investment purposes and are stated at cost less accumulated impairment losses.

#### **Jointly controlled entity**

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as a jointly controlled entity.

The results and assets and liabilities of the jointly controlled entity are incorporated in the Financial Information using the equity method of accounting. Under the equity method of accounting, investment in jointly controlled entity is carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of net assets of the jointly controlled entity, less accumulated impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the jointly controlled entity recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

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

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

### **Financial instruments**

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

#### *Financial assets*

The Group's financial assets are classified into one of the two categories, which are loans and receivables and available-for-sale financial assets. All regular purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular 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 market place. The accounting policies adopted in respect of each category of financial assets are set out below.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less accumulated 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-derivative financial assets that are either designated at this category or not classified in any of the other categories of financial assets. They are measured at fair value with changes in value recognised as a separate component of equity until the assets are sold, collected or otherwise disposed of, or until the assets are determined to be impaired, at which time the cumulative gain or loss previously reported in equity is transferred to profit or loss.

When an available-for-sale financial asset is impaired, an amount comprising the difference between its acquisition cost (net of any principal repayment and amortisation) and current fair value, less any previously recognised impairment loss, is transferred from equity to profit or loss. Reversal of impairment loss of available-for-sale equity instrument is recognised in equity. Reversal of impairment loss of available-for-sale debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.



*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.

*Financial liabilities*

The Group's financial liabilities are recognised initially at their fair value and subsequently measured at amortised cost, using effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds, net of direct issue costs.

*Treasury shares*

Applied Investment (Asia) Limited ("Applied Investment") became a subsidiary of the Company in 1995. On consolidation, the shares in the Company held by Applied Investment have been accounted for using the treasury stock method whereby equity attributable to the equity holders of the Company is reduced by the carrying amount of the shares in the Company held by Applied Investment at the date when Applied Investment became the subsidiary of the Company. On disposal of the shares in the Company held by Applied Investment, consideration received is recognised directly in equity. The difference between the sale consideration and the carrying amount of the shares disposed of is recognised in retained profits. No gain or loss is recognised in profit or loss.

*Derecognition*

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

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

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, cost of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

**Non-current assets classified as held for sale**

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

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

#### **Impairment of non-financial assets**

At each balance sheet date, the Group reviews internal and external sources of information to determine whether the property, plant and equipment, investments in antiques, subsidiaries and a jointly controlled entity have suffered an impairment loss or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs to sell and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. a cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

A reversal of impairment loss is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior periods. Reversal of impairment loss is recognised as income immediately.

#### **Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue and costs, if applicable, can be measured reliably, with reference to fair value of consideration received or receivable, and on the following bases.

Sale of goods is recognised on transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title is passed.

Rental income from operating leases is recognised when the properties are let out and on a straight-line basis over the lease terms.

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

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

#### **Leasing**

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

##### *The Group as lessee*

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as finance lease obligations. Lease payments are apportioned between finance charges and reduction of the lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's policy on borrowing costs.

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 on a straight-line basis over the lease term.

*Leasehold land and building*

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification. Leasehold land which title is not expected to pass to the lessee by the end of the lease term is classified as an operating lease unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is classified as a finance lease.

**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 on non-monetary items in respect of which gain 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 Financial Information, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK\$) 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.

**Retirement benefit scheme**

Payment to defined contribution retirement benefit scheme is charged as expenses when employees have rendered service entitling them to the contributions.

Details of the retirement benefit scheme are set out in note 42.

**Equity-settled share-based payment transactions**

*Share options granted to employees of the Group*

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

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

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

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction and 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 as and included in finance costs in profit or loss for the period in which they are incurred.

**Taxation**

The charge for current income tax is based on the results for the period as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit nor taxable profit or loss, it is not accounted for.

The deferred tax liabilities or assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or liability is settled, based on the tax rates and the tax laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

**Cash equivalents**

For the purpose of the consolidated cash flow statement, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value, net of bank overdrafts.

**Related parties**

A party is related to the Group if

- (a) directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; or has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;
- (b) the party is an associate of the Group;
- (c) the party is a joint venture in which the Group is a venturer;
- (d) the party is a member of the key management personnel of the Group;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

**Critical accounting estimates and judgements**

In the process of applying the Group's accounting policies, management has made various estimates and judgements which are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Estimates and judgements are continually evaluated. The key source of estimation uncertainty and critical judgements made in applying accounting policies that result in significant risk of causing a material adjustment to the carrying amount of assets and liabilities in the next financial year or significantly affect the amounts recognised in the Financial Information are discussed below:

*(i) Key sources of estimation uncertainty*

## Useful lives of property, plant and equipment

The management determines the estimated useful lives of the Group's property, plant and equipment based on the historical experience of the actual useful lives of the relevant assets of similar nature and functions. The estimated useful lives could be different as a result of actual usage and maintenance, which could affect the related depreciation charges included in profit or loss.

## Impairment of property, plant and equipment

The management determines whether the Group's property, plant and equipment is impaired at least on an annual basis or where an indication of impairment exists. This requires an estimation of the recoverable amount of the property, plant and equipment, which is equal to the higher of net selling price or the value in use. Estimating the value in use requires the management to make an estimate of the expected future cash flows from the property, plant and equipment and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Any impairment will charge to profit or loss.

## Impairment of loans and receivables

The management determines the provision for impairment of the Group's loans and receivables based on the current creditworthiness and the past collection history of each customers and other debtors and the current market condition. If the financial conditions of the Group's customers and other debtors were to deteriorate, resulting in an impairment of their ability to make payments, provision may be required.

## Impairment of investments and receivables

The Company and the Group assess annually if their investments in subsidiaries and a jointly controlled entity have suffered any impairment loss in accordance with HKAS 36 and follow the guidance of HKAS 39 in determining whether promissory note receivable and/or amounts due from those entities are impaired. Details of the approach are stated in the respective accounting policies. The assessment requires an estimation of future cash flows, including expected dividends, from the assets and the selection of appropriate discount rates. Future changes in financial performance and position of these entities would affect the estimation of impairment loss and cause the adjustments of their carrying amounts.

*(ii) Critical judgements made in applying accounting policies*

## Properties held for capital appreciation

The Group's investment properties in Hong Kong with a carrying value of HK\$117,000,000, HK\$125,000,000 and HK\$153,500,000 as at 30th June, 2006, 2007 and 2008, respectively, are currently used as directors' quarter. However, it is the Group's intention to hold the properties for capital appreciation but not for own use. The Group has appointed a property agent to seek for potential buyers in the market. Accordingly, the properties have been accounted for as investment properties instead of property, plant and equipment in the Financial Information.

## Deferred taxation on fair value gain of investment properties in Hong Kong

As at 30th June, 2006, 2007 and 2008, the accumulated fair value gain of the Group's investment properties in Hong Kong amounted to HK\$58,000,000, HK\$66,000,000 and HK\$94,500,000, respectively. The Group's plan is to sell the properties to the market. Until the date the disposal is taken place, the properties would be occupied by the directors on a temporary basis. Therefore, no rental income is expected to be generated from the properties up to their disposal. As a result, management considers the carrying amount of these investment properties will only be recovered through sale. With capital gain being exempted from Hong Kong Profits Tax, management considers no deferred tax liability shall be recognised in respect of the temporary differences arising from the accumulated fair value gain.

## Deferred taxation on fair value gain of investment properties in the PRC

In accordance with the applicable laws and regulations in the PRC, the Group is subject to Land Appreciation Tax when it realises its accumulated fair value gain of its investment properties in the PRC of approximately HK\$18,750,000, HK\$21,350,000 and HK\$26,200,000 as at 30th June, 2006, 2007 and 2008, respectively, through disposal of the relevant investment properties. Management considers the Group is going to hold the investment properties for rental income with no intention to dispose of in the foreseeable future. In addition, the current corporate structure allows the Group to realise the accumulated fair value gain of the investment properties by disposal of the subsidiary that currently owns the investment properties. Thus no deferred tax liability has been recognised for Land Appreciation Tax in respect of the temporary differences arising from the accumulated fair value gain.

**Future changes in HKFRS**

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

|                                |   |
|--------------------------------|---|
| HKAS 1 (Revised)               | Presentation of Financial Statements <sup>1</sup>   |
| HKAS 23 (Revised)              | Borrowing Costs <sup>1</sup>  |
| HKAS 27 (Revised)              | Consolidated and Separate Financial Statements <sup>2</sup>   |
| HKAS 27 & HKFRS 1 (Amendments) | Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associates <sup>1</sup>                     |
| HKAS 32 & 1 (Amendments)       | Puttable Financial Instruments and Obligations Arising on Liquidation <sup>1</sup>                              |
| HKAS 39 & HKFRS 7 (Amendments) | Reclassification of Financial Assets <sup>6</sup>   |
| HKFRS 2 (Amendment)            | Share-based Payment – Vesting Conditions and Cancellations <sup>1</sup>   |
| HKFRS 3 (Revised)              | Business Combinations <sup>2</sup>  |
| HKFRS 8                        | Operating Segments <sup>1</sup>   |
| HK(IFRIC) – Int 12             | Service Concession Arrangements <sup>3</sup>  |
| HK(IFRIC) – Int 13             | Customer Loyalty Programmes <sup>4</sup>  |
| HK(IFRIC) – Int 14             | HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding requirements and their Interaction <sup>3</sup> |
| HK(IFRIC) – Int 15             | Agreements for the Construction of Real Estate <sup>1</sup>   |
| HK(IFRIC) – Int 16             | Hedges of a Net Investment in a Foreign Operation <sup>5</sup>  |

<sup>1</sup> Effective for annual periods beginning on or after 1st January, 2009

<sup>2</sup> Effective for annual periods beginning on or after 1st July, 2009

<sup>3</sup> Effective for annual periods beginning on or after 1st January, 2008

<sup>4</sup> Effective for annual periods beginning on or after 1st July, 2008

<sup>5</sup> Effective for annual periods beginning on or after 1st October, 2008

<sup>6</sup> Effective from 1st July, 2008

The directors anticipate that the application of the above new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

**3. FINANCIAL INSTRUMENTS****(a) Financial risk management objectives and policies**

The Group's major financial instruments include available-for-sale investments, trade and other receivables, promissory note receivable and amount due from a jointly controlled entity, pledged bank deposits, bank balances and cash, trade and other payables, tax payables, secured bank borrowings, obligations under finance leases and bank overdrafts. 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. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

*Market risk**Currency risk*

The Group is exposed to foreign currency risk primarily on the promissory note receivable from a jointly controlled entity and the Group's operation in the British Virgin Islands ("BVI") and Panama. The currency giving rise to this risk is United States dollars ("US\$"). The Group does not hedge its foreign currency risks because the rate of exchange between HK\$ and US\$ is stable under current market condition and the existing currency exchange policies adopted by the Hong Kong Government.

*Interest rate risk*

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's secured bank borrowings and obligations under finance leases with a fixed or floating interest rate as at the balance sheet date. The interest rates and terms of repayment have been disclosed in notes 27 and 28 to the Financial Information. The Group currently does not have a policy to hedge against the interest rate risk as management does not expect any significant interest rate risk as at the balance sheet date.

The sensitivity analysis below has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to secured bank borrowings that would have a significant effect to the profit or loss. A change of 100 basis points ("bps") was applied to the yield curves at the respective balance sheet date.

As at 30th June, 2006, 2007 and 2008, if interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's net profit would decrease/increase by approximately HK\$362,000, HK\$1,100,000 and HK\$420,000, respectively, but there would be no impact on the other equity reserves. The Group's sensitivity to interest rates has been decreased during the year mainly due to the reduction in variable rate financial liabilities.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for the secured bank borrowings in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis throughout the Relevant Periods.

*Price risk*

The Group is exposed to equity security price risk through the available-for-sale investments. Management manages this exposure by maintaining a portfolio of investments with different risk profiles.

*Credit risk*

Credit risk refers to the risk that debtors will default on their obligations to repay the amounts due to the Group, resulting in a loss to the Group. The Group's credit risk is mainly attributable to the promissory note receivable and amount due from a jointly controlled entity.

The management closely monitors the financial position of the jointly controlled entity and is ready to take appropriate actions to safeguard the interest of the Group as and when necessary. Therefore, the Group's exposure to credit risk is to a large extent limited. The maximum exposure to credit risk is represented by the carrying amount of the promissory note receivable and amount due from a jointly controlled entity as reported in the consolidated balance sheet.

*Liquidity risk*

The Group's objective is to maintain a balance between continuity of funding and flexibility through banking facilities available. As at 30th June, 2006, 2007 and 2008, unutilised banking facilities available to the Group was approximately HK\$57,500,000, HK\$30,000,000 and HK\$48,000,000, respectively.

The maturity profile of the Group's financial liabilities at the balance sheet date based on contractual undiscounted payments are summarised below:

|                                  | On demand<br>or within<br>one year | 1-2 years    | 2-3 years     | 3-4 years    | 4-5 years    | Over<br>5 years | Total          |
|----------------------------------|------------------------------------|--------------|---------------|--------------|--------------|-----------------|----------------|
|                                  | HK\$'000                           | HK\$'000     | HK\$'000      | HK\$'000     | HK\$'000     | HK\$'000        | HK\$'000       |
| <b>At 30th June, 2006</b>        |                                    |              |               |              |              |                 |                |
| Trade and other payables         | 10,021                             | –            | –             | –            | –            | –               | 10,021         |
| Tax payables                     | 1,084                              | –            | –             | –            | –            | –               | 1,084          |
| Secured bank borrowings          | 12,808                             | 4,340        | 3,334         | 3,334        | 3,334        | 17,438          | 44,588         |
| Obligations under finance leases | 4,052                              | 2,630        | 1,019         | –            | –            | –               | 7,701          |
| Bank overdrafts                  | 5,176                              | –            | –             | –            | –            | –               | 5,176          |
|                                  | <u>33,141</u>                      | <u>6,970</u> | <u>4,353</u>  | <u>3,334</u> | <u>3,334</u> | <u>17,438</u>   | <u>68,570</u>  |
| <b>At 30th June, 2007</b>        |                                    |              |               |              |              |                 |                |
| Trade and other payables         | 7,623                              | –            | –             | –            | –            | –               | 7,623          |
| Tax payables                     | 712                                | –            | –             | –            | –            | –               | 712            |
| Secured bank borrowings          | 22,823                             | 7,825        | 93,388        | –            | –            | –               | 124,036        |
| Obligations under finance leases | 3,850                              | 2,104        | 85            | 28           | –            | –               | 6,067          |
| Bank overdrafts                  | 4,925                              | –            | –             | –            | –            | –               | 4,925          |
|                                  | <u>39,933</u>                      | <u>9,929</u> | <u>93,473</u> | <u>28</u>    | <u>–</u>     | <u>–</u>        | <u>143,363</u> |
| <b>At 30th June, 2008</b>        |                                    |              |               |              |              |                 |                |
| Trade and other payables         | 2,116                              | –            | –             | –            | –            | –               | 2,116          |
| Secured bank borrowings          | 3,978                              | 3,907        | 36,569        | –            | –            | –               | 44,454         |
| Obligations under finance leases | 604                                | 282          | –             | –            | –            | –               | 886            |
|                                  | <u>6,698</u>                       | <u>4,189</u> | <u>36,569</u> | <u>–</u>     | <u>–</u>     | <u>–</u>        | <u>47,456</u>  |



**(b) Categories and fair value of financial instruments**

The carrying amounts of each of the following categories of financial assets and financial liabilities are set out as follows:

|  | <b>2006</b>     | <b>2007</b>     | <b>2008</b>     |
|--|-----------------|-----------------|-----------------|
|  | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| <i>Loans and receivables:</i>                                  |                 |                 |                 |
| Trade and other receivables                                    | 46,660          | 13,744          | 1,594           |
| Promissory note receivable from<br>a jointly controlled entity | –               | 171,600         | 171,600         |
| Amount due from a jointly controlled entity                    | –               | 12,955          | 16,372          |
| Pledged bank deposits  | 3,059           | 3,173           | –               |
| Bank balances and cash   | 37,836          | 23,299          | 1,766           |
|  | <u>87,555</u>   | <u>224,771</u>  | <u>191,332</u>  |
| <i>Available-for-sale financial assets:</i>                    |                 |                 |                 |
| Available-for-sale investments                                 | <u>26,391</u>   | <u>1,144</u>    | <u>921</u>      |
| <i>Financial liabilities measured at amortised cost:</i>       |                 |                 |                 |
| Trade and other payables                                       | 10,021          | 7,623           | 2,116           |
| Tax payables   | 1,084           | 712             | –               |
| Secured bank borrowings  | 36,220          | 110,122         | 42,000          |
| Obligations under finance leases                               | 7,144           | 5,730           | 842             |
| Bank overdrafts  | 4,771           | 4,539           | –               |
|  | <u>59,240</u>   | <u>128,726</u>  | <u>44,958</u>   |

In the opinion of the directors, the carrying amounts of the financial assets and liabilities as reported in the consolidated balance sheet approximate their fair value.

**4. CAPITAL MANAGEMENT**

The objectives of the Group's capital management are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, to maintain an optimal capital structure, to reduce the cost of capital and to support the Group's stability and growth.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or return capital to shareholders. No changes were made in the objectives, policies or processes during the Relevant Periods.

## 5. TURNOVER AND REVENUE

|                                   | 2006<br>HK\$'000 | 2007<br>HK\$'000 | 2008<br>HK\$'000 |
|-----------------------------------|------------------|------------------|------------------|
| <b>Continuing operations</b>      |                  |                  |                  |
| Rental income                     | 8,526            | 6,785            | 5,876            |
| <b>Discontinued operations</b>    |                  |                  |                  |
| Sale of goods                     | 99,108           | 113,828          | 56,988           |
| <b>Total turnover and revenue</b> | <u>107,634</u>   | <u>120,613</u>   | <u>62,864</u>    |

## 6. OTHER INCOME

|   | 2006<br>HK\$'000 | 2007<br>HK\$'000 | 2008<br>HK\$'000 |
|---|------------------|------------------|------------------|
| <b>Continuing operations</b>  |                  |                  |                  |
| Dividend income   | 59               | 805              | 17               |
| Gain on disposal of investment properties   | 1,162            | –                | 7,152            |
| Gain on disposal of available-for-sale investments                                    | 813              | 1,959            | –                |
| Interest income   | 361              | 850              | 161              |
| Reversal of impairment loss recognised in<br>respect of prepaid lease payments        | 613              | –                | –                |
| Reversal of impairment loss recognised in<br>respect of property, plant and equipment | 178              | –                | –                |
| Sundry income   | 140              | 565              | 1,896            |
| Waiver of other borrowings ( <i>Note</i> )  | 19,651           | –                | –                |
|   | <u>22,977</u>    | <u>4,179</u>     | <u>9,226</u>     |

*Note:* As disclosed in the Company's annual report of 2006, during the year ended 30th June, 2006, the Company received a waiver of claim of other loans with an aggregate principal of HK\$18,449,000 and accrued interest of HK\$1,202,000 from the lender of other loans, without any conditions and consideration as well as any actions to retrocede or claim for any loss or money of the waiver.

## 7. BUSINESS AND GEOGRAPHICAL SEGMENTS

**Business segments**

For management purposes, the Group's operations are organised into three operating divisions namely resort development, property investment and manufacture and distribution of electronic products. The Group's resort development division includes multi-purpose resort communities as well as sale of condo hotels, residential units and club memberships. These divisions are the basis on which the Group reports its primary segment information.

Business segment information for the year ended 30th June, 2006 is presented below:

|                                  | Continuing operations          |                                 |                       | Discontinued operations   | Consolidated   |
|----------------------------------|--------------------------------|---------------------------------|-----------------------|---|----------------|
|                                  | Resort development<br>HK\$'000 | Property investment<br>HK\$'000 | Sub-total<br>HK\$'000 | Manufacture and distribution of electronic products<br>HK\$'000 |                |
| <b>Turnover</b>                  | <u>–</u>                       | <u>8,526</u>                    | <u>8,526</u>          | <u>99,108</u>   | <u>107,634</u> |
| <b>Results</b>                   |                                |                                 |                       |   |                |
| Segment results                  | <u>(1,479)</u>                 | <u>16,120</u>                   | 14,641                | (1,947)   | 12,694         |
| Unallocated corporate income     |                                |                                 | 19,651                | –   | 19,651         |
| Unallocated corporate expenses   |                                |                                 | (16,259)              | –   | (16,259)       |
| Loss on disposal of subsidiaries |                                |                                 | (61)                  | –   | (61)           |
| Finance costs                    |                                |                                 | <u>(4,277)</u>        | <u>(988)</u>  | <u>(5,265)</u> |
| Profit (Loss) before taxation    |                                |                                 | 13,695                | (2,935)   | 10,760         |
| Tax charge                       |                                |                                 | <u>(786)</u>          | <u>(22)</u>   | <u>(808)</u>   |
| Profit (Loss) for the year       |                                |                                 | <u>12,909</u>         | <u>(2,957)</u>  | <u>9,952</u>   |

|   | Continuing operations          |                                 |                           |                         |                       | Discontinued operations   | Consolidated   |
|---|--------------------------------|---------------------------------|---------------------------|-------------------------|-----------------------|---|----------------|
|   | Resort development<br>HK\$'000 | Property investment<br>HK\$'000 | Segment total<br>HK\$'000 | Unallocated<br>HK\$'000 | Sub-total<br>HK\$'000 | Manufacture and distribution of electronic products<br>HK\$'000 |                |
| <b>Assets</b>                                 | <u>143,572</u>                 | <u>265,729</u>                  | <u>409,301</u>            | <u>66,054</u>           | <u>475,355</u>        | <u>23,404</u>   | <u>498,759</u> |
| <b>Liabilities</b>                            | <u>245</u>                     | <u>32,712</u>                   | <u>32,957</u>             | <u>21,028</u>           | <u>53,985</u>         | <u>5,255</u>  | <u>59,240</u>  |
| Other information:                            |                                |                                 |                           |                         |                       |   |                |
| Additions to property, plant and equipment    | 53,494                         | 3,415                           | 56,909                    | 1,667                   | 58,576                | 5,743   | 64,319         |
| Depreciation of property, plant and equipment | –                              | 3,897                           | 3,897                     | 246                     | 4,143                 | 2,893   | 7,036          |
| Release of prepaid lease payments             | <u>–</u>                       | <u>41</u>                       | <u>41</u>                 | <u>–</u>                | <u>41</u>             | <u>5</u>  | <u>46</u>      |

Business segment information for the year ended 30th June, 2007 is presented below:

|                                  | Continuing operations          |                                 |                   | Discontinued operations   | Consolidated   |
|----------------------------------|--------------------------------|---------------------------------|-------------------|---|----------------|
|                                  | Resort development<br>HK\$'000 | Property investment<br>HK\$'000 | Total<br>HK\$'000 | Manufacture and distribution of electronic products<br>HK\$'000 |                |
| <b>Turnover</b>                  | <u>–</u>                       | <u>6,785</u>                    | <u>6,785</u>      | <u>113,828</u>  | <u>120,613</u> |
| <b>Results</b>                   |                                |                                 |                   |   |                |
| Segment results                  | <u>(563)</u>                   | <u>12,339</u>                   | 11,776            | 27  | 11,803         |
| Unallocated corporate income     |                                |                                 | 3,627             | –   | 3,627          |
| Unallocated corporate expenses   |                                |                                 | (29,627)          | –   | (29,627)       |
| Gain on disposal of subsidiaries |                                |                                 | 127,331           | –   | 127,331        |
| Finance costs                    |                                |                                 | <u>(1,838)</u>    | <u>(2,040)</u>  | <u>(3,878)</u> |
| Profit (Loss) before taxation    |                                |                                 | 111,269           | (2,013)   | 109,256        |
| Tax credit                       |                                |                                 | <u>59</u>         | <u>–</u>  | <u>59</u>      |
| Profit (Loss) for the year       |                                |                                 | <u>111,328</u>    | <u>(2,013)</u>  | <u>109,315</u> |

|   | Continuing operations          |                                 |                           |                         |                   | Discontinued operations   | Consolidated   |
|---|--------------------------------|---------------------------------|---------------------------|-------------------------|-------------------|---|----------------|
|   | Resort development<br>HK\$'000 | Property investment<br>HK\$'000 | Segment total<br>HK\$'000 | Unallocated<br>HK\$'000 | total<br>HK\$'000 | Manufacture and distribution of electronic products<br>HK\$'000 |                |
| <b>Assets</b>                                 | <u>192,236</u>                 | <u>226,034</u>                  | <u>418,270</u>            | <u>227,994</u>          | <u>646,264</u>    | <u>25,966</u>   | <u>672,230</u> |
| <b>Liabilities</b>                            | <u>–</u>                       | <u>11,180</u>                   | <u>11,180</u>             | <u>121,266</u>          | <u>132,446</u>    | <u>5,160</u>  | <u>137,606</u> |
| Other information:                            |                                |                                 |                           |                         |                   |   |                |
| Additions to property, plant and equipment    | 151,986                        | 482                             | 152,468                   | 804                     | 153,272           | 4,575   | 157,847        |
| Depreciation of property, plant and equipment | –                              | 253                             | 253                       | 4,498                   | 4,751             | 2,952   | 7,703          |
| Release of prepaid lease payments             | <u>–</u>                       | <u>41</u>                       | <u>41</u>                 | <u>–</u>                | <u>41</u>         | <u>5</u>  | <u>46</u>      |

Business segment information for the year ended 30th June, 2008 is presented below:

|   | Continuing operations          |                                 |                   | Discontinued operations   | Consolidated  |
|---|--------------------------------|---------------------------------|-------------------|---|---------------|
|   | Resort development<br>HK\$'000 | Property investment<br>HK\$'000 | Total<br>HK\$'000 | Manufacture and distribution of electronic products<br>HK\$'000 |               |
| <b>Turnover</b>                                 | <u>–</u>                       | <u>5,876</u>                    | <u>5,876</u>      | <u>56,988</u>   | <u>62,864</u> |
| <b>Results</b>                                  |                                |                                 |                   |   |               |
| Segment results                                 | <u>67</u>                      | <u>37,962</u>                   | 38,029            | 1,040   | 39,069        |
| Unallocated corporate income                    |                                |                                 | 1,417             | –   | 1,417         |
| Unallocated corporate expenses                  |                                |                                 | (22,013)          | –   | (22,013)      |
| Gain on disposal of subsidiaries                |                                |                                 | 3,648             | –   | 3,648         |
| Finance costs                                   |                                |                                 | (3,907)           | (1,121)   | (5,028)       |
| Share of results of a jointly controlled entity | 298                            |                                 | <u>298</u>        | <u>–</u>  | <u>298</u>    |
| Profit (Loss) before taxation                   |                                |                                 | 17,472            | (81)  | 17,391        |
| Tax credit                                      |                                |                                 | <u>432</u>        | <u>–</u>  | <u>432</u>    |
| Profit (Loss) for the year                      |                                |                                 | <u>17,904</u>     | <u>(81)</u>   | <u>17,823</u> |

|   | Continuing operations          |                                 |                           |                         |                   | Discontinued operations   | Consolidated   |
|---|--------------------------------|---------------------------------|---------------------------|-------------------------|-------------------|---|----------------|
|   | Resort development<br>HK\$'000 | Property investment<br>HK\$'000 | Segment total<br>HK\$'000 | Unallocated<br>HK\$'000 | Total<br>HK\$'000 | Manufacture and distribution of electronic products<br>HK\$'000 |                |
| <b>Assets</b>                                 | <u>194,161</u>                 | <u>196,610</u>                  | <u>390,771</u>            | <u>201,426</u>          | <u>592,197</u>    | <u>–</u>  | <u>592,197</u> |
| <b>Liabilities</b>                            | <u>–</u>                       | <u>1,734</u>                    | <u>1,734</u>              | <u>43,224</u>           | <u>44,958</u>     | <u>–</u>  | <u>44,958</u>  |
| Other information:                            |                                |                                 |                           |                         |                   |   |                |
| Additions to property, plant and equipment    | 15,080                         | 743                             | 15,823                    | 809                     | 16,632            | 249   | 16,881         |
| Depreciation of property, plant and equipment | –                              | 2,878                           | 2,878                     | 2,083                   | 4,961             | 1,420   | 6,381          |
| Release of prepaid lease payments             | <u>–</u>                       | <u>40</u>                       | <u>40</u>                 | <u>–</u>                | <u>40</u>         | <u>3</u>  | <u>43</u>      |

**Geographical segments**

The Group's operations are principally located in Hong Kong, the People's Republic of China other than Hong Kong (the "PRC"), the BVI, Panama and the United States of America.

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

|                                | <b>Revenue by geographical market</b> |                 |                 |
|--------------------------------|---------------------------------------|-----------------|-----------------|
|                                | <b>2006</b>                           | <b>2007</b>     | <b>2008</b>     |
|                                | <i>HK\$'000</i>                       | <i>HK\$'000</i> | <i>HK\$'000</i> |
| <b>Continuing operations</b>   |                                       |                 |                 |
| Hong Kong                      | 3,434                                 | 1,826           | 973             |
| The PRC                        | 3,893                                 | 4,032           | 4,903           |
| The BVI                        | 1,199                                 | 927             | –               |
|                                | <u>8,526</u>                          | <u>6,785</u>    | <u>5,876</u>    |
| <b>Discontinued operations</b> |                                       |                 |                 |
| Hong Kong                      | <u>99,108</u>                         | <u>113,828</u>  | <u>56,988</u>   |

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

|                                | <b>Carrying amounts of segment assets</b> |                 |                 | <b>Additions to property, plant and equipment</b> |                 |                 |
|--------------------------------|---|-----------------|-----------------|---|-----------------|-----------------|
|                                | <b>2006</b>                               | <b>2007</b>     | <b>2008</b>     | <b>2006</b>                                       | <b>2007</b>     | <b>2008</b>     |
|                                | <i>HK\$'000</i>                           | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i>                                   | <i>HK\$'000</i> | <i>HK\$'000</i> |
| <b>Continued operations</b>    |   |                 |                 |   |                 |                 |
| Hong Kong                      | 232,532                                   | 182,949         | 157,776         | 5,082   | 1,286           | 845             |
| The PRC                        | 33,171                                    | 40,694          | 38,834          | –   | –               | 707             |
| The BVI                        | 143,572                                   | 38,860          | 27,017          | 53,494  | 2               | –               |
| Panama                         | –   | 155,767         | 167,144         | –   | 151,984         | 15,080          |
| United States of America       | 26  | –               | –               | –   | –               | –               |
|                                | <u>409,301</u>                            | <u>418,270</u>  | <u>390,771</u>  | <u>58,576</u>                                     | <u>153,272</u>  | <u>16,632</u>   |
| <b>Discontinued operations</b> |   |                 |                 |   |                 |                 |
| Hong Kong                      | <u>23,404</u>                             | <u>25,966</u>   | <u>–</u>        | <u>5,743</u>                                      | <u>4,575</u>    | <u>249</u>      |

## 8. FINANCE COSTS

|  | Continuing operations |              |              | Discontinued operations |              |              | Consolidated |              |              |
|--|-----------------------|--------------|--------------|-------------------------|--------------|--------------|--------------|--------------|--------------|
|  | 2006                  | 2007         | 2008         | 2006                    | 2007         | 2008         | 2006         | 2007         | 2008         |
|  | HK\$'000              | HK\$'000     | HK\$'000     | HK\$'000                | HK\$'000     | HK\$'000     | HK\$'000     | HK\$'000     | HK\$'000     |
| Interest expense on bank borrowings wholly repayable within five years     | 2,816                 | 1,783        | 3,871        | 781                     | 1,604        | 931          | 3,597        | 3,387        | 4,802        |
| Interest expense on bank borrowings not wholly repayable within five years | 1,324                 | –            | –            | –                       | –            | –            | 1,324        | –            | –            |
| Finance charges on obligations under finance leases                        | 137                   | 55           | 36           | 207                     | 436          | 190          | 344          | 491          | 226          |
|  | <u>4,277</u>          | <u>1,838</u> | <u>3,907</u> | <u>988</u>              | <u>2,040</u> | <u>1,121</u> | <u>5,265</u> | <u>3,878</u> | <u>5,028</u> |

## 9. TAX CHARGE (CREDIT)

For the year ended 30th June, 2006, 2007 and 2008, Hong Kong Profits Tax is calculated at 17.5%, 17.5% and 16.5%, respectively, on the Group's estimated assessable profits.

The tax charge (credit) comprises:

|   | 2006       | 2007         | 2008         |
|---|------------|--------------|--------------|
|   | HK\$'000   | HK\$'000     | HK\$'000     |
| <b>Continuing operations</b>            |            |              |              |
| Hong Kong Profits Tax                   |            |              |              |
| Current year                            | 742        | 473          | –            |
| Under(over)-provision in previous years | <u>44</u>  | <u>(532)</u> | <u>(432)</u> |
|   | 786        | (59)         | (432)        |
| <b>Discontinued operations</b>          |            |              |              |
| Hong Kong Profits Tax                   |            |              |              |
| Under-provision in previous years       | <u>22</u>  | <u>–</u>     | <u>–</u>     |
|   | <u>808</u> | <u>(59)</u>  | <u>(432)</u> |

The tax charge (credit) for the year can be reconciled to the profit before taxation as follows:

|  | <b>2006</b><br><i>HK\$'000</i> | <b>2007</b><br><i>HK\$'000</i> | <b>2008</b><br><i>HK\$'000</i> |
|--|--------------------------------|--------------------------------|--------------------------------|
| Profit before taxation   |                                |                                |                                |
| From continuing operations   | 13,695                         | 111,269                        | 17,472                         |
| From discontinued operations   | (2,935)                        | (2,013)                        | (81)                           |
|  | <u>10,760</u>                  | <u>109,256</u>                 | <u>17,391</u>                  |
| Tax at Hong Kong Profits Tax rate                                      | 1,883                          | 19,120                         | 2,870                          |
| Tax effect of expenses not deductible<br>in determining taxable profit | 7,032                          | 7,678                          | 5,768                          |
| Tax effect of income not taxable in determining<br>taxable profit      | (8,482)                        | (26,528)                       | (8,638)                        |
| Tax effect of tax losses not recognised                                | 309                            | 203                            | –                              |
| Over-provision in previous years                                       | 66                             | (532)                          | (432)                          |
|  | <u>808</u>                     | <u>(59)</u>                    | <u>(432)</u>                   |
| Tax charge (credit) for the year                                       |                                |                                |                                |

#### 10. DISCONTINUED OPERATIONS

On 5th November, 2007, the Group entered into an agreement with an independent third party to dispose of its manufacture business, Wideland. The disposal of the manufacture business is consistent with the Group's long-term strategy to focus its resources in the resort development and property investment business. The disposal was completed on 3rd January, 2008 on which date the control of the manufacture business was passed to the acquirer.

The results and cash flows of the discontinued operations have been analysed as follows:

##### (a) Loss for the year from discontinued operations

|   | <b>2006</b><br><i>HK\$'000</i> | <b>2007</b><br><i>HK\$'000</i> | <b>2008</b><br><i>HK\$'000</i> |
|---|--------------------------------|--------------------------------|--------------------------------|
| Turnover  | 99,108                         | 113,828                        | 56,988                         |
| Cost of sales                                   | <u>(93,902)</u>                | <u>(108,332)</u>               | <u>(52,638)</u>                |
| Gross profit                                    | 5,206                          | 5,496                          | 4,350                          |
| Other income                                    | 440                            | 595                            | 95                             |
| Increase in fair value of investment properties | 150                            | 330                            | –                              |
| Distribution costs                              | (1,817)                        | (1,532)                        | (526)                          |
| Administrative expenses                         | (5,926)                        | (4,862)                        | (2,879)                        |
| Finance costs                                   | <u>(988)</u>                   | <u>(2,040)</u>                 | <u>(1,121)</u>                 |
| Loss before taxation                            | (2,935)                        | (2,013)                        | (81)                           |
| Tax charge                                      | <u>(22)</u>                    | <u>–</u>                       | <u>–</u>                       |
| Loss for the year from discontinued operations  | <u>(2,957)</u>                 | <u>(2,013)</u>                 | <u>(81)</u>                    |



**(b) The net cash inflow (outflow) attributable to discontinued operations**

|                       | <b>2006</b>     | <b>2007</b>     | <b>2008</b>     |
|-----------------------|-----------------|-----------------|-----------------|
|                       | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| <i>Net cash flows</i> |                 |                 |                 |
| Operating activities  | 1,041           | (15)            | 545             |
| Investing activities  | (2,203)         | (836)           | (247)           |
| Financing activities  | 331             | (727)           | (683)           |
| Total net cash flows  | <u>(831)</u>    | <u>(1,578)</u>  | <u>(385)</u>    |

**11. PROFIT FOR THE YEAR**

Profit for the year has been arrived at after charging:

|   | <b>Continuing operations</b> |                 |                 | <b>Discontinued operations</b> |                 |                 | <b>Consolidated</b> |                 |                 |
|---|------------------------------|-----------------|-----------------|--------------------------------|-----------------|-----------------|---------------------|-----------------|-----------------|
|   | <b>2006</b>                  | <b>2007</b>     | <b>2008</b>     | <b>2006</b>                    | <b>2007</b>     | <b>2008</b>     | <b>2006</b>         | <b>2007</b>     | <b>2008</b>     |
|   | <i>HK\$'000</i>              | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i>                | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i>     | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Staff cost, including                             |                              |                 |                 |                                |                 |                 |                     |                 |                 |
| directors' emoluments:                            |                              |                 |                 |                                |                 |                 |                     |                 |                 |
| Salaries and other benefits                       | 13,195                       | 14,331          | 14,602          | 6,071                          | 7,377           | 5,061           | 19,266              | 21,708          | 19,663          |
| Share-based payment expenses                      | 8,233                        | 379             | –               | –                              | –               | –               | 8,233               | 379             | –               |
| Retirement benefit scheme contributions           | 222                          | 96              | 115             | 116                            | 92              | 48              | 338                 | 188             | 163             |
| Total staff costs                                 | 21,650                       | 14,806          | 14,717          | 6,187                          | 7,469           | 5,109           | 27,837              | 22,275          | 19,826          |
| Auditors' remuneration:                           |                              |                 |                 |                                |                 |                 |                     |                 |                 |
| Current year                                      | 950                          | 960             | 500             | –                              | –               | –               | 950                 | 960             | 500             |
| Underprovision in prior years                     | 244                          | 157             | 242             | –                              | –               | –               | 244                 | 157             | 242             |
| Cost of inventories recognised as expenses        | 93,902                       | –               | –               | –                              | 108,332         | 52,638          | 93,902              | 108,332         | 52,638          |
| Donations   | 468                          | 1,144           | 1,570           | –                              | –               | –               | 468                 | 1,144           | 1,570           |
| Depreciation of property, plant and equipment     | 4,143                        | 4,751           | 4,961           | 2,893                          | 2,952           | 1,420           | 7,036               | 7,703           | 6,381           |
| Impairment loss on trade and other receivables    | 179                          | –               | 979             | 535                            | –               | –               | 714                 | –               | 979             |
| Loss on disposal of property, plant and equipment | 461                          | –               | 94              | –                              | –               | –               | 461                 | –               | 94              |
| Operating lease payments on premises              | 2,080                        | 2,028           | 2,256           | 1,237                          | 1,129           | 926             | 3,317               | 3,157           | 3,182           |
| Release of prepaid lease payments                 | 41                           | 41              | 40              | 5                              | 5               | 3               | 46                  | 46              | 43              |

**12. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT**

The consolidated profit attributable to equity holders of the parent for the year ended 30th June, 2006, 2007 and 2008 includes a profit of HK\$5,366,000, a profit of HK\$122,259,000 and a loss of HK\$17,166,000, respectively, which has been dealt with in the financial statements of the Company.

## 13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

## (a) Directors' emoluments

The emoluments paid or payable to each of the directors were as follows:

|   | Hung Kin Sang,<br>Raymond<br>HK\$'000<br>(Note) | Hung Wong Kar Gee,<br>Mimi<br>HK\$'000<br>(Note) | Hung Kai Mau,<br>Marcus<br>HK\$'000<br>(Note) | Fang Chin Ping<br>HK\$'000 | Lo Yun Tai<br>HK\$'000 | Lun Tsan Kau<br>HK\$'000 | Soo Hung Leung,<br>Lincoln<br>HK\$'000 | Lam Ka Wai,<br>Graham<br>HK\$'000 | Total<br>HK\$'000 |
|---|---|--|---|----------------------------|------------------------|--------------------------|--|-----------------------------------|-------------------|
| <b>Year ended 30th June, 2006</b>       |   |  |   |                            |                        |                          |  |                                   |                   |
| Fees                                    | -   | -  | -   | -                          | 100                    | 100                      | 100                                    | 75                                | 375               |
| Other emoluments                        |   |  |   |                            |                        |                          |  |                                   |                   |
| Salaries and other benefits             | 3,345   | 3,689  | 612   | 589                        | -                      | -                        | -                                      | -                                 | 8,235             |
| Share based payment expenses            | 7,854   | -  | 316   | -                          | -                      | -                        | -                                      | -                                 | 8,170             |
| Retirement benefit scheme contributions | 12  | 12   | 12  | -                          | -                      | -                        | -                                      | -                                 | 36                |
| <b>Total emoluments</b>                 | <b>11,211</b>                                   | <b>3,701</b>                                     | <b>940</b>                                    | <b>589</b>                 | <b>100</b>             | <b>100</b>               | <b>100</b>                             | <b>75</b>                         | <b>16,816</b>     |
| <b>Year ended 30th June, 2007</b>       |   |  |   |                            |                        |                          |  |                                   |                   |
| Fees                                    | -   | -  | -   | -                          | 100                    | 100                      | 100                                    | 100                               | 400               |
| Other emoluments                        |   |  |   |                            |                        |                          |  |                                   |                   |
| Salaries and other benefits             | 5,286   | 4,326  | 1,151   | 626                        | -                      | -                        | -                                      | -                                 | 11,389            |
| Share-based payment expenses            | -   | -  | 316   | -                          | -                      | -                        | -                                      | -                                 | 316               |
| Retirement benefit scheme contributions | 12  | 12   | 12  | -                          | -                      | -                        | -                                      | -                                 | 36                |
| <b>Total emoluments</b>                 | <b>5,298</b>                                    | <b>4,338</b>                                     | <b>1,479</b>                                  | <b>626</b>                 | <b>100</b>             | <b>100</b>               | <b>100</b>                             | <b>100</b>                        | <b>12,141</b>     |
| <b>Year ended 30th June, 2008</b>       |   |  |   |                            |                        |                          |  |                                   |                   |
| Fees                                    | -   | -  | -   | -                          | 100                    | 100                      | 100                                    | 100                               | 400               |
| Other emoluments                        |   |  |   |                            |                        |                          |  |                                   |                   |
| Salaries and other benefits             | 6,712   | 3,398  | 881   | 709                        | -                      | -                        | -                                      | -                                 | 11,700            |
| Retirement benefit scheme contributions | 12  | 12   | 12  | -                          | -                      | -                        | -                                      | -                                 | 36                |
| <b>Total emoluments</b>                 | <b>6,724</b>                                    | <b>3,410</b>                                     | <b>893</b>                                    | <b>709</b>                 | <b>100</b>             | <b>100</b>               | <b>100</b>                             | <b>100</b>                        | <b>12,136</b>     |

*Note:* In addition to the above, the Group provided rent-free accommodation to Mr. Hung Kin Sang, Raymond, Madam Hung Wong Kar Gee, Mimi and Mr. Hung Kai Mau, Marcus. The estimated rateable values are analysed as follows:

|                         | <b>2006</b><br>HK\$'000 | <b>2007</b><br>HK\$'000 | <b>2008</b><br>HK\$'000 |
|-------------------------|-------------------------|-------------------------|-------------------------|
| Hung King Sang, Raymond | 342                     | 342                     | 170                     |
| Hung Wong Kar Gee, Mimi | 953                     | 1,847                   | 2,325                   |
| Hung Kai Mau, Marcus    | 242                     | 469                     | 652                     |
|                         | <b>1,537</b>            | <b>2,658</b>            | <b>3,147</b>            |

**(b) Employees' emoluments**

The five highest paid individuals included four directors of the Company, details of whose emoluments are set out above. The emoluments of the remaining individual is as follows:

|  | <b>2006</b><br><i>HK\$'000</i> | <b>2007</b><br><i>HK\$'000</i> | <b>2008</b><br><i>HK\$'000</i> |
|--|--------------------------------|--------------------------------|--------------------------------|
| Salaries and other benefits              | 715                            | 660                            | 621                            |
| Retirement benefits scheme contributions | 12                             | 12                             | 12                             |
|  | <u>727</u>                     | <u>672</u>                     | <u>633</u>                     |

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

**14. EARNINGS (LOSS) PER SHARE**

Diluted earnings (loss) per share has not been presented because the exercise price of the share options granted is higher than the average market price of shares for each of the Relevant Periods.

**For continuing and discontinued operations**

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

|  | <b>2006</b><br><i>HK\$'000</i>      | <b>2007</b><br><i>HK\$'000</i>      | <b>2008</b><br><i>HK\$'000</i>      |
|--|-------------------------------------|-------------------------------------|-------------------------------------|
| Earnings for the purposes of basic earnings per share  | <u>10,757</u>                       | <u>110,173</u>                      | <u>17,823</u>                       |
|  | <b>2006</b><br><i>No. of shares</i> | <b>2007</b><br><i>No. of shares</i> | <b>2008</b><br><i>No. of shares</i> |
| Weighted average number of ordinary shares for the purposes of basic earnings per share (arrived after eliminating the shares in the Company held by Applied Investment) | <u>879,858,648</u>                  | <u>858,835,347</u>                  | <u>840,443,073</u>                  |

**For continuing operations**

The calculation of the basic earnings per share from continuing operations attributable to the equity holders of the parent is based on the following data:

|  | <b>2006</b><br><i>HK\$'000</i> | <b>2007</b><br><i>HK\$'000</i> | <b>2008</b><br><i>HK\$'000</i> |
|--|--------------------------------|--------------------------------|--------------------------------|
| Earnings for the purposes of basic earnings per share                            | 10,757                         | 110,173                        | 17,823                         |
| Add: Loss for the year from the discontinued operations                          | <u>2,957</u>                   | <u>2,013</u>                   | <u>81</u>                      |
| Earnings for the purposes of basic earnings per share from continuing operations | <u>13,714</u>                  | <u>112,186</u>                 | <u>17,904</u>                  |

|  | <b>2006</b>          | <b>2007</b>          | <b>2008</b>          |
|--|----------------------|----------------------|----------------------|
|  | <i>No. of shares</i> | <i>No. of shares</i> | <i>No. of shares</i> |
| Weighted average number of ordinary shares for the purposes of basic earnings per share (arrived after eliminating the shares in the Company held by Applied Investment) | <u>879,858,648</u>   | <u>858,835,347</u>   | <u>840,443,073</u>   |

**For discontinued operations**

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

|   | <b>2006</b>     | <b>2007</b>     | <b>2008</b>     |
|---|-----------------|-----------------|-----------------|
|   | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Loss for the purposes of basic loss per share | <u>(2,957)</u>  | <u>(2,013)</u>  | <u>(81)</u>     |

  

|  | <b>2006</b>          | <b>2007</b>          | <b>2008</b>          |
|--|----------------------|----------------------|----------------------|
|  | <i>No. of shares</i> | <i>No. of shares</i> | <i>No. of shares</i> |
| Weighted average number of ordinary shares for the purposes of basic loss per share (arrived after eliminating the shares in the Company held by Applied Investment) | <u>879,858,648</u>   | <u>858,835,347</u>   | <u>840,443,073</u>   |

Changes in the Group's accounting policies during the Relevant Periods are described in detail in note 2. To the extent that those changes have an impact on the results reported for the year ended 30th June, 2006, they have had an impact on the figures reported for earnings (loss) per share. The following table summarises that impact on basic earnings (loss) per share:

|   | <b>Year ended 30 the June, 2006</b>           |                              |                                |
|---|---|------------------------------|--------------------------------|
|   | <b>Continuing and discontinued operations</b> | <b>Continuing operations</b> | <b>Discontinued operations</b> |
|   | <i>HK cents</i>                               | <i>HK cents</i>              | <i>HK cents</i>                |
| Figures before adjustments                              | 2.30  | 2.64                         | (0.34)                         |
| Adjustments arising from changes in accounting policies | <u>(1.08)</u>                                 | <u>(1.08)</u>                | <u>—</u>                       |
| Figures as reported                                     | <u>1.22</u>                                   | <u>1.56</u>                  | <u>(0.34)</u>                  |

## 15. INVESTMENT PROPERTIES

|   | <i>HK\$'000</i>       |
|---|-----------------------|
| <b>Fair value</b>                       |                       |
| At 1st July, 2005                       | 305,500               |
| Disposals of properties                 | (117,000)             |
| Increase in fair value                  | <u>19,000</u>         |
| At 30th June, 2006                      | 207,500               |
| Transferred to properties held for sale | (59,000)              |
| Increase in fair value                  | <u>10,530</u>         |
| At 30th June, 2007                      | 159,030               |
| Increase in fair value                  | 33,950                |
| Additions of properties                 | 29,325                |
| Disposals of properties                 | (29,325)              |
| Disposals of subsidiaries               | <u>(2,080)</u>        |
| At 30th June, 2008                      | <u><u>190,900</u></u> |

During the year ended 30th June, 2007, the Group entered into a binding agreement with an independent third party for the disposal of leasehold investment properties, which was held in Hong Kong under medium-term leases, with carrying value of approximately HK\$59,000,000 for a consideration of HK\$59,000,000. As such, the investment properties have been reclassified as properties held for sale. The transaction was completed during the year ended 30th June, 2008.

The fair values of the investment properties of the Group at the balance sheet date have been arrived at on the basis of valuation as at 30th June, 2006 carried out by RHL Appraisal Limited and as at 30th June, 2007 and 2008 carried out by Asset Appraisal Limited. RHL Appraisal Limited and Asset Appraisal Limited are independent firms of qualified professional valuers not connected with the Group, are members of the Hong Kong Institute of Surveyors ("HKIS") and have appropriate qualifications and recent experience in the valuation of similar properties at the relevant locations. The valuations, which conform to HKIS Valuation Standards on properties, were arrived at by reference to market evidence of transaction prices for similar properties or net rental income allowing for reversionary income potential.

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

The carrying values of investment properties held by the Group comprise of:

|                         | <b>2006</b>           | <b>2007</b>           | <b>2008</b>           |
|-------------------------|-----------------------|-----------------------|-----------------------|
|                         | <i>HK\$'000</i>       | <i>HK\$'000</i>       | <i>HK\$'000</i>       |
| Held in Hong Kong:      |                       |                       |                       |
| Long-term leases        | 117,000               | 125,000               | 153,500               |
| Medium-term leases      | 61,750                | 2,080                 | –                     |
| Held outside Hong Kong: |                       |                       |                       |
| Medium-term leases      | <u>28,750</u>         | <u>31,950</u>         | <u>37,400</u>         |
|                         | <u><u>207,500</u></u> | <u><u>159,030</u></u> | <u><u>190,900</u></u> |

## 16. PROPERTY, PLANT AND EQUIPMENT

|  | Properties<br>under<br>development<br>HK\$'000 | Leasehold<br>land<br>and<br>buildings<br>HK\$'000 | Leasehold<br>improvements<br>HK\$'000 | Plant and<br>machinery<br>HK\$'000 | Furniture,<br>fixtures<br>and<br>equipment<br>HK\$'000 | Motor<br>vehicles<br>HK\$'000 | Motor<br>boats<br>HK\$'000 | Total<br>HK\$'000 |
|--|--|---|---------------------------------------|------------------------------------|--|-------------------------------|----------------------------|-------------------|
| <b>Cost</b>  |  |   |                                       |                                    |  |                               |                            |                   |
| At 30th June, 2005,<br>as originally stated          | 89,642   | 7,163   | 12,783                                | 63,292                             | 60,495   | 12,819                        | –                          | 246,194           |
| Effect of adoption of<br>new accounting<br>standards | –  | (2,284)   | –                                     | –                                  | –  | –                             | –                          | (2,284)           |
| At 1st July, 2005,<br>as restated                    | 89,642   | 4,879   | 12,783                                | 63,292                             | 60,495   | 12,819                        | –                          | 243,910           |
| Additions  | 53,494   | –   | 1,442                                 | 4,234                              | 286  | 3,213                         | 1,650                      | 64,319            |
| Disposals  | –  | –   | (1,189)                               | (264)                              | –  | (2,557)                       | –                          | (4,010)           |
| At 30th June, 2006                                   | 143,136  | 4,879   | 13,036                                | 67,262                             | 60,781   | 13,475                        | 1,650                      | 304,219           |
| Additions  | 151,986  | –   | 1,205                                 | 3,988                              | 485  | 183                           | –                          | 157,847           |
| Disposal of subsidiaries                             | (143,138)                                      | –   | –                                     | –                                  | –  | –                             | –                          | (143,138)         |
| At 30th June, 2007                                   | 151,984  | 4,879   | 14,241                                | 71,250                             | 61,266   | 13,658                        | 1,650                      | 318,928           |
| Additions  | 15,080   | –   | 54                                    | 132                                | 99   | 1,516                         | –                          | 16,881            |
| Transfers  | –  | –   | –                                     | (139)                              | 139  | –                             | –                          | –                 |
| Disposal of subsidiaries                             | –  | (1,734)   | (1,731)                               | (71,243)                           | (55,271)   | (2,237)                       | –                          | (132,216)         |
| Written off  | –  | –   | –                                     | –                                  | (365)  | (225)                         | –                          | (590)             |
| At 30th June, 2008                                   | <u>167,064</u>                                 | <u>3,145</u>                                      | <u>12,564</u>                         | <u>–</u>                           | <u>5,868</u>   | <u>12,712</u>                 | <u>1,650</u>               | <u>203,003</u>    |
| <b>Depreciation</b>                                  |  |   |                                       |                                    |  |                               |                            |                   |
| At 30th June, 2005,<br>as originally stated          | –  | 2,007   | 3,470                                 | 57,526                             | 59,926   | 7,068                         | –                          | 129,997           |
| Effect of adoption of<br>new accounting<br>standards | –  | (802)   | –                                     | –                                  | –  | –                             | –                          | (802)             |
| At 1st July, 2005<br>as restated                     | –  | 1,205   | 3,470                                 | 57,526                             | 59,926   | 7,068                         | –                          | 129,195           |
| Provided for the year                                | –  | 59  | 2,349                                 | 2,594                              | 177  | 1,829                         | 28                         | 7,036             |
| Eliminated on disposals                              | –  | –   | (348)                                 | (236)                              | –  | (2,557)                       | –                          | (3,141)           |
| Reversal of impairment<br>loss                       | –  | (178)   | –                                     | –                                  | –  | –                             | –                          | (178)             |
| At 30th June, 2006                                   | –  | 1,086   | 5,471                                 | 59,884                             | 60,103   | 6,340                         | 28                         | 132,912           |
| Provided for the year                                | –  | 57  | 2,280                                 | 2,605                              | 219  | 2,212                         | 330                        | 7,703             |
| At 30th June, 2007                                   | –  | 1,143   | 7,751                                 | 62,489                             | 60,322   | 8,552                         | 358                        | 140,615           |
| Provided for the year                                | –  | 33  | 2,399                                 | 1,128                              | 254  | 2,237                         | 330                        | 6,381             |
| Disposal of subsidiaries                             | –  | (1,103)   | (291)                                 | (63,617)                           | (54,854)   | (2,061)                       | –                          | (121,926)         |
| Written back   | –  | –   | –                                     | –                                  | (287)  | (209)                         | –                          | (496)             |
| At 30th June, 2008                                   | <u>–</u>                                       | <u>73</u>   | <u>9,859</u>                          | <u>–</u>                           | <u>5,435</u>   | <u>8,519</u>                  | <u>688</u>                 | <u>24,574</u>     |
| <b>Carrying values</b>                               |  |   |                                       |                                    |  |                               |                            |                   |
| At 30th June, 2006                                   | <u>143,136</u>                                 | <u>3,793</u>                                      | <u>7,565</u>                          | <u>7,378</u>                       | <u>678</u>   | <u>7,135</u>                  | <u>1,622</u>               | <u>171,307</u>    |
| At 30th June, 2007                                   | <u>151,984</u>                                 | <u>3,736</u>                                      | <u>6,490</u>                          | <u>8,761</u>                       | <u>944</u>   | <u>5,106</u>                  | <u>1,292</u>               | <u>178,313</u>    |
| At 30th June, 2008                                   | <u>167,064</u>                                 | <u>3,072</u>                                      | <u>2,705</u>                          | <u>–</u>                           | <u>433</u>   | <u>4,193</u>                  | <u>962</u>                 | <u>178,429</u>    |

The carrying values of land and buildings held by the Group comprises of:

|  | <b>2006</b><br><i>HK\$'000</i> | <b>2007</b><br><i>HK\$'000</i> | <b>2008</b><br><i>HK\$'000</i> |
|--|--------------------------------|--------------------------------|--------------------------------|
| Freehold properties held in Canada                                 | 2,556                          | 2,556                          | 2,556                          |
| Leasehold properties held in Hong Kong<br>under medium-term leases | 704                            | 656                            | –                              |
| Held in the PRC under long-term land use rights                    | <u>533</u>                     | <u>524</u>                     | <u>516</u>                     |
|  | <b><u>3,793</u></b>            | <b><u>3,736</u></b>            | <b><u>3,072</u></b>            |

The properties under development of the Group are freehold properties located in Panama.

As at 30th June 2006, 2007 and 2008, the carrying values of property, plant and equipment of the Group include an aggregate amount of HK\$12,623,000, HK\$11,756,000 and HK\$1,632,000, respectively, in respect of assets held under finance leases.

#### 17. OTHER ASSETS

Other assets of the Group represent antiques held for long-term investment purposes. In the opinion of the directors, the other assets are worth at least their carrying value at the balance sheet date.

#### 18. INTEREST IN A JOINTLY CONTROLLED ENTITY

|  | <b>2007</b><br><i>HK\$'000</i> | <b>2008</b><br><i>HK\$'000</i> |
|--|--------------------------------|--------------------------------|
| Cost of unlisted investment in a jointly controlled entity | 36,469                         | 26,719                         |
| Share of post-acquisition profits                          | <u>–</u>                       | <u>298</u>                     |
|  | <b><u>36,469</u></b>           | <b><u>27,017</u></b>           |

As at 30th June, 2007 and 2008, the Group had interest in the following jointly controlled entity:

| Name of jointly<br>controlled<br>entity      | Form of<br>business<br>structures | Place of<br>incorporation/<br>operation | Class of<br>shares held | Proportion of<br>issued share<br>capital held<br>by the Group<br>% | Principal activities               |
|--|-----------------------------------|---|-------------------------|--|------------------------------------|
| Quorum Island<br>(BVI) Limited<br>("Quorum") | Corporation                       | The BVI                                 | Ordinary                | 50   | Resort and property<br>development |

Pursuant to an agreement dated 11th August, 2006 (the "Agreement") entered into by Quorum, Applied Toys Limited ("Applied Toys"), Applied Enterprises Limited ("Applied Enterprises"), all of which were wholly-owned subsidiaries of the Company, and InterIsle Holdings Limited ("InterIsle"), an independent third party:

- (1) Applied Toys and Applied Enterprises agreed to receive US\$30 million (equivalent to HK\$234,000,000) from Quorum for the redemption of 50% of the issued share capital of Quorum and the settlement of all indebtednesses owed by Quorum to the Group; and
- (2) InterIsle agreed to subscribe 50% equity interest in Quorum for a consideration of US\$21 million (equivalent to HK\$163,800,000).

The Agreement was completed on 9th April, 2007. Quorum became a jointly controlled entity of the Group and a gain on disposal of HK\$127,331,000 was recognised in profit or loss. The sole asset of Quorum upon the date of the completion of the Agreement is a piece of land held for development in the BVI together with certain development costs capitalised (collectively referred to as the "Land").

Upon completion of the Agreement, InterIsle paid US\$8 million (equivalent to HK\$62,400,000) to Quorum. Quorum then repaid US\$8 million (equivalent to HK\$62,400,000) to the Group and issued a promissory note (the "Promissory Note") due for repayment on 9th April, 2008 to the Group for the remaining balance of US\$22 million (equivalent to HK\$171,600,000). Further details of the Promissory Note are set out in note 23.

On 16th April, 2008, a memorandum of amendments to the Agreement (the "Memorandum") has been entered into between Quorum, Applied Toys, Applied Enterprises and InterIsle to extend the due date of the Promissory Note to 9th April, 2009. In addition, InterIsle made a payment of US\$1,250,000 (equivalent to HK\$9,750,000) to the Group in discharging part of its outstanding consideration for the subscription of shares of Quorum. The sum received was credited to the Group's interest in Quorum as compensation to the reduction in the Group's share of net assets.

The summarised financial information in respect of the Group's interest in a jointly controlled entity which is accounted for using the equity method is set out below:

|                     | 2007<br>HK\$'000 | 2008<br>HK\$'000 |
|---------------------|------------------|------------------|
| Non-current assets  | <u>78,047</u>    | <u>81,096</u>    |
| Current assets      | <u>50,700</u>    | <u>41,992</u>    |
| Current liabilities | <u>92,278</u>    | <u>96,071</u>    |
| Income              | <u>—</u>         | <u>686</u>       |
| Expenses            | <u>—</u>         | <u>(388)</u>     |

At 30th June, 2007 and 2008, included in the balance sheet of Quorum is the Land with carrying amount of HK\$156,094,000 and HK\$162,192,000, respectively, of which HK\$78,047,000 and HK\$81,096,000, respectively, relates to the Group's interest. The fair value of the Land as at 30th June, 2007 and 2008 is US\$51 million (equivalent to approximately HK\$397,800,000) which has been arrived at on the basis of a valuation carried out on that date by Edward Childs, a member of the Royal Institution of Chartered Surveyors in United Kingdom ("RICS") who has experience in the valuation of resort and commercial property in the Caribbean region. The valuation, which conforms to RICS Appraisal and Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties and assumed that full planning consent will be granted for the development of the Land in accordance with the Master Plan approved on 31st January, 2007 (the "Master Plan 2007").



In August 2007, a challenge to the Master Plan 2007 has been made by a non-profit civil environmental organisation through judicial review by court in the BVI. Quorum has applied to the court to dismiss the action and the management is confident that the challenge will not have material adverse impact to the development of the Land and its carrying value.

#### 19. PREPAID LEASE PAYMENTS

|   | 2006<br>HK\$'000 | 2007<br>HK\$'000 | 2008<br>HK\$'000 |
|---|------------------|------------------|------------------|
| The Group's prepaid lease payments<br>comprise leasehold interest held on |                  |                  |                  |
| – medium-term leases in Hong Kong   | 216              | 211              | –                |
| – long-term land use rights in the PRC                                    | 1,833            | 1,792            | 1,752            |
|   | <u>2,049</u>     | <u>2,003</u>     | <u>1,752</u>     |
| Analysed for reporting purposes as:                                       |                  |                  |                  |
| Current portion   | 46               | 46               | 40               |
| Non-current portion   | 2,003            | 1,957            | 1,712            |
|   | <u>2,049</u>     | <u>2,003</u>     | <u>1,752</u>     |

#### 20. AVAILABLE-FOR-SALE INVESTMENTS

|                                  | 2006<br>HK\$'000 | 2007<br>HK\$'000 | 2008<br>HK\$'000 |
|----------------------------------|------------------|------------------|------------------|
| Equity investments at fair value |                  |                  |                  |
| Listed in Hong Kong              | 25,649           | 1,144            | 921              |
| Listed in Overseas               | 742              | –                | –                |
|                                  | <u>26,391</u>    | <u>1,144</u>     | <u>921</u>       |

The fair values of the listed investments are determined on the basis of quoted market price at the balance sheet date.

#### 21. INVENTORIES

|               | 2006<br>HK\$'000 | 2007<br>HK\$'000 | 2008<br>HK\$'000 |
|---------------|------------------|------------------|------------------|
| Raw materials | <u>2,256</u>     | <u>1,898</u>     | <u>–</u>         |

**22. TRADE AND OTHER RECEIVABLES**

The Group allows credit period ranging within 90 days to its trade customers.

As at 30th June, 2006, 2007 and 2008, included in trade and other receivables of the Group are trade receivables of HK\$3,777,000, HK\$6,151,000 and HK\$292,000, respectively, and their aging analysis is as follows:

|                                       | <b>2006</b>     | <b>2007</b>     | <b>2008</b>     |
|---------------------------------------|-----------------|-----------------|-----------------|
|                                       | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Within 90 days                        | 3,588           | 5,851           | 292             |
| More than 90 days and within 180 days | 189             | 300             | –               |
|                                       | <u>3,777</u>    | <u>6,151</u>    | <u>292</u>      |

Included in trade and other receivables of the Group as at 30th June, 2006 were other receivables of HK\$33,654,000 which represent the remaining balance of consideration for the disposal of a 60% owned subsidiary of the Company, 惠陽縣淡水新陽城建設有限公司 (“Danshui”). On 16th October, 2003, the Group entered into an agreement to dispose of its equity interest in Danshui at a consideration of HK\$61,956,000. The transaction was completed on 27th June, 2006 and the Group received the partial settlement of the consideration of HK\$28,302,000 up to 30th June, 2005. The remaining balance of the consideration of HK\$33,654,000 was retained by 惠州市惠陽區淡水鎮人民政府 (“淡水鎮人民政府”), who is the witness of the agreement. The amount was fully repaid by 惠州市大亞灣經濟技術開發集團公司, an affiliate of 淡水鎮人民政府 during the year ended 30th June, 2007.

**23. PROMISSORY NOTE RECEIVABLE FROM A JOINTLY CONTROLLED ENTITY**

The amount is unsecured, interest-free and repayable on or before 9th April, 2009 (As at 30th June, 2007: on or before 9th April, 2008).

**24. AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY**

The amount is unsecured, interest-free and has no fixed repayment term.

**25. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH**

Bank balances and cash comprises bank balances and cash held by the Group and short-term bank deposits that are interest-bearing at prevailing market interest rates. As at 30th June, 2006, 2007 and 2008, all bank balances and short-term bank deposits are with maturity of three months or less and carry average interest rates of 2.11%, 2.26% and 1.09% per annum, respectively.

As at 30th June, 2006 and 2007, short-term bank deposits of HK\$3,059,000 (carry fixed interest of 3.9% per annum) and HK\$3,173,000 (carry fixed interest of 3.8% per annum), respectively, were pledged to banks to secure short-term general banking facilities granted to the Group.

As at 30th June, 2006 and 2007, bank overdrafts are repayable on demand and carry interest at prevailing market interest rates ranging from Hong Kong Prime rate (“P”) plus 0.75% to P plus 1.75% and P to P plus 1% per annum, respectively, with the effective interest rate ranged from 8.25% to 9.25% and 8% to 9% per annum, respectively.

**26. TRADE AND OTHER PAYABLES**

As at 30th June 2006, 2007 and 2008, included in trade and other payables of the Group are trade payables of HK\$4,184,000, HK\$3,459,000 and HK\$Nil, respectively, and their aging analysis is as follows:

|                                       | <b>2006</b><br><i>HK\$'000</i> | <b>2007</b><br><i>HK\$'000</i> | <b>2008</b><br><i>HK\$'000</i> |
|---------------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Within 90 days                        | 3,506                          | 1,661                          | –                              |
| More than 90 days and within 180 days | 678                            | 1,798                          | –                              |
|                                       | <u>4,184</u>                   | <u>3,459</u>                   | <u>–</u>                       |

**27. SECURED BANK BORROWINGS**

|                                       | <b>2006</b><br><i>HK\$'000</i> | <b>2007</b><br><i>HK\$'000</i> | <b>2008</b><br><i>HK\$'000</i> |
|---------------------------------------|--------------------------------|--------------------------------|--------------------------------|
| The secured bank borrowings comprise: |                                |                                |                                |
| Bank loans                            | 27,743                         | 95,607                         | 42,000                         |
| Import loans                          | 8,477                          | 14,515                         | –                              |
|                                       | <u>36,220</u>                  | <u>110,122</u>                 | <u>42,000</u>                  |

Amount payable:

|   |                 |                 |                |
|---|-----------------|-----------------|----------------|
| On demand or within one year  | 11,374          | 17,853          | 3,000          |
| More than one year, but not exceeding two years                     | 2,910           | 3,269           | 3,000          |
| More than two years, but not exceeding three years                  | 2,531           | 89,000          | 36,000         |
| More than three years, but not exceeding four years                 | 2,350           | –               | –              |
| More than four years, but not exceeding five years                  | 2,442           | –               | –              |
| More than five years  | 14,613          | –               | –              |
|   | <u>36,220</u>   | <u>110,122</u>  | <u>42,000</u>  |
| Less: Amount due within one year shown<br>under current liabilities | <u>(11,374)</u> | <u>(17,853)</u> | <u>(3,000)</u> |
| Amount due after one year   | <u>24,846</u>   | <u>92,269</u>   | <u>39,000</u>  |

As at 30th June 2006, 2007 and 2008, the Group's bank loans carried variable interest rates ranging from P minus 2.5% to P plus 1.5%, at Hong Kong Inter-bank Offer Rate ("HIBOR") plus 0.7% and HIBOR plus 0.7% per annum, respectively. The effective interest rates during the year ended 30th June 2006, 2007 and 2008 ranged from 5.5% to 9.5%, 4.6% to 5.2%, 2.1% to 6.3% per annum, respectively.

As at 30th June, 2006 and 2007, the Group's import loans carried variable interest rates ranging at P plus 0.5% to 3% and P minus 1.25% to P plus 1%, respectively. The effective interest rates during the year ended 30th June, 2006 and 2007 ranged from 7.1% to 7.9% and 6.1% to 7.2% per annum, respectively.

The Group's borrowings that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

|              | 2006<br>HK\$'000 | 2007<br>HK\$'000 | 2008<br>HK\$'000 |
|--------------|------------------|------------------|------------------|
| US\$         | 8,097            | 11,408           | –                |
| Japanese Yen | –                | 251              | –                |

## 28. OBLIGATIONS UNDER FINANCE LEASES

|  | Minimum lease payments |                  |                  | Present value of minimum lease payments |                  |                  |
|--|------------------------|------------------|------------------|---|------------------|------------------|
|  | 2006<br>HK\$'000       | 2007<br>HK\$'000 | 2008<br>HK\$'000 | 2006<br>HK\$'000                        | 2007<br>HK\$'000 | 2008<br>HK\$'000 |
| Amounts payable:   |                        |                  |                  |   |                  |                  |
| Within one year  | 4,052                  | 3,850            | 604              | 3,732                                   | 3,582            | 572              |
| In more than one year but not more than two years                | 2,630                  | 2,104            | 282              | 2,473                                   | 2,040            | 270              |
| In more than two years but not more than three years             | 1,019                  | 85               | –                | 939                                     | 82               | –                |
| In more than three years but not more than four years            | –                      | 28               | –                | –                                       | 26               | –                |
|  | 7,701                  | 6,067            | 886              | 7,144                                   | 5,730            | 842              |
| Less: Future finance charges                                     | (557)                  | (337)            | (44)             |   |                  |                  |
| Present value of finance lease obligations                       | 7,144                  | 5,730            | 842              |   |                  |                  |
| Less: Amount due within one year shown under current liabilities |                        |                  |                  | (3,732)                                 | (3,582)          | (572)            |
| Amount due after one year  |                        |                  |                  | 3,412                                   | 2,148            | 270              |

The obligations under finance leases of the Group are secured by the lessor's charge over the leased assets.

The lease term ranged from one to four years. For the year ended 30th June, 2006, 2007 and 2008, the average effective borrowing rate was 5.99%, 5.59% and 4.82% per annum, respectively. Interest rates were fixed at the contract date. All leases are on a fixed repayment basis.

**29. SHARE CAPITAL**

|  | <i>Number of<br/>ordinary<br/>shares</i> | <i>HK\$'000</i> |
|--|--|-----------------|
| Ordinary shares of HK\$0.01 each   |  |                 |
| Authorised:  |  |                 |
| At 1st July, 2005, 30th June, 2006, 30th June,<br>2007 and 30th June, 2008 | <u>6,000,000,000</u>                     | <u>60,000</u>   |
| Issued and fully paid:   |  |                 |
| At 1st July, 2005  | 937,222,826                              | 9,372           |
| Cancellation upon repurchase of own shares                                 | <u>(27,240,000)</u>                      | <u>(272)</u>    |
| At 30th June, 2006   | 909,982,826                              | 9,100           |
| Cancellation upon repurchase of own shares                                 | <u>(29,540,000)</u>                      | <u>(296)</u>    |
| At 30th June, 2007   | 880,442,826                              | 8,804           |
| Exercise shares options  | 600,000                                  | 6               |
| Cancellation upon repurchase of own shares                                 | <u>(7,605,000)</u>                       | <u>(76)</u>     |
| At 30th June, 2008   | <u>873,437,826</u>                       | <u>8,734</u>    |

During the year ended 30th June, 2006, 2007 and 2008, the Company repurchased on the Stock Exchange a total of 27,240,000, 29,540,000 and 7,605,000 shares, respectively, of HK\$0.01 each of the Company at an aggregate consideration of HK\$11,338,000, HK\$14,893,000 and HK\$4,854,000, respectively, all of these shares were subsequently cancelled. The nominal value of cancelled shares was credited to the capital redemption reserve and the aggregate consideration was charged to the retained profits of the Company.

**30. SHARE-BASED PAYMENTS**

The Company adopted a share option scheme on 16th September, 2002 (the "Scheme") for the primary purpose of providing incentives to directors and eligible employees. The Scheme will expire on 15th September, 2012. Under the Scheme, the board of directors of the Company may grant options to any employees, including executive directors, or consultants of the Company and/or its subsidiaries, to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at the date of adoption of the Scheme. Unless approved by the shareholders of the Company, the number of shares in respect of which options may be granted to any individual is not permitted to exceed the higher of 1% of the number of shares issued and issuable under the Scheme or any other limit as may be permitted under the Rules Governing the Listing of Securities on the Stock Exchange.

Options granted must be taken up within 30 days of the date of grant, upon payment of HK\$1 per grant. Options may be exercised at any time from the date of grant to the 10th anniversary of the date of grant. In each grant of options, the board of directors of the Company may at their discretion to determine the specific exercise period. The exercise price is determined by the directors of the Company, and will be the highest of (i) the closing price of the Company's share on the date of grant; (ii) the average closing price of the Company's shares for the five business days immediately preceding the date of grant, and (iii) the nominal value of the Company's shares.

The directors and employees of the Company and its subsidiaries are entitled to participate in the Scheme.

At 30th June, 2006, 2007 and 2008, the number of shares in respect of which options were granted under the Scheme and which remained outstanding was approximately 5.41%, 5.59% and 5.57%, respectively, of the Company's shares in issue at that date.

The following table discloses movements of the share options of the Company during the Relevant Periods.

| Name of directors      | Notes | Date of share options granted | Exercisable period     | Granted during the year 2006 and outstanding at 30.6.2006 and 30.6.2007 | Exercised during the year 2008 | Outstanding at 30.6.2008 | Exercise price HK\$ |
|------------------------|-------|-------------------------------|------------------------|---|--------------------------------|--------------------------|---------------------|
| Hung Kin Sang, Raymond | (1)   | 25.4.2006                     | 25.4.2006 to 24.4.2011 | 45,611,141  | –                              | 45,611,141               | 0.54                |
| Hung Kai Mau, Marcus   | (2)   | 25.4.2006                     | 25.4.2006 to 24.4.2009 | 1,500,000   | –                              | 1,500,000                | 0.54                |
|                        | (2)   | 25.4.2006                     | 24.4.2007 to 24.4.2009 | 1,500,000   | –                              | 1,500,000                | 0.54                |
| Total for directors    |       |                               |                        | 48,611,141  | –                              | 48,611,141               |                     |
| <b>Employees</b>       |       |                               |                        |   |                                |                          |                     |
|                        | (2)   | 25.4.2006                     | 25.4.2006 to 24.4.2009 | 300,000   | (300,000)                      | –                        | 0.54                |
|                        | (2)   | 25.4.2006                     | 24.4.2007 to 24.4.2009 | 300,000   | (300,000)                      | –                        | 0.54                |
| Total for employees    |       |                               |                        | 600,000   | (600,000)                      | –                        |                     |
| Grand total            |       |                               |                        | 49,211,141  | (600,000)                      | 48,611,141               |                     |

*Notes:*

- (1) The exercise period of the share options of the Company granted to Mr. Hung Kin Sang, Raymond is five years from the date of grant. There is no minimum vesting period for the share options of the Company granted to Mr. Hung Kin Sang, Raymond.
- (2) The exercise period of the share options of the Company granted to Mr. Hung Kai Mau, Marcus and the employees is three years from the date of grant. Except for the requirement that 50% of the share options granted must be held for at least one year before they can be exercised, there is no minimum vesting period for the remaining 50% share options of the Company granted to Mr. Hung Kai Mau, Marcus and the employees.
- (3) The closing price of the shares of the Company immediately before the date of grant is HK\$0.54.

- (4) The fair values of the share options of the Company were calculated using The Binomial model. The valuation of fair values determination as at 25th April, 2006 was carried out by Sallmanns (Far East) Limited. The inputs into the model were as follows:

|                                      | Share options<br>granted to<br>Mr. Hung Kin<br>Sang, Raymond | Share options<br>granted to<br>Mr. Hung Kai Mau,<br>Marcus and<br>the employees |
|--------------------------------------|--|---|
| Closing share price at date of grant | HK\$0.54   | HK\$0.54  |
| Exercise price                       | HK\$0.54   | HK\$0.54  |
| Expected volatility                  | 98.0%  | 98.0%   |
| Suboptimal exercise factor           | 1.5  | 1.5   |
| Risk-free interest rate              | 4.54%  | 4.31%   |
| Expected dividend yield              | Nil  | Nil   |

The suboptimal exercise factor was to account for the early exercise behavior of the share options granted by the Company.

The risk-free rate interest was based on the yield of the Hong Kong Exchange Fund Note.

Expected volatility was determined by using the historical volatility of the Company's share prices in the prior five years from the date of grant.

For the year ended 30th June, 2006 and 2007, the Group recognised expenses of HK\$8,233,000 and HK\$379,000, respectively, in relation to the share options granted by the Company, in which HK\$8,170,000 and HK\$316,000, respectively, was related to options granted to the Group's directors and shown as directors' emoluments, and the remaining balance represented share options expenses for employees and shown as staff costs. There was no share options granted or became vested during the year ended 30th June, 2008.

### 31. TREASURY SHARES

|   | Number of<br>treasury<br>shares | Amount<br>HK\$'000 |
|---|---------------------------------|--------------------|
| At 1 July, 2005   | 48,329,000                      | 12,546             |
| Disposals   | (14,000,000)                    | (3,635)            |
| At 30th June, 2006, 30th June, 2007 and 30th June, 2008 | 34,329,000                      | 8,911              |

Treasury shares represent ordinary shares of the Company held by Applied Investment before Applied Investment became a subsidiary of the Company in 1995.

For the year ended 30 June, 2006, a total of 14,000,000 treasury shares were disposed of by Applied Investment on the Stock Exchange for an aggregate consideration of HK\$6,257,000. The consideration received was recognised directly in equity.

In the opinion of the directors of the Company, these treasury shares are held for long-term purpose.

**32. DEFERRED TAXATION**

As at 30th June, 2006, 2007 and 2008, the Group had unused tax losses of HK\$212,328,000, HK\$212,328,000 and HK\$212,328,000, respectively, available for offset against future profits. No deferred tax asset in respect of such tax losses has been recognised due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely of such losses.

**33. OPERATING LEASE COMMITMENTS****The Group as lessee**

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

|                                       | <b>2006</b>     | <b>2007</b>     | <b>2008</b>     |
|---------------------------------------|-----------------|-----------------|-----------------|
|                                       | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Within one year                       | 2,687           | 2,655           | 1,657           |
| In the second to fifth year inclusive | 4,372           | 6,029           | 4,118           |
| Over five years                       | 3,740           | 3,041           | –               |
|                                       | <u>10,799</u>   | <u>11,725</u>   | <u>5,775</u>    |

Operating lease payments represent rentals payable by the Group for certain of its office. As at 30th June, 2006, 2007 and 2008, the lease term is ranging from three to five years, three to five years and 18 months to five years, respectively. Rentals are fixed over the lease period and no arrangements have been entered into for contingent rental payments.

**34. OPERATING LEASE ARRANGEMENTS****The Group as lessor**

As at 30th June 2006, 2007 and 2008, the Group had contracted with tenants for future minimum lease payments, which represent rentals receivable by the Group for its investment properties, under non-cancellable operating leases which fall due as follows:

|                                       | <b>2006</b>     | <b>2007</b>     | <b>2008</b>     |
|---------------------------------------|-----------------|-----------------|-----------------|
|                                       | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Within one year                       | 5,550           | 5,427           | 4,878           |
| In the second to fifth year inclusive | 2,148           | 6,218           | 11,028          |
| Over five years                       | –               | –               | 2,063           |
|                                       | <u>7,698</u>    | <u>11,645</u>   | <u>17,969</u>   |

As at 30th June, 2006, 2007 and 2008, the properties held have committed tenants with rental fixed for term ranging from two to five years, two to five years and two to fourteen years, respectively.



**35. CAPITAL COMMITMENTS**

Capital expenditure in respect of the acquisition of investment properties and property, plant and equipment contracted for but not provided for in the Financial Information is as follows:

|  | <b>2006</b>     | <b>2007</b>     | <b>2008</b>     |
|--|-----------------|-----------------|-----------------|
|  | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| – the Group                            | 226,344         | 26,387          | 19,312          |
| – share of a jointly controlled entity | <u>–</u>        | <u>31,000</u>   | <u>31,288</u>   |

**36. DISPOSAL OF SUBSIDIARIES**

On 3rd January, 2008, the Company disposed of its entire 51% equity interest in Wideland for a consideration of HK\$100,000 and received the sum during the year.

On 9th April, 2007, the Group disposed of its 50% equity interest in Quorum for US\$30 million (equivalent to HK\$234,000,000). US\$8 million (equivalent to HK\$62,400,000) was received during the year ended 30th June, 2007 and the remaining balance was satisfied by way of Quorum issuing a promissory note to the Group.

On 27th June, 2006, the Group disposed of its 60% equity interest in Danshui for HK\$61,956,000. Deposits of HK\$28,302,000 were received during the year ended 30th June, 2005 and the remaining balance of the consideration was received during the year ended 30th June, 2007 (note 22).

The net assets (liabilities) of these disposed subsidiaries at the date of disposal were as follows:

|   | <b>2006</b>     | <b>2007</b>     | <b>2008</b>     |
|---|-----------------|-----------------|-----------------|
|   | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Net assets (liabilities) disposed of:                       |                 |                 |                 |
| Investment properties                                       | –               | –               | 2,080           |
| Interest on a leasehold land                                | 128,003         | –               | –               |
| Property, plant and equipment                               | –               | 143,138         | 10,290          |
| Prepaid lease payments                                      | –               | –               | 208             |
| Inventories   | –               | –               | 1,448           |
| Trade and other receivables                                 | 110             | –               | 9,801           |
| Pledged bank deposits                                       | –               | –               | 3,232           |
| Bank balances and cash                                      | –               | –               | 128             |
| Trade and other payables                                    | (25)            | –               | (5,436)         |
| Bank overdrafts   | –               | –               | (4,873)         |
| Secured bank borrowings                                     | –               | –               | (16,945)        |
| Obligation under finance leases                             | <u>–</u>        | <u>–</u>        | <u>(3,053)</u>  |
|   | 128,088         | 143,138         | (3,120)         |
| Release of capital reserve                                  | –               | –               | (428)           |
| Release of translation reserve                              | 2,564           | –               | –               |
| (Loss) Gain on disposal of subsidiaries                     | (61)            | 127,331         | 3,648           |
| Reclassification to interest in a jointly controlled entity | –               | (36,469)        | –               |
| Minority interest   | <u>(68,635)</u> | <u>–</u>        | <u>–</u>        |
| Total consideration   | <u>61,956</u>   | <u>234,000</u>  | <u>100</u>      |

|                                  | 2006<br>HK\$'000 | 2007<br>HK\$'000 | 2008<br>HK\$'000 |
|----------------------------------|------------------|------------------|------------------|
| <i>Represented by:</i>           |                  |                  |                  |
| Deposits received in prior year  | 28,302           | –                | –                |
| Other receivables                | 33,654           | –                | –                |
| Cash                             | –                | 62,400           | 100              |
| Promissory note issued by Quorum | –                | 171,600          | –                |
|                                  | <u>61,956</u>    | <u>234,000</u>   | <u>100</u>       |

Net cash inflow arising from disposal of subsidiaries:

|                                 |          |               |              |
|---------------------------------|----------|---------------|--------------|
| Cash consideration received     | –        | 62,400        | 100          |
| Bank balances and cash disposed | –        | –             | (128)        |
| Bank overdrafts disposed        | –        | –             | 4,873        |
|                                 | <u>–</u> | <u>62,400</u> | <u>4,845</u> |

### 37. MAJOR NON-CASH TRANSACTION

During the year ended 30th June, 2006, 2007 and 2008, the Group entered into finance lease arrangements in respect of the acquisition of property, plant and equipment with a total capital value at the inception of the lease of HK\$6,406,000, HK\$3,374,000 and HK\$809,000, respectively.

### 38. PLEDGE OF ASSETS

In addition to information disclosed in note 16, at the balance sheet date, the Group pledged the following assets to banks to secure general banking facilities granted to the Group:

|                               | 2006<br>HK\$'000 | 2007<br>HK\$'000 | 2008<br>HK\$'000 |
|-------------------------------|------------------|------------------|------------------|
| Investment properties         | 178,750          | 127,080          | 153,500          |
| Property, plant and equipment | 1,398            | 1,866            | –                |
| Prepaid lease payments        | 216              | 211              | –                |
| Properties held for sale      | –                | 59,000           | –                |
| Bank deposits                 | <u>3,059</u>     | <u>3,173</u>     | <u>–</u>         |

### 39. RELATED PARTY TRANSACTIONS

In addition to the transactions/information disclosed elsewhere in the Financial Information, during the Relevant Periods, the Group had the following transactions with related parties:

#### (a) Transactions

At 30th June, 2006 and 2007, a minority shareholder of Wideland had outstanding guarantee, issued in respect of lessors of the leased assets under finance leases arrangement of the Group with an aggregate amount of HK\$643,000 and HK\$554,000, respectively.

At 30th June, 2006 and 2007, banking facilities granted to the Group of HK\$15,058,000 and HK\$20,814,000, respectively, were secured by personal guarantee from and properties owned by the minority shareholder of Wideland.

At 30th June, 2006 and 2007, Wideland had outstanding corporate guarantee issued in favour of a bank in respect of credit facilities granted by the bank to a related company amounting to HK\$2,120,000 and HK\$2,000,000, respectively. The minority shareholder of Wideland was interested in this transaction as a sole proprietor of the related company.

During the year ended 30th June, 2006, 2007 and 2008, the Group paid rental expenses of approximately HK\$384,000, HK\$384,000 and HK\$192,000, respectively, for premises owned by the minority shareholder of Wideland.

At 30th June, 2006, two directors of the Company had outstanding joint and several guarantees issued in favour of a bank in respect of credit facilities granted by the bank to a subsidiary amounting to HK\$19,744,000. The guarantees were released during the year ended 30th June, 2007 upon the repayment of the relevant bank borrowings.

**(b) Remuneration to key management personnel**

The remuneration of members of key management, other than directors as disclosed in note 13, during the Relevant Periods was as follows:

|   | <b>2006</b><br><i>HK\$'000</i> | <b>2007</b><br><i>HK\$'000</i> | <b>2008</b><br><i>HK\$'000</i> |
|---|--------------------------------|--------------------------------|--------------------------------|
| Salaries and other short-term benefits  | 1,199                          | 1,172                          | 1,042                          |
| Retirement benefit scheme contributions | 24                             | 24                             | 23                             |
| Share-based payment expenses            | 63                             | 63                             | —                              |
|   | <u>1,286</u>                   | <u>1,259</u>                   | <u>1,065</u>                   |

The remuneration of directors and other key management personnel is determined by the remuneration committee of the Company having regard to the performance of individuals and market trends.

**40. BALANCE SHEET OF THE COMPANY**

|                                | <b>2006</b><br><i>HK\$'000</i> | <b>2007</b><br><i>HK\$'000</i> | <b>2008</b><br><i>HK\$'000</i> |
|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| <b>Non-current assets</b>      |                                |                                |                                |
| Interest in subsidiaries       | 264,536                        | 441,512                        | 440,836                        |
| Available-for-sale investments | 24,955                         | —                              | —                              |
|                                | <u>289,491</u>                 | <u>441,512</u>                 | <u>440,836</u>                 |
| <b>Current assets</b>          |                                |                                |                                |
| Other receivables              | 540                            | 574                            | 258                            |
| Bank balances and cash         | 34,722                         | 22,489                         | 1,422                          |
|                                | <u>35,262</u>                  | <u>23,063</u>                  | <u>1,680</u>                   |
| <b>Current liabilities</b>     |                                |                                |                                |
| Other payables                 | 1,398                          | 662                            | 440                            |
| Due to a subsidiary            | 177,400                        | 209,971                        | 209,830                        |
|                                | <u>178,798</u>                 | <u>210,633</u>                 | <u>210,270</u>                 |
| <b>Net current liabilities</b> | <u>(143,536)</u>               | <u>(187,570)</u>               | <u>(208,590)</u>               |
| <b>NET ASSETS</b>              | <u>145,955</u>                 | <u>253,942</u>                 | <u>232,246</u>                 |
| <b>Capital and reserves</b>    |                                |                                |                                |
| Share capital                  | 9,100                          | 8,804                          | 8,734                          |
| Share premium and reserves     | <i>Note (a)</i> 136,855        | 245,138                        | 223,512                        |
| <b>TOTAL EQUITY</b>            | <u>145,955</u>                 | <u>253,942</u>                 | <u>232,246</u>                 |

Note:

(a) Share premium and reserves

|   | Share<br>premium<br>HK\$'000 | Share<br>options<br>reserve<br>HK\$'000 | Investment<br>revaluation<br>reserve<br>HK\$'000 | Capital<br>redemption<br>reserve<br>HK\$'000 | Capital<br>reserve<br>HK\$'000 | (Accumulated<br>losses)/<br>retained<br>profits<br>HK\$'000 | Total<br>HK\$'000 |
|---|------------------------------|---|--|--|--------------------------------|---|-------------------|
| At 1st July, 2005   | 1                            | –                                       | 351  | 10,931                                       | 204,610                        | (80,978)  | 134,915           |
| Loss on fair value<br>changes of<br>available-for-sale<br>investments | –                            | –                                       | (242)  | –  | –                              | –   | (242)             |
| Realised on disposal<br>of available-for-sale<br>investments          | –                            | –                                       | (351)  | –  | –                              | –   | (351)             |
| Profit for the year   | –                            | –                                       | –  | –  | –                              | 5,366   | 5,366             |
| Repurchase of own shares  | –                            | –                                       | –  | 272  | –                              | (11,338)  | (11,066)          |
| Recognition of<br>equity-settled share-based<br>payment expenses      | –                            | 8,233                                   | –  | –  | –                              | –   | 8,233             |
| At 30th June, 2006  | 1                            | 8,233                                   | (242)  | 11,203                                       | 204,610                        | (86,950)  | 136,855           |
| Realised on disposal<br>of available-for-sale<br>investments          | –                            | –                                       | 242  | –  | –                              | –   | 242               |
| Profit for the year   | –                            | –                                       | –  | –  | –                              | 122,259   | 122,259           |
| Repurchase of own shares  | –                            | –                                       | –  | 296  | –                              | (14,893)  | (14,597)          |
| Recognition of<br>equity-settled share-based<br>payment expenses      | –                            | 379                                     | –  | –  | –                              | –   | 379               |
| At 30th June, 2007  | 1                            | 8,612                                   | –  | 11,499                                       | 204,610                        | 20,416  | 245,138           |
| Loss for the year   | –                            | –                                       | –  | –  | –                              | (17,166)  | (17,166)          |
| Repurchase of own shares  | –                            | –                                       | –  | 76   | –                              | (4,854)   | (4,778)           |
| Exercise of share options   | 444                          | (126)                                   | –  | –  | –                              | –   | 318               |
| At 30th June, 2008  | <u>445</u>                   | <u>8,486</u>                            | <u>–</u>   | <u>11,575</u>                                | <u>204,610</u>                 | <u>(1,604)</u>  | <u>223,512</u>    |

The capital reserve of the Company represented contributed surplus arising from the cancellation of share premium account of the Company pursuant to a special resolution passed by the Company on 22nd February, 1999. Under the Companies Act 1981 of Bermuda (as amended), contributed surplus is distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that:

- (i) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (ii) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

Subject to the conditions mentioned in the foregoing paragraph, the Company had the following reserves available for distribution to shareholders at the balance sheet date:

|                                       | 2006<br>HK\$'000 | 2007<br>HK\$'000 | 2008<br>HK\$'000 |
|---------------------------------------|------------------|------------------|------------------|
| Capital reserve                       | 204,610          | 204,610          | 204,610          |
| (Accumulated losses)/Retained profits | (86,950)         | 20,416           | (1,604)          |
|                                       | <u>117,660</u>   | <u>225,026</u>   | <u>203,006</u>   |

#### 41. PARTICULARS OF SUBSIDIARIES

Particulars of the principal subsidiaries at the balance sheet date are as follows:

| Name of subsidiary  | Place of incorporation/<br>establishment | Nominal value of issued and paid up share capital/<br>registered capital | Proportion of issued share capital/<br>registered capital held by the Company |       |                  | Principal activities  |
|---|--|--|---|-------|------------------|---|
|   |  |  | 2006  | 2007  | 2008<br>(Note 1) |   |
| Applied Electronics Limited   | Hong Kong                                | Ordinary HK\$86,000,000  | 100%#   | 100%# | 100%#            | Investment holding  |
| Applied Investment (Asia) Limited (formerly known as iQuorum Cybernet Limited)                | Hong Kong                                | Ordinary HK\$574,630,911   | 100%#   | 100%# | 100%#            | Investment holding  |
| AppliedLand Limited (formerly known as Sound Collection Limited)                              | Hong Kong                                | Ordinary HK\$2   | 100%  | 100%# | 100%#            | Holding of property, plant and equipment and investment holding |
| Applied Secretaries Management Limited (formerly known as Man Lee Technical Products Limited) | Hong Kong                                | Ordinary HK\$2   | –   | 100%  | 100%#            | Providing secretarial services                                  |
| Data Pen Limited  | Hong Kong                                | Ordinary HK\$2   | 100%  | 100%# | 100%#            | Property, plant and equipment holding                           |
| Applied Electronics (Bahamas) Limited   | Bahamas                                  | Ordinary US\$5,000 Redeemable preference US\$300                         | 100%  | 100%  | 100%             | Property holding  |
| Applied Enterprises Limited   | Hong Kong                                | Ordinary HK\$1,000   | 100%  | 100%  | 100%             | Investment holding  |
| Applied Hong Kong Properties Limited (formerly known as RJP International Limited)            | Hong Kong                                | Ordinary HK\$500,000   | 100%  | 100%  | 100%             | Property, plant and equipment holding                           |
| Applied Mission Limited (formerly known as Tronicwatch Limited)                               | Hong Kong                                | Ordinary HK\$10,000  | 100%  | 100%  | 100%             | Property, plant and equipment holding                           |
| Applied Toys Limited  | Hong Kong                                | Ordinary HK\$2   | 100%  | 100%  | 100%             | Property, plant and equipment holding                           |
| Beachside Investments Limited   | BVI                                      | Ordinary US\$1   | –   | 100%  | 100%             | Property, plant and equipment holding                           |

| Name of subsidiary   | Place of incorporation/<br>establishment | Nominal value of issued and paid up share capital/<br>registered capital | Proportion of issued share capital/<br>registered capital held by the Company |      |                  | Principal activities                             |
|--|--|--|---|------|------------------|--|
|  |  |  | 2006  | 2007 | 2008<br>(Note 1) |  |
| Quorum Electronics (Shenzhen) Co., Limited (Note 2)                | PRC                                      | Registered capital HK\$10,000,000  | 100%  | 100% | 100%             | Property holding                                 |
| Quorum Island (BVI) Limited  | BVI                                      | Ordinary US\$10,000  | 100%  | –    | –                | Resort and property development                  |
| Playa Grande Development Holdings Inc.                             | Panama                                   | Ordinary US\$200   | –   | 100% | 100%             | Resort and property development                  |
| Playa Grande Hot Spring Development Holdings, Inc.                 | Panama                                   | Ordinary US\$200   | –   | –    | 100%             | Resort and property development                  |
| Severn Villa Limited (formerly known as Incar Electronics Limited) | Hong Kong                                | Ordinary HK\$7,545,000   | 100%  | 100% | 100%             | Property holding                                 |
| Wideland Electronics Limited                                       | Hong Kong                                | Ordinary HK\$200,000   | 51%   | 51%  | –                | Manufacturing and trading of electronic products |

# Subsidiaries directly held by the Company

*Note:*

1. It also represented equity interests held by the Group at the date of this report.
2. Quorum Electronics (Shenzhen) Co., Limited is a wholly foreign owned enterprise established in the PRC.

None of the subsidiaries had any debt securities outstanding at the end of each of the Relevant Periods, or at any time during the Relevant Periods.

The above list includes the subsidiaries of the Company which, in the opinion of the directors, principally affected the results and the financial positions of the Group. To give details of all other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

#### 42. RETIREMENT BENEFIT SCHEME

With effective from 1st December, 2000, the Group has joined a mandatory provident fund scheme (the “MPF Scheme”) for all other qualifying employees. 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 rules of the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at rates 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. No forfeited contribution is available to reduce the contributions payable in future years.

The retirement benefits cost of the MPF Scheme was charged to profit or loss, as set out in note 11 above, represents contributions payable to the fund by the Group at rates specified in the rules of the MPF Scheme.

**43. SUBSEQUENT EVENTS**

On 4th November 2008, the Group announced that it had entered into a conditional sales and purchase agreement dated 3rd November, 2008 (the "S&P Agreements") with an independent third party, J&J Land Acquisition and Development LLC ("J&J"), for the disposal (the "Disposal") of the Group's 100% equity interest in Playa Grande Development Holdings Inc. and Playa Grande Hot Spring Developments Holdings, Inc. (collectively the "Playa Grande Companies"), which are principally engaged in resort and property development and are the legal and beneficiary owners of the Group's certain properties under development in Panama (the "Panama Land and Hot Spring Properties"), at a consideration of US\$39 million (approximately HK\$304.2 million).

Details of the Disposal were set out in the announcement of the Company dated 4th November, 2008. The Disposal is subject to the approval by the Company's shareholders at an extraordinary general meeting to be held on 30th December, 2008. Since certain conditions precedent have not been fulfilled or waived up to the date of this report, it is not practicable to estimate the financial impact on the Group in connection with the Disposal.

Included in the Financial Information of the Group are the following unaudited financial information attributable to the Playa Grande Companies during the Relevant Periods which are presented on a combined basis after elimination of intra-entities balances:

**(i) Combined income statement of the Playa Grande Companies**

|                                      | <b>2007</b><br><i>HK\$'000</i> | <b>2008</b><br><i>HK\$'000</i> |
|--------------------------------------|--------------------------------|--------------------------------|
| <b>Turnover</b>                      | —                              | —                              |
| Other income ( <i>Note</i> )         | —                              | 308                            |
| Administrative expenses              | (42)                           | (240)                          |
| <b>(Loss) Profit before taxation</b> | (42)                           | 68                             |
| Taxation                             | —                              | —                              |
| <b>(Loss) Profit for the year</b>    | <u>(42)</u>                    | <u>68</u>                      |

*Note:* It represented sundry income earned.

## (ii) Combined balance sheet of the Playa Grande Companies

|  | 2007<br>HK\$'000 | 2008<br>HK\$'000 |
|--|------------------|------------------|
| <b>Non-current assets</b>                          |                  |                  |
| Property, plant and equipment ( <i>Note a</i> )    | 151,984          | 167,064          |
| <b>Current assets</b>                              |                  |                  |
| Other receivables                                  | 3,783            | 66               |
| Bank balances                                      | —                | 15               |
|  | 3,783            | 81               |
| <b>Current liabilities</b>                         |                  |                  |
| Due to immediate holding company ( <i>Note b</i> ) | 155,807          | 167,115          |
| <b>Net current liabilities</b>                     | (152,024)        | (167,034)        |
| <b>NET (LIABILITIES) ASSETS</b>                    | (40)             | 30               |
| <b>Capital and reserves</b>                        |                  |                  |
| Share capital ( <i>Note c</i> )                    | 2                | 4                |
| (Accumulated losses) Retained Profits              | (42)             | 26               |
| <b>TOTAL (DEFICIT) EQUITY</b>                      | (40)             | 30               |

*Note:*

**Properties under  
development\***  
HK\$'000

a) Property, plant and equipment consists of:

**Cost and carrying values**

|                    |         |
|--------------------|---------|
| At 1st July, 2006  | —       |
| Additions          | 151,984 |
| At 30th June, 2007 | 151,984 |
| Additions          | 15,080  |
| At 30th June, 2008 | 167,064 |

\* Properties under development comprises of the Panama Land and Hot Spring Properties.

b) The amount due to the immediate holding company, AppliedLand Limited and is unsecured, interest-free and has no fixed repayment term.

c) Share capital consists of:



|   | Number of<br>ordinary shares   | HK\$'000                       |
|---|--------------------------------|--------------------------------|
| Playa Grande Development Holdings Inc.<br>Ordinary shares of US\$100 each             |                                |                                |
| Authorised:   |                                |                                |
| At 30th June, 2007 and 2008   | <u>100</u>                     | <u>78</u>                      |
| Issued and fully paid   |                                |                                |
| At 30th June, 2007 and 2008   | <u>2</u>                       | <u>2</u>                       |
| Playa Grande Hot Spring Development Holdings, Inc.<br>Ordinary shares of US\$100 each |                                |                                |
| Authorised:   |                                |                                |
| At 30th June, 2008  | <u>100</u>                     | <u>78</u>                      |
| Issued and fully paid   |                                |                                |
| At 30th June, 2008  | <u>2</u>                       | <u>2</u>                       |
| <b>(iii) Combined cash flow statement of the Playa Grande Companies</b>               |                                |                                |
|   | <b>2007</b><br><i>HK\$'000</i> | <b>2008</b><br><i>HK\$'000</i> |
| <b>OPERATING ACTIVITIES</b>   |                                |                                |
| (Loss) Profit before taxation   | (42)                           | 68                             |
| Depreciation  | —                              | —                              |
| Changes in working capital:   |                                |                                |
| Other receivables   | <u>(3,783)</u>                 | <u>3,717</u>                   |
| <b>Net cash (used in) from operating activities</b>                                   | <u>(3,825)</u>                 | <u>3,785</u>                   |
| <b>INVESTING ACTIVITIES</b>   |                                |                                |
| Acquisition of property, plant and equipment  | <u>(151,984)</u>               | <u>(15,080)</u>                |
| <b>Net cash used in investing activities</b>  | <u>(151,984)</u>               | <u>(15,080)</u>                |
| <b>FINANCING ACTIVITIES</b>   |                                |                                |
| Issue of share capital  | 2                              | 2                              |
| Advances from immediate holding company   | <u>155,807</u>                 | <u>11,308</u>                  |
| <b>Net cash generated from financing activities</b>                                   | <u>155,809</u>                 | <u>11,310</u>                  |
| <b>Net increase in cash and cash equivalents</b>                                      | —                              | 15                             |
| <b>Cash and cash equivalents at beginning of year</b>                                 | <u>—</u>                       | <u>—</u>                       |
| <b>Cash and cash equivalents at end<br/>of year, represented by bank balances</b>     | <u>—</u>                       | <u>15</u>                      |

## (iv) Combined statement of changes in equity of the Playa Grande Companies

|                        | Share Capital<br><i>HK\$'000</i> | (Accumulated losses)<br>Retained profits<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
|------------------------|----------------------------------|---|--------------------------|
| At 1st July, 2006      | –                                | –   | –                        |
| Issue of share capital | 2                                | –   | 2                        |
| Loss for the year      | –                                | (42)  | (42)                     |
| At 30th June, 2007     | 2                                | (42)  | (40)                     |
| Issue of share capital | 2                                | –   | 2                        |
| Profit for the year    | –                                | 68  | 68                       |
| At 30th June, 2008     | <u>4</u>                         | <u>26</u>   | <u>30</u>                |

## C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group and the Company in respect of any period subsequent to 30th June, 2008.

Yours faithfully,

**Mazars CPA Limited**  
*Certified Public Accountants*  
*Hong Kong*

**(A) INDEBTEDNESS****Borrowings**

As at the close of business on 31st October, 2008, being the latest practicable date of ascertaining certain information relating to this indebtedness statement, the Group had (i) outstanding secured bank borrowings of approximately HK\$57,000,000 and (ii) outstanding obligations under finance leases of approximately HK\$599,000.

**Pledge of assets and guarantees**

As at the close of business on 31st October, 2008, certain investment properties with net carrying values of approximately HK\$153,500,000 were pledged to secure the Group's banking facilities and property, plant and equipment with net carrying values of approximately HK\$ 1,472,000 were held under finance leases.

**Contingent liabilities**

As at the close of business on 31st October, 2008, the Group had no contingent liabilities.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities and normal trade payables, as at the close of business on 31st October, 2008, the Group did not have any debt securities issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptance or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

**(B) MATERIAL ADVERSE CHANGE**

As at the close of business on 31st October, 2008 and up to the date of this circular, the Directors are not aware of any material adverse change in the financial or trading position of the Group subsequent to 30th June, 2008, being the date to which the latest published audited consolidated financial statements of the Group were made up.

**(C) WORKING CAPITAL**

Having made due and careful enquiries, the Directors are of the opinion that, based on the Group's internal resources and the banking facilities available, the Group has sufficient working capital for its requirements for the next 12 months from the date of this circular, in the absence of unforeseen material circumstances.

**A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP**

The following is a summary of an illustrative and unaudited pro forma consolidated balance sheet, pro forma consolidated income statement and pro forma consolidated cash flow statement (collectively referred to as the “Pro Forma Financial Information”) of the Remaining Group, which have been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the proposed disposal (the “Disposal”) of the Group’s 100% interest in Playa Grande Development Holdings Inc. and Playa Grande Hot Spring Development Holdings, Inc. (collectively the “Playa Grande Companies”), which are principally engaged in resort and property development and are the legal and beneficiary owners of the Group’s certain properties under development in Panama (the “Panama Project”), as if the Disposal had taken place on 30th June, 2008 for the pro forma consolidated balance sheet and as if the Disposal had taken place on 1st July, 2007 for the pro forma consolidated income statement and pro forma consolidated cash flow statement.

This unaudited Pro Forma Financial Information has been prepared for illustrative purposes only, based on the judgements, estimations and assumptions of the directors of the Company (the “Directors”), 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 Remaining Group as at the date covered by the unaudited Pro Forma Financial Information or any future date; or
- the results and cash flows of the Remaining Group for the periods covered by the unaudited Pro Forma Financial Information or for any future periods.

The unaudited Pro Forma Financial Information of the Remaining Group should be read in conjunction with the historical financial information of the Group as set out in Appendix I to this circular and other financial information included elsewhere in this circular.

**1. Unaudited Pro Forma Consolidated Balance Sheet of the Remaining Group**

The unaudited pro forma consolidated balance sheet of the Remaining Group was prepared based on the audited consolidated balance sheet of the Group as at 30th June, 2008, which have been extracted from the Accountants' Report set out in Appendix I to this circular, after making pro forma adjustments relating to the Disposal that are (i) directly attributable to the transaction; and (ii) factually supportable.

|  | <b>The Group<br/>as at 30th<br/>June, 2008</b> | <b>Pro forma<br/>adjustments</b> | <b>Pro forma<br/>adjustments</b> | <b>Pro forma<br/>Remaining<br/>Group</b> |
|--|--|----------------------------------|----------------------------------|--|
|  | <i>HK\$'000</i>                                | <i>HK\$'000</i>                  | <i>HK\$'000</i>                  | <i>HK\$'000</i>                          |
|  | <i>(Note 1)</i>                                | <i>(Note 2)</i>                  | <i>(Note 3)</i>                  |  |
| <b>Non-current assets</b>                                      |  |                                  |                                  |  |
| Investment properties  | 190,900  |                                  |                                  | 190,900                                  |
| Property, plant and equipment                                  | 178,429  | (167,064)                        |                                  | 11,365                                   |
| Other assets   | 1,846  |                                  |                                  | 1,846                                    |
| Interest in a jointly controlled entity                        | 27,017   |                                  |                                  | 27,017                                   |
| Prepaid lease payments –<br>non-current portion                | 1,712  |                                  |                                  | 1,712                                    |
| Available-for-sale investments                                 | 921  |                                  |                                  | 921                                      |
| Amount due from subsidiaries                                   | –  | 167,115                          | (167,115)                        | –  |
|  | <u>400,825</u>                                 |                                  |                                  | <u>233,761</u>                           |
| <b>Current assets</b>  |  |                                  |                                  |  |
| Trade and other receivables                                    | 1,594  | (66)                             |                                  | 1,528                                    |
| Promissory note receivable from<br>a jointly controlled entity | 171,600  |                                  |                                  | 171,600                                  |
| Amount due from a jointly<br>controlled entity                 | 16,372   |                                  |                                  | 16,372                                   |
| Prepaid lease payments –<br>current portion                    | 40   |                                  |                                  | 40                                       |
| Pledged bank deposits  | –  |                                  |                                  | –  |
| Bank balances and cash   | 1,766  | (15)                             | 289,000                          | 290,751                                  |
|  | <u>191,372</u>                                 |                                  |                                  | <u>480,291</u>                           |

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**APPENDIX III****UNAUDITED PRO FORMA FINANCIAL INFORMATION  
OF THE REMAINING GROUP**

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|   | <b>The Group<br/>as at 30th<br/>June, 2008<br/><i>HK\$'000</i><br/>(Note 1)</b> | <b>Pro forma<br/>adjustments<br/><i>HK\$'000</i><br/>(Note 2)</b> | <b>Pro forma<br/>adjustments<br/><i>HK\$'000</i><br/>(Note 3)</b> | <b>Pro forma<br/>Remaining<br/>Group<br/><i>HK\$'000</i></b> |
|---|---|---|---|--|
| <b>Current liabilities</b>                                |   |   |   |  |
| Trade and other payables                                  | 2,116   |   |   | 2,116  |
| Secured bank borrowings –<br>due within one year          | 3,000   |   |   | 3,000  |
| Obligations under finance<br>leases – due within one year | <u>572</u>  |   |   | <u>572</u>   |
|   | <u>5,688</u>  |   |   | <u>5,688</u>   |
| <b>Net current assets</b>                                 | <u>185,684</u>  |   |   | <u>474,603</u>   |
|   | <u><u>586,509</u></u>   |   |   | <u><u>708,364</u></u>  |
| <b>Capital and reserves</b>                               |   |   |   |  |
| Share capital   | 8,734   |   |   | 8,734  |
| Treasury shares   | (8,911)   |   |   | (8,911)  |
| Share premium and reserves                                | <u>547,416</u>  |   | 121,855   | <u>669,271</u>   |
| <b>Total equity</b>                                       | <u>547,239</u>  |   |   | <u>669,094</u>   |
| <b>Non-current liabilities</b>                            |   |   |   |  |
| Secured bank borrowings –<br>due after one year           | 39,000  |   |   | 39,000   |
| Obligations under finance<br>leases – due after one year  | <u>270</u>  |   |   | <u>270</u>   |
|   | <u>39,270</u>   |   |   | <u>39,270</u>  |
|   | <u><u>586,509</u></u>   |   |   | <u><u>708,364</u></u>  |

*Notes:*

- (1) The balances have been extracted, without adjustments, from the Accountants' Report of the Group as at 30th June, 2008 as set out in Appendix I to this circular.
- (2) The adjustments represent the exclusion of the assets and liabilities attributable to the Playa Grande Companies from the consolidated balance sheet of the Group as at 30th June, 2008, as if the Disposal had taken place on 30th June, 2008.
- (3) The adjustments represent the estimated total net consideration to be received from the Disposal, assuming that the Disposal had taken place on 30th June, 2008, which are calculated as follows:

HK\$'000

|  |                |
|--|----------------|
| Sales consideration  | 304,200        |
| Less:  |                |
| Payment of fees and expenses in connection with the Disposal | (15,200)       |
| Estimated net cash proceeds                                  | <u>289,000</u> |

The adjustments to the Group's reserves represent the estimated unaudited gain on disposal of the Playa Grande Companies which are calculated as follows:

HK\$'000

|   |                |
|---|----------------|
| Sales consideration   | 304,200        |
| Less:   |                |
| Net assets value of Playa Grande Companies as at 30th June, 2008    | (30)           |
| Shareholder's loan to Playa Grande Companies as at 30th June, 2008* | (167,115)      |
| Payment of fees and expenses in connection with the Disposal        | (15,200)       |
| Estimated unaudited gain on disposal                                | <u>121,855</u> |

The consideration of approximately HK\$304,200,000 (US\$39 million) is payable in cash by J&J Land Acquisition and Development LLC ("J&J") to the Group on or before 30th December, 2008 (the "Completion Date").

- \* Pursuant to the agreement dated 3rd November, 2008 (the "Agreement") between AppliedLand Limited and J&J regarding the Disposal whereby, amongst other things, AppliedLand Limited agreed to indemnify J&J against all liabilities resulting from the Group's actions up to the Completion Date. The Group intends that the amount of shareholder's loan (representing the total investment cost of the Panama Project contributed by the Group) will be offset against the consideration payable by J&J on completion of the Agreement. To the best knowledge of the Directors, the Playa Grande Companies do not have any liabilities apart from the shareholder's loan which is covered by the indemnity as mentioned. As a result, the estimated unaudited gain on disposal will be approximately HK\$121.9 million.

**2. Unaudited Pro Forma Consolidated Income Statement of the Remaining Group**

The unaudited pro forma consolidated income statement of the Remaining Group was prepared based on the audited consolidated income statement of the Group for the year ended 30th June, 2008, which have been extracted from the Accountants' Report set out in Appendix I to this circular, after making pro forma adjustments relating to the Disposal that are (i) directly attributable to the transaction; (ii) factually supportable; and (iii) clearly identified as to those adjustments which are expected to have a continuing effect on the Remaining Group and those which are not.

|   | <b>The Group<br/>year ended<br/>30th June,<br/>2008<br/>HK\$'000<br/>(Note 1)</b> | <b>Pro forma<br/>adjustments<br/>HK\$'000<br/>(Note 2)</b> | <b>Pro forma<br/>adjustments<br/>HK\$'000<br/>(Note 3)</b> | <b>Pro forma<br/>Remaining<br/>Group<br/>HK\$'000</b> |
|---|---|--|--|---|
| <b>Continuing operations</b>                              |   |  |  |   |
| <b>Turnover</b>   | 5,876   |  |  | 5,876   |
| Other income  | 9,226   | (308)  |  | 8,918   |
| Increase in fair values of<br>investment properties       | 33,950  |  |  | 33,950  |
| Gain on disposal of subsidiaries                          | 3,648   |  | 133,233  | 136,881   |
| Administrative expenses                                   | (31,619)  | 240  |  | (31,379)  |
| Finance costs   | (3,907)   |  |  | (3,907)   |
| Share of results of a jointly<br>controlled entity        | 298   |  |  | 298   |
| <b>Profit before taxation</b>                             | 17,472  |  |  | 150,637   |
| Tax credit  | 432   |  |  | 432   |
| <b>Profit for the year from<br/>continuing operations</b> | 17,904  |  |  | 151,069   |
| <b>Discontinued operations</b>                            |   |  |  |   |
| Loss attributable to discontinued<br>operations           | (81)  |  |  | (81)  |
| <b>Profit for the year</b>                                | <u>17,823</u>   |  |  | <u>150,988</u>  |
| <b>Attributable to:</b>                                   |   |  |  |   |
| Equity holders of the parent                              | 17,823  | (68)   | 133,233  | 150,988   |
| Minority interests  | <u>—</u>  |  |  | <u>—</u>  |
|   | <u>17,823</u>   |  |  | <u>150,988</u>  |



*Notes:*

- (1) The amounts have been extracted, without adjustments, from the Accountants' Report of the Group for the year ended 30th June, 2008 as set out in Appendix I to this circular.
- (2) The adjustments represent the exclusion of the income and expenses attributable to the Playa Grande Companies from the consolidated income statement of the Group for the year ended 30th June, 2008, as if the Disposal had taken place on 1st July, 2007. The adjustments will not have continuing income statement effect to the Remaining Group.
- (3) The adjustments represent the estimated unaudited gain on disposal of the Playa Grande Companies, assuming that the Disposal had taken place on 1st July, 2007, which are calculated as follows:

|  | <i>HK\$'000</i>       |
|--|-----------------------|
| Sales consideration  | 304,200               |
| Less:  |                       |
| Net deficit of Playa Grande Companies as at 1st July, 2007         | 40                    |
| Shareholder's loan to Playa Grande Companies as at 1st July, 2007* | (155,807)             |
| Payment of fees and expenses in connection with the Disposal       | (15,200)              |
|  | <hr/>                 |
| Estimated unaudited gain on disposal                               | <u><u>133,233</u></u> |

- \* Pursuant to the Agreement between AppliedLand Limited and J&J regarding the Disposal whereby, amongst other things, AppliedLand Limited agreed to indemnify J&J against all liabilities resulting from the Group's actions up to the Completion Date. The Group intends that the amount of shareholder's loan (representing the total investment cost of the Panama Project contributed by the Group) will be offset against the consideration payable by J&J on completion of the Agreement. To the best knowledge of the Directors, the Playa Grande Companies do not have any liabilities apart from the shareholder's loan which is covered by the indemnity as mentioned. As a result, the estimated unaudited gain on disposal will be approximately HK\$133.2 million.

The adjustments will not have continuing income statement effect to the Remaining Group.

**3. Unaudited Pro Forma Consolidated Cash Flow Statement of the Remaining Group**

The unaudited pro forma consolidated cash flow statement of the Remaining Group was prepared based on the audited consolidated cash flow statement of the Group for the year ended 30th June, 2008, which have been extracted from the Accountants' Report set out in Appendix I to this circular, after making pro forma adjustments relating to the Disposal that are (i) directly attributable to the transaction; (ii) factually supportable; and (iii) clearly identified as to those adjustments which are expected to have a continuing effect on the Remaining Group and those which are not.

|  | <b>The Group<br/>year ended<br/>30th June,<br/>2008<br/>HK\$'000<br/>(Note 1)</b> | <b>Pro forma<br/>adjustments<br/>HK\$'000<br/>(Note 2)</b> | <b>Pro forma<br/>adjustments<br/>HK\$'000<br/>(Note 3)</b> | <b>Pro forma<br/>Remaining<br/>Group<br/>HK\$'000</b> |
|--|---|--|--|---|
| <b>OPERATING ACTIVITIES</b>  |   |  |  |   |
| Profit before taxation   |   |  |  |   |
| From continuing operations   | 17,472  | (68)   | 133,233  | 150,637   |
| From discontinued operations   | (81)  |  |  | (81)  |
|  | <u>17,391</u>   |  |  | <u>150,556</u>  |
| Adjustments for:   |   |  |  |   |
| Depreciation of property,<br>plant and equipment                           | 6,381   |  |  | 6,381   |
| Dividend income  | (17)  |  |  | (17)  |
| Finance costs  | 5,028   |  |  | 5,028   |
| Gain on disposal of investment<br>properties                               | (7,152)   |  |  | (7,152)   |
| Gain on disposal of subsidiaries   | (3,648)   |  | (133,233)  | (136,881)   |
| Impairment loss recognised<br>in respect of trade and<br>other receivables | 979   |  |  | 979   |
| Increase in fair value of<br>investment properties                         | (33,950)  |  |  | (33,950)  |
| Interest income  | (161)   |  |  | (161)   |
| Loss on disposal of property,<br>plant and equipment                       | 94  |  |  | 94  |
| Release of prepaid lease payments  | 43  |  |  | 43  |
| Share of results of a jointly<br>controlled entity                         | (298)   |  |  | (298)   |
| <b>Operating cash flows before<br/>changes in working capital</b>          | <u>(15,310)</u>   |  |  | <u>(15,378)</u>                                       |
| Changes in working capital:  |   |  |  |   |
| Inventories  | 450   |  |  | 450   |
| Trade and other receivables  | 1,370   | (3,717)  | (11,310)   | (13,657)  |
| Trade and other payables   | (71)  |  |  | (71)  |
| <b>Cash used in operations</b>   | <u>(13,561)</u>   |  |  | <u>(28,656)</u>                                       |
| Hong Kong Profits Tax paid   | (280)   |  |  | (280)   |
| <b>Net cash used in<br/>operating activities</b>                           | <u>(13,841)</u>   |  |  | <u>(28,936)</u>                                       |

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**APPENDIX III****UNAUDITED PRO FORMA FINANCIAL INFORMATION  
OF THE REMAINING GROUP**

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|  | <b>The Group<br/>year ended<br/>30th June,<br/>2008<br/><i>HK\$'000</i><br/><i>(Note 1)</i></b> | <b>Pro forma<br/>adjustments<br/><i>HK\$'000</i><br/><i>(Note 2)</i></b> | <b>Pro forma<br/>adjustments<br/><i>HK\$'000</i><br/><i>(Note 3)</i></b> | <b>Pro forma<br/>Remaining<br/>Group<br/><i>HK\$'000</i></b> |
|--|---|--|--|--|
| <b>INVESTING ACTIVITIES</b>                                      |   |  |  |  |
| Acquisition of investment properties                             | (26,517)  |  |  | (26,517)   |
| Advances to a jointly controlled entity                          | (3,417)   |  |  | (3,417)  |
| Compensation received from a joint venture partner               | 9,750   |  |  | 9,750  |
| Dividend received  | 17  |  |  | 17   |
| Increase in pledged bank deposits                                | (59)  |  |  | (59)   |
| Interest received  | 161   |  |  | 161  |
| Proceeds from disposal of investment properties                  | 36,477  |  |  | 36,477   |
| Proceeds from disposal of properties held for sales              | 50,120  |  |  | 50,120   |
| Proceeds from disposal of subsidiaries, net                      | 4,845   |  | 289,000  | 293,845  |
| Purchase of property, plant and equipment                        | (16,072)  | 15,080   |  | (992)  |
| Refunds of deposits paid on acquisition of investment properties | 4,948   |  |  | 4,948  |
| <b>Net cash from investing activities</b>                        | <u>60,253</u>   |  |  | <u>364,333</u>   |

|   | The Group<br>year ended<br>30th June,<br>2008<br>HK\$'000<br>(Note 1) | Pro forma<br>adjustments<br>HK\$'000<br>(Note 2) | Pro forma<br>adjustments<br>HK\$'000<br>(Note 3) | Pro forma<br>Remaining<br>Group<br>HK\$'000 |
|---|---|--|--|---|
| <b>FINANCING ACTIVITIES</b>   |   |  |  |   |
| Finance charges paid in<br>respect of obligations<br>under finance leases | (226)   |  |  | (226)                                       |
| Interest paid   | (4,802)   |  |  | (4,802)                                     |
| New bank borrowings raised  | 47,479  |  |  | 47,479                                      |
| Advances from immediate<br>holding company                                | –   | (11,308)   | 11,308   | –   |
| Proceeds from exercise<br>of share options                                | 324   |  |  | 324   |
| Repayment of bank borrowings  | (98,656)  |  |  | (98,656)                                    |
| Repayment of obligations<br>under finance leases                          | (2,644)   |  |  | (2,644)                                     |
| Repurchases of own shares   | (4,854)   |  |  | (4,854)                                     |
| Issue of share capital  | –   | (2)  | 2  | –   |
| <b>Net cash used in financing<br/>activities</b>                          | <u>(63,379)</u>   |  |  | <u>(63,379)</u>                             |
| <b>Net (decrease) increase in<br/>cash and cash equivalents</b>           | <u>(16,967)</u>   |  |  | <u>272,018</u>                              |
| <b>Cash and cash equivalents<br/>at beginning of the year</b>             | <u>18,760</u>   |  |  | <u>18,760</u>                               |
| Effect of foreign<br>exchange rate changes                                | <u>(27)</u>   |  |  | <u>(27)</u>                                 |
| <b>Cash and cash equivalents<br/>at end of the year</b>                   | <u><u>1,766</u></u>   |  |  | <u><u>290,751</u></u>                       |

*Notes:*

- (1) The amounts have been extracted, without adjustments, from the Accountants' Report of the Group for the year ended 30th June, 2008 as set out in Appendix I to this circular.
- (2) The adjustments represent the exclusion of the cash flows attributable to the Playa Grande Companies from the consolidated cash flow statement of the Group for the year ended 30th June, 2008, as if the Disposal had taken place on 1st July, 2007. The adjustments will not have continuing cash flow effect to the Remaining Group.
- (3) The adjustments represent the estimated unaudited gain on disposal of the Playa Grande Companies of approximately HK\$133,233,000, net cash consideration received of approximately HK\$289,000,000 and reclassification of the effect of cash flows between the Remaining Group and the Playa Grande Companies for the year ended 30th June 2008, assuming that the Disposal had taken place on 1st July, 2007. The adjustments will not have continuing cash flow effect to the Remaining Group.

**B. LETTER ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP**

*The following is the text of the report, prepared for the purpose of incorporation in this circular, received from our reporting accountants, Mazars CPA Limited, in respect of the unaudited pro forma financial information of the Group as set out in this appendix:*



**MAZARS CPA LIMITED**  
**馬賽會計師事務所有限公司**  
34th Floor, The Lee Gardens,  
33 Hysan Avenue, Causeway Bay, Hong Kong  
香港銅鑼灣希慎道33號利園廣場34樓  
Tel 香港電話: (852) 2909 5555  
Fax 傳真: (852) 2810 0032  
Email 電郵: info@mazars.com.hk  
Website 網址: www.mazars.com.hk

The Directors  
**Applied Development Holdings Limited**  
Unit 3402-3, 34th Floor  
China Merchants Tower  
Shun Tak Center  
168-200 Connaught Road Central  
Hong Kong

8th December, 2008

Dear Sirs,

We report on the unaudited pro forma financial information set out in Section A of Appendix III to the circular of Applied Development Holdings Limited (the “Company”, together with its subsidiaries are referred to as the “Group”) dated 8th December, 2008 (the “Circular”) which has been prepared by the directors of the Company (the “Directors”) solely for illustrative purposes to provide information about how the proposed disposal of the Group’s 100% interest in Playa Grande Development Holdings Inc. and Playa Grande Hot Spring Developments Holdings, Inc., which are principally engaged in resort and property development and are the legal and beneficiary owners of the Group’s certain properties under development in Panama, might have affected the financial information presented. The basis of preparation of the unaudited pro forma financial information is set out in the introduction and notes to the unaudited pro forma financial information as set out in Section A of Appendix III to the circular.

**Respective responsibilities of the Directors and reporting accountants**

It is the responsibility solely of the Directors to prepare the unaudited pro forma financial information in accordance with paragraph 4.29 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 (“HKICPA”).

It is our responsibility to form an opinion, as required by paragraph 4.29(7) 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 HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the Directors. This engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or review made in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we do not express any assurance on the unaudited pro forma financial information.

We planned and performed our work so as to obtain the information and explanations which 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 on the basis stated, that such basis is consistent with the accounting policies of the Group and that 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.

The unaudited pro forma financial information is for illustrative purposes only, based on the judgements, estimations and assumptions of the Directors, 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 results of operations and cash flows of the Group for the year ended 30th June, 2008 or any future periods; or
- the financial position of the Group as at 30th June, 2008 or any future date.

**Opinion**

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled by the Directors on the basis stated therein;
- (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.

Yours faithfully,

**Mazars CPA Limited**  
*Certified Public Accountants*  
*Hong Kong*

**A.I.R. AVALUOS, S.A • APARTADO** 0816-04143, PANAMA, R. DEP., CL 66Y VIA ISRAEL CALLE50,  
EDIF, PACIFIC PLAZA 1ER PISOLOCAL #1-B  
TEL: (507) 399-6900 / FAX: 399-6949 • E-MAIL: [avaluos@airpma.net](mailto:avaluos@airpma.net)

**INFORME DE INSPECCION Y AVALUO**

The Directors  
Applied Development Holdings Limited  
Units 3402-3, 34th Floor  
China Merchants Tower, Shun Tak Centre  
168-200 Connaught Road Central  
Hong Kong

Dear Sirs

**Valuation of (1) Panama Land and (2) Hot Spring Property**

In accordance with your instructions to value the land at Panama, we have inspected the property and provide you with our opinion of market value as at 27th November 2008, the date of inspection. We provide below a summarized report in accordance with our instructions.

**TERMS OF ENGAGEMENT**

|                        |  |
|------------------------|--|
| Client                 | Applied Development Holdings Limited. We cannot accept responsibility to any third party for the whole or any part of its contents.  |
| Purpose of Valuation   | The purpose of this report is to estimate the Market Value of the subject properties. The report is intended for use in connection with establishing value for Hong Kong Stock Exchange compliance. It is not intended for any other use.  |
| Subject of Valuation   | The subject properties comprise land and improvements located at Panama.   |
| Principle of Valuation | <ol style="list-style-type: none"><li>(1) The site inspection of the subject properties (1) and (2) has been carried out.</li><li>(2) The relevant legal title documents of the properties (1) and (2) can be searched at the Land Registry and we have taken the searches accordingly.</li><li>(3) It was confirmed that no planning or zoning use has been approved or is to be approved by the relevant authorities at Panama.</li><li>(4) The valuation also relied on all relevant documents including original documents of legal title, agreements and other documents provided by the client.</li><li>(5) The valuation has taken into account all material conditions affecting title of the subject properties (1) and (2) and by reference to comparable market transactions.</li></ol> |

|   |  |
|---|--|
| Interest to be Valued                   | We have been instructed to value the freehold interest in the subject properties (1) and (2) subject to any leasehold interests.   |
| Basis of Valuation                      | <p>We have been instructed to provide an opinion of Market Value for the subject properties (1) and (2), both defined as follows:</p> <p><i>‘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.’ (RICS Appraisal and Valuation Standards PS3.2).</i></p> <p>We have conducted the valuation in accordance with the RICS Appraisal and Valuation Standards which is equivalent to the Hong Kong Guidance Notes on the Valuation of Property Assets, pursuant to Chapter 5 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.</p> |
| Date of Valuation                       | The date of valuation is the date of inspection being 27th November 2008.  |
| Status of Valuers and Prior Involvement | The valuation has been undertaken by Marcela Gonzalez of A.I.R. Avaluos, S.A who has over 10 years experience in valuing resort and properties in the Panama.  |
| Currency Adopted                        | The valuation figures are quoted in US Dollars, the official currency of the Republic of Panama.   |

#### DATE AND COST OF ORIGINAL ACQUISITION

The subject property (1), the Panama Land was acquired wholly by Playa Grande Development Holdings Inc. in July 2007 for a consideration of US\$19.75 million. The subject property (2), the Hot Spring property was acquired wholly by Playa Grande Hot Spring Development Holdings, Inc, in October 2007 approximately for a consideration of US\$750,000. Apart from the total acquisition cost of the subject properties (1) and (2) of US\$20.50 million and relevant professional fees such as drawing fee for the master plan and plan study amounting to approximately US\$900,000 for subject property (1) only, there are no construction and pre-development costs for the subject properties (1) and (2).

#### RECONCILIATION STATEMENT OF THE VALUATION FIGURES

The difference between the total revaluation figure of US\$41.68 million and the book value of US\$21.4 million as at 30 June 2008 (referred to in the attached Accountants’ Report) represents the land value appreciation of US\$20.28 million in respect of the subject properties (1) and (2) as of the date of valuation report.



**LOCATION AND DESCRIPTION OF PROPERTY**

|                      |  |
|----------------------|--|
| Situation & Location | (1) Panama Land  |
|                      | The Panama Land is located in Boca Chica, District de San Lorenzo, Province of Chiriqui, Panama. The site is approximately 494 hectares. |
|                      | (2) Hot Spring Property  |
|                      | Hot Spring Property is located in the Borough of San Felix, Province of Chiriqui, Panama. The site is approximately 9 hectares.          |
| Property Tax         | (1) Panama Land: US\$129,327.14 per annum  |
|                      | (2) Hot Spring Property: N/A   |

**TENURE**

|             |  |
|-------------|--|
| Legal Title | The subject property is held on the following freehold title:  |
|             | (1) Panama Land  |
|             | Lot no. 1807, 4920, 4921, 4923, 4924, 4935, 4936, 4942, 4943, 4944, 4945, 6921, 20435, 33248, 35039, 41583, 41619, together with known as Playa Grande in Boca Chica, District of San Lorenzo, Province of Chiriqui, Panama. |
|             | (2) Hot Spring Property  |
|             | Lot no. 60004 in the Borough of San Felix, Province of Chiriqui, Panama  |
| Tenancies   | No tenancies on both of (1) and (2) properties.  |

**PLANNING, CONSENTS & AGREEMENTS**

|          |  |
|----------|--|
| Planning | There is no current planning or zoning use for both the properties (1) and (2) as at the date of the valuation report. |
|----------|--|

**CLASSIFICATION OF THE PROPERTY**

|                |  |
|----------------|--|
| Classification | (1) Panama Land                                    |
|                | The property is held for development by the owner. |
|                | (2) Hot Spring Property                            |
|                | The property is held for development by the owner. |

## VALUATION

## Valuation Assumptions

1. The valuation relied on all relevant documents including the original documents of legal title, agreements and other memorandum provided by the Client and reviewed to verify the ownership of the subject properties (1) and (2).
2. The valuation is made on the assumption that no planning consent has been granted for the development of the subject properties (1) and (2) on 27 November 2008.
3. Except the property tax on the property (1) at Panama of US\$129,327.14 per annum charged, there are no other tax to be charged in respect of any proposed property development project.

## Limiting Conditions

1. Neither the whole nor any part of the report nor any reference thereto may be included in any published document, or referred to in any way without our prior written approval of the form and context in which it may appear.
2. The valuation report will be prepared for the use only of the person to whom it is addressed and we cannot accept responsibility to any third party for the whole or any part of its contents.
3. The valuation will be made in accordance with the RICS Appraisal and Valuation Standards which is equivalent to Hong Kong Guidance Notes on the Valuation of Property Assets.
4. We have relied upon information provided to us by The Panama Land Registry Department for title information relating to the subject property. The valuers accept no responsibility or liability for the true interpretation of the legal position of the client or other parties.
5. No allowance has been made for any expenses of realisation, or for taxation which might arise in the event of a disposal.
6. For purposes of this valuation, we assume that there are no onerous or unusual conditions or restrictions affecting the property and that it is free and clear of any mortgages or charges.

|                         |  |
|-------------------------|--|
| Valuer                  | Marcela Gonzalez                                       |
| Employer                | A.I.R. Avaluos, S.A                                    |
| Qualification           | Member of the Royal Institution of Chartered Surveyors |
| Effective Date of Value | 27th November 2008                                     |
| Valuation               | The valuation certificate is attached.                 |

Yours faithfully,  
For and on behalf of  
**A.I.R. Avaluos, S.A**

**Marcela Gonzalez**  
*MRICS*

**APPENDIX I**  
**VALUATION CERTIFICATE**

| <b>Property</b>   | <b>Description and Tenure</b>   | <b>Existing Use</b> | <b>The Registered Owner who is vested with legal title</b> | <b>Market Value as at 27th November 2008</b> |
|---|---|---------------------|--|--|
| (1) Panama Land Lot no. 1807, 4920, 4921, 4923, 4924, 4935, 4936, 4942, 4943, 4944, 4945, 6921, 20435, 33248, 35039, 41583, 41619, together with known as Playa Grande in Boca Chica, District of San Lorenzo, Province of Chiriqui, Panama | The land is undeveloped land with fully wood and green tree area, and 2.2 km beach located in the Boca Chica, District de San Lorenzo, Province of Chiriqui, Panama. The total land area is approximately 494 hectares. | Agricultural        | Playa Grande Development Holdings Inc.                     | US\$40,000,000                               |
| (2) Hot Spring Property Lot no. 60004 in the Borough of San Felix, Province of Chiriqui, Panama   | The hot spring area is undeveloped land. The total area is approximately 9 hectares.  | Hot spring area     | Playa Grande Hot Spring Development Holdings, Inc.         | US\$1,680,000                                |
| <b>Total</b>  |   |                     |  | <b><u>US\$41,680,000</u></b>                 |

*Notes:*

1. There are no charges registered against the title of properties (1) and (2).
2. The market value of the properties (1) and (2) is based on the assumption on 27th November 2008.
3. There are no building, construction works and other substances on the properties (1) and (2) as the properties both are raw land in nature.

## 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 not contained herein the omission of which would make any statement contained in this circular misleading.

## 2. DISCLOSURE OF INTERESTS

### (a) Interests of Directors

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which 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 are taken or deemed to have under such provisions of the SFO), the Model Code for Securities Transactions by Directors of Listed Companies and which were required to be entered into the register required to be kept under section 352 of the SFO were as follows:

#### (i) Long positions in Shares

| Name                       | Beneficial | Founder of a discretionary trust and discretionary object | Corporate              | Total number of Shares | Approximate% shareholding |
|----------------------------|------------|---|------------------------|------------------------|---------------------------|
| Hung Kin Sang, Raymond     | 3,280,000  | 405,655,584<br>(Note 1)                                   | 34,329,000<br>(Note 2) | 443,264,584            | 50.76%                    |
| Hung Wong Kar<br>Gee, Mimi | 9,310,056  | 405,655,584<br>(Note 1)                                   | 34,329,000<br>(Note 2) | 449,294,640            | 51.45%                    |
| Hung Kai Mau, Marcus       | 2,960,000  | –   | –                      | 2,960,000              | 0.34%                     |
| Fang Chin Ping             | 100,000    | –   | –                      | 100,000                | 0.01%                     |

Notes:

(1) These Shares are held by the following companies:

|                      | Number of Shares   |
|----------------------|--------------------|
| Malcolm Trading Inc. | 43,992,883         |
| Primore Co. Inc.     | 2,509,266          |
| Capita Company Inc.  | 359,153,435        |
|                      | <u>405,655,584</u> |

Malcolm Trading Inc., Primore Co. Inc. and Capita Company Inc. are wholly-owned by the Marami Foundation as trustee for the Raymond Hung/Mimi Hung & Family Trust. All units in Raymond Hung/Mimi Hung & Family Trust are beneficially owned by a discretionary trust, the beneficiaries of which include the family members of Mr. Hung Kin Sang, Raymond and Ms. Hung Wong Kar Gee, Mimi.

- (2) These Shares are held by Applied Investment (Asia) Limited which is a wholly-owned subsidiary of the Company.

(ii) *Derivative interests in the Shares*

| Name of Director       | Notes | Date of grant<br>of share<br>options | Outstanding<br>options at<br>the Latest<br>Practicable Date | Exercise price<br>HK\$ |
|------------------------|-------|--------------------------------------|---|------------------------|
| Hung Kin Sang, Raymond | (1)   | 25 April 2006                        | 45,611,141  | 0.54                   |
| Hung Kai Mau, Marcus   | (2)   | 25 April 2006                        | <u>3,000,000</u>  | 0.54                   |
| Total                  |       |                                      | <u><u>48,611,141</u></u>                                    |                        |

*Notes:*

- (1) The exercise period of the share options of the Company granted to Mr. Hung Kin Sang, Raymond is five years from the date of grant. There is no minimum vesting period for the share options of the Company granted to Mr. Hung Kin Sang, Raymond.
- (2) The exercise period of the share options of the Company granted to Mr. Hung Kai Mau, Marcus is three years from the date of grant. Except for the requirement that 50% of the share options granted must be held for at least one year before they can be exercised, there is no minimum vesting period for the remaining 50% share options of the Company granted to Mr. Hung Kai Mau, Marcus.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives of the Company had any interests and short positions in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which 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 are taken or deemed to have under such provisions of the SFO), the Model Code for Securities Transactions by Directors of Listed Companies and which were required to be entered into the register required to be kept under section 352 of the SFO.

As at the Latest Practicable Date, none of the Directors had any interest, either direct or indirect, in any assets which have been, since 30 June 2008, being the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

**(b) Interests of Substantial Shareholders**

As at the Latest Practicable Date, so far as is known to the Directors and the chief executives of the Company, the following persons (other than a Director or chief executive of the Company) had an interest or short position in the Shares and underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

| Name                                 | Capacity   | Number of Shares              | % shareholding |
|--------------------------------------|------------|-------------------------------|----------------|
| Capita Company Inc.                  | Beneficial | 359,153,435                   | 41.13%         |
| Marami Foundation                    | Corporate  | 405,655,584<br>(Note 1 above) | 46.45%         |
| Applied Investment<br>(Asia) Limited | Beneficial | 34,329,000                    | 3.93%          |

Save as disclosed above, as at the Latest Practicable Date, the Directors and the chief executive of the Company are not aware of any other persons (other than a Director or chief executive of the Company) who had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 10 per cent or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at a general meeting of any other member of the Group, or had options in respect of such capital.

**3. SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors has entered into any service contract with any member of the Group nor are there any other service contracts proposed which will not expire or be determinable by the Company within one year without payment of compensation (other than statutory compensation).

**4. LITIGATION**

As at the Latest Practicable Date, no member of the Group was engaged in any litigation, arbitration proceedings or claims of material importance and there were no litigation, arbitration proceedings or claims of material importance known to the Directors to be pending or threatened against any member of the Group.

**5. COMPETING INTERESTS**

As at the Latest Practicable Date, none of the Directors or any of his/her associates (as such term is defined in the Listing Rules) had an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group required to be disclosed pursuant to rule 8.10 of the Listing Rules other than those businesses to which the Directors were appointed to represent the interests of the Company and/or the Group.

**6. QUALIFICATIONS OF EXPERTS AND CONSENTS**

The following are the qualifications of the experts whose letters and reports (as the case may be) are contained in this circular:

Mazars CPA Limited (“Mazars”)  
A.I.R. Avaluos, S. A (“A.I.R.”)

Certified Public Accountants  
Member of the Royal Institution  
of Chartered Surveyors

As at the Latest Practicable Date, each of Mazars and A.I.R. has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its reports as set out in this circular and references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of Mazars and A.I.R. was beneficially interested in the share capital of any member of the Group, nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, nor did it have any direct or indirect interest in any assets which were, since 30 June 2008 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to, or proposed to be acquired or disposed of by or leased to, any member of the Group.

**7. MATERIAL CONTRACTS**

The following contracts, not being contracts in the ordinary course of business, were entered into by the Group within two years immediately preceding the date of this circular, and are or may be material:

- (i) the Agreement.
- (ii) an agreement dated 11 December 2006 between Applied Properties Ltd and Felipe Ariel Rodriguez for the acquisition of land in Panama (a piece of land of approximately 450 hectares which is known as Playa Grande in Boca Chica, District of San Lorenzo, Province of Chiriqui, Panama) for a consideration of approximately US\$18,936,503 (approximately HK\$147,704,723).
- (iii) an agreement dated 11 April 2007 between Applied Investment (Asia) Limited and Star Pan Ltd for the sale and purchase of Unit 4203-4 of 42nd floor, Far East Finance Centre, No. 16 Harbour Road, Hong Kong at a consideration of HK\$59,000,000.
- (iv) an agreement dated 5 November 2007 between Elite Industries Limited and Crown Peace Asia Limited for sale agreement of 102,000 fully of the paid ordinary shares of HK\$1.00 each of Wideland Electronics Limited, representing 51% of the entire issued share capital of Wideland Electronics Limited for a consideration of HK\$100,000.

**8. INTERESTS IN ASSETS AND/OR CONTRACTS AND OTHER INTERESTS**

As at the Latest Practicable Date, none of the Directors has any direct or indirect interest in any assets which had been, since 30 June 2008 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.



As at the Latest Practicable Date, none of the Directors were materially interested in any contact or arrangement which is significant in relation to the business of the Group.

## **9. GENERAL**

- (i) The secretary and qualified accountant of the Company is Ng Kit Ling, a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and fellow member of the Association of Chartered Certified Accountants in United Kingdom.
- (ii) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and the principal place of business of the Company in Hong Kong is Units 3402-03, 34/F., China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road, Central, Hong Kong.
- (iii) The Hong Kong branch share registrar and transfer office of the Company in Hong Kong is located at Computershare Hong Kong Investor Services Limited of 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (iv) The English version of this circular shall prevail over the Chinese text.

## **10. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection at the Company's principal place of business in Hong Kong at Units 3402-03, 34/F China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong during normal business hours on any weekdays other than public holidays up to and including 17 December 2008:

- (i) the memorandum of association and bye-laws of the Company;
- (ii) the annual reports of the Company for the two years ended 30 June 2007 and 2008;
- (iii) the accountants' report on the Group, the text of which is set out in Appendix I of this circular;
- (iv) the unaudited pro forma financial information of the Remaining Group and the letter from Mazars CPA Limited, the text of which is set out in Appendix III of this circular;
- (v) the property valuation report on the Property, the texts of which are set out in Appendix IV to this circular;
- (vi) the written consents as referred to in the paragraphs headed "Experts and consents" in this appendix; and
- (vii) the material contracts as referred to in the paragraphs headed "Material contracts" in this appendix.

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## NOTICE OF SGM

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**APPLIED DEVELOPMENT HOLDINGS LTD.**

**實力建業集團有限公司 \***

*(Incorporated in Bermuda with limited liability)*  
**(Stock Code : 519)**

### NOTICE OF SPECIAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that a special general meeting of Applied Development Holdings Limited (the “**Company**”) will be held at Kennedy Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Central, Hong Kong on 30 December 2008 (Tuesday) at 10:00 a.m. for the purpose of considering and, if thought fit, passing (with or without modifications) the following resolution:

#### ORDINARY RESOLUTION

“**THAT:**

- (a) the agreement dated 3 November 2008 (the “**Agreement**”) entered into between AppliedLand Limited (“**AppliedLand**”), a wholly-owned subsidiary of the Company, and J & J Land Acquisition and Development LLC (the “**Purchaser**”) (a copy of which has been produced to this meeting marked “A” and initialed by the chairman of this meeting for the purpose of identification) in relation to the sale by AppliedLand of two fully paid ordinary shares of US\$100 each in the capital of Playa Grande Development Holdings Inc., representing the entire issued share capital of Playa Grande Development Holdings Inc., and 2 fully paid ordinary shares of US\$100 each in the capital of Playa Grande Hot Spring Development Holdings, Inc, representing the entire issued share capital of Playa Grande Hot Spring Development Holdings, Inc to the Purchaser and all transactions contemplated thereunder (details of which are summarized in the circular of the Company dated 8 December 2008) be and are hereby approved, ratified and confirmed; and
- (b) the directors of the Company or be and are hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by them to be incidental to, ancillary to or in connection with the matters contemplated in the Agreement as they may consider necessary, desirable or expedient.”

By order of the Board  
**Applied Development Holdings Limited**  
**Hung Kin Sang, Raymond**  
*Managing Director*

Hong Kong, 8 December 2008

\* for identification purpose only

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## NOTICE OF SGM

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*Notes:*

1. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.
2. In order to be valid, a proxy form and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of attorney or authority, must be deposited at the Company's head office and principal place of business at Units 3402-03, 34/F China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong not less than 48 hours before the time fixed for holding the meeting or any adjournment thereof. Completion and return of the proxy form will not preclude any member from attending and voting in person at the meeting or any adjourned meeting should he so wish.
3. In case of joint shareholding, the vote of the senior joint shareholder who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint shareholder(s) and for this purpose seniority will be determined by the order in which the names stand on the register of members of the Company in respect of the joint shareholding.

*As at the date of this circular, the Board comprises Hung Kin Sang, Raymond, Hung Wong Kar Gee, Mimi, Hung Kai Mau, Marcus and Fang Chin Ping as executive directors; and Lo Yun Tai, Lun Tsan Kau and Lam Ka Wai, Graham as independent non-executive directors.*