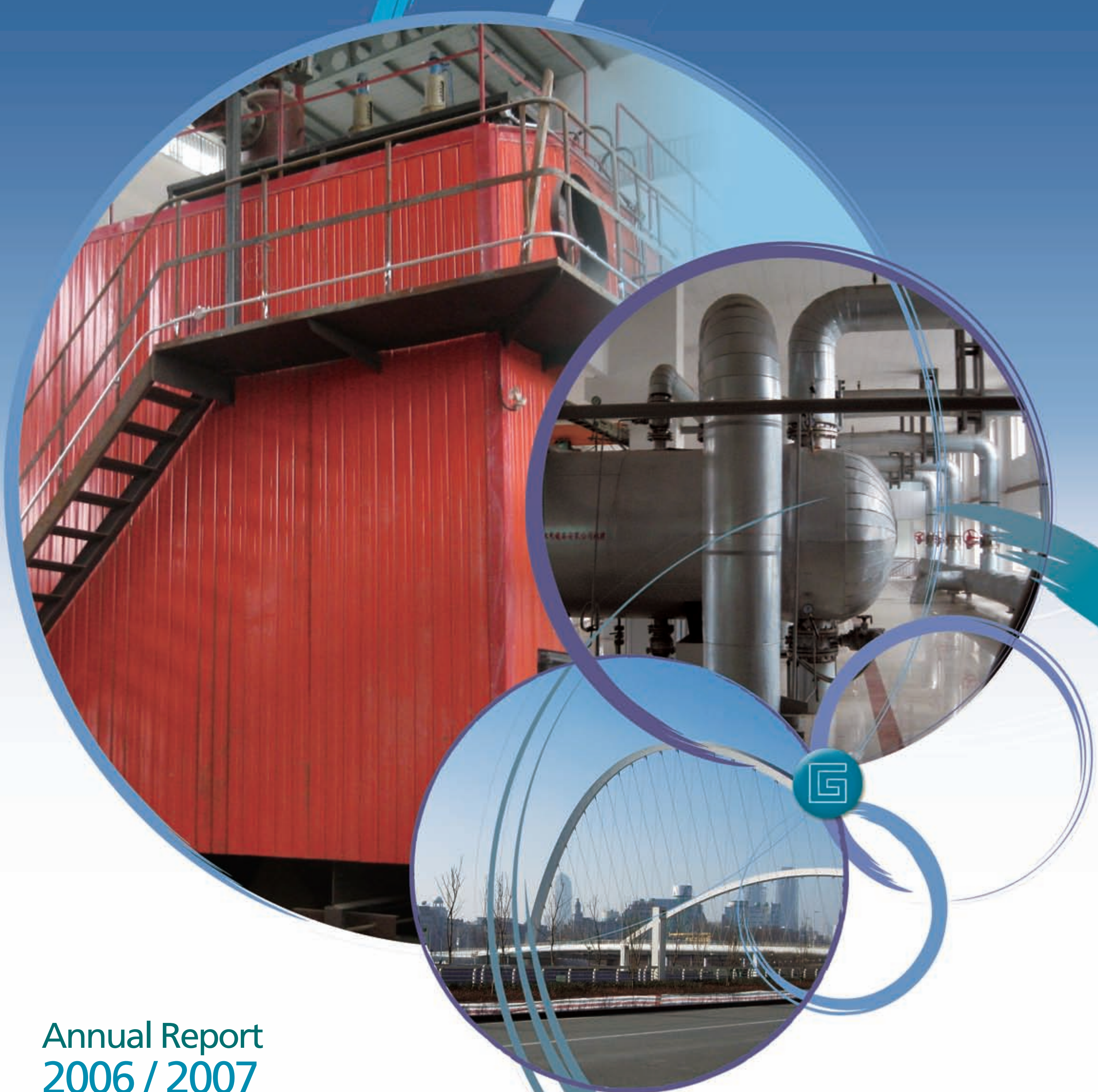
Guo Xin Group Limited

(to be renamed as KAI YUAN HOLDINGS LIMITED)
(Incorporated in Bermuda with limited liability)
Stock Code:1215



Annual Report
2006 / 2007

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Mr. Hu Yishi *(Chairman)*
Mr. Li, John Zongyang
Mr. Lam Cheung Shing, Richard

Non-executive Director
Mr. Hu Jin Xing

Independent Non-executive Directors
Mr. Tam Sun Wing
Mr. Ko Ming Tung, Edward
Mr. Ng Ge Bun

AUDIT COMMITTEE

Mr. Tam Sun Wing
Mr. Ko Ming Tung, Edward
Mr. Ng Ge Bun

REMUNERATION COMMITTEE

Mr. Hu Yishi
Mr. Tam Sun Wing
Mr. Ko Ming Tung, Edward

NOMINATION COMMITTEE

Mr. Li, John Zongyang
Mr. Ko Ming Tung, Edward
Mr. Ng Ge Bun

COMPANY SECRETARY

Mr. Lam Cheung Shing, Richard

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 4705, 47th Floor
Far East Finance Centre
16 Harcourt Road
Admiralty, Hong Kong

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton, HM 12
Bermuda

PRINCIPAL BANKERS

The Hong Kong and Shanghai Banking Corporation Limited
Fubon Bank

AUDITORS

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

SOLICITORS

Kirkpatrick & Lockhart Preston Gates Ellis

PRINCIPAL REGISTRARS

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM08
Bermuda

SHARE REGISTRARS

Tricor Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

STOCK CODE

1215

WEBSITE

www.guoxin.com.hk

CHAIRMAN'S STATEMENT

I am pleased to announce that Guo Xin Group Limited (the "Company") and its subsidiaries (the "Group") recorded a turnover of HK$13,050,000 (2006: HK$16,537,000) for the year ended 30 June 2007 (the "Current Year"), representing a decrease of 21.1% as compared with last year. Loss attributable to the shareholders of the Company (the "Shareholders") amounted to HK$627,000 (2006: HK$11,205,000), representing a decrease of 94.4% from last year. As at 30 June 2007, total assets and net assets of the Group were HK$386,461,000 (2006: HK$582,155,000) and HK$351,424,000 (2006: HK$261,434,000) respectively, representing a decrease of 33.6% and an increase of 34.4% as compared with last year respectively.

The board (the "Board") of directors (the "Directors") does not recommend the payment of dividend for the Current Year.

During the period, the Group underwent significant transformation, ranging from management to business focus. The appointment of myself, Mr. Hu Jin Xing and Mr. Li, John Zongyang as Directors heightened the Group's commitment to its future as a leading enterprise listed on the Stock Exchange of Hong Kong.

BUSINESS REVIEW

Property Investments

The continued robust growth of the China economy enabled the Group to sustain stable performance and remain unaffected by the slight drop in rents of the leasing markets in Shanghai and Beijing owing to an increase in market supply.

The Board made a switch of investment strategy in light of the positive prospects in commercial property in the People's Republic of China (the "PRC"). The rental return for commercial properties keeps rising given the economy continues to prosper and the fact that Beijing is going to be the maiden host for the Olympic Games in 2008 and Shanghai government is holding the World Expo in 2010. Therefore, the Group centered its efforts on investment in commercial properties in the PRC for the Current Year. The Group's disposal of its residential investment properties in Yangpu District, Shanghai in February 2007 allowed the Group to improve its debt position, cash position and returns.

Adhering to the new strategy dedicated to commercial property investment, the Group capitalized on every opportunity to maximize its investment returns. Driven by the huge demand for A-grade commercial offices, the Group completed the acquisition of 35 commercial offices on Deng Shi Kou Main Street, Wangfujing, Dong Cheng District, Beijing at approximately HK$69,417,000 in November 2006. With a gross floor area of about 3,983.38 square meters and located at the heart of Wangfujing, these premium commercial offices were particularly well received by both local and overseas enterprises, accomplishing a brilliant occupancy rate of 95% for the Current Year. The investment is expected to generate a sustainable and stable rental income for the Group in the long run.

The Group's investments in retail premises in prime locations achieved high degree of success. Retail space operations of the Group, particularly the Shanghai Underground Centre, generated remarkable returns with the help of growing domestic economy and retail industry. Featuring trendy merchandises and consumables, Shanghai Underground Centre is increasingly popular among locals and visitors. The Group will keep pursuing its long-term strategy of exploring high potential investments and lucrative business opportunities and harvesting contributions and dividends from its investments.

Resources Investment Operation

The ever-increasing thirst for resources around the world becomes the catalyst of the Group's resources investment operation. Preferential measures for farmers such as the abolition of agricultural tax and provision of subsidies further beat up the demand for phosphate resources for the production of diammonium phosphate binary compound phosphate fertilizers. The Group achieved a remarkable progress in developing the relevant operation. Following the successful negotiation between the Group and the Zhongxiang City Government, Hubei Province, the Group entitled to obtain the exclusive mining rights of 29,000,000 tons of phosphate in Zu Bao Fo Mining District in Phosphate Mining Town in Zhongxiang City, Hubei Province from the Zhongxiang City Government, Hubei Province. The expected annual production of phosphate is approximately 200,000 tons, of which 64% is pure diammonium phosphate binary compound phosphate fertilizers.

Travel Related Operation

The Group terminated its business operation of cruiser liner Omar III in September 2005 following the change in ownership.

PROSPECTS

The commercial property market in Beijing and Shanghai is buoyant. Average office rental levels in Beijing and Shanghai continue the upward trend as the strong demand for prime office space stimulates further rise in rents. Retail rentals in Beijing and Shanghai are set to take another upswing. Thus, the commercial offices located at Wangfujing, Beijing and the Shanghai Underground Centre are expected to generate higher rental income and operating revenue for the Group in the future. Commercial property investment will therefore be a good investment of the Group, providing a steady and satisfactory income source.

The Group is planning to extend its business to provision of municipal public utility in Tianjin which mainly focus on heat supply to residential, commercial and industrial users. Capitalizing on the opportunities embracing the heat supply business could enhance momentum and competitive edges for the Group's future development. Backed up by such favorable project, the Group believes that its business will achieve sustainable and long-term growth in the near future.

Resources and agriculture top the economic and social development agenda of the Chinese Government, indicating a promising future for the Group's resources investment operations. The Group believes that this investment will continue to provide sound profitability platform as scarce supply of phosphate rock in China leads to enormous room for price increment.

In view of the above favorable factors, resources investment in the PRC will become the next growth driver of the Group. The Group will take advantage of the priority placed on resources development. Strategic allocation of capital and manpower will be carried out to take up the challenge in the competitive field.

ACKNOWLEDGEMENTS

The success of the Group hinges on the concerted effort of the management and the staff. Without their dedications, visions and hard work, the Group could not have made such achievements in various businesses. I would like to express my heartfelt gratitude to fellow members on the Board of Directors and all the staff members of the Group for their valuable contributions.

By order of the Board
Hu Yishi
Chairman

Hong Kong, 18 October 2007

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

Property Investments

The rental income of the Group's commercial properties and shopping plaza reached HK$13,050,000 for the Current Year (2006: HK$16,537,000). The Group's residential properties situated on Treasure Garden, Pentas Court, 42C Avenida, Dr. Sun Yat Sen, Taipa, Macau has a total asset value of HK$11,000,000 (2006: HK$10,000,000) and recorded a stable rental income of approximately HK$385,000 for the year ended 30 June 2007 (2006: HK$20,000).

In view of the increasing demand for A-grade commercial offices, the Group completed the acquisition of 35 commercial offices situated on 33 Deng Shi Kou Main Street, Wangfujing, Dong Cheng District, Beijing with a gross floor area of approximately 3,983.38 square meters in November 2006. Located at the heart of Wangfujing, these premium commercial offices generated a rental income of HK$1,865,000 for the Current Year (2006: Nil) and has a high occupancy rate of approximately 95% (2006: approximate 70%).

The Group also recorded satisfactory returns from the investment in the shopping plaza in Shanghai under the prosperous economy and the expanding retail business in the PRC. Possessing 50% equity interest and engaging in the management of the Shanghai Underground Centre Company Limited ("SUCCL"), SUCCL generated an operating revenue of approximately HK$41,697,000 in the Current Year (2006: HK$41,935,000) from this convenient shopping plaza which contains an underground plaza and shopping boulevard with a gross floor area of approximately 10,000 square meters accommodating 96 shops. It has become a highly popular sightseeing and shopping location for tourists visiting Shanghai and earned a fine reputation with its prime location, modern facilities and sumptuous outfit since its operation commenced.

Resources Investment Operation

Intention to obtain the exclusive rights for mining of approximately 29,000,000 tons of phosphate in the Zu Bao Fo Mining District in Phosphate Mining Town in Zhongxiang City, Hubei Province, the Group continued to explore in phosphate mining operations. The diammonium phosphate production line has an annual output of 200,000 tons. The Group will step up the acquisition and instalment of production facilities to increase production capacity of phosphate.

The Group is planning to extend its business to provision of municipal public utility in Tianjin which mainly focus on heat supply to residential, commercial and industrial users. Capitalizing on the opportunities embracing the heat supply business could enhance momentum and competitive edges for the Group's future development.

Travel Related Operation

During the year ended 30 June 2007, the Group did not record any turnover from this operation (2006: HK$82,176,000) due to the business termination of cruiser liner Omar III in September 2005 following the change of ownership. The Group will put more focus on the property and resources investment operations other than the travel related business, with an aim to generate more steady and reasonable income to the Group.

COMPOSITION OF MANAGEMENT

The Group's strengths were appreciably boosted by the addition of three high-caliber Directors to the leadership. For the Current Year, Mr. Hu Yishi was appointed as the executive Director and Chairman of the Group, Mr. Li John Zongyang as the Chief Executive Officer and Mr. Hu Jin Xing as the non-executive Director.

Mr. Hu Yishi was appointed as the executive Director and Chairman of the Group with effect from 17 April 2007. Mr. Hu is responsible for strategic planning including business objectives and directions for the Group with his extensive experience in China affairs and connection in the business. His vision will drive the Group to grow at a rapid pace.

Mr. Zhang Yang retired from the post of executive Director and the Chairman of the Group with effect from 17 April 2007.

On 2 April 2007, Mr. Li, John Zongyang was appointed as the Chief Executive Officer of the Group who is now also on the Board of Directors. Mr. Li is a seasoned investment veteran with extensive exposure to Europe and Asia. He also possesses senior corporate management experiences in listed companies. His wealth of experiences in investment and management of listed companies will enormously facilitate the search for new business opportunities and development of resources and energy related businesses.

Mr. Lam Cheung Shing, Richard retired from the post of Chief Executive Officer and remained as the executive Director of the Group.

The Group appointed Mr. Hu Jin Xing as the non-executive Director of the Group with effect from 4 June 2007. Mr. Hu, who is of great versatility, has broad experience in various businesses. He will provide valuable insights for the Group in developing the business.

The outstanding, experienced and professional management team will lead the Group to a new chapter and make a huge leap in business performance.

FINANCIAL REVIEW

The Group's turnover for the Current Year amounted to HK$13,050,000 (2006: HK$16,537,000), representing a decrease of 21.1% compared with last year. Loss attributable to Shareholders amounted to HK$627,000 (2006: HK$11,205,000), representing a decrease of 94.4% from last year.

Liquidity and Financial Resources

As at 30 June 2007, total assets and net assets of the Group were HK$386,461,000 (2006: HK$582,155,000) and HK$351,424,000 (2006: HK$261,434,000) respectively, representing a decrease of 33.6% and an increase of 34.4% as compared with last year respectively.

As at 30 June 2007, the Group had bank balances and cash totalling approximately HK$43,939,000 (2006: HK$1,489,000), representing an increase of HK$42,450,000 compared with last year. The Group's net current assets were HK$47,856,000 (2006: net current liabilities of HK$116,300,000), an increase of HK$164,156,000 as compared with last year.

As at 30 June 2007, the Group's outstanding bank borrowings amounted to HK$16,632,000 (2006: HK$145,631,000). The gearing ratio (total borrowings/total assets) was 4.3% (2006: 39.5%).

Since the Group's principal operations are in the PRC and part of the operating expenses are denominated in Renminbi ("RMB"), the management is aware of possible exchange rate exposure. As a hedging strategy, the management emphasizes on using RMB borrowings to finance the Group's PRC operations and capital expenditures.

Contingent Liabilities

As at 30 June 2007, the Group did not have any material contingent liabilities.

Pledge on the Group's Assets

As at 30 June 2007, the Group's bank borrowings were secured by time deposits totalling HK$600,000 and its investment properties with a carrying value of HK$74,286,000.

Employment Remuneration Policy

As at 30 June 2007, the Group had a total of 15 employees in the PRC and Hong Kong. The staff costs for the year amounted to HK$8,022,000 (2006: HK$7,611,000). To maintain competitive remuneration packages, the salary and bonus paid to staff are based on their individual performance.

PROFILE OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. HU Yishi, aged 31, was graduated from Shanghai International Tourism Vocational Technology School and is the President of Shanghai Holdeasy Advertising Company Limited and the Director and General Manager of Shanghai ChuangYang Advertising & Broadcasting Co., Ltd. Mr. Hu was appointed as an executive Director and the Chairman of Guo Xin Group Limited on 17 April 2007. Mr. Hu has extensive experience in China affairs and business. Mr. Hu is responsible for the Group's strategic planning including business objectives and directions.

Mr. Hu was appointed as an executive director of Tidetime Sun (Group) Limited (formerly known as Sun Media Group Holdings Limited), a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") during the period from June 2004 to October 2004. He was then appointed as an executive director of World Trade Bun Kee Limited (to be renamed as China Pipe Group Limited) on 11 June 2007, a company listed on the Stock Exchange.

Mr. LI, John Zongyang, aged 52, holds a bachelor of arts degree in Economics from Peking University, the People's Republic of China (the "PRC") and a master degree in business administration from Middlesex University Business School in London, the United Kingdom. He was a Doctor of Philosophy candidate in accountancy with Bond University in Australia from April 1993 to March 1994. He was also a founding member of the Society of Hong Kong Economy in Beijing, the PRC. Before returning to Asia in 2002, he had worked for 10 years with a leading investment management company in London where he served as a senior fund manager and the head of the Asia Pacific region. Mr. Li has over 15 years of experience in international finance and corporate management. Mr. Li is responsible for corporate strategies and overall management control of the Group.

Mr. Li was appointed as an executive Director and the Chief Executive Officer of Guo Xin Group Limited since 02 April, 2007. Prior to joining the Company, he was a Senior Fund Manager (Japan & Far East) and Head of Pacific Region with Framlington Investment Management Limited in London from September 1992 to February 2002 and he also held managerial positions in various publicly-listed companies. Mr. Li was the executive deputy chief executive officer and executive director of Sun Media Group Holdings Limited (now known as Tidetime Sun (Group) Limited, a company listed on the Main Board of the Stock Exchange, from July 2002 to December 2004, the acting chairman, chief financial officer and executive director of Leadership Publishing Group Limited from March 2003 to March 2004 (now known as SMI Publishing Group Limited), a listed company in Hong Kong, the chief financial officer and executive director of Panpac Media Group Limited from April 2004 to May 2005 and the chairman and chief executive officer of Auston International Group Limited from August 2005 to December 2006 respectively, both of which are listed on the Singapore Exchange Limited. Mr. Li was also a co-chief executive officer and executive director of Sun New Media Inc. (a Nasdaq-listed company) from January 2006 to April 2006 and a Director of Sun 3C Media Plc (a company listed on the London Stock Exchange) from July 2006 to November 2006.

Mr. LAM Cheung Shing, Richard, aged 49, holds a master degree in business administration from the Chinese University of Hong Kong. Mr. Lam was appointed as an executive Director and Chief Executive Officer of the Company since December 2001 and was further appointed as the Company Secretary in January 2005. Mr. Lam resigned as the Chief Executive Officer in April 2007 but remains as the Executive Director and the Company Secretary of the Company. Mr. Lam was also the executive director and deputy chief executive officer of Interchina Holdings Company Limited ("Interchina") and the executive director of World Trade Bun Kee Limited (to be renamed as China Pipe Group Limited), the shares of both companies are listed on the Stock Exchange. Mr. Lam is a fellow member of both Hong Kong Institute of Certified Public Accountants and Association of Chartered Certified Accountants. Mr. Lam spent over ten years with PriceWaterhouseCoopers, and international accounting firm and was promoted to a Senior Audit Manager, and equipped himself with extensive experience in accountancy, taxation and corporate finance. Prior to joining the Company and Interchina, Mr. Lam held senior positions in a number of listed companies in Hong Kong, including Sun Hung Kai & Co., Limited; U-Cyber Technology Holdings Limited (now known as New Smart Energy Group Limited) and INNOMAXX Biotechnology Group Limited (now known as China Mining Resources Group Limited). Mr. Lam was also been appointed as an independent non-executive director of Leadership Publishing Group Limited (now known as SMI Publishing Group Limited), a listed company in Hong Kong, during the period from April 2004 to March 2005.

NON-EXECUTIVE DIRECTOR

Mr. HU Jin Xing, aged 63, graduated from Shanghai Normal University with a major in Chinese Language & Literature. He was a vice principal of Shanghai Hainen Secondary School from February 1994 to July 1997. He spent over 7 years in Shanghai Fu Xing High School as vice principal and later on as principal from October 1997 to February 2005. He is a vice president and general secretary of Shanghai Huajie Affection Foundation. Mr. Hu was a member of the Tenth Shanghai Committee of the Chinese People's Political Consultative Conference of Hong Kou District, Shanghai, the PRC. Mr. Hu was appointed as an non-executive Director of Guo Xin Group Limited on 04 June 2007.

Mr. Hu was appointed as an non-executive director of World Trade Bun Kee Limited (to be renamed as China Pipe Group Limited) on 11 June 2007, a company listed on the Stock Exchange.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. TAM Sun Wing, aged 49, was appointed as an independent non-executive Director of the Company in December 2001. Mr. Tam is a professional accountant having more than 20 years of audit and business advisory experience of which 8 years were with an international accounting firm. He has also been in private practice since 1992. Mr. Tam is a director of FTW & Partners CPA Limited. He has extensive experience in providing business advisory service and conducting audits of listed and other companies in the businesses of toy manufacturing and trading, electronics, property development and holding, securities, insurance and retailing.

Mr. KO Ming Tung, Edward, aged 46, is the principal of Messrs. Edward Ko & Company and has been practicing as a solicitor in Hong Kong for more than 16 years. He was appointed as deputy presiding officer of the Labour Tribunal and is presently a member of the Panel of Adjudicators of the Obscene Articles Tribunal, the Solicitors Disciplinary Tribunal Panel and the Employment Law Committee of The Law Society of Hong Kong. Mr. Ko is appointed as tribunal chairman of the Appeal Tribunal Panel under the Buildings Ordinance. He is also a manager of the Chiu Chow Association Secondary School. Mr. Ko was an independent non-executive director of INNOMAXX Biotechnology Group Limited (presently China Mining Resources Group Limited) and New Smart Holdings Limited (presently New Smart Energy Group Limited), which are listed on the Main Board of the Stock Exchange, and Thiz Technology Group Limited, which is listed on the GEM of the Stock Exchange. He currently serves as an independent non-executive director of Sinofert Holdings Limited and World Trade Bun Kee Limited (to be renamed as China Pipe Group Limited), which are listed on the Main Board of the Stock Exchange. Mr. Ko obtained an external bachelor of laws degree from the University of London in the United Kingdom. Mr. Ko has been an independent non-executive Director of the Company since March 2004.

Mr. NG Ge Bun, aged 50, was appointed as an independent non-executive Director of the Company in September 2004. Mr. Ng holds the Degree in Bachelor of Science and Degree in Bachelor in Laws. He obtained a postgraduate certificate in laws from The University of Hong Kong. He is a solicitor of the High Court of Hong Kong and currently serves as a partner of Tang, Lai & Leung Solicitors.

CORPORATE GOVERNANCE REPORT

The Company has adopted most of the Code Provisions as stated in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") as the Code on Corporate Governance Practices (the "Code") of the Company and the Board is committed to complying with the Code to the extent that the Directors consider it is applicable to the Company and practical.

The corporate governance principles of the Group emphasis an effective Board, sound internal controls, appropriate independence policy, and transparency and accountability to all Shareholders of the Company.

The Company had complied with the CG Code throughout the year ended 30 June 2007 with the following deviations:

- A4.1 non-executive Directors are not appointed for a specific term. They are, however, subject to retirement by rotation and re-election at the annual general meetings of the Company pursuant to the Company's Bye-laws. As such, the Company considers that such provisions are sufficient to meet the underlying objectives of the relevant provisions of the CG Code.

- A4.2 The Chairman and the Group Managing Director are not, whilst holding such office, subject to retirement by rotation or taken into account in determining the number of Directors to retire in each year in accordance with the Company's Bye-laws. In the opinion of the Board, it is important for the stability and growth of the Company that there is, and is seen to be, continuity of leadership in these roles and, in consequence, the Board is of the view that both should not be subject to retirement by rotation or hold office for a limited term at the present time.

The Board will keep these matters under review. Following sustained development and growth of the Company, we will continue to monitor and revise the Company's governance policies in order to ensure that such policies meet the general rules and standards required by the Shareholders.

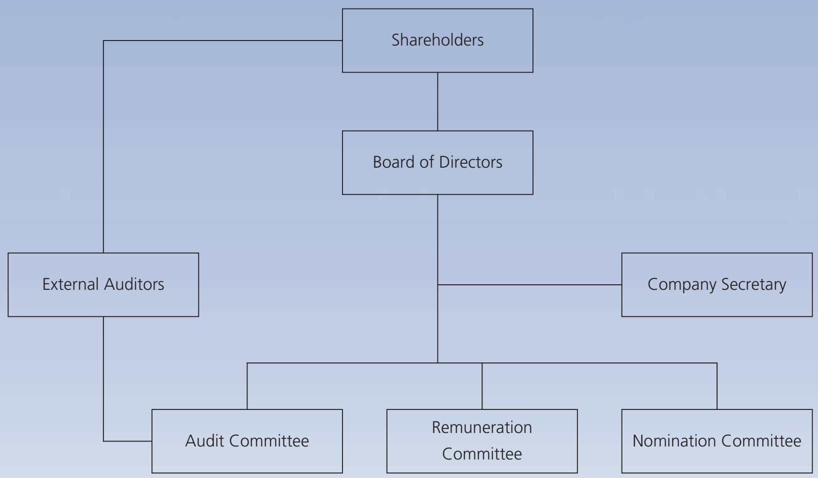
The key corporate governance principles and practices of the Company are summarized as follows:

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Listing Rules. The Company has confirmed with the Directors that they have complied with the required standard set out in the Model Code and its code of conduct regarding Directors' securities transactions.

THE BOARD AND CORPORATE GOVERNANCE STRUCTURE

The Board is responsible for directing the strategic objectives of the Group and overseeing the management of the business. The Directors are responsible for leadership and control of the Group. The overall corporate governance structure of the Company is depicted in the following chart:



BOARD

A) Board Composition

The Board currently comprises three executive Directors, one non-executive Director and three independent non-executive Directors, serving the important function of guiding the management.

The Board members for the year ended 30 June 2007 were:

Chairman
Mr. Hu Yishi

Executive Directors
Mr. Li, John Zongyang
Mr. Lam Cheung Shing, Richard

Non-executive Directors
Mr. Hu Jin Xing

Independent non-executive Directors
Mr. Tam Sun Wing
Mr. Ko Ming Tung, Edward
Mr. Ng Ge Bun

B) Role and Function

The Board is responsible for formulating the strategic business development, reviewing and monitoring the business performance of the Group, as well as preparing and approving financial statements. The Directors, collectively and individually, are aware of their responsibilities to Shareholders, for the manner in which the affairs of the Company are managed and operated. In the appropriate circumstances and as and when necessary, Directors will consent to the seeking of independent professional advice at the Group's expense, ensuring that Board procedures, and all applicable rules and regulations, are followed.

The Board gives clear directions as to the powers delegated to the management for the management and administration functions of the Group, in particular, with respect to the circumstances where management should report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Group. The Board will review those arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Group.

The Board has the full support of the Chief Executive Officer and senior management to discharge its responsibilities. Appropriate insurance cover for the Directors' and officers' liabilities in respect of legal actions against the Directors and officers of the Company and its subsidiaries arising out of corporate activities of the Group has been arranged by the Company.

For the year ended 30 June 2007, the Board:–

i. reviewed the internal control system and risk management of the Group;

ii. discussed and approved the annual and interim results of the Group for the year ended 30 June 2006 and for the period ended 31 December 2006 respectively ;

iii. approved the issuance of convertible notes by the Group;

iv. considered the recommendation of any final dividend for the year ended 30 June 2006 and the book close period, if any;

v. proposed re-election of retiring Directors;

vi. approved the change of auditors from BDO McCabe Lo Limited ("BDO") to HLB Hodgson Impey Cheng ("HLB");

vii. discussed the auditors' remuneration for the annual audit;

viii. reviewed the effects on the changes of the accounting standards and principles;

ix. resolved the appointment and resignation of Chairman and executive Directors;

x. resolved the appointment of a non-executive Director;

xi. resolved the resignation of Chief Executive Officer;

xii. approved to enter into a tenancy agreement in respect of Hong Kong registered office;

xiii. approved the change of principal place of business in Hong Kong;

xiv. approved the change of bank signatories;

xv. approved the operating expenses of Beijing properties owned by a subsidiary company;

xvi. approved the grant of Share option;

xvii. proposed the general mandates to issue and repurchase shares of the Company; and

xviii. reviewed and approved the discloseable transactions / major transactions as herein below:

Date of Announcement	Type of Transaction	Description
29 September 2006	Major transaction	Acquisition of the entire equity interests in and Shareholder loan due from External Fame Limited
19 December 2006	Major transaction	Disposition of 100% shareholding in Smart China International Limited
14 February 2007	Discloseable transaction	Issue of Converible Note

To the best knowledge of the Company, there is no financial, business and family relationship among our Directors between the Chairman and the Chief Executive Officers. All of them are free to exercise their independent judgment.

C) Meeting records

There were 12 board meetings held for the year ended 30 June 2007.

The following was an attendance record of the Board meetings held by the Board during the year:

Board Members	Attendance at meetings held for the year ended 30 June 2007
Mr. Hu Yishi (appointed on 17 April 2007)	2/3
Mr. Li, John Zongyang (appointed on 2 April 2007)	4/4
Mr. Lam Cheung Shing, Richard	11/12
Mr. Hu Jin Xing (appointed on 4 June 2007)	0/1
Mr. Tam Sun Wing	12/12
Mr. Ko Ming Tung, Edward	12/12
Mr. Ng Ge Bun	11/12
Mr. Zhang Yang (resigned on 17 April 2007)	6/9

D) Independent non-executive Directors

During the year ended 30 June 2007, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive Director of his independence pursuant to rule 3.13 of the Listing Rules. Based on the contents of such confirmation, the Company considers that the three independent non-executive Directors are independent.

The independent non-executive Directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board Committees, all independent non-executive Directors make various contributions to the effective direction of the Company.

Chairman and Chief Executive Officer

The Chairman of the Company is Mr. Hu Yishi and Chief Executive Officer of the Company are , Mr. Li, John Zongyang (appointed on 2 April 2007) and Mr. Lam Cheung Shing, Richard (resigned as Chief Executive Officer on 2 April 2007).

The Chairman's responsibility is to manage the Board and the Chief Executive Officer's responsibility is to manage the Company's business. The division of responsibilities between the Chairman and Chief Executive Officer is clearly established and set out in the Code of Corporate Governance of the Company.

Board Committees

The Board has also established the following committees with defined terms of reference:–

- Audit Committee
- Remuneration Committee
- Nomination Committee

Each Board Committee makes decisions on matters within its term of reference and applicable limits of authority. The terms of reference as well as the structure and membership of each committee will be reviewed from time to time.

A) Audit Committee

On 14 December 2001, the Audit Committee had been established. It currently consists of three independent non-executive Directors.

Composition of Audit Committee members for the year ended 30 June 2007:

Mr. Tam Sun Wing (Chairman)
Mr. Ko Ming Tung, Edward
Mr. Ng Ge Bun

Role and function

The Audit Committee is mainly responsible for:

i. to discuss with the external auditors before the audit commences, the nature and scope of audit and ensure co-ordination where more than one audit firm is involved;

ii. to review the draft Company's annual report and accounts and interim report before submission to, and to give advices and comments thereon on to the Board of Directors;

iii. to consider the appointment of external auditors, their audit fees and questions of resignation or dismissal;

iv. to discuss problems and reservations arising from the interim and final audits and matters that the external auditors may wish to discuss (in the absence of the management, where necessary); and

v. to assess the risk environment and review internal control procedure manual of the Group

Meeting Record

The Audit Committee met 4 times during the year, particular in reviewing the interim and annual results, and the internal control of the Group.

The following was an attendance record of the Audit Committee meetings for the year ended 30 June 2007:

Committee member	Attendance at meetings held for the year ended 30 June 2007
Mr. Tam Sun Wing	4/4
Mr. Ko Ming Tung, Edward	3/4
Mr. Ng Ge Bun	4/4

During the meetings, the Audit Committee would discuss the following matters:

1) Financial Reporting
The Audit Committee met with the external auditors to discuss the interim and annual financial statements and system of control of the Group. The external auditors and the Financial Controller of the Company were also in attendance to answer questions on the financial results.

Where there were questions on the financial statements and system of control of the Group reviewed by the Audit Committee, the management of the Company would provide breakdown, analysis and supporting documents to the Audit Committee members in order to ensure that the Audit Committee members were fully satisfied and make proper recommendation to the Board.

2) External Auditors
The appointment of the external auditors and the audit fee were considered by the Audit Committee and recommendations were made to the Board on the selection of external auditors of the Company.

3) Internal Control
The sufficiency and efficiency of the internal control system and risk management.

B) Remuneration Committee

The Remuneration Committee was established on 21 March 2005. It currently consists of one executive Director and two independent non-executive Directors.

Composition of Remuneration Committee members for the year ended 30 June 2007:

Mr. Hu Yishi (Chairman)
Mr. Tam Sun Wing
Mr. Ko Ming Tung, Edward

Role and function
The Remuneration Committee is mainly responsible for:

1. reviewing any significant changes in human resources policies and structure made in line with the prevailing trend and business requirements;

2. making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

3. determining the specific remuneration packages of all executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board on the remuneration of non-executive Directors;

4. considering factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration;

5. reviewing and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

6. reviewing and approve the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;

7. reviewing and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;

8. ensuring that no Director or any of his associates is involved in deciding his own remuneration; and

9. advising the Shareholders on how to vote in respect of any service contract of Director which shall be subject to the approval of Shareholders (in accordance with the provisions of Rule 13.68 of the Listing Rules).

Where circumstances are considered appropriate, some Remuneration Committee decisions are approved by way of written resolutions passed by all the Committee members.

For the year ended 30 June 2007, there was 3 meetings held. The following was an attendance record of the Remuneration Committee meeting for the year ended 30 June 2007:

Committee member	**Attendance at meetings held for the year ended 30 June 2007**
Mr. Hu Yishi (appointed on 17 April 2007)	2/2
Mr. Tam Sun Wing	3/3
Mr. Ko Ming Tung, Edward	3/3
Mr. Lam Cheung Shing, Richard (resigned on 17 April 2007)	1/1

During the meeting, the Remuneration Committee discussed the incentive scheme and option scheme for all staff to enhance their motivation.

C) Nomination Committee

The Nomination Committee was established on 13 April 2007. It currently consists of one executive Director and two independent non-executive Directors.

Composition of Nomination Committee members for the year ended 30 June 2007:

Mr. Li, John Zongyang (Chairman)
Mr. Ko Ming Tung, Edward
Mr. Ng Ge Bun

Role and function

The Nomination Committee's terms of reference includes those specific duties as set out in the code provision A.4.5 of the CG Code in September 2005. Pursuant to its terms of reference, the Nomination Committee is required, amongst other things, to review the structure, size and composition of the Board and make recommendations for changes as necessary, to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of, individuals nominated for directorships, to assess the independence of independent non-executive Directors, and to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors in particular the Chairman and the Chief Executive Officer. The Nomination Committee should meet at least once a year and when the need arises.

The Nomination Committee is responsible for identifying, recruiting and evaluating new nominees to the Board and the assessment of the qualifications of the Directors. The criteria adopted to select and recommend candidates for directorship includes the candidate's experience, professional knowledge, integrity, time commitment and other statutory or regulatory requirements.

For the year ended 30 June 2007, there was 1 meeting held. The following was an attendance record of the Nomination Committee meeting for the year ended 30 June 2007:

Committee member	**Attendance at meeting held for the year ended 30 June 2007**
Mr. Li, John Zongyang	1/1
Mr. Ko Ming Tung, Edward	1/1
Mr. Ng Ge Bun	1/1

During the meeting, the Nomination Committee appointed Mr. Hu Jin Xing as a non-executive Director of the Group of Company.

SHAREHOLDERS' RIGHTS

It is the Company's responsibility to ensure Shareholder's interest. To do so, the Company maintains on-going dialogue with Shareholders – to communicate with them and encourage their participation – through annual general meetings or other general meetings.

Registered Shareholders are notified by post for the Shareholders' meetings. The notice of meeting contains the agenda, the proposed resolutions and a postal voting form.

Any registered Shareholder is entitled to attend the annual and special general meetings, provided that his shares have been recorded in the Register of Shareholders.

Shareholders who are unable to attend a general meeting may complete and return to the Share Registrar the proxy form enclosed with the notice of meeting to give proxy to their representatives, another Shareholder or chairman of the meetings.

Shareholders or investors can enquire by putting their proposals with the Company through the following means:

Hotline no.	:	2804-2221
By post	:	Unit 4705, 47th Floor, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong.

EXTERNAL AUDITORS

It is the auditor's responsibility to form an independent opinion, based on their audit, on those financial statements and to report their opinion solely to the Company, as a body, in accordance with section 141 of the Companies Ordinance, and for no other purpose. They do not assume responsibility towards or accept liability to any other person for the contents of the auditors' report.

Apart from the provision of annual audit services, the Group's external auditors also carried out interim review of the Group's results and taxation advisory service of the Group.

For the year ended 30 June 2007, HLB Hodgson Impey Cheng ("HLB"), the external auditors provided annual audit services to the Group amounting to HK$583,000.

INTERNAL CONTROL

The Audit Committee assisted the Board to perform its duties to maintain an effective and sound internal control system for the Group. The Committee reviewed the Group's procedure and workflow for the financial, operational and compliance, and also the risk assessment and its initiatives for business risks management and control. Recommendations will also put forward to the Board for consideration and approval.

INVESTOR RELATIONS

To enhance its transparency, the Company encourages dialogue with institutional investors and analysts. Extensive information about the Company's activities are provided in its interim and annual reports, which are sent to Shareholders, analysts and interested parties. The Company also maintains regular communication with the media. The Company's news releases, announcements and publications are circulated timely, to all major news media. The same materials are also available on the Company's website. Media briefings are organized from time to time to relay details of the Group's latest business initiatives and market development plans.

Regular meetings are also held with institutional investors and analysts to disseminate financial and other information related to the Group and its business. These activities keep the public aware of the Group's activities and foster effective communication.

For the year ended 30 June 2007, the following Shareholders' meeting was held by the Company:

Date	Venue	Type of Meeting	Particulars	Voting at the Meeting
27 July 2006	Xin Cuisine, at shop 5 – 7 Pearl Court 2 – 12 Holland Street Kennedy Town Hong Kong	Special General Meeting	1. To dispose Guo Xin (China) Limited	By show hands
18 September 2006	12/F, 18 Cheong Lok Street Jordan, Kowloon Hong Kong	Special General Meeting	1. To appoint HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants as external auditors and authorize the Board of Directors to fix their remuneration	By show hands
22 November 2006	12/F, 18 Cheong Lok Street Jordan, Kowloon Hong Kong	Annual General Meeting	1. To consider the audited financial statements and the reports of the Directors and auditors	By show hands
			2. To re-elect a retiring Director of Mr. Tam Sun Wing and to authorize the Board of Directors to fix his remuneration	
			3. To re-appoint HLB Hodgson Impey Cheng as Company's external auditors and to authorize the Board of Directors to determine their remuneration	
			4. To approve the general mandates to issue and repurchase Shares of the Company	

Date	Venue	Type of Meeting	Particulars	Voting at the Meeting
22 November 2006	12/F., 18 Cheong Lok Street Jordan, Kowloon Hong Kong	Special General Meeting	1. To acquire the entire interests and Shareholder loan due from External Fame Limited	By poll
14 February 2007	12/F, 18 Cheong Lok Street Jordan, Kowloon Hong Kong	Special General Meeting	1. To dispose 100% shareholding in Smart China International Limited	By poll

CAPITAL STRUCTURE AND SHAREHOLDER BASE

As at 30 June 2007, the market capitalization of the Company was HK$1,614,483,942 and 5,381,613,140 Shares were in issue, each with a par value of HK$0.10. The following table summarized the existing shareholding structure of the Company: —

By Category	No. of Shares	% of issued Share Capital of the Company
Mr. Hu Yishi	446,930,000	8.30 %
Morich International Investments Limited (a company beneficially and wholly owned by Mr. Hu Yishi)	446,930,000	8.30%
Public Shareholders	4,934,683,140	91.70%
Total	5,381,613,140	100%

FINANCIAL CALENDAR FOR 2007/08

Event	Proposed Date
Announcement of 2006/07 annual results	18 October 2007
Annual General Meeting	23 November 2007
Announcement of interim result	mid March 2008

REPORT OF THE DIRECTORS

The Board of Directors present their annual report and the audited financial statements for the year ended 30 June 2007.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 33 to the financial statements.

RESULTS

The results of the Group for the year ended 30 June 2007 and the state of affairs of the Group and the Company at that date are set out in the financial statement on page 25 to 80.

The Directors did not recommend the payment of a dividend for the year ended 30 June 2007.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five years is set out on page 81.

MAJOR CUSTOMERS

During the year, the largest customer of the Group by itself and together with the next four largest customers accounted for about 62% and 84% respectively of the Group's turnover.

All transactions between the Group and the customers concerned were carried out on normal commercial terms.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group and the Company during the year are set out in note 16 to the financial statements.

INVESTMENT PROPERTIES

Details of the movements in the investment properties of the Group during the year are set out in note 17 to the financial statements.

SHARE CAPITAL

Details of the movements in the Share Capital of the Company during the year are set out in note 28 to the financial statements.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 29 and in note 29 to the financial statements respectively.

DISTRIBUTABLE RESERVE

At 30 June 2007, the Company had no reserve available for distribution to Shareholders.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors:
Mr. Hu Yishi (appointed on 17 April 2007)
Mr. Li, John Zongyang (appointed on 2 April 2007)
Mr. Lam Cheung Shing, Richard
Mr. Zhang Yang (resigned on 17 April 2007)

Non-executive Director:
Mr. Hu Jin Xing (appointed on 4 June 2007)

Independent Non-executive Directors:
Mr. Ko Ming Tung, Edward
Mr. Tam Sun Wing
Mr. Ng Ge Bun

The Directors of the Company, are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with clauses 87(1) and 87(2) of the Company's Bye-laws.

No Director being proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to the guidelines set out in Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors are independent.

DIRECTORS' INTERESTS IN SHARES

At 30 June 2007, the interests of the Directors and their associates in the Shares of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long positions – Ordinary Shares of HK$0.1 each of the Company

Name of Director	Capacity	Number of Shares held as corporate interests	Percentage of the issued Share Capital of the Company
Mr. Hu Yishi	Corporate *(Note)*	446,930,000	8.30%
Mr. Hu Yishi	Personal	446,930,000	8.30%

Note: These Shares are held by Morich International Investments Limited, a company beneficially owned by Mr. Hu Yishi.

Save as disclosed above, none of the Directors or their associates had any interests or short positions in any Shares of the Company or any of its associated corporate as at 30 June 2007.

SHARE OPTIONS

Particulars of the Company's Share option scheme are set out in note 36 to the financial statements.

Particulars of the Company's Share option granted and exercised are set out in note 36 to the financial statements.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company or any or its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2007, the register of substantial Shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, other than interests disclosed above in respect of the Director, Mr. Hu Yishi, the following Shareholder had notified the Company of relevant interests in the issued Share Capital of the Company.

Long positions – Ordinary Shares of HK$0.1 each of the Company

Name of Shareholder	Capacity	Number of issued Ordinary Shares held	Percentage of the issued Share Capital of the Company
Morich International Investments Limited *(Note)*	Beneficial owner	446,930,000	8.30%
Mr. Hu Yishi	Beneficial owner	446,930,000	8.30%

Save as the interests disclosed above, the register of substantial Shareholders maintained by the Company pursuant to Section 336 of the SFO discloses no person as having a notifiable interest or short position in the issued Share Capital of the Company as at 30 June 2007.

Note:

Morich International Investments Limited is beneficially owned by Mr. Hu Yishi, who is a Director of the Company.

PURCHASE, SALE OR REDEMTION OF LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-Laws or the laws of Bermuda, which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

CORPORATE GOVERNANCE

Particulars of the Company's corporate governance practices are set out in the Corporate Governance Report on page 9 to 19 of this report.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 30 June 2007.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors of Mr. Tam Sun Wing, Mr. Ko Ming Tung, Edward and Mr. Ng Ge Bun. The Audit Committee has reviewed the accounting policies and practices adopted and the annual report of the Group for the year. The Audit Committee has held regular meeting since its formation, at a frequency of at least twice a year.

REMUNERATION COMMITTEE

The Remuneration Committee has been set up by the Company with written term of reference in accordance with the requirements of the Listing Rules. The Remuneration Committee comprises one executive Director of Mr. Hu Yishi and two independent non-executive Directors of Mr. Tam Sun Wing and Mr. Ko Ming Tung, Edward.

NOMINATION COMMITTEE

The Nomination Committee was established on 13 April 2007. It currently consists of one executive Director of Mr. Li, John Zongyang and two independent non-executive Directors of Mr. Ko Ming Tung, Edward and Mr. Ng Ge Bun.

EMOLUMENT POLICY

Emolument policy on the remuneration of the Directors and the employees of the Group is reviewed periodically and determined by reference to market terms, company performance, and individual qualifications and performance.

SUBSEQUENT EVENTS

Details of significant events occurring after the balance sheet date are set out in note 41 to the financial statements.

AUDITORS

Deloitte Touche Tohmatsu, who acted as auditors of the Company for the past three years, resigned and KLL Associates CPA Limited were appointed as auditors of the Company with effect from 27 April 2005.

BDO McCabe Lo Limited were appointed as the auditors of the Company in succession to Messrs, KLL Associates CPA Limited who resigned from the office with effect from 24 February 2006.

Messrs. HLB Hodgson Impey Cheng were appointed as the auditors of the Company in succession to Messrs. BDO McCabe Lo Limited who resigned from the office with effect from 18 August 2006.

Messrs. HLB Hodgson Impey Cheng retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of HLB Hodgson Impey Cheng as auditors of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

Hu Yishi
18 October 2007

INDEPENDENT AUDITORS' REPORT

HLB 國衛會計師事務所 Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF GUO XIN GROUP LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Guo Xin Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 25 to 80, which comprise the consolidated and company balance sheets as at 30 June 2007, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made sole to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2007 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Hong Kong, 18 October 2007

CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2007

	Notes	2007 HK$'000	2006 HK$'000
Continuing operation			
Turnover	6	**13,050**	16,537
Cost of sales		**(7)**	(15)
Gross profit		**13,043**	16,522
Other revenue	8	**3,938**	53,223
Other income	9	**2,910**	27,924
Discount on acquisition	38	**4,494**	488
Gain on disposal of subsidiaries	37	**7,169**	–
Share of results of a jointly controlled entity		**3,996**	47
Surplus/(deficit) on revaluation of investment properties		**2,300**	(15,655)
Impairment loss on goodwill		**–**	(76,800)
Bad debt written off		**(6,070)**	–
Administrative expenses		**(21,738)**	(12,039)
Profit/(loss) from operations	10	**10,042**	(6,290)
Finance costs	12	**(10,073)**	(10,020)
Loss before taxation		**(31)**	(16,310)
Taxation	13	**(596)**	(42)
Loss for the year from continuing operation		**(627)**	(16,352)
Discontinued operations			
Profit from discontinued operations	7	**–**	11,481
		(627)	(4,871)
Attributable to:			
Equity holders of the Company		**(627)**	(11,205)
Minority interests		**–**	6,334
		(627)	(4,871)
Loss per share for loss attributable to the equity holders of the Company	14		
From continuing and discontinued operations			
Basic (HK cents per share)		**0.01**	0.25
Diluted (HK cents per share)		**N/A**	N/A
From continuing operation			
Basic (HK cents per share)		**0.01**	0.36
Diluted (HK cents per share)		**N/A**	N/A

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

At 30 June 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment	16	**1,900**	661
Investment properties	17	**110,796**	220,243
Interest in a jointly controlled entity	18	**207,895**	163,191
Available-for-sale financial assets	19	**–**	–
Goodwill	20	**10,057**	–
Deposits for acquisition of investment properties	21	**–**	75,995
		330,648	460,090
Current assets			
Account receivables	22	**253**	12,167
Amount due from a jointly controlled entity	18	**–**	40,708
Prepayments, deposits and other receivables	23	**11,021**	419
Deposit for acquisition of land	24	**–**	67,282
Pledged time deposits		**600**	–
Bank balances and cash		**43,939**	1,489
		55,813	122,065
Current liabilities			
Accruals and other payables	25	**5,866**	31,955
Deposit received for disposal of a subsidiary	26	**–**	60,000
Amount due to a related company	27	**717**	779
Tax payable		**128**	–
Bank interest-bearing borrowings, secured – due within one year	32	**1,246**	145,631
		7,957	238,365
Net current assets/(liabilities)		**47,856**	(116,300)
Total assets less current liabilities		**378,504**	343,790

Consolidated Balance Sheet

At 30 June 2007

	Notes	2007 HK$'000	2006 HK$'000
Equity			
Share capital	28	**538,161**	448,468
Reserves		**(186,737)**	(187,034)
Equity attributable to equity holders of the Company		**351,424**	261,434
Minority interests		**–**	–
		351,424	261,434
Non-current liabilities			
Bank interest-bearing borrowings, secured - due after one year	32	**15,386**	–
Convertible notes	30	**–**	82,356
Deferred taxation	31	**11,694**	–
		27,080	82,356
		378,504	343,790

Approved and authorised for issue by the Board of Directors on 18 October 2007 and signed on its behalf by:

Hu Yishi
Director

Lam Cheung Shing, Richard
Director

The accompanying notes form an integral part of these financial statements.

BALANCE SHEET

At 30 June 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment	16	**1,099**	58
Investments in subsidiaries	33	**1**	207,242
		1,100	207,300
Current assets			
Prepayments, deposits and other receivables	23	**480**	107
Amounts due from subsidiaries	33	**261,856**	315,163
Amount due from a related company	27	**70,951**	–
Bank balances and cash		**32,736**	1,292
		366,023	316,562
Current liabilities			
Accruals and other payables	25	**2,992**	2,331
Amounts due to subsidiaries	33	**362,365**	216,670
Amount due to a related company	27	**–**	780
		365,357	219,781
Net current assets		**666**	96,781
Total assets less current liabilities		**1,766**	304,081
Equity			
Share capital	28	**538,161**	448,468
Reserves	29	**(536,395)**	(226,743)
		1,766	221,725
Non-current liabilities			
Convertible notes	30	**–**	82,356
		1,766	304,081

Approved and authorised for issue by the Board of Directors on 18 October 2007 and signed on its behalf by:

Hu Yishi
Director

Lam Cheung Shing, Richard
Director

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2007

	Share capital *HK$'000*	Share premium *HK$'000*	Translation reserve *HK$'000*	Convertible note reserve *HK$'000*	Accumulated losses *HK$'000*	Equity attributable to equity holders of the Company *HK$'000*	Minority interests *HK$'000*	Total *HK$'000*
The Group								
At 1 July 2005	448,468	132,230	157	2,583	(319,154)	264,284	12,360	276,644
Exchange difference arising on translation of foreign operations	–	–	959	–	–	959	–	959
Net income directly recognised in equity	448,468	132,230	1,116	2,583	(319,154)	265,243	12,360	277,603
Loss for the year	–	–	–	–	(11,205)	(11,205)	6,334	(4,871)
Total recognised income and expenses for the year	448,468	132,230	1,116	2,583	(330,359)	254,038	18,694	272,732
Cancellation of convertible notes	–	–	–	(2,583)	2,583	–	–	–
Issue of convertible notes	–	–	–	9,972	–	9,972	–	9,972
Repayment of convertible notes	–	–	–	(2,576)	–	(2,576)	–	(2,576)
Distribution of dividend	–	–	–	–	–	–	(18,694)	(18,694)
At 30 June 2006 and 1 July 2006	**448,468**	**132,230**	**1,116**	**7,396**	**(327,776)**	**261,434**	**–**	**261,434**
Exchange difference arising on transaction of foreign operations	**–**	**–**	**3,222**	**–**	**–**	**3,222**	**–**	**3,222**
Net income directly recognised in equity	**448,468**	**132,230**	**4,338**	**7,396**	**(327,776)**	**264,656**	**–**	**264,656**
Realisation on disposal of subsidiaries	**–**	**–**	**(1,003)**	**–**	**–**	**(1,003)**	**–**	**(1,003)**
Loss for the year	**–**	**–**	**–**	**–**	**(627)**	**(627)**	**–**	**(627)**
Total recognised income and expenses for the year	**448,468**	**132,230**	**3,335**	**7,396**	**(328,403)**	**263,026**	**–**	**263,026**
Repayment of convertible notes	**–**	**–**	**–**	**(7,396)**	**397**	**(6,999)**	**–**	**(6,999)**
Issue of convertible notes	**–**	**–**	**–**	**2,974**	**–**	**2,974**	**–**	**2,974**
Conversion of convertible notes	**89,693**	**5,381**	**–**	**(2,974)**	**323**	**92,423**	**–**	**92,423**
At 30 June 2007	**538,161**	**137,611**	**3,335**	**–**	**(327,683)**	**351,424**	**–**	**351,424**

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2007

	Notes	**2007** *HK$'000*	2006 *HK$'000*
OPERATING ACTIVITIES			
Loss before taxation, including loss from discontinued operation		**(31)**	(4,829)
Adjustments for:			
Depreciation of property, plant and equipment		**294**	298
(Surplus)/deficit of revaluation on investment properties		**(2,300)**	15,655
Impairment loss on goodwill		**–**	76,800
Bad debt written off		**6,070**	–
Interest expenses		**10,011**	10,200
Loss on disposal of property, plant and equipment		**105**	–
Discount on acquisition		**(4,494)**	(488)
Share of results of a jointly controlled entity		**(3,996)**	(47)
Bank and other interest income		**(3,660)**	(723)
Gain on disposal of subsidiaries		**(7,169)**	–
Gain on cancellation of convertible note		**–**	(19,917)
Operating cash flows before movements in working capital		**(5,170)**	76,949
Decrease in account receivables		**5,601**	24,032
(Increase)/decrease in prepayments, deposits and other receivables		**(10,792)**	50,142
Increase in pledged time deposits		**(600)**	–
Decrease in account payables		**–**	(1,666)
Decrease in accruals and other payables		**(16,821)**	(8,392)
		(27,782)	141,065
Profits tax paid		**(24)**	(42)
Net cash (used in)/generated from operating activities		**(27,806)**	141,023
INVESTING ACTIVITIES			
Interest received		**471**	723
Purchase of investment properties		**(70,605)**	(12,000)
Acquisition of subsidiaries		**(57,161)**	(88,343)
Decrease in deposit for acquisition of land		**67,282**	5,360
Proceeds from disposal of subsidiaries	*37*	**54,842**	–
Increase in deposits for acquisition of investment properties		**–**	(49,276)
(Decrease)/increase in deposit received for disposal of a subsidiary		**(60,000)**	60,000
Purchase of property, plant and equipment		**(1,872)**	(58)
Proceeds from disposal of investment properties		**–**	14,187
Net cash used in investing activities		**(67,043)**	(69,407)

Consolidated Cash Flow Statement

For the year ended 30 June 2007

	Notes	**2007** **HK$'000**	2006 HK$'000
FINANCING ACTIVITIES			
Decrease in amount due to a related company		**(62)**	(2,766)
Increase in amount due to shareholders		**141,219**	–
Interest paid		**(9,137)**	(10,200)
Repayment of bank interest-bearing borrowings		**(715)**	–
Repayment of convertible notes	*30*	**(89,000)**	–
Proceeds from issue of convertible notes	*30*	**95,074**	–
Cancellation of convertible notes		**–**	(54,500)
Net cash generated from/(used in) financing activities		**137,379**	(67,466)
Net increase in cash and cash equivalent		**42,530**	4,150
Cash and cash equivalents at beginning of year		**1,489**	371
Effect of foreign exchange rate changes		**(80)**	(3,032)
Cash and cash equivalents at end of year		**43,939**	1,489
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		**44,539**	1,489
Less: Pledged bank deposits		**(600)**	–
		43,939	1,489

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2007

1. GENERAL

The Company is an exempted limited company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda and the principal place of business of the Company is Unit 4705, 47th Floor, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong.

The Company is an investment holding company. Its subsidiaries are principally engaged in property investment. In the previous year, the Group also engaged in travel related operation and the Group ceased to operate in this business in the current year. The principal activities of its principal subsidiaries are set out in note 33.

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are effective for accounting period on or after 1 December 2005, 1 January 2006, 1 March 2006, 1 May 2006 or 1 June 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior years have been prepared and presented. Accordingly, no prior year adjustment has been required.

The Group has not early applied the following new and revised standards, amendments and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new standards, amendments and interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 23 (Revised)	Borrowing Costs[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segment[2]
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment[3]
HK(IFRIC) – Int 11	HKFRS2 - Group and Treasury Share Transactions[4]
HK(IFRIC) – Int 12	Service Concession Arrangements[5]
HK(IFRIC) – Int 13	Customers Loyalty Programmes[6]
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction[6]

1 Effective for annual periods beginning on or after 1 January 2007
2 Effective for annual periods beginning on or after 1 January 2009
3 Effective for annual periods beginning on or after 1 November 2006
4 Effective for annual periods beginning on or after 1 March 2007
5 Effective for annual periods beginning on or after 1 January 2008
6 Effective for annual periods beginning on or after 1 July 2008

3. SUMMARY SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which is a collective term that includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs"), and Interpretations ("Ints") issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance and applicable disclosure provisions of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The measurement basis used in the preparation of the financial statement is historical cost except for certain financial assets and financial liabilities basis, and investment properties which are carried at fair value as explained in the accounting policies set out below.

A summary of significant accounting policies followed by the Group and the Company in the preparation of the financial statements are set out below:

(a) Basis of consolidation

The financial statements incorporate the financial statements of the Company and its subsidiaries made up to 30 June each year.

(i) Subsidiaries

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

All significant inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

3. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of consolidation (Continued)

(ii) Joint ventures

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

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for under HKFRS 5. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

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

(b) Non-current assets held for sale

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

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

(c) Revenue recognition

(i) Interest income from bank and other deposits is accrued on a time proportion basis, by reference to the principal outstanding and at the interest rate applicable.

(ii) Property rental income under operating lease is recognised on a straight line basis over the terms of the relevant leases.

3. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Property, plant and equipment

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

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Leasehold improvements	Over the shorter of the term of the leases, or 5 years
Furniture, fixtures and office equipment	15% to 20%
Motor vehicles	18% to 20%

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

(e) Investment properties

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

After initial recognition, investment property is carried at fair value. The fair value of investment property is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the property being valued. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value.

Any gain or loss arising from a change in the fair value of the investment properties is recognised directly in the income statement. Gain or loss on disposal of investment properties is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement upon disposal.

3. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to determine whether there is any indication of impairment of assets, or whether there is any indication that an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the year in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant policy for that revalued asset.

(i) *Calculation of recoverable amount*

The recoverable amount of an asset is the higher of its net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of any asset and from its disposal at the end of its useful life. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of asset that generates cash inflows independently (i.e. a cash-generating unit).

(ii) *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been change in the estimates used to determine the recoverable amount. An impairment loss of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates the reversal effect of that specific event. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(g) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit is the profit for the year, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable.

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

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

3. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Taxation (Continued)

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

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

(h) Investments in subsidiaries

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

(i) Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or a joint venture at the date of acquisition.

Goodwill arising on the acquisition of a joint venture is included in the carrying amount of the joint venture. Goodwill arising on the acquisition of subsidiaries is presented as a separate intangible asset.

Goodwill is tested annually for impairment and carried at cost less accumulated losses.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit 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 cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of 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.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

(j) Discount on acquisition

A discount on acquisition arising on an acquisition of a subsidiary, an associate or a jointly controlled entity for which an agreement date is on after 1 July 2005 represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. A discount on acquisition arising on an acquisition is recognised immediately in income statement. A discount on acquisition arising on an acquisition of an associate or a jointly controlled entity (which is accounted for using the equity method) is included as income in the determination of the investor's share of results of the associate or jointly controlled entity in the period in which the investment is acquired.

3. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Account receivables

Account receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(l) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(m) Provision

A provision is recognised when the Group has a present legal or constructive obligation, as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the effect of the time value money is material, the amount of a provision is the present value at the balance sheet date of the expenditures expected to be required to settle the obligation.

(n) Financial instruments

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

(i) Financial assets

The Group's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets and held-to-maturity investments. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales of financial assets require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise derivative financial instruments that are not designated as effective hedging instruments. 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 profit or loss in the period in which they arise.

3. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Financial instruments (Continued)

(i) Financial assets (Continued)

Loans and receivables

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in income statement. Any impairment losses on available-for-sale financial assets are recognised in income statement. Impairment losses on available-for-sale equity investments will not reverse in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

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

3. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Financial instruments (Continued)

(i) Financial assets (Continued)

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group's management has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that is an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the income statement when the investments are derecognisd or impaired, as well as through the amortisation process.

(ii) Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss has two sub-categories, including financial liabilities held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Other financial liabilities

Other financial liabilities including trade and other payables, bank and other borrowings, floating rate notes, fixed rate notes and zero coupon notes are subsequently measured at amortised cost, using the effective interest method. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Convertible loan notes

Convertible loan notes issued by the Company that contain both financial liability and equity components are classified separately into respective liability and equity components on initial recognition. On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate of similar non-convertible debts. The difference between the proceeds of the issue of the convertible loan notes and the fair value assigned to the liability component, representing the embedded call option for the holder to convert the notes into equity, is included in equity (convertible loan notes – equity reserve).

3. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Financial instruments (Continued)

(ii) Financial liabilities and equity (Continued)

Convertible loan notes (Continued)

In subsequent periods, the liability component of the convertible loan notes is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in convertible loan notes – equity reserve until the embedded option is exercised (in which case the balance stated in convertible loan notes – equity reserve will be transferred to share capital and share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible loan notes – equity reserve will be released to the retained profits. No gain or loss is recognised in income statement upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to convertible loan notes – equity reserve.

Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan notes using the effective interest method.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs a specified debtor fails to make payment when due in accordance with the original or modified terms of debt instrument. A financial guarantee contract issued by the Group and not designated as financial assets at fair value through profit or loss is recognised initially at its fair value less transaction costs which are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

Derivative financial instruments that do not qualify for hedge accounting derivatives are deemed as financial assets held for trading or financial liabilities held for trading. Changes in fair values of such derivatives are recognised directly in income statement.

(iii) Derecognition

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

For financial liabilities, they are removed from the Group's balance sheet when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in income statement.

3. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of those assets. Capitalisation of such borrowing cost ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

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

(p) Convertible notes

Convertible notes that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments. At initial recognition of the liability component of the convertible notes is calculated as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity component in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in the income statement on the liability component is calculated using the effective interest method. The equity component is recognised in the convertible notes reserve until either the notes are converted or redeemed.

If the notes are converted, the convertible debt option reserve, together with the carrying value of the liability component at the time of conversion, are transferred to share capital and share premium as consideration for the shares issued. If the notes are redeemed, the convertible debt option reserve is released directly to accumulated losses.

(q) Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in HK dollars, which is the Company's functional and presentation currency.

3. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Foreign currencies (Continued)

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges. Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(1) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(2) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(3) all resulting exchange differences are recognised as a separate component of equity. On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(r) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases.

As lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight line basis over the terms of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the lease asset and recognised as an expense on a straight line basis over the lease term.

As lessee

Rental payables under operating leases are charged to income statement on a straight line basis over the term of the relevant lease. Benefits received and receivables as an incentive to enter into an operating lease are recognised as a reduction of rental expenses over the lease term on a straight line basis.

3. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Retirement benefits costs

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution scheme, the assets of which are held in separate trustee-administered funds.

Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, with the employees' contributions subject to a cap of monthly relevant income of HK$20,000. The Group's contributions to the scheme are expensed as incurred are vested in accordance with the scheme's vesting scales. Where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group.

(t) Related parties

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or entities and include entities which are controlled or under the significant influence or related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(u) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

In respect of business segment reporting, unallocated costs represent corporate expenses. Segment assets consist primarily of furniture, fixtures and equipment, investment properties, deposit for acquisition of investment properties and land, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and corporate borrowings.

Capital expenditure comprises additions to furniture, fixtures and equipment and investment properties.

In respect of geographical segment reporting, revenue is based on the country in which the customer is located and total assets and capital expenditure are where the assets are located.

4. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and cash flow and fair value interest rate risk), credit risk and liquidity risk Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group's treasury function operates as a centralised service for managing financial risks and for providing cost efficient funding to the Group.

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Financial risk factors (Continued)

(i) Market risk

(1) Foreign exchange risk

The Group operates mainly in the People's Republic of China ("the PRC"), Hong Kong and Macau, and majority of transactions are dominated in Renminbi, Hong Kong dollars and Macau Pataca. Therefore, the Group is exposed to foreign exchange risk arising from the exposure of Renminbi and Macau Pataca against Hong Kong dollars. The Group currently does not have a formal currency hedging policy. However, the management monitors the foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

(2) Cash flow and fair value interest rate risk

Short term borrowings at variable interest rates expose the Group to cash flow interest rate risk and convertible note at fixed rates expose the Group to fair value interest rate risk. The Group monitors the interest rate risk exposure on a continuous basis and adjust the portfolio of borrowings where necessary.

(ii) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. The Group has no significant concentrations of credit risk. It has policies in place to ensure that properties are leased to tenants and services are made to customers with an appropriate credit history. The exposures to these credit risks are monitored on an ongoing basis.

(iii) Liquidity risk

The Group manages its liquidity risk by regularly monitoring current and expected liquidity requirements and ensuring sufficient liquid cash and adequate committed lines of funding from major financial institutions to meet the Group's liquidity requirements in the short and long term.

(b) Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated impairment of goodwill

The Group performs annual tests on whether there has been impairment of intangible assets in accordance with the accounting policy "Impairment of assets" as stated in note 3. The recoverable amounts of cash-generating units are determined based on value-in-use calculations. These calculations require the use of estimates and assumptions made by management on the future operation of the business, pre-tax discount rates, and other assumptions underlying the value-in-use calculations.

(b) Estimate of fair value of investment properties

As described in note 17, the investment properties were revalued at the balance sheet date on market value basis by reference to independent professional valuers. Such valuation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the judgement, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions at each balance sheet date.

(c) Useful lives of property, plant and equipment

In accordance with HKAS 16, the Group estimates the useful lives of property, plant and equipment in order to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in the market demands or service output of the assets. The Group also performs annual reviews on whether the assumptions made on useful lives continue to be valid.

(d) Trade debtors

The aged debt profile of trade debtors is reviewed on a regular basis to ensure that the trade debtor balances are collectible and follow up actions are promptly carried out if the agreed credit periods have been exceeded. However, from time to time, the Group may experience delays in collection. Where recoverability of trade debtor balances are called into doubts, specific provisions for bad and doubtful debts are made based on credit status of the customers, the aged analysis of the trade receivable balances and write-off history. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivable to the income statement. Changes in the collectibility of trade receivables for which provisions are not made could affect the results of operations.

(e) Fair values of other financial assets and liabilities

The fair values of loans and receivables and financial liabilities are accounted for or disclosed in the financial statements. The calculation of fair values requires the Group to estimate the future cash flows expected to arise from those assets and liabilities and suitable discount rates. Variations in the estimated future cash flows and the discount rates used may result in adjustments to the carrying amounts of these assets and liabilities and the amounts disclosed in the financial statements.

6. SEGMENT INFORMATION

(a) Business segments

For management purpose, the Group is currently organised into one (2006: two) operating division – property investments. For the year ended 30 June 2007 and 2006, the Group ceased operations in travel related business and trade related business respectively. This principal operating activity is on the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

	Continuing operation		Discontinued operations				Consolidated			
	Property investments		Trade related operation		Travel related operation		Continuing		Discontinued	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Segment turnover	**13,050**	16,537	**–**	–	**–**	82,176	**13,050**	16,537	**–**	82,176
Segment results	**12,116**	7,431	**–**	(4,349)	**–**	15,830	**12,116**	7,431	**–**	11,481
Unallocated corporate income less expenses							**(2,074)**	(13,721)	**–**	–
Profit/(loss) from operations							**10,042**	(6,290)	**–**	11,481
Finance costs							**(10,073)**	(10,020)	**–**	–
(Loss)/profit before taxation							**(31)**	(16,310)	**–**	11,481
Taxation							**(596)**	(42)	**–**	–
(Loss)/profit for the year							**(627)**	(16,352)	**–**	11,481

	Continuing operation		Discontinued operations				Consolidated			
	Property investments		Trade related operation		Travel related operation		Continuing		Discontinued	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
ASSETS										
Segment assets	**340,045**	580,629	**–**	1	**–**	4	**340,045**	580,629	**–**	5
Unallocated corporate assets							**46,416**	1,521	**–**	–
Consolidated total assets							**386,461**	582,150	**–**	5
LIABILITIES										
Segment liabilities	**2,477**	216,631	**–**	–	**–**	–	**2,477**	216,631	**–**	–
Unallocated corporate liabilities							**32,560**	104,090	**–**	–
Consolidated total liabilities							**35,037**	320,721	**–**	–

6. SEGMENT INFORMATION (Continued)

Other segment information

	Continuing operation		Discontinued operations				Consolidated			
	Property investments		Trade related operation		Travel related operation		Continuing		Discontinued	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Capital expenditures	**148,472**	12,000	**–**	–	**–**	–	**148,472**	12,000	**–**	–
Impairment loss on goodwill	**–**	–	**–**	–	**–**	76,800	**–**	–	**–**	76,800
Depreciation	**294**	298	**–**	–	**–**	–	**294**	298	**–**	–
Deficit on revaluation of investment properties	**–**	15,655	**–**	–	**–**	–	**–**	15,655	**–**	–
Loss on disposal of property, plant and equipment	**105**	–	**–**	–	**–**	–	**105**	–	**–**	–

(b) Geographical segments

The following table provides an analysis of the Group's revenue by geographical market and analysis of total assets and capital expenditures by the geographical area in which the assets are located.

	Hong Kong		the PRC		Other		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment turnover	**–**	82,176	**12,665**	16,517	**385**	20	**13,050**	98,713
Total assets	**46,416**	1,811	**328,807**	570,344	**11,238**	10,000	**386,461**	582,155
Capital expenditures	**1,847**	–	**146,600**	–	**25**	12,000	**148,472**	12,000

7. DISCONTINUED OPERATIONS

For the year ended 30 June 2007 and 2006, the Group has ceased its operations in travel related business and trade related business respectively. The analysis of the profit recognised in the consolidated income statement and cash flows is as follow:

	2007	2006
	HK$'000	*HK$'000*
Turnover	–	82,176
Cost of sales	–	(66,346)
Gross profit	–	15,830
Administrative expenses	–	(4,349)
Profit from operations	–	11,481
Finance costs	–	–
Profit before taxation	–	11,481
Taxation	–	–
Profit for the year	–	11,481
Attributable to:		
Equity holders of the Company	–	5,147
Minority interests	–	6,334
Profit for the year	–	11,481

The net cash flow of the discontinued operations is as follows:

	2007	2006
	HK$'000	*HK$'000*
Net operating cash inflow	–	11,481
Total net cash inflow	–	11,481
Earning per share:		
Basic, from discontinued operations	–	HK0.11 cents
Diluted, from discontinued operations	–	N/A

For the year ended 30 June 2006, the calculation of the basic earning per share from discontinued operations is based on the earning attributable to the Company's equity shareholders of HK$5,147,000 and the weighted average number of ordinary shares of 4,484,683,140.

The computation of diluted earning per share from discontinued operations did not assume the exercise of convertible notes existed during the year ended 30 June 2006 as the exercise of such notes would result in increase in earning per share and were therefore anti-dilutive.

8. OTHER REVENUE

	2007 HK$'000	2006 HK$'000
Compensation from termination of the Subcontracting Agreement *(note i)*	–	52,500
Bank interest income	471	44
Other interest income *(note ii)*	3,189	679
Others	278	–
	3,938	53,223

note i:

On 16 December 2004, the Group acquired a 60% interest in Gainnew Group Limited ("Gainnew") from Mr. Benny Ki. On the same date, Gainnew also entered into a subcontracting agreement (the "Subcontracting Agreement") with Mr. Benny Ki and HK Power Limited, a company owned by Mr. Benny Ki. Under the Subcontracting Agreement, Gainnew was responsible for the marketing and introduction of customers to Omar III, a cruise liner with casino, gaming and other facilities on board, and was responsible for the provision of the settlement service during the opening hours of the casino. In addition, Gainnew also entered into a service agreement (the "Service Agreement") with Keygold Group Limited ("Keygold"), a company wholly and beneficially owned by Mr. Benny Ki, whereby Keygold will act as Gainnew's consultant to provide the management services to Gainnew.

However, following the change in ownership of Omar III and the casino onboard, Omar III has ceased its casino operation since 28 September 2005 and the Subcontracting Agreement and the Service Agreement were also terminated with effect from the same date. The Company and Mr. Benny Ki entered into a settlement agreement dated 19 October 2005 pursuant to which Mr. Benny Ki agreed to pay the Group compensation for termination of the Subcontracting Agreement and the Service Agreement amounting to HK$52,500,000 (the "Compensation"). The balance was settled in cash during the year ended 30 June 2006 and therefore recognised as other revenue in the consolidated income statement.

note ii:

On 13 July 2006, 國欽國際貿易（上海）有限公司 (Shanghai Guo Qin International Trading Co Ltd), a wholly owned subsidiary of the Company entered into a termination agreement (the "Termination Agreement") to termination the agreement for acquisition of a piece of land located at Zha Bei District, Shanghai, the PRC (the "Acquisition"). Details of the Acquisition are set out in the Company's Circular Dated 6 September 2004.

Pursuant to the Termination Agreement, the vendor in the Acquisition (the "Vendor") has returned to the Group all the monies paid by the Group under the agreement of the Acquisition as first payment of the considerations of approximately HK$67,282,000 (the "Deposits"). The Vendor has also paid interest at the rate of 5% per annum on the Deposit calculated from 3 August 2005 to 13 July 2006. As a result, interest income of approximately HK$3,189,000 was recognised for the year ended 30 June 2007.

Details of the Termination Agreement are set out in the Company's announcement dated 14 July 2006.

9. OTHER INCOME

	2007 *HK$'000*	2006 *HK$'000*
Cancellation of convertible note *(note i)*	–	19,917
Unrealised exchange gain	**2,910**	8,007
	2,910	27,924

note i:

(a) The consideration for the acquisition of Gainnew was HK$96,000,000, of which HK$50,000,000 was settled in cash and HK$46,000,000 was settled by issuing a convertible note by the Company (the "Convertible Note"). Following the change in ownership on Omar III and the casino onboard, Omar III has ceased its casino operations since 28 September 2005 and the Subcontracting Agreement and the Service Agreement were also terminated with effect from the same date. The Company and Mr. Benny Ki entered into the Settlement Agreement and Mr. Benny Ki agreed to cancel the Convertible Note.

(b) Up to the date of the Settlement Agreement between the Company and Mr. Benny Ki, the Group had already redeemed HK$23,500,000 principal amount of the Convertible Note in cash. In accordance with HKAS 32, the Convertible Note was split into liability component and equity component. The liability component of the remaining amount of the Convertible Note was approximately HK19,917,000 as at the date of the Settlement Agreement. As such, the gain on cancellation of the liability component of the Convertible Note was recognised as other income in the consolidated income statement.

10. PROFIT/(LOSS) FROM OPERATIONS

	2007 *HK$'000*	2006 *HK$'000*
Profit/(loss) from operations has been arrived at after charging:		
Auditors' remuneration	**583**	468
Depreciation included in administrative expenses	**294**	298
Impairment loss on goodwill	–	76,800
Bad debt written off	**6,070**	–
Loss on disposal of property, plant and equipment	**105**	–
Staff costs (including directors' emoluments, *note 11*)	**8,022**	7,611
Operating lease rentals in respect of office premises	**757**	748

11. STAFF COSTS

	2007 *HK$'000*	2006 *HK$'000*
Salaries and allowances (including directors' emoluments)	**7,833**	7,274
Retirement benefits scheme contributions	**189**	337
	8,022	7,611

(a) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, three (2006: two) were directors of the Company and their emoluments are set out in 11(b) below. The emoluments of the remaining two (2006: three) are as follows:

	2007 *HK$'000*	2006 *HK$'000*
Salaries and other benefits	**762**	896
Retirement benefit scheme contributions	**35**	45
	797	941

During the year, the emoluments of each of the above two (2006: three) individuals were under HK$1,000,000 per annum.

11. STAFF COSTS (Continued)

(b) Directors' emoluments

The aggregate amount of emoluments payable to the directors of the Company during the year was HK$6,459,000 (2006: HK$5,972,000).

The remuneration of every director of the Company for the year ended 30 June 2007 and 30 June 2006 is shown as below:

Name of director

	Directors' fees		Salaries and benefits in-kind		Retirement benefits scheme contributions		Total	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Executive directors								
Hu Yishi (Appointed as at 17 April 2007)	**411**	–	**–**	–	**–**	–	**411**	–
Li, John Zongyang (Appointed as at 2 April 2007)	**450**	–	**200**	–	**–**	–	**650**	–
Zhang Yang (Resigned as at 17 April 2007)	**158**	200	**3,247**	3,900	**91**	120	**3,496**	4,220
Lam Cheung Shing, Richard	**200**	200	**1,013**	910	**44**	42	**1,257**	1,152
	1,219	400	**4,460**	4,810	**135**	162	**5,814**	5,372
Non-executive director								
Hu Jin Xing (Appointed as at 4 June 2007)	**45**	–	**–**	–	**–**	–	**45**	–
	45	–	**–**	–	**–**	–	**45**	–
Independent non-executive directors								
Tam Sun Wing	**200**	200	**–**	–	**–**	–	**200**	200
Ko Ming Tung, Edward	**200**	200	**–**	–	**–**	–	**200**	200
Ng Ge Bun	**200**	200	**–**	–	**–**	–	**200**	200
	600	600	**–**	–	**–**	–	**600**	600
	1,864	1,000	**4,460**	4,810	**135**	162	**6,459**	5,972

During the year, no emoluments were paid to the directors of the Company as a discretionary bonus or an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director had waived or agreed to waive any emoluments during the year.

12. FINANCE COSTS

	2007 HK$'000	2006 HK$'000
Bank charges	62	20
Convertible note redemption expenses	–	1,175
Interest expenses on:		
Bank borrowings wholly repayable within five years	5,848	7,699
Imputed interest on convertible notes	1,911	1,126
Other loan interest expenses	2,252	–
	10,073	10,020

13. TAXATION

	2007 HK$'000	2006 HK$'000
Current tax from continuing operation:		
Oversea taxation	151	42
Deferred taxation *(note 31)*	445	–
	596	42

Hong Kong Profits Tax is calculated at 17.5% (2006: 17.5%) of the estimated assessable profits for the year. No provision for Hong Kong profits tax has been made in the financial statements as the Group does not have any assessable profit arising in Hong Kong. Taxation on profits arising outside Hong Kong has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries/places in which the Group operates.

Taxation arising in other jurisdictions is calculated at the rate prevailing in the respective jurisdiction.

13. TAXATION (Continued)

The amount of charged taxation for the year can be reconciled to the loss before taxation per the consolidated income statement as follows:

Year ended 30 June 2007

	Hong Kong		the PRC and others		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
(Loss)/profit before taxation						
– continuing operation	(20,057)		20,026		(31)	
– discontinued operations	–		–		–	
	(20,057)		20,026		(31)	
Tax at statutory tax rate and tax effect of different tax rates of the subsidiaries operating in other jurisdictions	(3,510)	17.5	6,116	30.5	2,606	(8,406.5)
Tax effect of expenses not deductible for tax purpose	38	(0.2)	2,077	10.4	2,115	(6,822.6)
Tax effect of income not taxable for tax purpose	(140)	0.7	(8,046)	(40.1)	(8,186)	26,406.5
Tax effect of tax losses not recognised	3,612	(18.0)	4	–	3,616	(11,664.5)
Utilisation of tax losses previously not recognised	–	–	–	–	–	–
Recognition of deferred tax liabilities	–	–	445	2.2	445	(1,435.5)
Taxation for the year	–	–	596	3.0	596	(1,922.6)

13. TAXATION (Continued)

Year ended 30 June 2006

	Hong Kong		the PRC and others		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
(Loss)/profit before taxation						
– continuing operation	(14,622)		(1,688)		(16,310)	
– discontinued operations	11,481		–		11,481	
	(3,141)		(1,688)		(4,829)	
Tax at statutory tax rate	(550)	17.5	(557)	33.0	(1,107)	22.9
Tax effect of expenses not deductible for tax purpose	24,212	(770.8)	3,139	(186.0)	27,351	(566.4)
Tax effect of income not taxable for tax purpose	(25,007)	796.1	(2,444)	144.8	(27,451)	568.5
Tax effect of tax losses not recognised	1,345	(42.8)	–	–	1,345	(27.9)
Utilisation of tax losses previously not recognised	–	–	(96)	5.7	(96)	2.0
Taxation for the year	–	–	42	(2.5)	42	(0.9)

14. LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

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

From continuing and discontinued operations

	2007	2006
	HK$'000	*HK$'000*
Loss for the year attributable to equity holders of the Company for the purpose of basic and diluted loss per ordinary share	**627**	11,205

	Number of shares	Number of shares
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic and diluted loss per ordinary share	**4,554,567**	4,484,683

From continuing operation

	HK$'000	*HK$'000*
Loss for the year attributable to equity holders of the Company for the purpose of basic loss per share	**627**	11,205
Add: Profit for the year from discontinued operations	**–**	5,147
Loss for the purpose of basic loss per ordinary share from continuing operation	**627**	16,352

The denominators used are the same as those detailed above.

The weighted average number of ordinary shares for the year ended 30 June 2007 for the purpose of basic and diluted loss per share has been adjusted pursuant to the issuance of share capital due to conversion of convertible notes of 696,930,000 shares and 200,000,000 shares at HK$0.106 on 2 June 2007 and 8 June 2007 respectively.

The basic loss per share from continuing and discontinued operations is based on the loss attributable to equity holders of the Company of HK$11,205,000 and weighted average number of 4,484,683,000 shares in issue during the year ended 30 June 2006.

The computation of diluted loss per share from continuing and discontinued operations and from continuing operation did not assume the exercise of the convertible notes existed during the year ended 30 June 2006 as the exercise of such notes would result in decrease in loss per share and were therefore anti-dilutive.

15. DIVIDEND

The Directors of the Company do not recommend the payment of any dividend in respect of the year ended 30 June 2007 (2006: Nil).

16. PROPERTY, PLANT AND EQUIPMENT

The Group

	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost				
At 1 July 2005	575	498	1,090	2,163
Additions	–	58	–	58
Exchange alignment	–	4	31	35
At 30 June 2006 and 1 July 2006	575	560	1,121	2,256
Additions	959	513	400	1,872
Acquisition of subsidiaries	–	15	158	173
Disposals	(20)	(323)	–	(343)
Elimination of disposal of subsidiaries	–	(194)	(1,121)	(1,315)
Exchange alignment	–	3	8	11
At 30 June 2007	**1,514**	**574**	**566**	**2,654**
Accumulated deprecation				
At 1 July 2005	575	275	433	1,283
Charge for the year	–	97	201	298
Exchange alignment	–	1	13	14
At 30 June 2006 and 1 July 2006	575	373	647	1,595
Charge for the year	43	85	166	294
Eliminated on disposals	(4)	(234)	–	(238)
Elimination of disposal of subsidiaries	–	(115)	(782)	(897)
At 30 June 2007	**614**	**109**	**31**	**754**
Net book value				
At 30 June 2007	**900**	**465**	**535**	**1,900**
At 30 June 2006	–	187	474	661

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Company

	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Total HK$'000
Cost			
At 1 July 2005, 30 June 2006 and 1 July 2006	–	191	191
Additions	959	252	1,211
Disposals	(20)	(242)	(262)
At 30 June 2007	**939**	**201**	**1,140**
Accumulated depreciation			
At 1 July 2005	–	104	104
Charge for the year	–	29	29
At 30 June 2006 and 1 July 2006	–	133	133
Charge for the year	43	30	73
Eliminated on disposals	(4)	(161)	(165)
At 30 June 2007	**39**	**2**	**41**
Net book value			
At 30 June 2007	**900**	**199**	**1,099**
At 30 June 2006	–	58	58

17. INVESTMENT PROPERTIES

	The Group	
	2007	2006
	HK$'000	*HK$'000*
At fair value		
At beginning of the year	**220,243**	215,525
Additions	**146,600**	12,000
Additions through acquisition of subsidiaries *(note 38)*	**94,927**	16,394
Disposal	**–**	(14,187)
Surplus/(deficit) arising on revaluation	**2,300**	(15,655)
Disposal of subsidiaries *(note 37)*	**(357,842)**	–
Exchange alignment	**4,568**	6,166
At end of the year	**110,796**	220,243

The fair values of the Group's investment properties at 30 June 2007 have been arrived at on the basis of valuation carried out by RHL Apprasials Limited, a firm of independent professional valuers, by reference to market evidence of transaction prices of similar properties. The Group's investment properties at their net book values are analysed as follows:

	2007	2006
	HK$'000	*HK$'000*
Investment properties in the PRC, held on:		
Medium term leases	**99,796**	210,243
Investment properties in Macau, held on:		
Medium term leases	**11,000**	10,000
	110,796	220,243

The Group has pledged certain of its investment properties with carrying amount of HK$74,286,000 (2006: HK$191,262,000) to secure banking facilities granted to the Group.

18. INTEREST IN A JOINTLY CONTROLLED ENTITY

	The Group	
	2007	2006
	HK$'000	*HK$'000*
Share of net assets of a jointly controlled entity, 上海地下商城有限公司 (Shanghai Undergroup Centre Company Limited) ("SUCCL") *(Note a)*	**1,919**	40,740
Goodwill arising on acquisition of a jointly controlled entity *(Note b)*	**122,451**	122,451
Amount due from a jointly controlled entity	**83,525**	–
	207,895	163,191
Amount due from a jointly controlled entity	**–**	40,708

The amount due from a jointly controlled entity is unsecured, non-interest bearing and has no fixed terms of repayment. The directors of the Company consider that the carrying amount of the amount due from a jointly controlled entity approximates to its fair value.

Notes:

(a) Share of net assets of a jointly controlled entity

	2007	2006
	HK$'000	*HK$'000*
At beginning of the year	**40,740**	–
Acquisition of SUCCL	**–**	40,693
Share of profit for the year	**3,996**	47
Dividend receivable from the jointly controlled entity	**(42,817)**	–
At end of the year	**1,919**	40,740

18. INTEREST IN A JOINTLY CONTROLLED ENTITY (Continued)

Notes:

(b) Goodwill

	2007	2006
	HK$'000	*HK$'000*
At beginning of year	**122,451**	–
Acquisition of SUCCL	**–**	122,451
At end of year	**122,451**	122,451

Impairment test on goodwill

Goodwill is allocated to SUCCL's property investment business segment. The recoverable amount is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets covering a period of one year. Cash flows beyond the one year period are extrapolated using the estimated rates stated below. The growth rate is made by reference to National Bureau of Statistics of China and does not exceed the respective long-term average growth rate for the businesses in which SUCCL operates.

Key assumptions used for value-in-use calculations:

Growth rate	5.5%
Discount rate	7.2%

Management determined the budget growth rate based on past performance and its expectation for market development. The discount rates used are post-tax and reflect specific risks relating to the CGU segment.

Details of the Group's jointly controlled entity as at 30 June 2007 are as follows:

Name	**Place of incorporation**	**Registered capital**	**Attributable equity interest of the Group** %	**Principal activities**
SUCCL	the PRC	USD9,000,000	50	Construction, operations and management of shopping mall in the PRC

18. INTEREST IN A JOINTLY CONTROLLED ENTITY (Continued)

The summarised financial information in respect to SUCCL since the date of acquisition as extracted from its financial statements, is set out below:

	2007 HK$'000	2006 HK$'000
Turnover	**41,697**	7,245
Profit for the year/period	**6,996**	532
Profit attributable to the Group	**3,996**	47
Total assets	**191,014**	171,859
Total liabilities	**(124,960)**	(73,713)
Net assets	**66,054**	98,146
Group's share of net assets of SUCCL	**1,919**	40,740

Note: According to the joint-venture agreement signed between the Group and the remaining 50% equity shareholder (the "PRC Shareholder") of SUCCL, from the date of acquisition of SUCCL to 31 December 2007, the PRC Shareholder is entitled to an annual guaranteed return of RMB3,000,000 and the remaining profits are solely attributable to the Group.

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	The Group	
	2007 HK$'000	2006 HK$'000
Unlisted investment in Hong Kong, at cost	**650**	650
Less: Impairment loss recognised	**(650)**	(650)
	–	–

20. GOODWILL

	The Group	
	2007	2006
	HK$'000	*HK$'000*
At cost		
At 1 July 2006/2005	**76,800**	76,800
Acquisition of subsidiaries	**10,057**	–
At 30 June	**86,857**	76,800
Impairment		
At 1 July 2006/2005	**76,800**	–
Impairment loss on goodwill	**–**	76,800
At 30 June	**76,800**	76,800
Carrying amount		
At 30 June	**10,057**	–

For the year ended 30 June 2007, the addition of goodwill of approximately HK$10,057,000 attributed to the acquisition of the entire interest in External Fame Limited.

Impairment test for goodwill

Goodwill arising from acquisition of External Fame Limited is allocated to the Group's property investment segment. The recoverable amount is determined based on the value-in-use calculations. These calculations use cash flow projects based on financial budgets covering a one-year period. Cash flow beyond one-year period is extrapolated using the estimated rate stated below. The growth rate is made by reference to National Bureau of Statistics of China and does not exceed the long-term average growth rate for the business in which the business segment operates.

Key assumptions used for value-in-use calculation:

	Property investment	**Travel related operations**
Gross margin	**12%**	**19%**
Discount rate	**7.2%**	**6.75%**

Management determined the budget gross profit margin based on past performance and its expectations for the market development. The discount rates used are post-tax and reflect specific risks relating to the relevant segments.

As mentioned in note 8 to the financial statements, the Subcontracting Agreement was terminated during the year ended 30 June 2006. The directors of the Company determined that the goodwill in respect of the travel related operation was impaired and full amount of goodwill was charged as impaired loss on goodwill in the consolidated income statement for the year ended 30 June 2006.

21. DEPOSITS FOR ACQUISITION OF INVESTMENT PROPERTIES – THE GROUP

Deposits for acquisition of investment properties represents deposits paid for acquisition of certain commercial properties in Beijing, the PRC (the "Beijing Properties"). Details of the acquisition are set out in the Company's circular dated 27 June and 14 November 2005.

The Group completed the acquisition of the Beijing Properties during the year ended 30 June 2007.

22. ACCOUNT RECEIVABLES

The Group allows an average credit period of 90 days to its trade customers. The aged analysis of account receivables is as follows:

	The Group	
	2007	2006
	HK$'000	*HK$'000*
0 – 30 days	**87**	1,310
31 – 60 days	**51**	1,313
61 – 90 days	**37**	1,310
Over 90 days	**78**	8,234
	253	12,167

The directors of the Company consider that the carrying amounts of the Group's account receivables approximate to their fair values.

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Prepayments	**98**	83	**22**	–
Deposits	**10,834**	242	**427**	107
Other receivables	**89**	94	**31**	–
	11,021	419	**480**	107

The directors of the Company consider that the carrying amounts of the Group's and the Company's prepayments, deposits and other receivables approximate to their fair values.

24. DEPOSIT FOR ACQUISITION OF LAND – THE GROUP

Deposit for acquisition of land represented deposit paid for the acquisition of a piece of land at Zha Bei District, Shanghai, the PRC. Details of the transactions are set out in the Company's circular dated 6 September 2004.

As mentioned in note 8 to the financial statements. The transaction was subsequently terminated due to legal restriction and the amount has been fully settled subsequent at the year end date. Details of the termination are set out in the Company's announcement dated 14 July 2006.

25. ACCRUALS AND OTHER PAYABLES

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Accruals	**3,466**	17,931	**2,992**	–
Deposit received	**229**	74	**–**	–
Other payables	**2,171**	13,950	**–**	2,331
	5,866	31,955	**2,992**	2,331

The directors of the Company consider that the carrying amounts of the Group's and the Company's accruals and other payables approximate to their fair values.

26. DEPOSIT RECEIVED FOR DISPOSAL OF A SUBSIDIARY – THE GROUP

Deposit received for disposal of a subsidiary represents deposit received by the Group in relation to the disposal of the entire interest of Guo Xin (China) Limited. Details of the disposal are set out in the Company's circular dated 29 June 2006.

The disposal of Guo Xin (China) Limited was completed during the year ended 30 June 2007.

27. AMOUNT DUE TO A RELATED COMPANY – THE GROUP AND THE COMPANY/AMOUNT DUE FROM A RELATED COMPANY – THE COMPANY

The amount due to a related company is unsecured, non-interest bearing and repayable on demand.

The amount due from a related company is unsecured, non-interest bearing and recoverable on demand.

The directors of the Company consider that the carrying amounts of the Group's and the Company's amount due to/from a related company approximate to their fair values.

The related company is wholly owned by Mr. Zhang Yang who is a director of the Company's subsidiary.

28. SHARE CAPITAL

	Number of shares		Nominal value	
	2007	2006	**2007**	2006
			HK$'000	*HK$'000*
Ordinary shares of HK$0.10 each				
Authorised:				
At beginning of the year	**7,600,000,000**	5,000,000,000	**760,000**	500,000
Increase in authorised share capital	**–**	2,600,000,000	**–**	260,000
	7,600,000,000	7,600,000,000	**760,000**	760,000
Issued and fully paid:				
At beginning of the year	**4,484,683,140**	4,484,683,140	**448,468**	448,468
Conversion of convertible notes *(note)*	**896,930,000**	–	**89,693**	–
At end of the year	**5,381,613,140**	4,484,683,140	**538,161**	448,468

All shares issued by the Company rank pari passu with the then existing shares in all respects.

Note: Convertible notes of principal amount of HK$95,074,000 has been converted into 896,930,000 ordinary share of HK$0.1 each of the Company at a conversion price of HK$0.106.

29. RESERVES

	Share Premium HK$'000	Contributed surplus HK$'000	Convertible note reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
The Company					
At 1 July 2005	132,230	16,048	2,583	(336,255)	(185,394)
Cancellation of convertible notes *(note 30)*	–	–	(2,583)	2,583	–
Issue of convertible notes	–	–	9,972	–	9,972
Repayment of convertible notes	–	–	(2,576)	–	(2,576)
Loss for the year	–	–	–	(48,745)	(48,745)
At 30 June 2006 and 1 July 2006	132,230	16,048	7,396	(382,417)	(226,743)
Repayment of convertible notes	–	–	(7,396)	397	(6,999)
Issue of convertible notes *(note 30)*	–	–	2,974	–	2,974
Conversion of convertible notes	5,381	–	(2,974)	323	2,730
Loss for the year	–	–	–	(308,357)	(308,357)
At 30 June 2007	**137,611**	**16,048**	**–**	**(690,054)**	**(536,395)**

The contributed surplus of the Company brought forward represents the excess of the then combined net assets of the subsidiaries acquired pursuant to the group reorganisation completed on 15 October 1996, over the nominal value of the Company's share issued in exchange therefore.

In accordance with the Bermuda Companies Act 1981, the Company's contributed surplus is available for cash distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of the contributed surplus account if:

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

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

In the opinion of the directors of the Company, the Company has no reserves available for distribution to its shareholders at the balance date.

30. CONVERTIBLE NOTES

During the year ended 30 June 2007, the Company issued a convertible note to Joy Right Investments Limited (the "Joy Right Note") with principal amount of HK$95,074,000. The Joy Right Note bears interest at the rate of 3.5% per annum, payable annually on 12 February of each year commencing on 13 February 2008. The Joy Right Note carried the right to convert the principal amount of the Joy Right Note into shares of HK$0.1 each in the share capital of the Company a conversion price of HK$0.106 per share. From 1 June 2007 to 12 February 2009, the noteholder can convert the outstanding principal amount of the Joy Right Note into shares of the Company. The total principal amount of the Joy Right Note was converted into ordinary shares of HK$0.1 each of the Company during the year ended 30 June 2007.

During the year ended 30 June 2006, the Company issued a convertible note (the "Easy Rider Note") with principal amount of HK$120,000,000 as consideration for the acquisition of Easy Rider Group Limited, a company incorporated in the British Virgin Island, and its subsidiaries. The Easy Rider Note bears interest at the rate of 5% per annum, payable annually on 15 May of each year commencing 16 May 2007. The Easy Rider Note carried the right to convert the principal amount of the Easy Rider Note into shares of HK$0.1 each in the share capital of the Company at a conversion price of HK$0.1 per share. From 15 May 2007 to 15 May 2010, the noteholder can convert the outstanding principal amount of the Easy Rider Note into shares of the Company and may request early repayment of the outstanding principal amount of the Easy Rider Note together with accrued interest. At 30 June 2006 and 2007, the Company has repaid principal of HK$31,000,000 and the remaining balance of HK$89,000,000 of the convertible note respectively.

	2007	2006
	HK$'000	*HK$'000*
At beginning of the year	**82,356**	44,186
Face value of the Joy Right Note	**95,074**	–
Face value of the Easy Rider Note	**–**	120,000
Transferred to equity component	**(2,974)**	(9,972)
Liability components on initial recognition	**174,456**	154,214
Imputed interest expenses	**1,911**	1,126
Conversion of the Joy Right Note	**(92,423)**	–
Principal repayment of the Gainnew Note	**–**	(23,500)
Principal repayment of the Easy Rider Note	**(82,550)**	(28,424)
Cancellation of the Gainnew Note	**–**	(19,917)
Interest paid	**(1,394)**	(1,143)
At end of the year	**–**	82,356

31. DEFERRED TAXATION

The Group

The following is the deferred tax liabilities recognised and movements thereon during the current and prior years:

	Revaluation of investment properties
	HK$'000
At 1 July 2005, 30 June 2006 and 1 July 2006	–
Acquisition of subsidiaries	10,770
Charge to income for the year	445
Exchange alignment	479
At 30 June 2007	**11,694**

At 30 June 2007, the Group has estimated unused tax losses of approximately HK$45,714,000 (2006: HK$31,272,000) available for offset against future profits. No deferred tax assets has been recognised (2006: Nil) in respect of the tax losses due to the unpredictability of future profits streams. The losses may be carried forward indefinitely.

The Company

At 30 June 2007, the Company has estimated unused tax losses of approximately HK$29,423,000 (2006: HK$16,781,000) available for offset against future profits. No deferred tax assets has been recognised due to the unpredictability of future profit streams. The losses may be carried forward indefinitely.

32. BANK INTEREST-BEARING BORROWINGS, SECURED

	The Group	
	2007	2006
	HK$'000	*HK$'000*
Bank interest-bearing borrowings, secured	**16,632**	145,631
The maturity profile is as follows:		
within one year:	**1,246**	145,631
Portion classified as current liabilities	**1,246**	145,631
on demand or repayable in the second year	**1,340**	–
in the third to fifth year, inclusive	**4,666**	–
after the fifth year	**9,380**	–
Portion classified as non-current liabilities	**15,386**	–
Total borrowings	**16,632**	145,631

The directors of the Company consider that the carrying amounts of the bank borrowings approximate to their fair values.

The bank borrowings are repayable on an agreed repayment schedule.

The bank interest-bearing borrowings as at 30 June 2007 bear interest between 6.84% and 7.2% (2006: 5.31%) per annum and are repayable on demand.

The Group's banking facilities are secured by certain of the Group's investment properties with carrying amount of HK$74,286,000 (2006: HK$191,262,000).

All of the Group's borrowings are denominated in Renminbi.

33. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2007	2006
	HK$'000	*HK$'000*
Unlisted shares, at cost	**1**	258,453
Less: Impairment loss recognised	**–**	(51,211)
	1	207,242

The carrying amount of the investments in subsidiaries is reduced to their recoverable amounts which are determined by reference to the estimation of future cash flows expected to be generated from the respective subsidiaries.

Details of the Company's principal subsidiaries as at 30 June 2007 are as follows:

Name	Place of incorporation or registration/ operation	Issued share capital/ registered capital	Attributable equity interest of the Company Directly %	Attributable equity interest of the Company Indirectly %	Principal activities
Omnigold Resources Limited	British Virgin Islands/ the PRC	US$1	–	100	Property investments
Ample Land International Limited	Hong Kong/ Macau	HK$1	100	–	Property investments
Gainnew Group Limited	British Virgin Islands/Hong Kong	US$100	–	60	Dormant
Goalreach Investments Limited	British Virgin Islands/ the PRC	US$1	100	–	Investment holding
External Fame Limited	British Virgin Islands/ the PRC	US$1	–	100	Investment holding
北京博雅宏遠物業管理有限公司	the PRC	RMB$20,000,000	–	100	Property investments in Beijing, the PRC

33. INVESTMENTS IN SUBSIDIARIES (Continued)

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

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

The amounts due from subsidiaries are unsecured, non-interest bearing and recoverable on demand. The amounts due to subsidiaries are unsecured, non-interest bearing and repayable on demand. The directors consider that the carrying amounts of amount due from/to subsidiaries approximate to their fair value.

34. CAPITAL COMMITMENTS

	The Group	
	2007	2006
	HK$'000	*HK$'000*
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment and investment properties	**12,781**	65,872

Saved as disclosed above, there is no significant capital commitment as at the balance sheet date.

35. OPERATING LEASE COMMITMENTS

The Group as lessee

At 30 June 2007, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2007	2006
	HK$'000	*HK$'000*
Within one year	**2,043**	696
In the second to fifth year inclusive	**1,392**	1,624
	3,435	2,320

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are mainly negotiated for an average terms of one to two years and rentals are fixed over the terms of the leases.

35. OPERATING LEASE COMMITMENTS (Continued)

The Group as lessor

At 30 June 2007, the Group had contracted with tenants for the following future minimum lease payments:

	2007	2006
	HK$'000	*HK$'000*
Within one year	**2,944**	6,406
In the second to fifth year inclusive	**1,199**	357
	4,143	6,763

Leases are mainly negotiated for an average terms of one to two years and rentals are fixed over the term of the leases.

Saved as disclosed above, the Group did not have any significant operating lease commitment at the balance sheet date.

36. SHARE OPTION SCHEME

The share option scheme of the Company was adopted by the Company on 17 April 2002 (the "Option Scheme"). The major terms of the Option Scheme are summarised as follows:

1. The purpose of the Option Scheme is to provide incentives to the participants.

2. The participants of the Option Scheme include any employee or director of any member of the Group.

3. The maximum number of shares in respect of which options might be granted under the Option Scheme must not exceed 10% of the issued share capital of the Company from time to time and should be a maximum of 5,381,613,140 shares at 30 June 2007.

4. The maximum number of shares is respect of which option might be granted to a participant, when aggregated with the total number of shares issued and issuable under the Option Scheme, must not exceed 25% of the aggregate number of shares for the time issued and issuable under the Option Scheme from time to time.

5. No minimum period of holding is required before the option became exercisable.

6. The acceptance of an option, if accepted, must be made within 28 days from the date of grant with a non-refundable payment of HK$1.00 from grantee to the Company.

7. The subscription price shall not be lower than the higher of:

   (i) the closing price of the shares as stated in the Stock Exchange daily quotation sheets on the date of grants, which must be a trading date;

   (ii) the average closing price of the shares as stated in the Stock Exchange daily quotation sheets for the five trading days immediately proceeding the date of grant; and

   (iii) the nominal value of the share.

8. The Option Scheme will be expired on 17 April 2012.

No share options were granted or exercised under the Option Scheme during the year.

37. DISPOSAL OF SUBSIDIARIES

For the year ended 30 June 2007, the Company entered into sale and purchase agreements to dispose of its subsidiaries to independent third parties for a total consideration of HK$54,927,000. Summary of the effects of the disposal of subsidiaries are as follows:

	2007 *HK$'000*
Investment properties	357,842
Property, plant and equipment	418
Account receivables	16,776
Prepayment, deposit and other receivables	190
Bank balances and cash	85
Account payables	(1,244)
Accruals and other payables	(38,456)
Amount due to shareholders	(141,219)
Bank borrowings – secured due within one year	(145,631)
Net assets disposed of	48,761
Less: Translation reserve realised on disposal of subsidiaries	(1,003)
Gain on disposal	7,169
	54,927
Consideration satisfied by cash	54,927
Net cash inflow in respect of the disposal of subsidiaries:	
Cash consideration received	54,927
Bank balance and cash disposed	(85)
	54,842

At 25 October 2006, the Group entered into a sale and purchase agreement with an independent third party to dispose of its 100% equity interest in Omnigold Resources Limited at aggregate consideration of HK$4,318,000. During the year ended 30 June 2007, Omnigold Resources Limited contributed to the Group's turnover of approximately HK$120,000 and the Group's profit for the year of approximately HK$48,000.

At 19 December 2006, the Group entered into a sale and purchase agreement with an independent third party to dispose of its 100% equity interest in Smart China International Limited at aggregate consideration of HK$41,828,000. During the year ended 30 June 2007, Smart China International Limited contributed to the Group's turnover of approximately HK$8,039,000 and the Group's profit for the year of approximately HK$5,305,000.

At 12 May 2006, the Group entered into a sale and purchase agreement with an independent third party to dispose of its 100% equity interest in Guo Xin (China) Limited at aggregate consideration of HK$8,781,000. During the year ended 30 June 2007, Guo Xin (China) Limited contributed to the Group's turnover approximately HK2,640,000 and the Group's profit for the year of approximately HK$2,654,000.

38. BUSINESS COMBINATION

During the year ended 30 June 2007, the Group acquired 100% equity interest in External Fame Limited and its subsidiary (the "External Fame Group") and Omnigold Resources Limited from independent third parties.

(a) Acquisition of the External Fame Group

The fair value of the identifiable assets and liabilities of the External Fame Group as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Carrying amount *HK$'000*	Fair value *HK$'000*
Investment properties	31,898	69,417
Property, plant and equipment	173	173
Amount due from holding company	16,505	16,505
Bank balances and cash	722	722
Other payables	(1,571)	(1,571)
Amount due to fellow subsidiaries	(31,175)	(31,175)
Tax payables	(1)	(1)
Deferred taxation	–	(9,380)
Bank interest-bearing borrowings, secured	(16,505)	(16,505)
Net assets acquired	46	28,185
Goodwill		10,057
		38,242
Consideration satisfied by cash		38,242
Net cash outflow in respect of the acquisition of subsidiaries:		
Cash consideration paid		(38,242)
Bank balances and cash acquired		722
		(37,520)

During the year ended 30 June 2007, External Fame Group contributed approximately HK$1,865,000 to the Group's turnover and profit after taxation and minority interests of approximately HK$1,404,000 to the Group's profit for the year.

38. BUSINESS COMBINATION (Continued)

(b) Acquisition of Omnigold Resources Limited

The fair value of the identifiable assets and liabilities of Omnigold Resources Limited as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Carrying amount *HK$'000*	**Fair value** *HK$'000*
Investment properties	19,949	25,510
Account receivables	28	28
Bank balances and cash	117	117
Account payable	(1)	(1)
Deferred taxation	–	(1,390)
Net assets acquired	20,093	24,264
Discount on acquisition		(4,494)
		19,770
Consideration satisfied by cash		19,770
Net cash outflow in respect of the acquisition of subsidiaries:		
Cash consideration paid		(19,770)
Bank balances and cash acquired		114
		(19,656)

The subsidiary acquired during the year did not contribute any turnover and profit after taxation and minority interests to the Group.

If the above acquisitions had been completed on 1 July 2006, total restated group turnover for the year 2007 would have been HK$14,088,000 and restated profit for the year 2007 would have been HK$5,055,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue an results of the Group that actually would have been achieved had the acquisition been completed on 1 July 2006, nor is it intended to be a projection of future results.

38. BUSINESS COMBINATION (Continued)

(c) Acquisition of Easy Rider Group Limited

The fair value of the identifiable assets and liabilities of Easy Rider Group Limited as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Carrying amount *HK$'000*	Fair value *HK$'000*
Investment properties	16,394	16,394
Interest in a jointly controlled entity	163,145	163,145
Amount due from a jointly controlled entity	40,708	40,708
Accruals and other payables	(11,416)	(11,416)
Net assets acquired of	208,831	208,831
Discount on acquisition		(488)
		208,343
Consideration satisfied by		
Cash		88,343
Convertible notes		120,000
		208,343
Net cash outflow in respect of the acquisition of subsidiaries:		
Cash consideration paid		(88,343)

During the year ended 30 June 2006, the Group acquired Easy Rider Group Limited ("ERGL"), a company incorporated in the British Virgin Islands, and its subsidiaries (collectively referred as "ERGL Group"), which are principally engaged in investments holding. ERGL Group had no contribution to the Group's net operating cash flows for the year and had no turnover and its principal jointly controlled entity contributed profit before taxation of HK$47,000 for the period between the date of acquisition and 30 June 2006.

During the year 30 June 2006, the Group acquired Omnigold Resources Limited, a company incorporated in the British Virgin Island, which is principally engaged in property investment in the PRC. The subsidiary acquired have no contribution to the Group's net operating cash flows for the year and had turnover and profit before taxation of HK$442,000 and HK$2,714,000 respectively for the period between the date of acquisition and 30 June 2006.

39. RETIREMENT BENEFITS SCHEMES

(a) The Group operates Mandatory Provident Fund Scheme ("MPF Scheme") under rules and regulations of Mandatory Provident Fund Schemes Ordinance for all its employees in Hong Kong. All the employees of the Group in Hong Kong are required to join the MPF Scheme. The MPF Scheme comprises statutory and voluntary contribution. The Company contributes 5% of eligible employees' relevant aggregate income. No forfeited contributions (2006: Nil) are used to reduce the contributions for the year ended 30 June 2007. The contributions are charged to income statements as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administrative fund. The Group's employer contributions vest ranging from 30% to 100% with the employees according to the years of employment except those employer contributions which are under the statutory requirement.

(b) The employees of subsidiaries in the PRC are members of the state-managed retirement benefits scheme operated by the PRC government. The Company's PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

40. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the financial statement, the Group had the following material related party transactions for the year ended 30 June 2007:

(a) Compensation for key management personnel, including amount paid to the Company's directors and the senior executives is as follows:–

	2007 ***HK$'000***	2006 *HK$'000*
Salaries and other short-term benefits	**5,679**	5,294
Pension scheme contributions	**135**	175
	5,814	5,469

(b) Transaction with related companies, in which Mr. Benny Ki, who was a director and a shareholder of one of the Company's subsidiary, was the controlling shareholder:

	2007 ***HK$'000***	2006 *HK$'000*
Management fee	**–**	82,176
Consultancy fee	**–**	66,350

41. SUBSEQUENT EVENTS

(i) On 22 August 2007, the board of the Company resolved that a total of 218,600,000 options ("Options") of the Company are granted to senior management and directors of the Company under share option scheme adopted on 17 April 2002 (note 36). The subscription price in respect of the Options shall be HK$0.205 per option share.

(ii) On 24 September 2007, the Company entered into a memorandum of understanding with Sun Xuzhong and Song Ying Feing in relation to the possible acquisition of on aggregate the entire share capital of a company incorporated in the British Virgin Islands which has indirect interest in 49% equity interest of a company established in the PRC (the "PRC Company"). The PRC Company is principally engaged in the provision of municipal public utility and mainly focuses on provision of that to residential and commercial buildings.

(iii) The board of directors of the Company proposes to change the name of the Company from "Guo Xin Group Limited" to "Kai Yuan Holdings Limited" and adopt the Chinese name of "開源控股有限公司" as the secondary name of the Company.

The board of directors of the Company also proposes to increase the authorised share capital of the Company from HK$760,000,000 divided into 7,600,000,000 shares of the Company to HK$2,000,000,000 divided into 20,000,000,000 shares of the Company by creation of an additional 12,400,000,000 new shares of the Company ranking pari passu in all respects with the existing issued and unissued shares of the Company. A special general meeting of the Company will be held on 23 October 2007 for the Company's shareholders to consider and, if thought fit, pass with or, without modification of these two resolutions and details of which are set out in the Company's circular dated 28 September 2007.

(iv) On 2 October 2007, the Group entered into a preliminary sale and purchase agreement to dispose all its investment properties located in Macau at a consideration of HK$12,120,000.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors of the Company on 18 October 2007.

FIVE YEAR FINANCIAL SUMMARY

30 June 2007 (in HK Dollars)

RESULTS

	Year ended 30 June				
	2007	2006	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	**13,050**	98,713	122,067	169,960	3,993
Loss for the year	**627**	4,871	54,706	7,182	24,129
Loss attributable to:					
Equity holders	**627**	11,205	67,066	7,182	24,129
Minority interest	**–**	(6,334)	(12,360)	–	–
	627	4,871	54,706	7,182	24,129
Dividend	**–**	–	–	–	–

ASSETS AND LIABILITIES

	As at 30 June				
	2007	2006	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	**386,461**	582,155	479,697	441,365	295,429
Total liabilities and minority interests	**(35,037)**	(320,721)	(215,413)	(183,505)	(37,080)
Balance of shareholders' funds	**351,424**	261,434	264,284	257,860	258,349

PARTICULARS OF INVESTMENT PROPERTIES

Location	Effective % held	Type	Lease term
Carpark Basement 2 and 3, Of 33 Deng Shi Kou Main Street, Dong Cheng District, Beijing	100	Commercial	Medium-term lease
Units 302, 303A, 309AB, 320, 322AB, 323AB, 325, 408B, 525, 620, 621, 622, 623B, 820, 919B 920, 921A, 922A, 926AB, 1006, 1008B, 1015, 1020, 1021AB, 1022AB, 1023B, 1025, 1026AB, 1027, 1108, 1110A, 1110B, 1120, 1122AB, 1125, 33 Deng Shi Kou Main Street, Dong Cheng District, Beijing	100	Commercial	Medium-term lease
Units 24F, 24G, 24H, 24I, Treasure Garden Pentas Court, 42C Avenida Dr. Sun Yat Sen, Taipa, Macau	100	Residential	Medium-term lease