1. GENERAL

Skyfame Realty (Holdings) Limited (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"). Its registered office and principal place of business is at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and 2502B, Tower 1, Admiralty Centre, 18 Harcourt Road, Hong Kong respectively.

The Company's parent and ultimate holding company is Grand Cosmos Holdings Limited ("Grand Cosmos"), which is incorporated in the British Virgin Islands (the "BVI").

The Company and its subsidiaries are hereinafter collectively referred to as the "Group". The principal activity of the Company continues to be investment holding. The principal activities of its subsidiaries are investment holding, property development and provision of property development project management services.

The financial statements are presented in Hong Kong dollars, which is same as the Company's functional currency while the functional currency of its subsidiaries is Renminbi (the "RMB").

2. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations (hereinafter collectively referred to as the "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

(b) Basis of preparation

The financial statements have been prepared under the historical cost basis except for certain financial instruments which are measured at fair value.

In the current year, the Group has applied all the new and revised standards, amendments and interpretations ("new HKFRSs") issued by the HKICPA that are relevant to its operation and effective for accounting periods beginning on or after 1 January 2006. The adoption of these new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods are prepared and presented.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation *(Continued)*

The HKICPA has issued the following new standards, amendment and interpretations that have been issued but are not yet effective. The directors of the Company has commenced considering the potential impact of these new HKFRSs but are not yet in a position to determine whether these HKFRSs would have a significant impact on how the results and the financial position of the Group are prepared and presented.

		Effective for accounting periods beginning on or after
HKAS 1 (Amendment)	Capital Disclosures	*1 January 2007*
HKFRS 7	Financial Instruments: Disclosures	*1 January 2007*
HKFRS 8	Operating Segments	*1 January 2009*
HK(IFRIC) — Interpretation 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies	*1 March 2006*
HK(IFRIC) — Interpretation 8	Scope of HKFRS 2	*1 May 2006*
HK(IFRIC) — Interpretation 9	Reassessment of Embedded Derivatives	*1 June 2006*
HK(IFRIC) — Interpretation 10	Interim Financial Reporting and Impairment	*1 November 2006*
HK(IFRIC) — Interpretation 11	HKFRS 2 — Group and Treasury Share Transactions	*1 March 2007*
HK(IFRIC) — Interpretation 12	Service Concession Arrangements	1 January 2008

(c) Basis of consolidation

Where the Company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The financial statements present the results of the Group as if they formed a single entity. Inter-company transactions and balances between group companies are therefore eliminated in full in preparing the financial statements.

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition. The interest of minority shareholder is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Basis of consolidation *(Continued)*

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

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

In the Company's balance sheet, investments in subsidiaries are stated at cost less impairment loss, if any.

(d) Subsidiaries

A subsidiary is an entity over which the Company is able to exercise control. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

(e) Associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investment in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. 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 associate.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(e) Associates *(Continued)*

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate 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.

Where a Group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

(f) Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

Interests in jointly controlled entities are included in the financial statements using proportionate consolidation. The Groups' share of each of the jointly controlled entity's assets, liabilities, income and expenses are combined a line-by-line with similar items of the Group. Any premium paid for an interest in a jointly controlled entity above the fair value of the Group's share of identifiable assets, liabilities and contingent liabilities is dealt with under the goodwill policy.

Profits and losses arising on transactions between the Group and jointly controlled entities are recognised only to the extent of unrelated investors' interests in the entity. The investor's share in the jointly controlled entity's profits and losses resulting from these transactions is eliminated against the asset or liability of the joint venture arising on the transaction.

(g) Goodwill

Goodwill represents the excess of the cost of a business combination over the interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired. Cost comprises the fair values of assets given, liabilities assumed and equity instruments issued, plus any direct costs of acquisition.

Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the consolidated income statement.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is credited in full to the consolidated income statement.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(g) Goodwill *(Continued)*

For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units (the "CGU") that are expected to benefit from the synergies of the acquisition. A CGU to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the CGU to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount to each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

(h) Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Plant and equipment are depreciated so as to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives and residual value are reviewed, and adjusted if appropriate, at each balance sheet date. The useful lives are as follows:

Computer equipment and software	2-5 years
Furniture and fixtures	5 years
Motor vehicles	4 years

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of a fixed asset is the difference between the net sale proceeds and its carrying amount, and is recognised in the income statement on disposal.

(i) Properties held for development

Properties held for development are stated at the lower of cost and net realisable value. The cost of properties comprises development expenditure and professional fees. Net realisable value is determined by reference to management estimates based on prevailing market conditions less costs to be included in selling the property. On completion, the properties are transferred to completed properties held for sale.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(i) Properties held for development *(Continued)*

Properties held for sale are stated at the lower of cost and net realisable value. Net realisable value is determined reference to management estimates based on prevailing market conditions less estimated costs to be incurred in selling the property.

(j) Foreign currency

Transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which it operates (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at 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 retranslation of unsettled monetary assets and liabilities are similarly recognised immediately in the income statement, except for foreign currency borrowings qualifying as a hedge of a net investment in a foreign operation.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in the income statement in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences is also recognised directly in equity.

On consolidation, the results of foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rate approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations are translated at the rate ruling at the balance sheet date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised directly in equity (the "foreign exchange reserve"). Exchange differences recognised in the income statement of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the overseas operation concerned are reclassified to the foreign exchange reserve if the item is denominated in the functional currency of the Group or the overseas operation concerned.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the income statement as part of the profit or loss on disposal.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(j) Foreign currency *(Continued)*

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the foreign exchange reserve.

(k) Financial instruments

(i) Financial assets

The Group classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Group's accounting policy for each category is as follows:

Financial assets at fair value through profit or loss: include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or loss on them on a different basis; (ii) the assets are part of a group of financial assets which is managed and its performance evaluated on a fair value basis according to a documented management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in the income statement in the period in which they arise.

Loans and receivables: These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), but also incorporate other types of contractual monetary asset. At each balance sheet date subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(k) Financial instruments *(Continued)*

(i) Financial assets *(Continued)*

An impairment loss is recognised in the income statement 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.

(ii) Financial liabilities

The Group classifies its financial liabilities into one of two categories, depending on the purpose for which the liabilities was incurred. The Group's accounting policy for each category is as follows:

(a) Financial liabilities at fair value through profit or loss: Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(k) Financial instruments *(Continued)*

(ii) Financial liabilities *(Continued)*

(b) Other financial liabilities: Other financial liabilities include the following items:

- Trade payables and other short-term monetary liabilities, which are recognised at amortised cost.

- Bank borrowings, certain preference shares and the debt element of convertible debt issued by the Group, are initially recognised at the amount advanced net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet. "Interest expense" in this context includes initial transaction costs and premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

(iii) Convertible debt

The proceeds received on issue of the Group's convertible debt are allocated into their liability and equity components. The amount initially attributed to the debt component equals the discounted cash flows using a market rate of interest that would be payable on a similar debt instrument that did not include an option to convert. Subsequently, the debt component is accounted for as a financial liability measured at amortised cost.

The difference between the net proceeds of the convertible debt and the amount allocated to the debt component is credited direct to equity and is not subsequently remeasured. On conversion, the debt and equity elements are credited to share capital and share premium as appropriate.

(iv) Derecognition

The Group derecognises a financial asset where the contractual rights to the future cash flows in relation to the investment expire or where the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(l) Employee benefits

(i) Defined contribution pension plan

Contributions to defined contribution retirement plan are recognised as an expense in the income statement when the services are rendered by the employees.

(ii) Employee entitlements

Employee entitlements to annual leave and long service payment are recognised when they accrue to the employees. A provision is made for the estimated liability for annual leave and long service payment as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(iii) Termination benefits

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

(m) Share-based payments

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the income statement over the vesting period with a corresponding increase in the share-based payment reserve with equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the income statement over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the income statement is charged with the fair value of goods and services received unless the goods or services qualified for recognition as assets. A corresponding increase in the share-based payment reserve with equity is recognised.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(n) Leased assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Group (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognised as an asset is the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to the income statement over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Where substantially all of the risks and rewards incidental to ownership are retained by the lessor (an "operating lease"), the total rentals payable under the lease are charged to the income statement on a straight-line basis over the lease term.

(o) Revenue recognition

Property development project management and web design and development service fee income are recognised when services are provided.

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

(p) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax arises from temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes and is accounted for using the balance sheet liability method. Except for recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Income taxes are recognised in the income statement except when they relate to items directly recognised to equity in which case the taxes are also directly recognised in equity.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(q) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event that will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(r) Impairment

At each balance sheet date, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- plant and equipment; and
- investments in subsidiaries, associate and joint ventures

If the recoverable amount (i.e. the greater of the net selling price and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

(s) Borrowing costs

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

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

(t) Discontinued operations

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(u) Segment reporting

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

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidated process, except to the extent that such intra-group balances and transactions are between Group entities within a single segment.

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

3. CRITICAL ACCOUNTING ESTIMATES

Certain critical accounting judgments in applying the Group's accounting policies are described below:

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the CGU to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. As at 31 December 2006, the carrying amounts of goodwill in respect of the subsidiary and the associate are approximately HK$49,655,000 and HK$3,692,000 respectively and no indication of impairment on goodwill was noted during the impairment test for goodwill. Details of the recoverable amount calculation are disclosed in notes 19 and 20.

4. TURNOVER

Turnover represents the net invoiced value of property development project management fees earned by the Group. The amounts of each significant category of revenue recognised in turnover during the year are as follows:

	2006 HK$'000	2005 HK$'000
Continuing operations		
Property development project management and interior decoration service fee	23,456	4,757
Discontinued operations *(note 11(b))*		
Web design and development service fee	—	450
Rental income from advertising space	—	7
	—	457
	23,456	5,214

5. SEGMENT INFORMATION

Segment information is presented by way of two-segment format:

(i) by business segment, being the primary segment reporting basis; and
(ii) by geographical segment, being the secondary segment reporting basis.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns different from those of other business segments. A summary of the business segments is as follows:

Continuing operations

(a) Project management segment refers to the provision advisory of and management services rendered for property development projects and interior decoration projects;
(b) Property development segment refers to the development of properties *(note: this segment did not generate any revenue in 2005 and 2006)*;

Discontinued operations

(c) Advertising space leasing and securities holding segment refers to the investment in securities and leasing of advertising space;
(d) Online segment refers to the provision of web design and development services; and
(e) Trading and financial advisory segment refers to the general trading and the provision of financial advisory services.

As over 90% of the Group's revenue, results, assets and liabilities were derived from the People's Republic of China ("the PRC"). Accordingly, no segment information has been disclosed in respect of the Group's geographical segments.

5. SEGMENT INFORMATION *(Continued)*

Business segments

	Continuing operations				Discontinued operations *(note 11(b))*				
	Property management HK$'000	Property development HK$'000	Unallocated HK$'000	Continuing total HK$'000	Online operations HK$'000	Trading and financial advisory HK$'000	Advertising space leasing and securities holding HK$'000	Discontinued total HK$'000	Total HK$'000
Results for the year ended 31 December 2006									
Segment turnover	23,456	—		23,456	—	—	—	—	23,456
Segment results	12,519	(104)		12,415	—	—	—	—	12,415
Unallocated net operating expenses				(8,666)				—	(8,666)
Profit from operations				3,749				—	3,749
Finance costs				(2,347)				—	(2,347)
Finance income				2,636				—	2,636
Share of loss of associate	—	(112)		(112)	—	—	—	—	(112)
Profit before income tax expense				3,926				—	3,926
Income tax expense				(1,062)				—	(1,062)
Profit for the year				2,864				—	2,864
Financial position at 31 December 2006									
Assets									
Interest in associate	—	155,203		155,203	—	—	—	—	155,203
Properties held for development	—	698,945		698,945	—	—	—	—	698,945
Other segment assets	16,867	50,692		67,559	—	—	—	—	67,559
Other unallocated assets				37,106				—	37,106
TOTAL ASSETS				958,813				—	958,813
Liabilities									
Segment liabilities	784	312,103		312,887	—	—	—	—	312,887
Other unallocated liabilities				101,279				—	101,279
TOTAL LIABILITIES				414,166				—	414,166
Other segment information Year ended 31 December 2006									
Capital expenditure	15	1,916	1,728	3,659	—	—	—	—	3,659
Depreciation and amortisation	18	—	320	338	—	—	—	—	338

5. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

	Continuing operations				Discontinued operations *(note 11(b))*				
	Property management HK$'000	Property development HK$'000	Unallocated HK$'000	Continuing total HK$'000	Online operations HK$'000	Trading and financial advisory HK$'000	Advertising space leasing and securities holding HK$'000	Discontinued total HK$'000	**Total HK$'000**
Results for the year ended 31 December 2005									
Segment turnover	4,757	—		4,757	450	—	7	457	**5,214**
Segment results	4,190	—		4,190	130	(3,998)	(1,534)	(5,402)	**(1,212)**
Unallocated net operating (expenses) income				(6,790)				178	**(6,612)**
Loss from operations				(2,600)				(5,224)	**(7,824)**
Finance costs				(220)				—	**(220)**
Finance income				240				—	**240**
Loss before income tax expense				(2,580)				(5,224)	**(7,804)**
Income tax expense				(33)				—	**(33)**
Gain on disposal of discontinued operation, net of tax				—				2,990	**2,990**
Loss for the year				(2,613)				(2,234)	**(4,847)**
Financial position as at 31 December 2005									
Assets									
Interest in associate	—	165,807		165,807	—	—	—	—	**165,807**
Other segment assets	6,498	—		6,498	—	—	—	—	**6,498**
Other unallocated assets				77,815				—	**77,815**
TOTAL ASSETS				250,120				—	**250,120**
Liabilities									
Segment liabilities	170	—		170	—	—	—	—	**170**
Other unallocated liabilities				57,616				—	**57,616**
TOTAL LIABILITIES				57,786				—	**57,786**
Other segment information Year ended 31 December 2005									
Capital expenditure	86	97	—	183	—	—	—	—	**183**
Impairment losses on promissory note receivable and account receivable	—	—	—	—	—	3,431	1,251	4,682	**4,682**
Fair value losses (including loss on disposal) on financial assets at fair value through profit of loss	—	—	—	—	—	—	267	267	**267**
Depreciation and amortisation	—	—	78	78	—	43	—	43	**121**

6. OTHER INCOME

	Continuing operations		Discontinued operations *(note 11(b))*		Total	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Write-back of trade and other payable	**—**	117	**—**	20	**—**	137
Net exchange gains	**41**	—	**—**	—	**41**	—
Others	**73**	—	**—**	158	**73**	158
	114	117	**—**	178	**114**	295

7. PROFIT (LOSS) FROM OPERATIONS

Profit (loss) from operations for the year has been arrived at after charging:

	Continuing operations		Discontinued operations *(note 11(b))*		Total	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Cost of services provided	**1,841**	—	**—**	280	**1,841**	280
Share-based payment expenses *(note 31)*						
— Staff and directors	**1,386**	—	**—**	—	**1,386**	—
— Non-employees	**2,198**	—	**—**	—	**2,198**	—
	3,584	—	**—**	—	**3,584**	—
Auditors' remuneration						
— Under-provision for prior years	**80**	120	**—**	—	**80**	120
— Current year	**643**	452	**—**	—	**643**	452
	723	572	**—**	—	**723**	572
Depreciation of plant and equipment	**342**	78	**—**	43	**342**	121
Less: depreciation capitalised as properties held for development	**(4)**	—	**—**	—	**(4)**	—
	338	78	**—**	43	**338**	121
Minimum lease payments under operating lease in respect of land and buildings	**484**	80	**—**	—	**484**	80
Impairment losses on promissory note receivable and account receivable	**—**	—	**—**	4,682	**—**	4,682
Fair value losses (including loss on disposal) on financial assets at fair value through profit or loss	**—**	—	**—**	267	**—**	267

8. STAFF COSTS

	2006	2005
	HK$'000	*HK$'000*
Staff costs (including directors' remuneration) comprise:		
— Basic salaries and other benefits	**7,939**	3,388
— Bonus	**941**	436
— Pension scheme contributions	**104**	70
— Share-based payment expenses *(note 31)*	**1,386**	—
	10,370	3,894
Less: expenses capitalised as properties held for development	**(521)**	—
Staff costs charged to consolidated income statement	**9,849**	3,894

9. FINANCE COSTS AND INCOME

	2006	2005
	HK$'000	*HK$'000*
Continuing operations:		
Finance income:		
Bank interest income	**2,636**	240
Finance costs:		
Interest on convertible note wholly repayable within five years *(note 27)*	**595**	187
Imputed interest on loan from minority shareholder wholly repayable within five years *(note 26)*	**1,752**	—
Interest on short-term loan from a director	**—**	13
Interest on other borrowings	**—**	20
	2,347	220

10. INCOME TAX EXPENSE

	2006 HK$'000	2005 HK$'000
Continuing operations:		
Provision for current tax for the year:		
— Hong Kong profits tax	—	62
— outside Hong Kong	1,166	4
Deferred tax	(104)	(33)
Total income tax expenses	1,062	33

No provision for Hong Kong profits tax has been made as the Group has no estimated assessable profits earned in Hong Kong for the year ended 31 December 2006.

Hong Kong profits tax for last year was calculated at 17.5% on the estimated assessable profits of last year.

Taxation for the Group's operations outside Hong Kong is provided at the applicable current rates of taxation on the estimated assessable profits in the relevant jurisdiction during the year.

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

	2006 HK$'000	2005 HK$'000
Profit (loss) before income tax expense from:		
Continuing operations	3,926	(2,580)
Discontinued operations	—	(2,234)
	3,926	(4,814)
Tax calculated at the domestic tax rate of 17.5% (2005: 17.5%)	687	(843)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(275)	2
Tax effect of expenses not deductible for tax purposes	2,243	1,111
Tax effect of revenue not subject to tax	(2,362)	(598)
Tax effect of tax losses not recognised	1,331	371
Others	(562)	(10)
Income tax expense	1,062	33

11. DISCONTINUED OPERATIONS

Last year, the Group disposed of or wound up certain of its subsidiaries which were engaged in businesses in online services, general trading and financial advisory services, and securities and property investment activities. The disposals and liquidations were effected in order to streamline the operations of the Group and to focus on its core businesses in property development and provision of property development project management services.

(a) The loss for last year from the discontinued operations was analysed as follows:

	Notes	2006 HK$'000	2005 HK$'000
Loss of discontinued operations for the year		—	(5,224)
Gain on disposal of subsidiaries	*32(c)*	—	2,990
Loss for the year attributable to equity holders of the Company		—	(2,234)

(b) An analysis of the results of the discontinued operations, which have been included in the consolidated income statement, is as follows:

	Notes	2006 HK$'000	2005 HK$'000
Turnover	*4*	—	457
Cost of services provided		—	(280)
Gross profit		—	177
Other income	*6*	—	178
Administrative expenses		—	(630)
Other operating expenses		—	(4,949)
Loss before income tax expense	*7*	—	(5,224)
Income tax expense	*10*	—	—
Loss for the year		—	(5,224)

(c) No tax charge or credit arose from gain on disposal of subsidiaries

(d) During the year, the cash flows from discontinued operations are as follows:

	2006 HK$'000	2005 HK$'000
Net cash from operating activities	—	3,614
Net cash from investing activities	—	2,349
Increase in cash and cash equivalents	—	5,963

12. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$8,226,000 (2005: HK$9,890,000).

13. DIVIDENDS

The directors do not recommend payment of any dividend for the year ended 31 December 2006 (2005: Nil).

14. EARNINGS (LOSS) PER SHARE

The calculation of the basic earnings (loss) per share and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	2006	2005
	HK$'000	*HK$'000*
Earnings (loss)		
— from continuing operations	**4,616**	(2,613)
— from discontinued operations	**—**	(2,234)
— from continuing and discontinued operations, earnings (loss) for the purposes of basic earnings (loss) per share and diluted earnings per share	**4,616**	(4,847)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	**957,052,369**	113,604,879
Effect of dilutive potential ordinary shares:		
— Bonus warrants	**16,502,568**	N/A
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**973,554,937**	N/A

For the year ended 31 December 2006, 63,850,000 share options in issue were excluded from diluted weighted average shares outstanding as their effects were anti-dilutive.

The weighted average number of ordinary shares for the purpose of basic loss per share for 2005 has been adjusted for the impact on the right issue arising from the Company's open offer in August 2006.

15. DIRECTORS' EMOLUMENTS

The aggregate amounts of the directors' emoluments are as follows:

	Notes	Fees HK$'000	Salaries and other benefits *(note (i))* HK$'000	Bonuses HK$'000	Compensation for loss of office *(note (v))* HK$'000	Share-based payment expenses HK$'000	Retirement scheme contributions HK$'000	Total HK$'000
2006								
Executive directors								
Yu Pan		—	1,709	350	—	—	12	2,071
Lau Yat Tung, Derrick		—	576	82	—	168	12	838
Wen Xiao Bing	*(ii)*	—	210	179	—	281	—	670
Wong Lok		—	260	—	—	—	12	272
Zheng Jian Wei	*(iii)*	—	183	—	—	—	—	183
Mai Zhi Hui	*(iv)*	—	—	—	—	—	—	—
Independent non-executive directors								
Choy Shu Kwan		100	—	—	—	34	—	134
Cheng Wing Keung, Raymond		100	—	—	—	34	—	134
Chung Lai Fong		100	—	—	—	34	—	134
Lo Chi Man, Joseph		—	—	—	20	—	—	20
		300	2,938	611	20	551	36	4,456
2005								
Executive directors								
Yu Pan		—	1,200	200	—	—	12	1,412
Mai Zhi Hui		—	100	19	—	—	—	119
Lau Yat Tung, Derrick		—	235	50	—	—	8	293
Wong Lok		—	82	27	—	—	4	113
Independent non-executive directors								
Choy Shu Kwan		100	—	8	—	—	—	108
Cheng Wing Keung, Raymond		100	—	8	—	—	—	108
Chung Lai Fong		100	—	8	—	—	—	108
Wong Kwong Lung, Terence		—	—	—	50	—	—	50
		300	1,617	320	50	—	24	2,311

There was no arrangement under which a director has waived or agreed to waive any emoluments during the current and prior years.

15. DIRECTORS' EMOLUMENTS *(Continued)*

Notes:

(i) Salaries and other benefits included basic salaries, housing, other allowances and benefits in kind.

(ii) Appointed on 30 June 2006.

(iii) Appointed on 11 January 2006 and resigned on 30 June 2006.

(iv) Resigned on 1 January 2006.

(v) Save as to the payment to Mr. Lo Chi Man, Joseph and Mr. Wong Kwong Lung, Terence, former directors of the Company, during the current and prior years, no other emoluments were paid by the Group to any of the directors or former directors as an inducement to join the Group or upon joining the Group or as compensation for loss of office.

16. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals during the year included three (2005: two) directors, details of whose emoluments are set out in note 15 above. Details of the emoluments of the remaining two (2005: three) individuals are as follows:

	2006 *HK$'000*	2005 *HK$'000*
Basic salaries and other benefits	**1,625**	1,071
Bonuses	**210**	107
Share-based payment expenses	**337**	—
Retirement scheme contributions	**24**	23
	2,196	1,201

The number of highest paid individuals in 2006 and 2005 whose emoluments fall within the band set out below is as follows:

	No of employees **2006**	2005
Nil to HK$1,000,000	**1**	3
HK$1,000,001 to HK$2,000,000	**1**	—

17. PLANT AND EQUIPMENT

The Group	Computer equipment and software HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost				
At 1 January 2005	21,203	254	280	21,737
Additions	121	62	—	183
Disposal of subsidiaries	(21,203)	(254)	(280)	(21,737)
At 1 January 2006	**121**	**62**	**—**	**183**
Foreign currency translation	**2**	**1**	**—**	**3**
Additions	**139**	**62**	**1,547**	**1,748**
Acquisition of subsidiary *(note 32(b))*	**—**	**76**	**—**	**76**
At 31 December 2006	**262**	**201**	**1,547**	**2,010**
Accumulated depreciation				
At 1 January 2005	21,159	225	140	21,524
Eliminated on disposals of subsidiaries	(21,178)	(249)	(198)	(21,625)
Charge for the year	35	28	58	121
At 1 January 2006	**16**	**4**	**—**	**20**
Charge for the year	**60**	**24**	**258**	**342**
At 31 December 2006	**76**	**28**	**258**	**362**
Net book value				
At 31 December 2006	**186**	**173**	**1,289**	**1,648**
At 31 December 2005	105	58	—	163

18. PROPERTIES HELD FOR DEVELOPMENT

Properties held for development in PRC are as follows:

The Group	2006 *HK$'000*	2005 *HK$'000*
Land use right, premium paid for the acquisition of the interest of the land, and demolition and settlement costs	**688,504**	—
Construction costs	**5,967**	—
Others	**4,474**	—
	698,945	—

Land use right comprises cost of acquiring rights to use certain land, which are all located in the PRC, for property development over fixed periods between 40 to 70 years.

19. GOODWILL

The Group	2006 *HK$'000*	2005 *HK$'000*
As at 1 January	**—**	8
Acquired through acquisition of subsidiary *(note 32(b))*	**49,655**	—
Disposal of subsidiary *(note 32(c))*	**—**	(8)
As at 31 December	**49,655**	—

Impairment test for goodwill

The Group operates in one CGU which is property development. The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period with key assumptions including revenues, direct costs and other operating costs. Management determines these key assumptions based on past performance and expectations on market development. A discount rate of 12% is used and it reflects specific risks relating to the business. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of the CGU to exceed its recoverable amount.

20. INTEREST IN ASSOCIATE

The Group	Notes	2006 HK$'000	2005 HK$'000
Share of net assets other than goodwill	(c)	**151,177**	79,223
Goodwill	(e)	**3,692**	3,692
Loan to associate	(a)	**334**	82,892
		155,203	165,807

Notes:

(a) The loan to associate is unsecured, interest-free and has no fixed repayment terms. On 28 June 2006, HK$71,905,000 of the loan balance was capitalised as share capital of the associate.

(b) Details of the associate are as follows:

Name of associate	Form of business structure	Place of incorporation	Place of operation	Particulars of issued and paid-up capital	Attributable equity interest indirectlyheld by the Company	Principal activity
Yaubond Limited	Incorporated	BVI	Hong Kong	18,813,400 ordinary shares of US$1 each	49%	Investment holding

(c) Financial information of the associate is as follows:

	2006 HK$'000	2005 HK$'000
Total assets	**320,150**	327,205
Total liabilities	**(72,280)**	(234,340)
Net assets	**247,870**	92,865
Fair value adjustment at acquisition	**68,814**	68,814
Carrying amount of net assets	**316,684**	161,679
The Group's share of net assets of associate	**155,175**	79,223
Elimination for capitalisation of project management fee paid to the Group	**(3,998)**	—
	151,177	79,223

20. INTEREST IN ASSOCIATE *(Continued)*

Notes: (Continued)

(c) Financial information of the associate is as follows: *(Continued)*

	For the year ended 31 December 2006 HK$'000	16 December 2005 (date of acquisition) to 31 December 2005 HK$'000
Revenue	—	—
Loss for the year/period	(228)	—
The Group's share of loss of associate	(112)	—

(d) **Pledge of assets**

As at 31 December 2006 and 2005, the Group has pledged its shares in the associate, representing 49% interest in the associate, in favour of the holder of the other 51% interest in the associate to secure for the warranties given by the Group for the performance of a subsidiary of the Group, United Prime Limited which has been appointed, as the property project manager of the associate pursuant to a deed of appointment dated 16 December 2005 (the "Deed"). Subsequent to the balance sheet date, the Deed was mutually terminated and the assets pledged will be released.

(e) **Impairment test for goodwill**

The Group operates in one CGU which is property development. The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period with key assumptions including revenues, direct costs and other operating costs. Management determines these key assumptions based on past performance and expectations on market development. A discount rate of 12% is used and it reflects specific risks relating to the business. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of the CGU to exceed its recoverable amount.

21. INTERESTS IN SUBSIDIARIES

The Company	Notes	2006 HK$'000	2005 HK$'000
Unlisted investments, at cost	(a)	49,206	—
Amounts due from subsidiaries — non-current portion	(b)	401,784	172,667
Interests in subsidiaries		450,990	172,667
Amounts due from subsidiaries — current portion	(c)	9,688	—
		460,678	172,667

Notes:

(a) Details of the Company's principal subsidiaries as at 31 December 2006 are as follows:

Name of subsidiaries	Place of incorporation	Particulars of issued ordinary share/ registered capital	Percentage of interest held by the Company Directly	Percentage of interest held by the Company Indirectly	Principal activities
Guangzhou Yu Jun Consulting Service Company Limited ("Yu Jun") (廣州譽浚咨詢服務有限公司)	PRC	HK$5,000,000	—	100%	Provision of property development project management services and acting as the project manager to supervise the construction of properties in the PRC
Guangzhou Zhoutouzui Development Limited ("GZ ZTZ")	Hong Kong	HK$100	—	51%	Investment holding
Loyal Way (China) Group Limited ("Loyal Way")	BVI	US$100	—	51%	Investment holding
Nicco Limited	BVI	US$100	—	100%	Investment holding
Skyfame Management Services Limited	Hong Kong	HK$1	100%	—	Provision of management services to the Group

21. INTERESTS IN SUBSIDIARIES *(Continued)*

Notes: (Continued)

(a) Details of the Company's principal subsidiaries as at 31 December 2006 are as follows *(Continued)*:

Name of subsidiaries	Place of incorporation	Particulars of issued ordinary share/ registered capital	Percentage of interest held by the Company Directly	Indirectly	Principal activities
United Prime Limited	BVI	US$1	—	100%	Provision of property development project management services and acting as the project manager to supervise the construction of properties in the PRC

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affects the results or assets of the Group. Yu Jun is a wholly foreign-owned enterprise with limited liability established in the PRC.

Except for Yu Jun which operates in the PRC, all the above subsidiaries operate in Hong Kong.

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

(b) Amounts due from subsidiaries are unsecured, interest-free and will not be repayable within twelve months from the balance sheet date. The fair values of the amounts due from subsidiaries at initial recognition had been determined based on the present value of the estimated future cash flows discounted using the prevailing market rates.

(c) Amounts due from subsidiaries are unsecured, interest-free and repayable on demand.

22. INTEREST IN A JOINTLY CONTROLLED ENTITY

The Group

GZ ZTZ has a 100% interest in the jointly controlled entity, 廣州市譽城房地產開發有限公司 (Guangzhou Yucheng Real Estate Development Limited ("Yucheng")), which is accounted for in the accounts of the Group by proportionate consolidation. Details of the Group's interest in the jointly controlled entity are as follows:

Name of jointly controlled entity	Form of business structure	Place of incorporation	Place of operation	Issued and paid-in capital	Attributable equity interest indirectly held by the Company	Principal activity
Yucheng	Incorporated	PRC	PRC	US$12,000,000	51% *(Note)*	Property development

Note: Under the terms of the sino-foreign co-operative joint venture agreement entered into by the parties, (i) GZ ZTZ has paid RMB10 million to Guangzhou Yuexiu Enterprise (Group) Company Limited ("Yuexiu") as cash compensation and Yuexiu is then no longer entitled to any profit or loss generated by Yucheng; (ii) 廣州港集團有限公司 (Guangzhou Port Group Co., Limited) ("GZ Port") will be entitled to 28% of the total gross floor area of the project upon completion of the proposed development and after which, GZ Port will no longer be entitled to any profit or loss generated by Yucheng; and (iii) GZ ZTZ will be entitled to 72% of the total gross floor area of the project upon completion of the proposed development and the entire profit or loss to be generated by Yucheng.

Financial information of Yucheng is as follows:

	2006 *HK$'000*
Non-current assets	**555,700**
Current assets	**281**
Current liabilities	**(299,716)**
Non-current liabilities	**(52,826)**
Net assets	**203,439**

	13 October 2006 (date of acquisition) to 31 December 2006 *HK$'000*
Revenue	—
Loss for the period	—

23. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing an average credit period of 60 days to its trade customers. The following includes an ageing analysis of trade receivables at the balance sheet date:

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Aged 0-30 days	**1,176**	—	**—**	—
Aged 31-90 days	**1,408**	—	**—**	—
Aged over 90 days	**2,720**	—	**—**	—
Total trade receivables	**5,304**	—	**—**	—
Deposits, prepayments and other receivables	**3,284**	403	**1,073**	206
	8,588	403	**1,073**	206

Total trade receivables include an amount due from associate of HK$4,080,000. Deposits and other receivables are expected to be recovered within one year. The fair values of deposits and other receivables and short-term loan receivable approximate their respective carrying amounts at the balance sheet date due to their short maturity.

24. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Short-term bank deposits	**23,604**	75,331	**19,657**	74,029
Cash at bank and in hand	**21,170**	8,416	**14,559**	3,143
	44,774	83,747	**34,216**	77,172

Included in cash and cash equivalents is the following significant amount denominated in currency other than the functional currency of the Group and the Company:

	The Group		The Company	
	2006	2005	**2006**	2005
	'000	*'000*	***'000***	*'000*
RMB	**RMB522**	RMB1,434	**—**	—

RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

The effective interest rate on short-term bank deposits ranges from 3.1% to 4.5% per annum (2005: 2.6% to 3.8% per annum). These deposits have an average maturity of approximately 20 days.

25. TRADE AND OTHER PAYABLES

The following includes an ageing analysis of trade payables at balance sheet date:

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Aged 31-90 days	**3**	—	**—**	—
Aged over 90 days	**40**	—	**—**	—
Total trade payables	**43**	—	**—**	—
Other payables and accruals	**5,125**	1,773	**969**	1,495
Balance consideration payable for acquisition of a subsidiary* *(note 32(b))*	**63,573**	—	**—**	—
Amounts due to subsidiaries	**—**	—	**—**	595
	68,741	1,773	**969**	2,090
Amounts due after one year*	**(63,573)**	—	**—**	—
Amounts due within one year	**5,168**	1,773	**969**	2,090

* This represents balance consideration payable to the vendor for acquisition of a subsidiary. The amount is expected to be settled in the form of a two-year promissory note, to be issued upon obtaining of the land use rights certificate attributable to Zhoutouzui Project, bearing an interest rate at 8% per annum.

Trade and other payables are expected to be settled within one year. The fair values of trade and other payables approximate their respective carrying amounts at the balance sheet date due to their short maturity.

The amounts due to subsidiaries are unsecured, interest-free and repayable on demand.

Included in trade and other payables is the following significant amount denominated in currency other than the functional currency of the Group and the Company:

	The Group		The Company	
	2006	2005	**2006**	2005
	'000	*'000*	***'000***	*'000*
RMB	**RMB3,850**	RMB153	**—**	—

26. LOAN FROM MINORITY SHAREHOLDER

The loan from minority shareholder is unsecured, interest-free and has no fixed repayment date but is expected to be repayable by 2008.

The fair value of the loan at initial recognition has been determined based on the present value of the estimated future cash flows discounted using the prevailing market rate.

The movements of the loan from minority shareholder were as follows:

The Group	*HK$'000*
Balance at 1 January 2005 and 31 December 2005	—
Acquired through acquisition of subsidiary *(note 32(b))*	**268,609**
Contributions from minority shareholder	**(25,425)**
Imputed interest expense *(note 9)*	**1,752**
Carrying amount at 31 December 2006	**244,936**

Interest expense on loan from minority shareholder is calculated using the effective interest method by applying the effective interest rate of 6% per annum to the carrying amount.

The fair value of the loan as at 31 December 2006 approximates to its respective carrying amount.

27. CONVERTIBLE NOTE

On 16 December 2005, the Company issued a 3% convertible note with a face value of HK$60 million.

The convertible note matures in 2 years from the issue date at its face value of HK$60 million or can be converted into shares in the Company at the holder's option between the fifteenth day after the issue date and fifteen days prior to the maturity date at HK$0.33 per share.

On 20 February 2006, Grand Cosmos exercised the conversion right attached to the convertible note with a face value of HK$60 million to convert the note into 181,818,181 ordinary shares of HK$0.01 each in the Company at the conversion price of HK$0.33 per share. No convertible note was outstanding at 31 December 2006.

The movements of convertible note were as follows:

The Group and the Company	**Liability component of the convertible note** *HK$'000*	**Equity component of the convertible note** *(note 30)* *HK$'000*	**Total** *HK$'000*
Initial recognition at 16 December 2005	54,900	5,100	60,000
Accrued interest expense *(note 9)*	187	—	187
Carrying amount at 31 December 2005 and 1 January 2006	**55,087**	**5,100**	**60,187**
Conversion of the convertible note	**(55,352)**	**(5,100)**	**(60,452)**
Accrued interest expense *(note 9)*	**595**	**—**	**595**
Interest paid	**(330)**	**—**	**(330)**
Carrying amount at 31 December 2006	**—**	**—**	**—**

The fair values of the liability component and the equity conversion component were determined at issuance of the note.

The fair value of the liability component at initial recognition was calculated using a market interest rate for an equivalent non-convertible note. The residual amount, representing the value of the equity conversion component, is included in shareholders' equity *(note 30)* net of deferred taxes.

Interest expense on the convertible note is calculated using the effective interest method by applying the effective interest rate of 7.75% to the liability component.

28. DEFERRED TAX LIABILITIES

The deferred tax liabilities recognised in the balance sheets and the movements during the year are as follows:

The Group	**Arising from convertible note** *HK$'000*	**Revaluation of prepaid lease payments** *HK$'000*	**Total** *HK$'000*
At 1 January 2005	—	—	—
Charged to equity *(note 30)*	893	—	893
Credited to income statement *(note 10)*	(33)	—	(33)
At 31 December 2005 and 1 January 2006	**860**	**—**	**860**
Conversion of the convertible note	**(756)**	**—**	**(756)**
Credited to income statement *(note 10)*	**(104)**	**—**	**(104)**
Acquired through acquisition of subsidiary *(note 32(b))*	**—**	**99,140**	**99,140**
Translation adjustment	**—**	**982**	**982**
At 31 December 2006	**—**	**100,122**	**100,122**

The Company	**Arising from convertible note** *HK$'000*
At 1 January 2005	—
Charged to equity *(note 30)*	893
Credited to income statement *(note 10)*	(33)
At 31 December 2005 and 1 January 2006	**860**
Conversion of the convertible note	**(756)**
Credited to income statement *(note 10)*	**(104)**
At 31 December 2006	**—**

At the balance sheet date, the Group and the Company have estimated unutilised tax losses of HK$32,903,000 (2005: HK$16,469,000) and HK$28,834,000 (2005: HK$16,148,000) respectively which are available to offset against future assessable profits. No deferred tax asset has been recognised in respect of these balances due to the unpredictability of future profit streams. The unrecognised tax losses can be carried forward indefinitely in Hong Kong.

29. SHARE CAPITAL

The Group and the Company	Notes	2006 Number of shares '000	2006 Nominal value of share capital HK$'000	2005 Number of shares '000	2005 Nominal value of share capital HK$'000
Authorised:					
At beginning of year, ordinary shares of HK$0.01 each		**30,000,000**	**300,000**	30,000,000	300,000
Capital re-organisation					
— Share consolidation of every 100 shares of HK$0.01 each into one consolidated share of HK$1.00		**—**	**—**	(29,700,000)	—
— Share sub-division of every consolidated share of HK$1.00 into 100 shares of HK$0.01 each		**—**	**—**	29,700,000	—
At end of year, ordinary shares of HK$0.01 each		**30,000,000**	**300,000**	30,000,000	300,000
Issued and fully paid:					
At beginning of year, ordinary shares of HK$0.01 each		**640,719**	**6,407**	6,847,373	68,474
Issue of shares — share placing		**—**	**—**	1,355,000	13,550
Capital re-organisation:					
— Share consolidation of every 100 shares of HK$0.01 each into one share of HK$1.00 each and reduction of nominal value of issued shares from HK$1.00 each to HK$0.01 each on 5 August 2005		**—**	**—**	(8,120,350)	(81,204)
Cancellation of paid-up ordinary share capital		**—**	**—**	(16)	—
Issue of shares:					
— Conversion of convertible note	*(i)*	**181,818**	**1,818**	—	—
— Open offer	*(ii)*	**267,324**	**2,674**	—	—
— Exercise of bonus warrants	*(iii)*	**10**	**—**	—	—
— Acquisition of associate		**—**	**—**	66,667	667
— Rights issue		**—**	**—**	492,045	4,920
At end of year, ordinary shares of HK$0.01 each		**1,089,871**	**10,899**	640,719	6,407

29. SHARE CAPITAL *(Continued)*

Notes:

(i) On 16 February 2006, Grand Cosmos, a company wholly owned by the Group's chairman, Mr. Yu Pan, acquired the convertible note with a face value of HK$60 million from the note holder and on 20 February 2006 exercised the conversion right in full to convert the note into 181,818,181 ordinary shares of HK$0.01 each in the Company at the conversion price of HK$0.33 per share.

(ii) On 3 August 2006, the Company completed an open offer of 267,324,486 ordinary shares of HK$0.01 each in the Company at HK$0.90 per share in the proportion of 13 offer shares for every 40 existing shares held with 10 bonus warrants for every 13 offer shares taken up ("Open Offer") and has raised a net proceed of approximately HK$234.5 million, which was mainly used for the acquisition of 51% equity interest in a subsidiary.

In connection with the Open Offer, a bonus issue of 205,634,220 warrants were issued which are exercisable at an initial subscription price of HK$1.10 per share at any time during a two-year period ending 2 August 2008. The Company will receive net proceeds of approximately HK$225 million upon the warrants being exercised in full.

(iii) During the year ended 31 December 2006, some bonus warrant holders exercised their subscription rights to subscribe 9,901 ordinary shares of HK$0.01 each in the Company at the initial subscription price of HK$1.10 per share. No convertible note was outstanding at 31 December 2006.

All new shares issued as a result of conversion of convertible note, open offer and exercise of bonus warrants rank pari passu with the existing shares in the Company in all respects.

30. RESERVES

The Group	Notes	Share premium HK$'000	Contributed surplus reserve HK$'000	Share-based payment reserve HK$'000	Convertible note equity reserve HK$'000	Foreign exchange reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2005		532,609	—	—	—	—	(593,049)	(60,440)
Capital re-organisation:	29							
— Capital reduction		—	81,204	—	—	—	—	81,204
— Cancellation of share premium		(542,404)	542,404	—	—	—	—	—
— Set-off against accumulated losses of the Company		—	(608,111)	—	—	—	608,111	—
Cancellation of paid-up ordinary share capital	29	—	—	—	—	—	—	—
Issue of shares:								
— Share placing	29	8,130	—	—	—	—	—	8,130
— Acquisition of associate	29	19,333	—	—	—	—	—	19,333
— Rights issue	29	142,693	—	—	—	—	—	142,693
Recognition of equity component of convertible note	27	—	—	—	5,100	—	—	5,100
Tax on equity component of convertible note	28	—	—	—	(893)	—	—	(893)
Expenses incurred on issue of shares		(4,354)	—	—	—	—	—	(4,354)
Exchange differences arising on consolidation of overseas entities		—	—	—	—	1	—	1
Loss for the year		—	—	—	—	—	(4,847)	(4,847)
At 31 December 2005		156,007	15,497	—	4,207	1	10,215	185,927
Conversion of convertible note	29(i)	58,496	—	—	(4,207)	—	—	54,289
Issue of shares:								
— Open offer	29(ii)	237,919	—	—	—	—	—	237,919
— Exercise of bonus warrants	29(iii)	11	—	—	—	—	—	11
Recognition of equity-settled share-based payment expenses		—	—	3,584	—	—	—	3,584
Expenses incurred on issue of shares		(5,531)	—	—	—	—	—	(5,531)
Exchange differences arising on consolidation of overseas entities		—	—	—	—	7,588	—	7,588
Profit for the year		—	—	—	—	—	4,616	4,616
At 31 December 2006		**446,902**	**15,497**	**3,584**	**—**	**7,589**	**14,831**	**488,403**

30. RESERVES *(Continued)*

The Company	*Notes*	Share premium *HK$'000*	Contributed surplus reserve *HK$'000*	Share-based payment reserve *HK$'000*	Convertible note equity reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
At 1 January 2005		532,609	—	—	—	(608,111)	(75,502)
Capital re-organisation:	*29*						
— Capital reduction		—	81,204	—	—	—	81,204
— Cancellation of share premium		(542,404)	542,404	—	—	—	—
— Set-off against accumulated losses of the Company		—	(608,111)	—	—	608,111	—
Cancellation of paid-up ordinary share capital	*29*	—	—	—	—	—	—
Issue of shares:							
— Share placing	*29*	8,130	—	—	—	—	8,130
— Acquisition of associate	*29*	19,333	—	—	—	—	19,333
— Rights issue	*29*	142,693	—	—	—	—	142,693
Recognition of equity component of convertible note	*27*	—	—	—	5,100	—	5,100
Tax on equity component of convertible note	*28*	—	—	—	(893)	—	(893)
Expenses incurred on issue of shares		(4,354)	—	—	—	—	(4,354)
Profit for the year		—	—	—	—	9,890	9,890
At 31 December 2005		**156,007**	**15,497**	**—**	**4,207**	**9,890**	**185,601**
Conversion of convertible note	*29(i)*	**58,496**	**—**	**—**	**(4,207)**	**—**	**54,289**
Issue of shares:							
— Open offer	*29(ii)*	**237,919**	**—**	**—**	**—**	**—**	**237,919**
— Exercise of bonus warrants	*29(iii)*	**11**	**—**	**—**	**—**	**—**	**11**
Recognition of equity-settled share-based payment expenses		**—**	**—**	**3,584**	**—**	**—**	**3,584**
Expenses incurred on issue of shares		**(5,531)**	**—**	**—**	**—**	**—**	**(5,531)**
Profit for the year		**—**	**—**	**—**	**—**	**8,226**	**8,226**
At 31 December 2006		**446,902**	**15,497**	**3,584**	**—**	**18,116**	**484,099**

30. RESERVES *(Continued)*

(a) Nature and purpose of reserves

(i) Share premium

The amount relates to subscription for share capital in excess of nominal value. The application of the share premium account is governed by clause 150 of the Company's bye-laws and the Companies Act 1981 of Bermuda.

(ii) Contributed surplus reserve

The amount arose from the capital reduction, cancellation of share premium and part of which has been set-off against the accumulated losses of the Company as at 31 December 2004 pursuant to the capital re-organisation.

Under the Companies Act 1981 of Bermuda, the Company may make distributions to its equity holders out of the contributed surplus reserve under certain circumstances.

(iii) Convertible note equity reserve

The amount represents the value of the unexercised equity component of the convertible note issued by the Company recognised in accordance with the accounting policy adopted in note 2(k)(iii).

(iv) Foreign exchange reserve

The amount represents gains/losses arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 2(j).

(v) Share-based payment reserve

The capital reserve comprises the fair value of the actual or estimated number of unexercised share options granted to employees and non-employees of the Group recognised in accordance with the accounting policy adopted for share based payments in note 2(m).

(b) Distributable reserves

At 31 December 2006, the distributable reserves available for distribution to equity holders of the Company were HK$33,613,000 (2005: HK$25,387,000).

31. EQUITY-SETTLED SHARE-BASED TRANSACTIONS

Pursuant to a resolution passed on 4 August 2005, new share option scheme was adopted (the "2005 Scheme"). The Company operates the 2005 Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the 2005 Scheme include the Company's directors and other employees of the Group. The 2005 Scheme became effective on 5 August 2006 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. Under the 2005 Scheme, the directors of the Company are authorised at their absolute discretion, to invite any employee (including the executive and non-executive directors), executive or officer of any member of the Group or any entity in which the Group holds any equity interest and any supplier, consultant, adviser or customer of the Group or any entity in which the Group holds an equity interest who is eligible to participate in the 2005 Scheme, to take up options to subscribe for shares in the Company.

The maximum number of shares which may be issued upon exercise of all options to be granted under the 2005 Scheme and any other share option schemes of the Company shall not in aggregate exceed 10 per cent. of the total number of shares in issue as at the date of adoption of the 2005 Scheme.

The Company may seek approval of the shareholders in general meeting for refreshing the 10 per cent. limit under the 2005 Scheme save that the total number of shares which may be issued upon exercise of all options to be granted under the 2005 Scheme and any other share option schemes of the Company under the limit as "refreshed" shall not exceed 10 per cent. of the total number of shares in issue as at the date of approval of the limit. Options previously granted under the 2005 Scheme and any other share option schemes of the Company (including those outstanding, cancelled, lapsed in accordance with the other scheme(s) or exercised options) will not be counted for the purpose of calculating the limit as "refreshed".

Notwithstanding aforesaid in this paragraph, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2005 Scheme and any other share option schemes of the Company must not exceed 30 per cent. of the total number of shares in issue from time to time.

The total number of shares issued and to be issued upon exercise of the options granted to each participant (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1 per cent. of the total number of shares in issue at the offer date (the "Individual Limit"). Any further grant of options in excess of the Individual Limit must be subject to the shareholders' approval in general meeting with such participant and his, her or its associates abstaining from voting.

The exercise price in respect of any particular option shall be such price as determined by the board in its absolute discretion at the time of the making of the offer but in any case the exercise price shall not be less than the highest of (i) the closing price of the shares as stated in the daily quotation sheets of the Stock Exchange on the offer date; (ii) the average of the closing prices of the shares as stated in the daily quotation sheets of the Stock Exchange for the five trading days immediately preceding the offer date; and (iii) the nominal value of the shares in the Company.

31. EQUITY-SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

The offer of a grant of share options must be accepted not later than 21 days after the date of the offer, upon payment of a consideration of HK$1 by the grantee. The exercise period of the share options granted is determined by the board of directors, save that such period shall not be more than a period of ten years from the date upon which the share options are granted or deemed to be granted and accepted.

The options are exercisable six months (or a later date as determined by the directors of the Company) after the date on which the options are granted for a period up to ten years or 31 July 2015, whichever is earlier. Each option gives the holder the right to subscribe for one ordinary share in the Company.

The following table discloses details of the Company's options under the 2005 Scheme held by employees (including directors) and non-employees, and movement in such holdings during the year:

(a) The terms and conditions of the grants that existed during the year are as follows whereby all options are settled by physical delivery of shares:

				Category			2006	2005
				Directors *(Note)*	Employees	Non-employees	Total Category	
Date of grant	Exercise period	Vesting conditions	Exercise price	Number of options granted	Number of options granted	Number of options granted	Number of options granted	Number of options granted
12.9.2006	13 March 2007 to 31 July 2015	Six months from the date of grant	HK$1.31	3,266,000	4,958,000	13,044,000	**21,268,000**	—
12.9.2006	13 March 2008 to 31 July 2015	One and half years from the date of grant	HK$1.31	3,266,000	4,958,000	13,044,000	**21,268,000**	—
12.9.2006	13 March 2009 to 31 July 2015	Two and half years from the date of grant	HK$1.31	3,268,000	4,984,000	13,062,000	**21,314,000**	—
				9,800,000	14,900,000	39,150,000	**63,850,000**	—

Note of category of directors:

Mr. Wen Xiao Bing	5,000,000
Mr. Lau Yat Tung, Derrick	3,000,000
Mr. Choy Shu Kwan	600,000
Mr. Cheng Wing Keung, Raymond	600,000
Ms. Chung Lai Fong	600,000
	9,800,000

No option has been exercised, cancelled or lapsed under the 2005 Scheme during the year ended 31 December 2006 (2005: Nil).

31. EQUITY-SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

(b) Fair value of share options and assumption

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted as the fair value of the services received could not be estimated reliably. The estimate of the fair value of the share options granted is measured based on Black-Scholes Option Pricing Model ("BSOP Model"). The contractual life of the share option is used as an input into this model.

Fair value of share options and assumptions	
Fair value at measurement date (weighted average)	HK$0.28
Closing share price at date of grant	HK$1.30
Exercise price	HK$1.31
Expected volatility (expressed as weighted average volatility used in the modelling under BSOP Model)	35.06%
Option life (expressed as weighted average life used in the modelling under BSOP Model)	1.92 years
Expected dividend yield	Nil
Risk-free interest rate (based on Exchange Fund Notes)	3.66% to 3.92%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on public available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

There were service conditions associated with the share options granted.

(c) The Group recognised HK$3,584,000 as share-based payment expenses *(note 7)* for the year ended 31 December 2006 (2005: Nil) in relation to share options granted by the Company.

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit (loss) before income tax expense to net cash (used in) generated from operating activities

	2006 *HK$'000*	2005 *HK$'000*
Profit (loss) before income tax expense	3,926	(4,814)
Adjustment for:		
Finance costs	2,347	220
Finance income	(2,636)	(240)
Equity-settled share-based payment expenses	3,584	—
Depreciation of plant and equipment	338	121
Share of loss of associate	112	—
Impairment losses on promissory note receivable and account receivable	—	4,682
Fair value losses (including loss on disposal) on financial assets at fair value through profit and loss	—	267
Gain on disposal of subsidiaries *(note c)*	—	(2,990)
Write-back of trade and other payables	—	(137)
Operating profit (loss) before working capital change	7,671	(2,891)
(Increase) decrease in trade and other receivables	(8,032)	5,600
Decrease in trade and other payables	(818)	(439)
Cash (used in) generated from operations	(1,179)	2,270
Income tax paid	(865)	—
Net cash (used in) generated from operating activities	**(2,044)**	**2,270**

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Acquisition of subsidiary

On 13 October 2006, the Group completed a transaction to acquire from the vendor, Mr. Luo Dong Liang, 51 shares of US$1 each in the issued share capital of Loyal Way representing 51% of the issued share capital of Loyal Way, and assigned the total loan of HK$282,568,000 extended by the then shareholder at an aggregate consideration of approximately HK$351,807,000.

	Notes	Acquiree's carrying amount before acquisition HK$'000	Fair value adjustment HK$'000	2006 Fair value HK$'000	2005 Fair value HK$'000
Net assets acquired:					
Plant and equipment	17	76	—	**76**	—
Properties held for development		548,279	141,917	**690,196**	—
Trade and other receivable		146	—	**146**	—
Cash and cash equivalents		2,467	—	**2,467**	—
Trade and other payables		(4,168)	—	**(4,168)**	—
Deferred tax liabilities	28	(52,308)	(46,832)	**(99,140)**	—
Amount due to the then shareholder		(282,568)	—	**(282,568)**	—
Loan from minority shareholder	26	(268,609)	—	**(268,609)**	—
Net (liabilities) assets		(56,685)	95,085	**38,400**	—
Minority interests				**(18,816)**	—
51% share of net equity acquired				**19,584**	—
Goodwill arising on acquisition	19			**49,655**	—
				69,239	—
Satisfied by:					
Cash consideration paid				**288,234**	—
Consideration payable	25			**63,573**	—
Total consideration				**351,807**	—
Shareholder's loan acquired				**(282,568)**	—
				69,239	—
Net outflow arising from the acquisition of subsidiary:					
Cash consideration paid				**286,995**	—
Direct costs relating to the acquisition				**1,239**	—
				288,234	—
Cash and cash equivalents acquired				**(2,467)**	—
				285,767	—

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(c) Disposal of subsidiaries

	Notes	2006 HK$'000	2005 HK$'000
Net assets disposal of:			
Plant and equipment		—	112
Investment property		—	300
Other investments		—	119
Accounts receivable		—	469
Promissory notes receivable		—	171
Trade and other receivables		—	308
Cash and cash equivalents		—	43
Trade and other payables		—	(818)
Income tax payable		—	(1,359)
Net liabilities		—	(655)
Gain on disposal of subsidiaries	*11(a)*	—	2,990
Goodwill written off	9	—	8
		—	2,343
Satisfied by:			
Cash		—	2,343
Net inflow arising from the disposal of subsidiaries:			
Cash received		—	2,343
Bank balances and cash disposed of		—	(43)
		—	2,300

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(d) Acquisition of associate

	2006 HK$'000	2005 HK$'000
Net assets acquired:		
Cash and cash equivalents	—	483
Properties held for development	—	400,961
Other receivables	—	28,468
Other payables	—	(145)
Shareholders' loans	—	(169,168)
Deferred tax liabilities	—	(98,920)
Net assets	—	161,679
49% share of net assets acquired	—	79,223
Goodwill arising on acquisitions *(note 20)*	—	3,692
Total consideration paid for equity interest	—	82,915
Satisfied by:		
Cash consideration paid	—	84,819
Direct costs relation to the acquisition	—	988
Fair value of shares issued	—	20,000
Issue of convertible note	—	60,000
Total consideration	—	165,807
Shareholder's loan acquired	—	(82,892)
	—	82,915
Net outflow arising from the acquisition of associate:		
Cash considerating paid	—	84,819
Direct costs relating to the acquisition	—	988
	—	85,807

(e) Major non-cash transactions

During the year, Grand Cosmos exercised the conversion right attached to the convertible note with a face value of HK$60 million to convert the note into 181,818,181 ordinary shares of HK$0.01 each in the Company at the conversion price of HK$0.33 per share, which is set out in note 27 to the financial statements.

During the year, HK$71,905,000 of the loan advance to an associate was capitalised as share capital of the associate, which is set out in note 20(a) to the financial statements.

33. EMPLOYEE RETIREMENT BENEFITS

Defined contribution pension plans

As stipulated by the labour regulations of the PRC, the Group participates in a defined contribution retirement plan organised by municipal and provincial government for its employees. The Group is required to make contributions to the retirement plan at a specified percentage of the eligible employees' salaries. The Group has no other obligation for the payment of its employees' retirement and other post-retirement benefits other than contributions described above.

The Group also operates a Mandatory Provident Fund Scheme ("the MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined contribution retirement plan as mentioned above. The MPF Scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

34. OPERATING LEASE COMMITMENTS

At the balance sheet dates, the Group has commitments for future minimum lease payments under non-cancellable operating lease in respect of land and buildings which fall due as follows:

The Group	**2006** ***HK$'000***	2005 *HK$'000*
Within one year	**286**	40

35. CAPITAL COMMITMENTS

The Group	**2006** ***HK$'000***	2005 *HK$'000*
Capital expenditure contracted but not provided for in the financial statements in respect of additions to property construction and development costs	**833,365**	—

36. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions:

(a) During the year, the Group entered into the following material transactions with related parties:

Related party relationship	Type of transaction	Notes	Transaction amount 2006 HK$'000	2005 HK$'000
Mr. Yu Pan, a director of the Company	Interest on short-term loan from a director	9	—	13
Grand Cosmos, the ultimate holding company of the Company	Underwriting commission in respect of 2005 rights issue		—	1,269
Companies beneficially owned by Mr. Yu Pan	(a) Rental expenses for office premises paid to a related company		**484**	79
	(b) Building management and air-conditioning fees paid to a related company		**484**	109
	(c) Free rental of principal place in Hong Kong provided to the Group by a related company		**Free**	Free
Employees and consultants of companies beneficially owned by Mr. Yu Pan	Granted 39,150,000 share options pursuant to the 2005 Scheme to a number of non-employees	*(i)*	**2,198**	—
Ms. So Siu Ngan, the spouse of a former director, Mr. Mak Chi Yeung	Disposal of the entire interest in a subsidiary		—	200
Yaubond Limited and its subsidiary, which is an assoicate of the Group	Services income for project development project management	*(ii)*	**4,162**	—
Minority shareholder of Loyal Way and its subsidiaries	Imputed interest on loan from minority shareholder	9	**1,752**	—

36. RELATED PARTY TRANSACTIONS *(Continued)*

(a) During the year, the Group entered into the following material transactions with related parties: *(Continued)*

Notes:

(i) Pursuant to a deed of appointment entered into by the Company and its subsidiary, United Prime Limited, with an associate of the Company, Yaubond Limited, the performance of United Prime Limited which is appointed as the project manager of a property development project of Yaubond Limited, was guaranteed by the Company which was counter-indemnified by Mr. Yu Pan.

(ii) The Company had granted 39,150,000 share options pursuant to the 2005 Scheme to a number of non-employees who are employees and consultants employed or engaged by companies beneficially owned by Mr. Yu Pan. Such personnel have rendered services to the Group during the year with no other service fee charged against the Group except for the grant of share options. The Group recognized expenses amounting to HK$2,198,000 for the year ended 31 December 2006 in relation to the grant.

Details of the transactions were set out in the section headed "Connected transactions" in the Directors' Report.

The Group has not made any provision for bad or doubtful debts in respect of related party debtors nor has any guarantee been given or received during 2006 or 2005 regarding related party transactions.

(b) **Compensation of key management personnel**

The remuneration of directors and other members of key management during the year was as follows:

	2006	2005
	HK$'000	*HK$'000*
Short-term benefits	**5,384**	3,091
Other long-term benefits	**60**	47
Share-based payments	**786**	—
	6,230	3,138

Total remuneration is included in staff costs in note 8 to the financial statements.

37. POST BALANCE SHEET EVENTS

(a) On 2 March 2007, the Company entered into a note purchase agreement with six institutional investors in relation to the issue and subscription of notes in the principal amount of US$200 million (the "Notes"). The Notes are due 2013, unlisted, convertible into ordinary shares in the Company and are secured with charges of shares in certain subsidiaries and an associate held by the Group and the entire shareholding in the Company indirectly held by Mr. Yu Pan, the director and controlling shareholder of the Company. The security of the Notes will be further increased to cover the Group's equity interests in certain companies which the Company is contemplating to acquire.

37. POST BALANCE SHEET EVENTS *(Continued)*

(a) *(Continued)*

The Notes bear a coupon rate of 4% per annum, payable semi-annually in arrear. A noteholder will have the right to convert the Notes into conversion shares at an initial conversion price of HK$1.35 per share of the Company (subject to a downward price reset adjustment mechanism to the extent of HK$1.00 per share). Unless previously redeemed, converted or purchased and cancelled, the Company will redeem each Note at 201.33% of its principal amount on the maturity date which is expected to be on around 10 May 2013.

The issue of the Notes is subject to fulfillment of certain conditions, inter alia, the approval of the independent shareholders at the special general meeting which is to be held on 26 April 2007. The net proceeds after deducting the relevant expenses from the issue of the Notes will amount to approximately US$192.5 million (or approximately HK$1,503.8 million).

(b) On 2 March 2007, the Group entered into two separate agreements with (a) Poly (Hong Kong) Investments Limited which is a substantial shareholder of a subsidiary of the Company, and an independent third party, and (b) Wise Gain Investment Limited, a company wholly-owned by Mr. Yu Pan. Both agreements are for the acquisition of the entire equity interest in and shareholders' loans of Yue Tian Development Limited and its wholly-owned subsidiary in the PRC (the "Yue Tian Group"). The total consideration of the two agreements is amounted to approximately HK$886,553,000. The only activity currently conducted by the Yue Tian Group is the development of a property, comprising a hotel and office tower which situates at the Tianhe District, Guangzhou (the "Westin Project"). The completion of the acquisitions is subject to the fulfillment of certain conditions, inter alia, the approval of the independent shareholders at the special general meeting which is to be held on 26 April 2007.

(c) Pursuant to the new PRC Corporate Income Tax Law passed by the Tenth National People's Congress on 16 March 2007, the new Corporate Income Tax rates for almost all enterprises established in the PRC shall be subject to a unified rate of 25% and will be effective from 1 January 2008. The impact of such change of Corporate Income Tax rate on the Group's financial statements will depend on detailed pronouncements that are to be issued. The Group will evaluate the impact of the new PRC Corporate Income Tax Law upon issuance of detailed pronouncements.

38. FINANCIAL INSTRUMENTS — RISK MANAGEMENT

The Group's principal financial assets are cash and bank balances, short-term bank deposits and trade, other receivables and deposits. Principal financial liabilities of the Group include trade and other payables loan from minority shareholder and deferred tax liabilities. The Company has not issued and does not hold any financial instruments for trading purposes at the balance sheet date, except the Company's issued ordinary shares and warrants which are listed on the Stock Exchange. The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk.

38. FINANCIAL INSTRUMENTS — RISK MANAGEMENT *(Continued)*

(a) Interest rate risk

The Group's exposure to interest rate risk relates primarily to the fixed interest — bearing payable to a vendor of property interest for outstanding cost of acquisition. The Group has not entered into any interest rate hedging contracts or any other derivative financial instruments. The rates of interest and terms of repayment of the payable have been disclosed in note 25 to these financial statements.

(b) Foreign currency risk

The Group's principal activities are property development conducted in the PRC, which is engaged in property development activities. The Group also has contracts with suppliers for goods and services that are denominated in Renminbi. The Group does not hedge its foreign currency risks as the rate of exchange between Hong Kong dollar and Renminbi 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.

(c) Credit risk

Financial instruments that are exposed to credit risk are receivable and deposits, cash and cash equivalents that consist of short-term bank deposits. Cash and deposits are placed with licensed banks having high credit ratings and in short terms whist receivable and deposits are closely monitored internally by the management. The management foresees minimal credit risks.

The Group's maximum exposure to credit risk arising from default of the counterparties is equal to the carrying amounts of these financial instruments.

(d) Liquidity risk

The Group's policy is to regularly monitor the current and expected liquidity requirements, to ensure that it maintains sufficient reserves of cash resources and adequately committed funding from financial institutions to meet its liquidity requirements in the short and long term.

(e) Fair value

All significant financial instruments are carried at amounts not materially different from their fair values as at 31 December 2006.

The Group has no off-balance sheet arrangements that have or are likely to have a current or future effect on its financial condition, revenue or expenses, results of operations, liquidity, capital expenditure or capital resources that is material to the equity holders of the Company.

39. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 18 April 2007.