BUSINESS REVIEW AND OUTLOOK

During the year, the Group has recorded after-tax profit for the year of HK$2.9 million and profit attributable to shareholders of HK$4.6 million. Comparing with the loss for 2005 of HK$4.8 million, the improvement was explained by the Group's change of business focus to property development project management that drove both the turnover and bottom line for the year. Such new business brought in revenue of HK$23.4 million to the Group for the year. To cope with the expansion in business activities, the Group also commanded increased resources in human and the others, administrative expenses were almost tripled of that of last year as a result. Nonetheless, the Group successfully turns around from loss into a profit position that paves the way for bigger earning potential in the coming years.

The Board has a clear strategy in property development business in view of its recent acquisition plans. The Company has recently announced that it is contemplating several acquisition plans, which comprises a five-star hotel, namely the Westin Guangzhou, and the annexed grade-A office tower in the Tianhe District of Guangzhou, a commercial complex at a residential building which is adjacent to the Westin Guangzhou, and the remaining 49% interest in Zhoutouzui Project in which the Group is currently holding 51%. All these acquisitions will enable the Group to progress itself as a property developer in Guangzhou in premier grade property market.

LIQUIDITY AND FINANCIAL RESOURCES

Capital structure and liquidity

To fund the acquisition of the 51% equity interest in Zhoutouzui Project, the Company has raised in August 2006 net proceeds of HK$234.5 million in cash by way of an open offer of 267,324,486 shares at a price of HK$0.90 per offer share to the Company's shareholders. The offer also entitled the shareholders taking up the offer shares 10 warrants for every 13 offer shares taken up. Holder of one warrant, expiring in August 2008, is entitled to subscribe for one share in the Company at an exercise of HK$1.10. Assuming full exercise of the outstanding warrants, there will be further proceeds from new equity issue of HK$225 million brought into the Company. The new issue of shares and warrants has strengthened, both existing and potential, the equity base of the Company.

The acquisition of Zhoutouzui Project has taken up cash resources of the Group which, on the other hand, is presented on the Group's balance sheet under non-current assets as properties held under development. The consequential effect of this investing activity is a decrease in current assets. The current assets, consisting mainly of cash and receivables, amounted to HK$53.3 million as compared with the current liabilities, consisting of tax payable and expenses accruals, of HK$5.5 million, such that the current ratio decreased from 45.8:1 as at 31 December 2005 to 9.6:1 as at 31 December 2006.

The Group had non-current liabilities totaling HK$408.6 million which consisted mainly of the loan from minority shareholder of the Zhoutouzui Project of HK$244.9 million, balance consideration of HK$63.6 million due to the vendor of the 51% equity interest in Zhoutouzui Project, and deferred tax liabilities of HK$100.1 million resulting from the recognition of surplus on the fair valuation of the prepaid lease payments of an acquired subsidiary. The major assets of the Group are properties held under development in Zhoutouzui Project acquired during the year and investment in the 49% equity stake in Tianhe North Project. The acquisition of Zhoutouzui Project constituted goodwill of HK$49.7 million. All these non-current assets summed up to a total value of HK$905.5 million on the balance sheet date. The gearing ratios at the balance sheet dates of 2006 and 2005, based on total asset to total liabilities, are respectively 232% compared with 433%. The improvement is contributed by the increase in equity of the Company led by the open offer of shares in the year.

LIQUIDITY AND FINANCIAL RESOURCES *(Continued)*

Bank borrowings and pledge of assets

As at 31 December 2006, the Group had pledged its 49% shares in Yaubond Limited, an associate of the Group engaged in the property development business in Guangzhou, to secure for the warranties given by the Group for appointing a subsidiary of the Group as the property project manager by Yaubond Limited. The Group had no bank borrowing as at 31 December 2006.

FOREIGN CURRENCY MANAGEMENT

The Group's property development activities are conducted in the PRC. The Group also has contracts with suppliers for goods and services that are denominated in Renminbi (the "RMB"). The Group does not hedge its foreign currency risks as the rate of exchange between Hong Kong dollar and RMB is controlled within a narrow range. However, any permanent changes in foreign exchange rates in Renminbi may have an impact on the Group's results.

CONTINGENT LIABILITIES

The Group had no contingent liabilities as at 31 December 2006.

MATERIAL ACQUISITION DURING THE YEAR

On 11 July 2006, the Company announced that Smartford Limited, an indirect wholly-owned subsidiary of the Company, entered into an acquisition agreement with Mr. Luo Dong Liang, an independent third party, pursuant to which Smartford conditionally agreed to purchase, and Mr. Luo conditionally agreed to sell, the 51% shareholding in and shareholders' loan due by Loyal Way (China) Group Limited. Except for the condition that the land use right certificate over the use of the land is not yet issued which the directors expect to materialise later this year, all other conditions set out in the agreement have been fulfilled and the acquisition was completed in October 2006. The balance consideration of HK$63.6 million is payable in cash with a maturity of two years, commencing from the date of obtaining the land use right certificate, and is charged at an annual interest of 8% per annum.

EMPLOYEES

The Group continues to recruit and take in staff with capable caliber to work in pace with the growth of the Group. As at 31 December 2006, other than the executive directors of the Company, the Group employed a total of 59 employees in Hong Kong and the PRC. The Group's staff costs amounted to approximately HK$10.4 million for the year of which HK$0.5 million were capitalised as properties held for development. Employees are remunerated according to qualifications and experience, job nature and performance. Remuneration packages are aligned with the job markets in the territories.