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

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WINFOONG INTERNATIONAL LIMITED

(榮豐國際有限公司*)

(Incorporated in Bermuda with limited liability)

(Stock code: 63)

**VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION,
WHITEWASH WAIVER,
PROPOSED CAPITAL REORGANISATION,
PROPOSED GROUP REORGANISATION
AND
POSSIBLE CONDITIONAL PARTIAL OFFER FOR THE SHARES IN
HONG FOK LAND INTERNATIONAL LIMITED BY
KINGSWAY FINANCIAL SERVICES GROUP LIMITED
ON BEHALF OF YORKWIN INVESTMENTS LIMITED,
BEING A WHOLLY-OWNED SUBSIDIARY OF
HONG FOK CORPORATION LIMITED**

Financial adviser to Winfoong International Limited



SOMERLEY LIMITED

Independent financial adviser to
the Independent Board Committee and the Independent Shareholders

Hercules
Hercules Capital Limited

A letter of recommendation from the Independent Board Committee and a letter of advice from Hercules in respect of the Proposal and the Capital Reorganisation are set out on pages 35 to 36 and pages 37 to 60 of this circular respectively.

A notice convening a special general meeting of Winfoong International Limited to be held at Board Room, 1/F, The Aberdeen Marina Club, 8 Shum Wan Road, Aberdeen, Hong Kong on Wednesday, 25 July 2007 at 9:00 a.m. is set out on pages 380 to 383 of this circular. Whether or not you are able to attend the meeting in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as practicable but in any event not later than 48 hours before the time appointed for the holding of the meeting. Completion and return of the form of proxy will not preclude you from attending and voting at the meeting or any adjournment thereof should you so desire.

* For identification purposes only

30 June 2007

CONTENTS

	<i>Page</i>
DEFINITIONS	1
EXPECTED TIMETABLE	7
LETTER FROM THE BOARD	8
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	35
LETTER FROM HERCULES	37
APPENDICES:	
I - INFORMATION ABOUT THE OFFER	61
II - FINANCIAL INFORMATION OF THE GROUP	67
III - ACCOUNTANTS' REPORT ON THE GOLDEASE GROUP	128
IV - ACCOUNTANTS' REPORT ON THE HF LAND GROUP	147
V - FINANCIAL INFORMATION OF THE VENDOR	190
VI - PRO FORMA FINANCIAL INFORMATION ON THE ENLARGED REMAINING GROUP	226
VII - PROPERTY VALUATION ON THE REMAINING GROUP	235
VIII - PROPERTY VALUATION ON THE GOLDEASE GROUP	243
IX - PROPERTY VALUATION ON THE HF LAND GROUP	261
X - PROPERTY VALUATION ON THE VENDOR	277
XI - VALUATION ON THE BOND	336
XII - SUMMARY OF THE MEMORANDUM OF ASSOCIATION AND BYE-LAWS OF HF LAND	341
XIII - GENERAL INFORMATION	366
NOTICE OF SGM	380

DEFINITIONS

In this circular, unless the context requires otherwise, the following expressions have the meanings set out below:

“Acquisition”	the proposed acquisition of the Sale Shares and the Sale Loan on the terms and subject to the conditions of the Agreement
“acting in concert”	the meaning given to it in the Takeovers Code
“Agreement”	the sale and purchase agreement dated 25 May 2007 entered into among the Purchaser, the Company and the Vendor in relation to the Acquisition
“associates”	the meaning given to it in the Listing Rules
“Assured Entitlement(s)”	the assured entitlement(s) to the Offer for the Disinterested HF Land Shareholder(s) as described herein
“Board”	the board of Directors
“Bond”	the unsecured 3% per annum interest-bearing bond in denominations of HK\$0.24 each to be issued by the Offeror under the Offer
“Capital Reorganisation”	the Share Premium Cancellation and the Share Capital Increase
“Cheong’s Family”	Mr. Cheong Pin Chuan, Patrick, Mr. Cheong Kim Pong and Mr. Cheong Sim Eng, Ms. Cheong Hooi Kheng and Madam Lim Ghee
“Company”	Winfoong International Limited, a company incorporated in Bermuda with limited liability, the Shares are listed on the Main Board of the Stock Exchange
“Completion”	completion of the Agreement
“Composite Offer Document”	the composite offer document and the form of acceptance and transfer to be despatched to the HF Land Shareholders pursuant to the Offer
“Consideration”	the aggregate consideration of S\$22,242,122 (equivalent to approximately HK\$114,000,000) payable by the Purchaser for the Acquisition

DEFINITIONS

“Consideration Shares”	900,000,000 new Shares at an issue price of HK\$0.10 each to be allotted and issued to the Vendor upon Completion
“Director(s)”	director(s) of the Company
“Disinterested HF Land Shareholders”	HF Land Shareholders other than the Vendor, its associates and the Offeror Parties on the Record Date
“Distributed Businesses”	all businesses of the Group other than the Remaining Businesses, details of which are set out in this circular
“Distribution in Specie”	the proposed distribution of all the issued share capital of HF Land
“Effective Date”	the date on which the Share Premium Cancellation shall become effective, being the same business day (in Bermuda) as the date of the SGM at which the relevant special resolution approving the Share Premium Cancellation is passed by the Independent Shareholders
“Enlarged Group”	the Group as enlarged by the Goldease Group
“Enlarged Remaining Group”	the Remaining Group as enlarged by the Goldease Group
“Executive”	the Executive Director of the Corporate Finance Division of the SFC and any delegate of the Executive Director
“Goldease”	Goldease Investments Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Vendor as at the Latest Practicable Date
“Goldease Group”	Goldease and its subsidiaries or, where the context requires, the companies which are the existing subsidiaries of Goldease
“Group”	the Company and its existing subsidiaries

DEFINITIONS

“Group Reorganisation”	the proposed reorganisation for the Group pursuant to which: (i) the Company will continue to be a listed company and the Remaining Group will be carrying on the Remaining Businesses; (ii) the HF Land Group will be carrying on the Distributed Businesses; and (iii) the Shareholders will receive by way of distribution in specie of the HF Land Shares on the basis of one HF Land Share for each Share held on the Record Date
“Hercules”	Hercules Capital Limited, a corporation licensed under the SFO to conduct Type 6 (advising on corporate finance) regulated activity for the purposes of the SFO and the independent financial adviser to the Company and HF Land
“HF Land”	Hong Fok Land International Limited, a company incorporated in Bermuda with limited liability and a wholly-owned subsidiary of the Company as at the Latest Practicable Date
“HF Land Group”	HF Land and the subsidiaries to be acquired
“HF Land Shares”	ordinary share(s) of HK\$0.05 each in the issued share capital of HF Land
“HF Land Shareholder(s)”	holder(s) of the HF Land Shares
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company, comprising all of the independent non-executive Directors, established to advise the Independent Shareholders in respect of the Proposal and the Capital Reorganisation
“Independent Shareholders”	Shareholders other than (i) the Vendor, its associates and Offeror Parties; and (ii) those who are involved in or interested in the Agreement and the Whitewash Waiver
“Joint Announcement”	the joint announcement dated 25 May 2007 published by the Company and the Offeror in respect of, among others, the Acquisition, the Group Reorganisation and the Offer

DEFINITIONS

“Kingsway”	Kingsway Financial Services Group Limited, a corporation licensed under the SFO to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities for the purposes of the SFO and the financial adviser to the Offeror
“Last Trading Day”	25 May 2007, being the last day on which the Shares were traded on the Stock Exchange prior to the release of the Joint Announcement
“Latest Practicable Date”	27 June 2007, being the latest practicable date for ascertaining certain information included in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Offer”	the possible conditional partial offer to be made by Kingsway on behalf of the Offeror and pursuant to the Takeovers Code to acquire the Specified HF Land Shares
“Offeror”	Yorkwin Investments Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Vendor
“Offeror Parties”	the Offeror and parties acting in concert with it
“PRC”	People’s Republic of China
“Proposal”	the proposal to be put forward by the Board at the SGM in respect of the Group Reorganisation (including the Distribution in Specie) and the Acquisition (including the issue of the Consideration Shares and the Whitewash Waiver), taking into account the Offer
“Purchaser”	Winfoong Assets Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
“Record Date”	25 July 2007 being the record date for determining entitlements to the Distribution in Specie pursuant to the Group Reorganisation

DEFINITIONS

“Remaining Businesses”	the Group’s property related businesses and the provision of horticultural services including the holding of the redevelopment project at 38 Conduit Road in Hong Kong, details of which are set out in this circular
“Remaining Group”	the Group excluding the HF Land Group
“Sale Loan”	the outstanding inter-company loans owed by the Goldease Group to the subsidiaries of the Vendor which shall be not less than approximately S\$33.2 million (equivalent to approximately HK\$170.2 million) on Completion and proposed to be acquired by the Purchaser pursuant to the Agreement
“Sale Shares”	shares representing the entire issued share capital of Goldease
“SFC”	Securities and Futures Commission of Hong Kong
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting to be held by the Company to consider and, if thought fit, approve the Proposal and the Capital Reorganisation
“Share Capital Increase”	the proposed increase in the authorised share capital of the Company from HK\$100,000,000 to HK\$150,000,000 by the creation of an additional 1,000,000,000 Shares
“Share Premium Cancellation”	the proposed cancellation of the entire amount standing to the credit of the share premium account of the Company as at the Effective Date
“Share(s)”	ordinary share(s) of HK\$0.05 each in the share capital of the Company
“Shareholder(s)”	shareholder(s) of the Company
“Singapore Properties”	11 apartment units of Jewel of Balmoral, and 4 apartment units of ten@suffolk, in Singapore

DEFINITIONS

“Somerley”	Somerley Limited, a corporation licensed under the SFO to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities for the purposes of the SFO and the financial adviser to the Company
“Specified HF Land Shares”	the precise number of HF Land Shares for which the Offer is made representing one-third of the HF Land Shares held by the Disinterested HF Land Shareholders on the Record Date
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers
“Vendor”	Hong Fok Corporation Limited, a company incorporated in the Republic of Singapore and the shares of which are listed on The Singapore Exchange Securities Trading Limited
“Whitewash Waiver”	a waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code from the obligation of the Vendor and parties acting in concert with it to make a mandatory offer for all the Shares other than those held by the Vendor and parties acting in concert with it and the Consideration Shares
“HK\$”	Hong Kong dollars
“S\$”	Singapore dollars
“%”	per cent.

Amounts expressed in S\$ have been translated into HK\$ at the rate of S\$1.0=HK\$5.125 respectively in this circular for illustrative purposes.

EXPECTED TIMETABLE

Set out below is the expected timetable for the implementation of the Proposal and Capital Reorganisation assuming that the Proposal and Capital Reorganisation will be approved at the SGM:

2007

Last day of dealings in Shares on a cum-entitlement basis	Wednesday, 18 July
First day of dealings in Shares on an ex-entitlement basis	Thursday, 19 July
Latest time for lodging transfers of Shares for entitlements to the HF Land Shares to be distributed in specie pursuant to the Group Reorganisation	4:30 p.m. on Friday, 20 July
Closure of the register of members of the Company for determining entitlements to the HF Land Shares to be distributed in specie pursuant to the Group Reorganisation (both dates inclusive)	Monday, 23 July Wednesday, 25 July
Latest time for return of form of proxy for the SGM	9:00 a.m. on Monday, 23 July
Record Date	Wednesday, 25 July
SGM	9:00 a.m. on Wednesday, 25 July
Group Reorganisation becomes effective	Wednesday, 25 July
Completion of the Agreement	Wednesday, 25 July
Publication of an announcement regarding the voting results of the SGM	Thursday, 26 July
Re-opening of the register of members of the Company	Thursday, 26 July
Posting of the Composite Offer Document (<i>Note i</i>)	Wednesday, 1 August
Posting of HF Land Share certificates and/or cheque, certificates for the Bond and the Shares to the HF Land Shareholders assuming the Offer becomes or is declared unconditional on 22 August, 2007, being 21 days after the date on which the Composite Offer Document is posted (or such later date as the Offeror may, subject to the consent of the Executive, decide) (<i>Note ii</i>)	on or before Friday, 14 September

Notes:

- (i) A detailed timetable for the Offer will be included in the Composite Offer Document.
- (ii) Computershare Hong Kong Investor Services Limited has been appointed as the transfer agent to handle registration of transfer of HF Land Shares. Further details are set out in the section headed "Miscellaneous" in Appendix XIII to this circular.

LETTER FROM THE BOARD



WINFOONG INTERNATIONAL LIMITED

(榮豐國際有限公司*)

(Incorporated in Bermuda with limited liability)

(Stock code: 63)

Executive Directors:

Cheong Pin Chuan, Patrick
(Chairman and Managing Director)
Cheong Kim Pong
Cheong Sim Eng

Principal office in Hong Kong:

Room 3201
9 Queen's Road Central
Hong Kong

Independent non-executive Directors:

Kan Fook Yee
Lai Hing Chiu, Dominic
Chan Yee Hoi, Robert

Non-executive Director:

Lim Ghee

30 June 2007

To the Shareholders

Dear Sir or Madam,

**VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION,
WHITEWASH WAIVER,
PROPOSED CAPITAL REORGANISATION,
PROPOSED GROUP REORGANISATION
AND
POSSIBLE CONDITIONAL PARTIAL OFFER FOR THE SHARES
IN HONG FOK LAND INTERNATIONAL LIMITED BY
KINGSWAY FINANCIAL SERVICES GROUP LIMITED
ON BEHALF OF YORKWIN INVESTMENTS LIMITED,
BEING A WHOLLY-OWNED SUBSIDIARY OF
HONG FOK CORPORATION LIMITED**

INTRODUCTION

On 25 May 2007, the Company and the Offeror jointly announced the Proposal, includes the Acquisition and the Group Reorganisation, and the Capital Reorganisation which would be put forward for the Independent Shareholders' consideration at the SGM.

* For identification purposes only

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, inter alia, relevant information about the Proposal and the Capital Reorganisation (including the expected timetable for the implementation thereof assuming that the Proposal and the Capital Reorganisation will be approved at the SGM), a letter of recommendation from the Independent Board Committee and a letter of advice from Hercules in respect of the Proposal and the Capital Reorganisation and a notice of the SGM.

A. THE ACQUISITION

AGREEMENT

Date

25 May 2007

Parties

- (i) Hong Fok Corporation Limited (a Singapore listed company) as the Vendor;
- (ii) Winfoong Assets Limited (a wholly-owned subsidiary of the Company) as the Purchaser; and
- (iii) the Company as the issuer of the Consideration Shares.

The Vendor is the controlling Shareholder holding an approximately 40.4% interest, together with its associates and the Offeror Parties holding an approximately 40.7% interest, in the Company as at the Latest Practicable Date. The principal activity of the Vendor is investment holding and its subsidiaries are principally engaged in property investment, property development, property management, investment trading and investment holding and management.

Assets to be acquired

- (i) The Sale Shares (representing the entire issued share capital of Goldease); and
- (ii) the benefits of and the interests in the Sale Loan. The Sale Loan shall be not less than approximately S\$33.2 million (equivalent to approximately HK\$170.2 million) on Completion.

The Goldease Group is principally engaged in property development and investment and its principal assets are the Singapore Properties.

The Singapore Properties comprise 11 apartment units of Jewel of Balmoral at 7C Balmoral Park, Singapore and 4 apartment units of ten@suffolk at Suffolk Road, Singapore with the total floor area of approximately 1,476 sq.m. and 427 sq.m respectively. The average monthly rental income generated by the Singapore Properties for the year ended 31 December 2006 was about S\$30,000 (equivalent to approximately HK\$154,000). The

LETTER FROM THE BOARD

Singapore Properties were mortgaged to banks in Singapore and the outstanding bank loans for the Singapore Properties as at 31 December 2006 were approximately S\$13.8 million (equivalent to approximately HK\$70.7 million).

The subsidiaries of the Goldease Group acquired 15 apartment units of Jewel of Balmoral in Singapore in 1999 at an aggregate consideration of approximately S\$26.3 million (equivalent to approximately HK\$134.8 million). The apartment units of ten@suffolk were self-developed by a subsidiary of the Goldease Group.

Consideration

The Consideration of S\$22,242,122 (equivalent to approximately HK\$114.0 million), which will be satisfied by cash of S\$4,681,146 (equivalent to approximately HK\$24.0 million) payable by the Purchaser to the Vendor and the remaining S\$17,560,976 (equivalent to approximately HK\$90.0 million) by allotment and issue to the Vendor of 900 million new Shares by the Company (representing approximately 60.3% of the existing issued share capital of the Company and approximately 37.6% of the enlarged issued share capital of the Company) at an issue price of HK\$0.10 each on Completion.

The Consideration has been agreed among the parties to the Agreement on an arm's length basis with reference to the open market value of the Singapore Properties as at 30 April 2007 of approximately S\$29,428,000 (equivalent to approximately HK\$150.8 million) as appraised by Savills (Singapore) Pte. Ltd., an independent valuer. The valuation reports of the Singapore Properties are set out in appendix VIII to this circular and the same will be included in the Composite Offer Document to be despatched to the Shareholders in compliance with the requirements of the Listing Rules and the Takeovers Code. The Directors expect that the cash portion of the Consideration will be financed by the Group's existing banking facilities.

The issue price of the Consideration Shares of HK\$0.10 each represents:

- (i) a discount of approximately(s) 83.9% to the closing price of HK\$0.62 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 87.7% to the closing price of HK\$0.81 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a discount of approximately 86.6%, 86.0% and 85.9% to the average of the closing prices of HK\$0.744, HK\$0.715 and HK\$0.707 per Share for the 5, 20 and 30 consecutive trading days up to and including the Last Trading Day, respectively; and
- (iv) a discount of approximately 92.1% to the audited consolidated net asset value of the Company of approximately HK\$1.263 per Share as at 31 December 2006.

Such issue price has been arrived at after taking into account that the Group would only retain its interest in the Remaining Businesses and the Singapore Properties after completion of the Group Reorganisation and Completion respectively.

LETTER FROM THE BOARD

The Consideration Shares when issued will rank pari passu in all respects with each other. The Consideration Shares will be entitled to receive all future dividends and distributions which are declared, made or paid after the date of allotment of the Consideration Shares. Application will be made by the Company to the Stock Exchange for the listing of and the permission to deal in the Consideration Shares on the Stock Exchange. However, the Consideration Shares are not entitled to the proposed Distribution in Specie.

Conditions precedent

Completion shall be conditional upon:

- (i) the passing of the necessary resolution(s) by the Independent Shareholders approving the transactions contemplated under the Agreement (including the allotment and issue of the Consideration Shares) and the Whitewash Waiver in accordance with the relevant requirements under the Takeovers Code and the Listing Rules;
- (ii) the passing of the necessary resolutions approving the Distribution in Specie by the Independent Shareholders;
- (iii) the passing of the necessary resolutions approving the Capital Reorganisation and completion of the Capital Reorganisation;
- (iv) the Listing Committee of the Stock Exchange having granted the listing of and the permission to deal in the Consideration Shares;
- (v) the granting of the Whitewash Waiver by the Executive to the Vendor and satisfaction of all the conditions (if any) attaching to the Whitewash Waiver granted;
- (vi) (if necessary) the approval of all relevant Singapore regulatory authorities (including The Singapore Exchange Securities Trading Limited) for the disposal of the Sale Shares and the Sale Loan to the Purchaser and the Offer and if conditions are attached, such terms to be acceptable to the parties;
- (vii) the Purchaser being reasonably satisfied with the due diligence review of the affairs of the Goldease Group;
- (viii) the continuous listing of and permission to deal in the Shares from the date of the Agreement up to and including the date of Completion save for any temporary suspension of dealing;
- (ix) (if necessary) the approval of the shareholders of the Vendor being obtained at a general meeting of the Vendor for the disposal of the Sale Shares and the Sale Loan to the Purchaser under the terms and conditions of the Agreement and the Offer;

LETTER FROM THE BOARD

- (x) the relevant consents from the relevant financial institutions having been obtained by the Vendor;
- (xi) the relevant consents from the relevant financial institutions and creditors for effecting and implementation of the Group Reorganisation and other transactions and actions incidental thereto having been obtained;
- (xii) there having been no breach of any of the representations, warranties and undertakings as prescribed in the Agreement by the Vendor; and
- (xiii) there having been no breach of any of the representations, warranties and undertakings as prescribed in the Agreement by the Purchaser.

If any of the above conditions are not been fulfilled (or waived by the Purchaser or the Vendor with regards to its obligations in respect of conditions (vii), (xii) and (xiii)) by 31 August 2007 or such later date as may be agreed in writing between the Vendor and the Purchaser, the relevant provisions of the Agreement shall from such date have no effect and no party shall have any liability under them (without prejudice to the rights of either party in respect of antecedent breaches). The Acquisition is conditional on the Distribution in Specie and the Capital Reorganisation being approved by the Independent Shareholders.

As at the Latest Practicable Date, none of the above conditions have been fulfilled.

Completion

Completion shall take place on the fifth business day after the fulfillment of all the above conditions precedent (except if any of such conditions precedent shall be specifically waived by the Purchaser or the Vendor in writing) or at such other time as the parties to the Agreement may agree in writing and shall take place simultaneously with the completion of the Group Reorganisation.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE GOLDEASE GROUP

Management discussion and analysis of the Goldease Group

Based on the audited accountants' report on the Goldease Group as set out in appendix III to this circular, the turnover of the Goldease Group for the three years ended 31 December 2004, 2005 and 2006 were approximately S\$349,000, S\$360,000 and S\$23.4 million respectively (equivalent to approximately HK\$1.8 million, HK\$1.8 million and HK\$119.9 million respectively). The loss before and after taxation of the Goldease Group for the three years ended 31 December 2004, 2005 and 2006 were approximately S\$737,000, S\$358,000 and S\$1.1 million respectively (equivalent to approximately HK\$3.8 million, HK\$1.8 million and HK\$5.6 million respectively). The net deficit of the Goldease Group was approximately S\$17.6 million (equivalent to approximately HK\$90.2 million) as at 31 December 2006.

LETTER FROM THE BOARD

The turnover of the Goldease Group comprised (i) rental income generated from properties owned by the Goldease Group in Singapore; and (ii) sales proceeds of properties owned by the Goldease Group in Singapore. The substantial increase in the turnover of the Goldease Group for the year ended 31 December 2006 was attributable to the recognition of sales of units of ten@suffolk in Singapore. Since the Goldease Group only received the relevant government permit, being the temporary occupation permit, for the units of ten@suffolk in 2006, the Goldease Group can only commence to recognise the revenue derived from the sales proceeds of the units of ten@suffolk in 2006. Apart from the sales proceeds of the properties, the rental income generated from some units of the properties owned by the Goldease Group in Singapore for the three years ended 31 December 2004, 2005 and 2006 were approximately S\$349,000, S\$360,000 and S\$364,000 respectively (equivalent to approximately HK\$1.8 million, HK\$1.8 million and HK\$1.9 million respectively).

The movement of the net losses of the Goldease Group for the three years ended 31 December 2004, 2005 and 2006 were mainly attributable to the increase in its finance cost which increased from approximately S\$406,000 (equivalent to approximately HK\$2.1 million) in 2004 to approximately S\$1.8 million (equivalent to approximately HK\$9.2 million) in 2006. According to the accounting policies of the Goldease Group, the interest expenses incurred for development properties prior to obtaining of the relevant government permit, being the temporary occupation permit, are capitalized in the balance sheet of the Goldease Group. Capitalisation of the interest expenses ceased upon the obtaining of this relevant government permit for the development properties and the interest expenses are charged to the income statement of the Goldease Group. For the year ended 31 December 2006, the Goldease Group has obtained the relevant government permit, being the temporary occupation permit, for ten@suffolk in Singapore and therefore the interest expenses incurred thereafter were charged to the income statement of the Goldease Group resulting in the increase in finance cost for this year. The outstanding bank loans of the Goldease Group as at 31 December 2006 was approximately S\$13.8 million (equivalent to approximately HK\$70.7 million) and has decreased to approximately S\$9.2 million (equivalent to approximately HK\$47.2 million) as at 30 April 2007. The Directors understand that such bank loans are used to finance the development of properties in Singapore and the development of all these properties have since been completed. The Directors currently expect that, after Completion, the Goldease Group will not actively engage in further development of properties in Singapore and will focus its resource for the existing properties. Based on the above, the Directors believe that the finance cost of the Goldease Group would decrease and are optimistic on the prospects of the Goldease Group.

During the three years ended 31 December 2004, 2005 and 2006, the Goldease Group had made no investment and acquisition or disposal of subsidiary and associated company.

Liquidity and Financial Resources

For the year ended 31 December 2004

During the year under review, the Goldease Group was mainly financed by the amounts due to its related corporations.

LETTER FROM THE BOARD

The outstanding bank loans of the Goldease Group was approximately S\$28.2 million (equivalent to approximately HK\$144.5 million) as at 31 December 2004. The amounts due to its related corporations were approximately S\$27.7 million (equivalent to approximately HK\$142.0 million) as at 31 December 2004. The total borrowings were mainly used for the development of ten@suffolk and working capital. As at 31 December 2004, the gearing ratio calculated based on the total bank loans and total assets of the Goldease Group as at that date was 70.3%.

As at 31 December 2004, the interest rates for the bank loans and the amounts due to the related corporations of the Goldease Group were about 2.8% per annum and ranged from 2.6% to 5.8% per annum respectively. Since all the revenue, expenses and borrowings were denominated in Singapore dollars, the Goldease Group was not subject to any foreign exchange risk. Therefore, the Goldease Group did not enter into any material foreign exchange contracts, interest or currency swaps or other financial activities.

Out of the bank loans of the Goldease Group, about S\$1.0 million (equivalent to approximately HK\$5.1 million) was repayable within one year and the remaining S\$27.2 million (equivalent to approximately HK\$139.4 million) was repayable after one year but within five years. The bank loans were secured by mortgages on development properties of the Goldease Group and the assignment of the rights, titles and interest in the sale and purchase agreements, tenancy agreements, building contract, performance bonds and insurances from these properties and guarantees by the Vendor. The amounts due to its related corporations were unsecured and had no fixed repayment terms.

The Goldease Group was managed by the executive directors of the Vendor as at 31 December 2004. The Goldease Group has one employee, seconded from a related corporation, as at 31 December 2004, and the employee was remunerated by that related corporation and charged to the Goldease Group according to his performance and working experience. On top of basic salaries, discretionary bonus may be granted to the employee by reference to the individual's performance.

For the year ended 31 December 2005

During the year under review, the Goldease Group was mainly financed by the amounts due to its related corporations.

The outstanding bank loans of the Goldease Group was approximately S\$27.2 million (equivalent to approximately HK\$139.4 million) as at 31 December 2005. The amounts due to its related corporations were approximately S\$37.2 million (equivalent to approximately HK\$190.7 million) as at 31 December 2005. The total borrowings were mainly used for the development of ten@suffolk and working capital. As at 31 December 2005, the gearing ratio calculated based on the total bank loans and total assets as at that date was 54.4%.

As at 31 December 2005, the interest rates for the bank loans and the amounts due to the related corporations of the Goldease Group ranged from 4.8% to 4.9% per annum and 4.6% to 5.8% per annum respectively. Since all the revenue, expenses and borrowings were

LETTER FROM THE BOARD

denominated in Singapore dollars, the Goldease Group was not subject to any foreign exchange risk. Therefore, the Goldease Group did not enter into any material foreign exchange contracts, interest or currency swaps or other financial activities.

Out of the bank loans of the Goldease Group, about S\$18.0 million (equivalent to approximately HK\$92.3 million) was repayable within one year and the remaining S\$9.2 million (equivalent to approximately HK\$47.2 million) was repayable after one year but within five years. The bank loans were secured by mortgages on development properties of the Goldease Group and the assignment of the rights, titles and interest in the sale and purchase agreements, tenancy agreements, building contract, performance bonds and insurances from these properties and guarantees by the Vendor. The amounts due to its related corporations were unsecured and had no fixed repayment terms.

The Goldease Group was managed by the executive directors of the Vendor as at 31 December 2005. The Goldease Group has one employee, seconded from a related corporation, as at 31 December 2005, and the employee was remunerated by that related corporation and charged to the Goldease Group according to his performance and working experience. On top of basic salaries, discretionary bonus may be granted to the employee by reference to the individual's performance.

For the year ended 31 December 2006

During the year under review, the total borrowings of Goldease Group have decreased due to the repayment of bank loans by proceeds from sales of development properties.

The outstanding bank loans of the Goldease Group was approximately S\$13.8 million (equivalent to approximately HK\$70.7 million) as at 31 December 2006. The amounts due to its related corporations were approximately S\$35.9 million (equivalent to approximately HK\$184.0 million) as at 31 December 2006. The total borrowings were mainly used for the development of ten@suffolk and working capital. As at 31 December 2006, the gearing ratio calculated based on the total bank loans and total assets as at that date was 41.5%. Pursuant to the terms of the Agreement, the Sale Loan shall be not less than approximately S\$33.2 million (equivalent to approximately HK\$170.2 million) on Completion.

As at 31 December 2006, the interest rates for the bank loans and the amounts due to the related corporations of the Goldease Group ranged from 4.9% to 5.1% per annum and 4.8% to 5.8% per annum respectively. Since all the revenue, expenses and borrowings were denominated in Singapore dollars, the Goldease Group was not subject to any foreign exchange risk. Therefore, the Goldease Group did not enter into any material foreign exchange contracts, interest or currency swaps or other financial activities.

The outstanding bank loans of the Goldease Group were repayable after one year but within five years. The bank loans were secured by mortgages on development properties of the Goldease Group and the assignment of the rights, titles and interest in the sale and purchase agreements, tenancy agreements, building contract, performance bonds and insurances from these properties and guarantees by the Vendor. The amounts due to its related corporations were unsecured and had no fixed repayment terms.

LETTER FROM THE BOARD

The Goldease Group was managed by the executive directors of the Vendor, and had no employee, as at 31 December 2006.

REASONS FOR THE ACQUISITION

The Board (excluding the independent non-executive Directors whose advice are in the “Letter from the Independent Board Committee” section to this circular) considers that the Acquisition provides the Group with a good opportunity to expand and diversify its property investment portfolio into the overseas market to include the Singapore Properties. Having considered the opportunity brought to the Group as mentioned above and the effect of the Distribution in Specie to the Group that the Remaining Group would only retain its interest in the Remaining Businesses and the Singapore Properties after completion of the Group Reorganisation and Completion respectively, the Board (excluding the independent non-executive Directors whose advice are in the “Letter from the Independent Board Committee” section to this circular) also considers that the entering into of the Agreement is in the interest of the Company and the Shareholders as a whole and the terms thereof are fair and reasonable so far as the Shareholders are concerned.

SHAREHOLDING STRUCTURES

The Company

Set out below are the shareholding structures of the Company (i) as at the Latest Practicable Date; (ii) upon Completion; and (iii) when the Offer becomes unconditional:

Shareholders	As at the Latest Practicable Date		Upon Completion		When the Offer becomes unconditional	
	Shares	%	Shares	%	Shares	%
The Vendor, its associates and the Offeror Parties	608,042,787	40.7	1,508,042,787	63.0	918,463,987	38.4
Barragan Trading Corp.	285,312,566	19.1	285,312,566	11.9	475,520,944	19.9
Public	599,055,633	40.2	599,055,633	25.1	998,426,055	41.7
Total	<u>1,492,410,986</u>	<u>100.0</u>	<u>2,392,410,986</u>	<u>100.0</u>	<u>2,392,410,986</u>	<u>100.0</u>

WHITEWASH WAIVER

As at the Latest Practicable Date, in addition to the 602,645,787 Shares (representing approximately 40.4% of the issued share capital of the Company) held by the Vendor, parties acting in concert with the Vendor hold in aggregate 5,397,000 Shares (representing approximately 0.3% of the issued share capital of the Company). These approximately 0.3% interest in the Company are held (a) as to approximately 0.2% of the issued share capital of the Company (or 3,397,000 Shares) by Madam Helen Zee Yee Ling the wife of Mr. Cheong Pin Chuan, Patrick; and (b) as to approximately 0.1% of the issued share capital of the Company (or 2,000,000 Shares) by Ms. Cheong Hooi Kheng, the sister of Messrs Cheong Pin Chuan, Patrick, Cheong Kim Pong and Cheong Sim Eng. As at the Latest Practicable Date, the Directors, namely Messrs Cheong Pin Chuan, Patrick, Cheong Kim Pong and Cheong Sim Eng and Ms. Cheong Hooi Kheng, and their respective associates were interested in approximately 70.7% of the total issued share capital of the Vendor. Following

LETTER FROM THE BOARD

the allotment and issue of the Consideration Shares by the Company to the Vendor on Completion, the Vendor and parties acting in concert with it will hold 1,508,042,787 Shares (representing approximately 63.0% of the enlarged issued share capital of the Company) but it will not result in a change of control of the Company. In the absence of the Whitewash Waiver, the Vendor would incur an obligation pursuant to Rule 26 of the Takeovers Code to make a mandatory offer to the Shareholders to acquire all the Shares other than those held by the Vendor and parties acting in concert with it and the Consideration Shares.

As at the Latest Practicable Date, no person with whom the Vendor or any Offeror Parties had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code owned or controlled any shareholding in the Company and there is no such arrangement. None of the Vendor and any parties acting in concert with it has dealt for value in the shares, options, warrants, derivatives or securities convertible into the Shares during the period beginning six months prior to 25 May 2007 (being the commencement date of the offer period as defined in the Takeovers Code for the Offer) up to and including the Latest Practicable Date.

The Vendor has made an application to the Executive for the Whitewash Waiver. The Executive has indicated that it will grant the Whitewash Waiver subject to, among other things, (i) approval by the Independent Shareholders at the SGM where voting on the relevant resolution in respect of which shall be taken by way of poll; and (ii) there having been no disqualifying transactions as referred to in Note 1 on dispensations from Rule 26 and in Schedule VI of the Takeovers Code by the Vendor and parties acting in concert with it during the period from the date falling on the six months prior to the Joint Announcement up to and including completion of the issue of the Consideration Shares. Since the Vendor and the Offeror Parties hold more than 50% of the voting rights of the Company upon Completion, they may further increase their shareholding in the Company without triggering any further obligation under the Takeovers Code to make a general offer.

B. CAPITAL REORGANISATION

Share Premium Cancellation

It is proposed that the entire amount standing to the credit of the share premium account of the Company as at the Effective Date will be cancelled. The credit arising from the Share Premium Cancellation will be applied for the purposes of the Distribution in Specie. Any of the remaining balance of such credit will be credited to the contributed surplus account of the Company. As at 31 December 2006, the share premium of the Company amounted to approximately HK\$196.9 million. The exact amount in the share premium amount of the Company to be cancelled is based on the figures at the Effective Date and therefore would be different from the above.

Share Capital Increase

It is proposed that the authorised share capital of the Company be increased from HK\$100 million to HK\$150 million by creation of 1,000,000,000 new Shares at HK\$0.05 each. Upon the Share Capital Increase becoming effective (which is expected to take place on the same date of the SGM at which the Share Capital Increase is approved) and taking into account the allotment and issue of the Consideration Shares upon Completion, the

LETTER FROM THE BOARD

authorised share capital of the Company will be HK\$150 million divided into 3,000,000,000 Shares at HK\$0.05 each, of which 2,392,410,986 Shares of HK\$0.05 each will be in issue and fully paid.

Effects of the Capital Reorganisation

Other than the expenses to be incurred in relation to the Capital Reorganisation, the implementation thereof will not alter the underlying assets, business operations, management or financial position of the Company.

Conditions precedent

The Share Premium Cancellation is conditional upon:

- (i) the passing by the Independent Shareholders of a special resolution to approve the Share Premium Cancellation at the SGM;
- (ii) compliance with the relevant legal procedures and requirements under Bermuda laws to effect the Share Premium Cancellation; and
- (iii) the relevant consents from the relevant financial institutions and creditors for effecting and implementation of Share Premium Cancellation having been obtained.

The Share Capital Increase is conditional upon:

- (i) the passing by the Independent Shareholders of an ordinary resolution to approve the Share Capital Increase at the SGM; and
- (ii) compliance with the relevant legal procedures and requirements under Bermuda laws to effect the Share Capital Increase.

The Capital Reorganisation is not conditional on the Acquisition. As at the Latest Practicable Date, none of the above conditions have been fulfilled.

Reasons for the Capital Reorganisation

In order to facilitate each of the Distribution in Specie and the allotment and issue of the Consideration Shares, it is proposed that the Share Premium Cancellation and the Share Capital Increase be considered respectively at the SGM. Each of the Share Premium Cancellation and the Share Capital Increase is subject to approval by the Independent Shareholders by way of poll at the SGM.

LETTER FROM THE BOARD

C. GROUP REORGANISATION

The Group is principally engaged in property related businesses and provision of horticultural services. As at the Latest Practicable Date, the principal properties of the Group comprises (i) the redevelopment project at 38 Conduit Road in Hong Kong; (ii) the properties at 15 and 17 Magazine Gap Road in Hong Kong which were under lease; and (iii) certain properties in the PRC.

Pursuant to the Group Reorganisation, (i) the Company will continue to be a listed company and the Remaining Group will be carrying on the Remaining Businesses; (ii) the HF Land Group will be carrying on the Distributed Businesses; and (iii) the HF Land Shares will be distributed in specie to the Shareholders whose names appear on the register of members of the Company on the Record Date on the basis of one HF Land Share for each Share held.

Remaining Businesses

After completion of the Group Reorganisation, the Remaining Group will principally engage in the Remaining Businesses which principally includes the holding of the redevelopment project at 38 Conduit Road in Hong Kong and the provision of horticultural services; and will comprise the following principal subsidiaries which engage in the following business activities or hold the following assets:

Company	Business activities/assets
Super Homes Limited	38 Conduit Road held for investment
Donwin Property Limited	A whole floor in an industrial building in Ngau Tau Kok as godown
Sui Chong Finance Limited	Provision of financing service
Cheung Kee Garden Limited	Horticultural services
Sui Chong International (H.K.) Limited	One carpark in Fanling for loading and unloading
Sui Chong International Resources Limited	Management of Wing Fai Centre in Fanling
Vision Capital Limited	Investment in a venture fund

The redevelopment project at 38 Conduit Road in Hong Kong with a site area of approximately 679.39 sq.m. is still under development as at 30 April 2007 and according to the valuation report on the Remaining Group as set out in appendix VII to this circular, the valuation of this property as at 30 April 2007 was HK\$245 million. It is expected that the properties to be developed at 38 Conduit Road will be held for investment purposes and the expected construction cost for completion of this development project would amount to approximately HK\$85.0 million. The outstanding bank loan secured by this site as at 31 December 2006 was approximately HK\$90 million. Apart from the redevelopment project at 38 Conduit Road in Hong Kong, the Remaining Group also held a whole floor in an industrial building in Ngau Tau Kok occupied as godown and a car parking space in Fanling for loading and unloading purposes which were valued at HK\$1.1 million and approximately HK\$0.3 million as at 30 April 2007 respectively. The horticultural operation of the Group

LETTER FROM THE BOARD

principally comprises provision of horticultural plant rental and seasonal plant sale services to offices, shops and restaurants in Hong Kong. Sui Chong Finance Limited, one of the subsidiaries of the Remaining Group, holds a money lender license and provides loans to group companies and employees of the Remaining Group. In addition, the Remaining Group also has investment in a venture fund which mainly invests in unlisted information technology companies in the United States, Hong Kong and Singapore. The carrying value of the Remaining Group's investment in the venture fund as at 31 December 2006 amounted to approximately HK\$1.6 million. The Remaining Group also provides property management services for Wing Fai Centre in Fanling.

Distributed Businesses

After completion of the Group Reorganisation, the HF Land Group will carry on the Distributed Businesses which principally includes (a) the Group's holding of the properties at 15 and 17 Magazine Gap Road in Hong Kong; (b) certain properties in the PRC; and (c) an approximately 20.2% interest in the Vendor and will comprise the following principal subsidiaries which engage in the following business activities or hold the following assets:

Company	Business activities/assets
Hugoton Limited, Bossiney Limited and Giant Yield Limited	15 and 17 Magazine Gap Road held for investment
Winfoong Investment Limited	Contract balance for the redevelopment of Lok Fu Estate in Lok Fu, Kowloon
Winfoong Holding Limited	20.2% interest in Hong Fok Corporation Limited, the shares of which are listed on The Singapore Exchange Securities Trading Limited
China Charm Company Limited	36 units of Chuang's Metropolis in Panyu, the PRC held for investment
江門棠泉房地產有限公司 (a 92% owned joint venture company)	57 units and land portion of Riverside Villa in Jiangmen, the PRC held for sale

The property at 15 Magazine Gap Road in Hong Kong comprises a 12-storey residential building with 24 apartments which in aggregate have a total gross floor area of approximately 5,128.21 sq. m.. According to the valuation report on the HF Land Group as set out in appendix IX to this circular, the valuation of this property as at 30 April 2007 was HK\$840 million and the monthly rental income was approximately HK\$560,000. The property at 17 Magazine Gap Road in Hong Kong comprises a 12-storey residential building with 23 apartments which in aggregate have a total gross floor area of approximately 5,574.14 sq. m.. The valuation of this property as at 30 April 2007 was HK\$913 million and the monthly rental income was approximately HK\$1.3 million. The outstanding bank loans for these properties as at 31 December 2006 was approximately HK\$388 million.

The Group's property interest in the PRC comprises 57 residential units and portion of land situated at Riverside Villa, Tangxia Town, Jiangmen, Guangdong Province which are held for sale; and 36 apartment units, situated at Chuang's Metropolis, Panyu, Guangdong Province, the PRC which are held for investment. The valuation of these properties as at 30

LETTER FROM THE BOARD

April 2007 was HK\$85 million. The total floor area for these residential units is approximately 8,976.40 sq.m. and all these properties are vacant and no lease agreements have been entered into for the lease of these properties as at the Latest Practicable Date. There was no bank loan secured by the above property interest in the PRC as at 31 December 2006.

The net asset values of the Group's 20.2% interest in the Vendor as at 31 December 2005 and 2006 were approximately HK\$393.6 million and HK\$612.8 million respectively; while the profits attributable to the Group's effective interest in it were approximately HK\$30.5 million and HK\$178.1 million respectively. The market value of the Group's 20.2% interest in the Vendor as at the Latest Practicable Date was approximately HK\$1,161.8 million.

The contract balances held by Winfoong Investment Limited are related to construction contracts which have been completed in prior years. Since there are ongoing negotiations on the determination of final contract sums and variation orders between the Remaining Group and its contract employers, the Remaining Group have not been able to agree the final amounts for these construction contracts. Accordingly, Winfoong Investment Limited is still holding the outstanding contract balance for these construction contracts. Based on the audited accountants' report on the HF Land Group as set out in appendix IV to this circular, the amounts of receivables from its customers and payable to its suppliers amounted to approximately HK\$933,000 and HK\$1.6 million respectively. However, it is expected that these receivables and payables will be received paid after more than one year.

Based on the audited accountants' report on the HF Land Group as set out in appendix IV to this circular, the net assets of the HF Land Group was approximately HK\$1,719.5 million as at 31 December 2006.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE HF LAND GROUP

Management discussion and analysis of the HF Land Group

Based on the audited accountants' report on the HF Land Group as set out in appendix IV to this circular, the turnover of the HF Land Group for the three years ended 31 December 2004, 2005 and 2006 were approximately HK\$31.7 million, HK\$27.7 million and HK\$21.2 million respectively. The profit before taxation of the HF Land Group for the three years ended 31 December 2004, 2005 and 2006 were approximately HK\$495.2 million, HK\$90.3 million and HK\$185.6 million respectively; while the profit after taxation of the HF Land Group for the three years ended 31 December 2004, 2005 and 2006 were approximately HK\$404.3 million, HK\$63.1 million and HK\$177.3 million. The net assets of the HF Land Group was approximately HK\$1,719.5 million as at 31 December 2006.

The turnover of the HF Land Group comprised (i) rental income generated from the properties owned by the HF Land Group; and (ii) sales proceeds of properties owned by the HF Land Group. The decrease in the turnover of the HF Land Group for the two years ended 31 December 2006 was mainly due to decrease in rental income from its investment properties and less properties owned by the HF Land Group were being disposed of during these period and the HF Land Group had not rebuilt its properties portfolio after disposal.

LETTER FROM THE BOARD

The movement of the net profits of the HF Land Group for the three years ended 31 December 2004, 2005 and 2006 were mainly attributable to the valuation gains on investment properties of the HF Land Group and the share of profit of an associate during the relevant period. The increase in other net loss of the HF Land Group for the year ended 31 December 2005 was mainly attributable to the impairment loss of approximately HK\$67.5 million for property held for future development (i.e. the vacant land situated at Riverside Villa in Jiangmen. The increase in finance costs of the HF Land Group was mainly attributable to the increase in the interest rate of the bank loans of the HF Land Group during the relevant period.

Liquidity and financial resources

For the year ended 31 December 2006

The HF Land Group has no exposure to foreign exchange rate fluctuations except for the interests in an associate in Singapore which is held as long term investment. The HF Land Group's borrowings are denominated in Hong Kong dollars and arranged on a floating rate basis.

The HF Land Group's working capital requirements are met by recurring cash flows from the investment properties portfolio and committed undrawn credit facilities. The year-end gearing ratio was 22% (2005: 27%) based on bank loans less cash and bank balances to shareholders' funds including minority interests. As at 31 December 2006, the outstanding bank loans amounted approximately HK\$388.1 million. These loan facilities were secured by HF Land Group's properties.

The following is the maturity profile of the HF Land Group's bank borrowings as of 31 December 2006:

Within one year	21%
In the second year	6%
In the third to fifth years, inclusive	58%
After five years	<u>15%</u>
	<u><u>100%</u></u>

The current portion of bank loans included property loan of 15 Magazine Gap Road. Subsequent to the year-end in January 2007, the property loan was replaced by a project finance of the redevelopment project.

As at 31 December 2006, the HF Land Group had a total of 47 employees. Employees are remunerated according to their performance and working experience. On top of basic salaries, discretionary bonus and share options may be granted to eligible employee by reference to individual's performance. In addition, the HF Land Group provides social security benefits to its staff such as mandatory provident fund scheme in Hong Kong and the pension scheme in the PRC.

LETTER FROM THE BOARD

For the year ended 31 December 2005

The HF Land Group has no exposure to foreign exchange rate fluctuations except for the interests in an associate in Singapore which is held as long term investment. The HF Land Group's borrowings are denominated in Hong Kong dollars and arranged on a floating rate basis.

The HF Land Group's working capital requirements are met by recurring cash flows from the investment properties portfolio and committed undrawn credit facilities. The year-end gearing ratio was 27% (2004: 31%) based on bank loans less cash and bank balances to shareholders' funds including minority interests. As at 31 December 2005, the outstanding bank loans amounted approximately HK\$408.3 million. These loan facilities were secured by the HF Land Group's properties.

The following is the maturity profile of the HF Land Group's bank borrowings as of 31 December 2005:

Within one year	20%
In the second year	5%
In the third to fifth years, inclusive	57%
After five years	<u>18%</u>
	<u><u>100%</u></u>

The current portion of bank loans included property loans of 15 Magazine Gap Road.

As at 31 December 2005, the HF Land Group had a total of 53 employees. Employees are remunerated according to their performance and working experience. On top of basic salaries, discretionary bonus and share options may be granted to eligible employee by reference to individual's performance. In addition, the HF Land Group provides social security benefits to its staff such as mandatory provident fund scheme in Hong Kong and the pension scheme in the PRC.

For the year ended 31 December 2004

The HF Land Group has no exposure to foreign exchange rate fluctuations except for the interests in an associate in Singapore which is held as long term investment. The HF Land Group's borrowings are denominated in Hong Kong dollars and arranged on a floating rate basis.

The HF Land Group's working capital requirements are met by recurring cash flows from the investment properties portfolio and committed undrawn credit facilities. The year-end gearing ratio was 31% (2003: 43%) based on bank loans less cash and bank balances to shareholders' funds including minority interests. As at 31 December 2004, the outstanding bank loans amounted approximately HK\$452.6 million. These loan facilities were secured by the HF Land Group's properties.

LETTER FROM THE BOARD

The following is the maturity profile of the HF Land Group's bank borrowings as of 31 December 2004:

Within one year	4%
In the second year	24%
In the third to fifth years, inclusive	15%
After five years	<u>57%</u>
	<u>100%</u>

As at 31 December 2004, the HF Land Group had a total of 49 employees. Employees are remunerated according to their performance and working experience. On top of basic salaries, discretionary bonus and share options may be granted to eligible employee by reference to individual's performance. In addition, the HF Land Group provides social security benefits to its staff such as mandatory provident fund scheme in Hong Kong and the pension scheme in the PRC.

Distribution in Specie

Pursuant to the Group Reorganisation, the Company will distribute all of its HF Land Shares in specie out of its credit arising from the Share Premium Cancellation, retained earnings and contributed surplus to the Shareholders whose names appear on the register of members of the Company on the Record Date on the following basis:

For each Share held one HF Land Share

It is intended that it will be a condition of the issue of the HF Land Shares that the share certificates of HF Land will be posted only to the Shareholders within 10 days after the Offer closes or lapses so that the despatch of the share certificates to the HF Land Shareholders can be managed in an efficient manner.

The HF Land Shares when issued will rank pari passu in all respects with those HF Land Shares already in issue and each other. No application will be made for the listing of the HF Land Shares on the Stock Exchange or any other stock exchange.

LETTER FROM THE BOARD

Conditions precedent

Completion of the Group Reorganisation will be conditional upon:

- (i) For the Group Reorganisation (excluding Distribution in Specie), the relevant consents from the relevant financial institutions and creditors for effecting and implementation of the Group Reorganisation and other transactions and actions incidental thereto having been obtained; and
- (ii) For the Distribution in Specie, being part of the Group Reorganisation:–
 - (a) the passing of the necessary resolutions approving the Distribution in Specie by the Independent Shareholders at the SGM;
 - (b) the passing of the necessary resolutions approving the Capital Reorganisation and the completion of the Capital Reorganisation; and
 - (c) the relevant consents from the relevant financial institutions and creditors for effecting and implementation of Distribution in Specie and actions incidental thereto having been obtained.

None of the above conditions can be waived. The Distribution in Specie, being part of the Group Reorganisation, will be considered at the SGM as part and parcel of the Proposal. The Vendor, its associates and the Offeror Parties will abstain from voting on the relevant resolution, which will be taken by way of poll at the SGM. The Group Reorganisation including the Distribution in Specie is conditional on the Capital Reorganisation being approved by the Independent Shareholders.

As at the Latest Practicable Date none of the above conditions have been fulfilled.

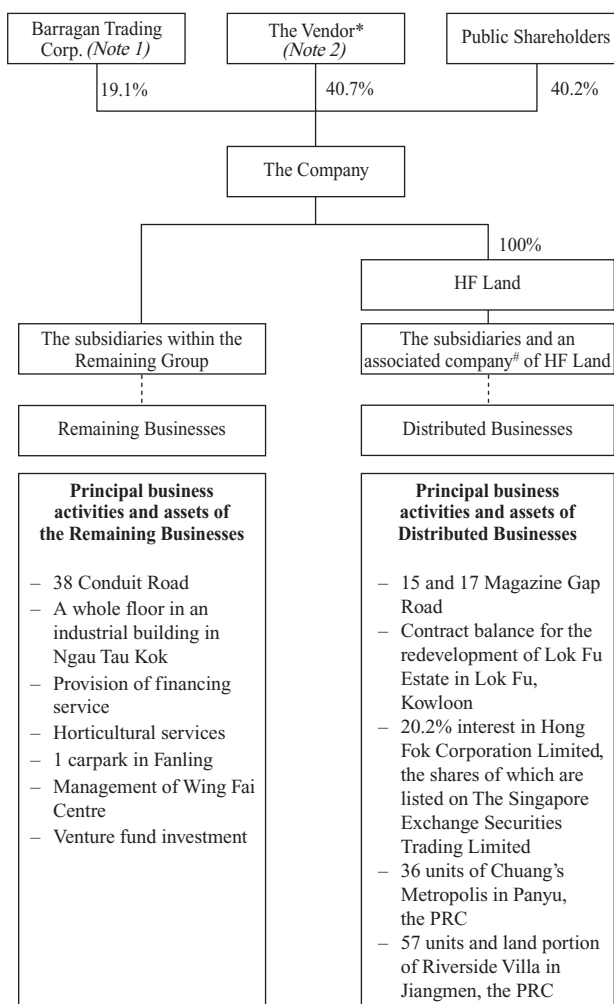
Completion of the Group Reorganisation

The Group Reorganisation will become effective upon fulfillment of the conditions precedent thereto set out above and simultaneously with Completion. Completion of the Group Reorganisation including the Distribution in Specie will not result in any gain or loss in the income statement of the Company.

LETTER FROM THE BOARD

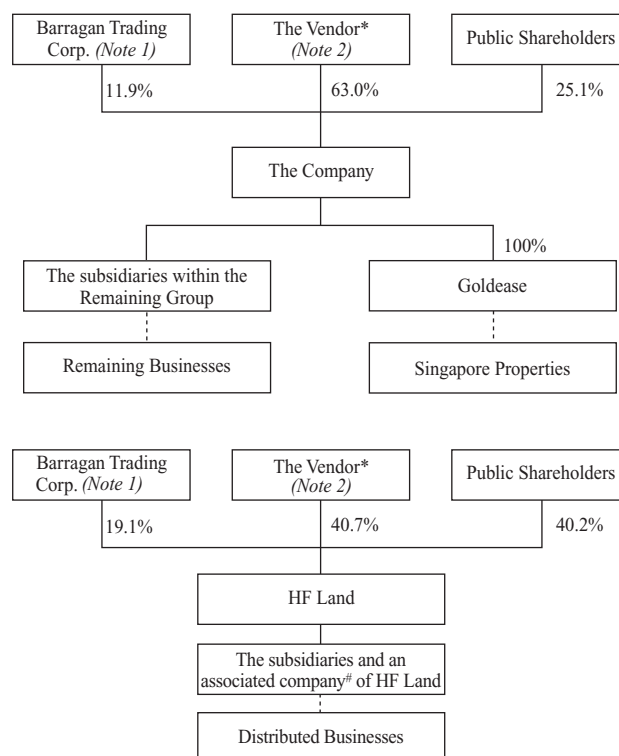
Group structure

Set out below is the Group structure (in simplified form) immediately before completion of the Group Reorganisation:



LETTER FROM THE BOARD

Set out below are the structures (in simplified forms) of the Remaining Group and the HF Land Group immediately after completion of each of the Group Reorganisation and the Agreement but before the making of the Offer:



* including its associates and the Offeror Parties

an approximate 20.2% interest in the Vendor which is indirectly held by HF Land

Notes:

1. Barragan Trading Corp. is beneficially owned by Mr. Shaw Vee King. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, Mr. Shaw Vee King is third party independent of the Vendor.
2. Beneficially owned by the Cheong's Family.

Financial effects of the Acquisition and the Group Reorganisation

Since the Acquisitions and the Group Reorganisation are conditional on each other, completion of the Acquisition and the Group Reorganisation will take place simultaneously. Upon Completion, Goldease will become a wholly-owned subsidiary of the Company and a member of the Enlarged Remaining Group. The results of the Goldease Group will be consolidated into the financial statements of the Enlarged Remaining Group and the turnover of the Enlarged Remaining Group will also comprise rental income generated from and sale proceeds of the Singapore Properties. Upon completion of the Group Reorganisation, the Shareholders will still be interested in the Distributed Businesses through its interest in the HF Land. However, HF Land is not a listed company and there is no open market for the trading of the HF Land Shares.

LETTER FROM THE BOARD

Based on the unaudited pro forma consolidated income statement of the Enlarged Remaining Group as set out in appendix VI to this circular, assuming the Acquisition and the Distribution in Specie has been completed at the commencement of the year ended 31 December 2006, the Enlarged Remaining Group would have recognised a turnover of approximately HK\$120.2 million which was mainly attributable to the sale proceeds of the properties in Singapore. The result of the Enlarged Remaining Group would turn from profit to loss of approximately HK\$30.1 million which was resulting from the exclusion of the operating results of the HF Land Group as a result of the Distribution in Specie.

Based on the unaudited pro forma consolidated balance sheet of the Enlarged Remaining Group as set out in appendix VI to this circular, assuming the Acquisition and the Distribution in Specie has been completed on 31 December 2006, the pro forma net asset value of the Enlarged Remaining Group would decrease to approximately HK\$261.8 million which was principally due to exclusion of the assets of the HF Land Group as a result of the Distribution in Specie. In addition, the Enlarged Remaining Group would recognized a goodwill of approximately HK\$33.7 million which is the excess of the Consideration over the net fair value of the Goldease Group.

Reasons for the Group Reorganisation

After arm's length negotiations among the parties to the Agreement, the Vendor (being the controlling Shareholder) has agreed to enter into the Agreement conditional upon, among other things, completion of the Group Reorganisation. At the request of the Vendor, the Board puts forward for the Independent Shareholders' consideration a proposal for the Group Reorganisation.

The Board (excluding the independent non-executive Directors whose advice are in the "Letter from the Independent Board Committee" section to this circular) considers that it is in the interest of the Shareholders for them to be provided with the opportunity to consider and, if thought fit, approve the relevant resolution for the Group Reorganisation as part and parcel of the Proposal at the SGM. The Board (excluding the independent non-executive Directors whose advice are in the "Letter from the Independent Board Committee" section to this circular) also considers that it is in the interest of the Independent Shareholders to consider the Proposal at the SGM as the Proposal together with the Offer will provide the Independent Shareholders an opportunity to partially divest their investment in the Distributed Businesses through the Offer.

Financial and trading prospects of the Enlarged Remaining Group

Following the Completion and completion of the Group Reorganisation, the Enlarged Remaining Group will cease to have any interest in the Distributed Businesses. As mentioned in the section headed "Management discussion and analysis of the Group" in appendix II to this circular, the investment properties at 38 Conduit Road had ceased to generate rental income and the redevelopment work has commenced in 2006 and is expected to completed by the end of 2009. Going forward and upon Completion, the turnover of the Enlarged Remaining Group will mainly comprise rental income generated from and sale proceeds of the Singapore Properties; revenue from provision of horticultural services and property management services. Based on the unaudited pro forma consolidated income

LETTER FROM THE BOARD

statement of the Enlarged Remaining Group as set out in appendix VI to this circular, assuming the Acquisition and the Distribution in Specie has been completed at the commencement of the year ended 31 December 2006, approximately 96% of the turnover of the Enlarged Remaining Group for the year ended 31 December 2006 were contributed from the sales proceeds from the properties held by the Goldease Group. The Directors are optimistic on the prospects of the Enlarged Remaining Group.

RISKS ASSOCIATED WITH THE DISTRIBUTION IN SPECIE

Marketability of the HF Land Shares

After completion of the Distribution in Specie, the HF Land Shares will not be listed on the Stock Exchange or any other stock exchange. There will be no public trading market for the HF Land Shares and it would be difficult to liquidate the HF Land Shares. As there is no open market for the trading of the HF Land Shares, it would not only affects the transparency of the value of the HF Land Group, but also may has effect on the value of the HF Land Shares at disposal.

Protection for the HF Land Shareholders

For a listed company on the Stock Exchange, the shareholders of which are protected by the Listing Rules which, among others, contain the following provisions:

- (i) requirement to make announcement to inform shareholders of a listed issuer on major new developments which is necessary to enable the shareholders to appraise the position of the listed issuer;
- (ii) disclosure and shareholders' approval requirement for dealing with certain transactions, principally acquisitions and disposals;
- (iii) protection to independent shareholders for connected transactions;
- (iv) publication of results announcements, annual and interim reports within a certain period of time; and
- (v) arrangement for voting by poll and interested parties to abstain from voting.

However, after completion of the Distribution in Specie, HF Land Group (which is a member of the Group before completion of the Distribution in Specie) no longer needs to comply with the Listing Rules and the HF Land Shareholders are thus no longer protected by the above provisions. HF Land will only be governed by the new bye-laws of HF Land and not subject to the requirements of the Listing Rules.

The new bye-laws of HF Land contain provisions regarding rights of HF Land Shareholders which are substantially similar to those contained in the bye-laws or articles of associated of listed issuers on the Main Board of the Stock Exchange. The protection for the

LETTER FROM THE BOARD

HF Land Shareholder would be reduced as compared to the full provision as provided under the Listing Rules. However, HF Land will remain as a public company and subject to the Takeovers Code.

CONSTITUTION OF HF LAND AND BERMUDA COMPANY LAW

HF Land was incorporated on 26 March 2007 in Bermuda with limited liability. Under Bermuda law, HF Land Shareholders are entitled to have the affairs of HF Land conducted in accordance with general law and in particular with HF Land's memorandum of association and bye-laws. HF Land will adopt new bye-laws which will contain provisions regarding rights of HF Land Shareholders which are substantially similar to those contained in the bye-laws or articles of association of listed issuers on the Main Board of the Stock Exchange.

Under the new bye-laws of HF Land, HF Land is obliged to hold an annual general meeting in each year. Holders of voting shares of HF Land are entitled to receive notice of all general meetings of HF Land and to attend in person, by proxy or, in the case of a corporation, by an appointed representative. Under the new bye-laws and Bermuda law, among others, matters such as a variation of share rights, alteration of the memorandum or bye-laws, alteration of capital, court or voluntary winding up and a change of the name of HF Land would require the approval of the HF Land Shareholders by way of an ordinary or special resolution.

Unless all of the HF Land Shareholders and all of the directors of HF Land agree otherwise, HF Land must appoint an independent auditor. HF Land Shareholders are entitled to receive the audited financial statements of HF Land at least 21 days before the date of the general meeting in accordance with the new bye-laws of HF Land.

HF Land Shareholders are also entitled to receive copies of the memorandum of association and bye-laws of HF Land and minutes of meetings of shareholders. HF Land Shareholders are not, however, generally entitled to inspect accounting records or minutes of meetings of the directors. The register of shareholders and register of directors and officers of a company are public documents.

There are no provisions in the new bye-laws of HF Land relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to HF Land Shareholders under Bermuda law which are summarized in paragraph 4(e) of Appendix XII to this circular. In addition, there are "squeeze-out" provisions under the Companies Act 1981 of Bermuda pursuant to which minority interests may be subject to mandatory acquisition. An outline of these squeeze-out provisions is set out in paragraphs 4(o) and 4(p) of Appendix XII to this circular.

Set out in Appendix XII to this circular are further details of the memorandum of association and the new bye-laws of HF Land and a general overview of Bermuda company law.

LETTER FROM THE BOARD

D. THE OFFER

After completion of the Group Reorganisation and subject to the consent from the Executive, Kingsway will, on behalf of the Offeror, make a conditional partial offer to the Disinterested HF Land Shareholders whose names appear on the register of members of the Company on the Record Date for the aggregate of one-third of the HF Land Shares held by the Disinterested HF Land Shareholders on the Record Date, being 294,789,400 HF Land Shares based on the issued Shares of the Company as at the Latest Practicable Date, on an assured basis as follows:

**HK\$0.16 in cash plus ONE
3-year Bond with a face value
of HK\$0.24 plus TWO existing**

For each Specified HF Land Share held* Shares held by the Vendor

* The precise number of HF Land Shares for which the Offer is made representing the aggregate of one-third of the HF Land Shares held by the Disinterested HF Land Shareholders on the Record Date.

In the present case, each Specified HF Land Share tendered acceptance under the Offer by the Disinterested HF Land Shareholders is assured to entitle (i) HK\$0.16 in cash; (ii) ONE 3-year Bond with a face value of HK\$0.24; and (iii) TWO existing Shares for every three HF Land Shares held by him on the Record Date if the Offer becomes unconditional.

Given that the HF Land Shares will not be listed on the Stock Exchange or any other stock exchange upon completion of the Group Reorganisation and will therefore be difficult to be liquidated, the Offeror considers that it is appropriate to provide the Disinterested HF Land Shareholders with an opportunity to realise their holdings of the Specified HF Land Shares by making the Offer. **However, Disinterested HF Land Shareholders shall note that the Offer is for the aggregate of one-third of the HF Land Shares held by the Disinterested HF Land Shareholders only, whether they accept the Offer or not, after completion of the Group Reorganisation, the remaining two-third of the HF Land Shares held by the Disinterested HF Land Shareholders are unlisted and illiquid. As there is no open market for the trading of the HF Land Shares, it would not only affects the transparency of the value of the HF Land Group, but also may has effect on the value of the HF Land Shares. In addition, after completion of the Group Reorganisation, HF Land will only govern by the new bye-laws of HF Land and not subject to the requirements of the Listing Rules.** In the event that the Disinterested HF Land Shareholders wish to continue to retain each of their whole investment in the Distributed Businesses after completion of the Group Reorganisation, they can choose not to accept the Offer and continue to hold the Specified HF Land Shares, but have to accept the risks associated with the HF Land Shares which are illiquid and the fact that the Distributed Businesses are unlisted assets.

Consents from the Executive

Pursuant to the Takeovers Code, the Offer is subject to the consent of the Executive. Application has been made to the Executive in this regard.

LETTER FROM THE BOARD

The making of the Offer is subject to pre-conditions (i.e. Completion, completion of the Group Reorganisation and consent from the Executive) being fulfilled.

The making of the Offer is a possibility only and it may or may not proceed. In the event that the Offer is made, it will be a conditional partial offer.

Further information about the offer (including background of the Offeror and its intention regarding HF Land) is set out in appendix I to this circular.

INTENTION OF THE VENDOR

It is the intention of the Vendor that the Enlarged Remaining Group will continue its current business. The Vendor has no intention to make any major changes to the business or employment of the employees of the Enlarged Remaining Group or redeploy the fixed assets of the Enlarged Remaining Group.

LISTING RULES IMPLICATIONS

(i) The Acquisition

The Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules. As the Vendor was the controlling Shareholder, the Acquisition also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. Accordingly, the Acquisition (which will be considered at the SGM as part and parcel of the Proposal) is subject to approval by the Independent Shareholders at the SGM, where the Vendor, its associates and the Offeror Parties will be required to abstain from voting on the relevant resolution (which will be taken by way of poll) approving the transactions contemplated under the Agreement (including the allotment and issue of the Consideration Shares).

(ii) The Capital Reorganisation and the Group Reorganisation

As the Capital Reorganisation and the Group Reorganisation form part and parcel of the Proposal, each of the Share Premium Cancellation, the Share Capital Increase and the Group Reorganisation including the Distribution in Specie is subject to approval by the Independent Shareholders at the SGM.

SGM

The SGM will be held for the Independent Shareholders to consider and, if thought fit, approve the resolutions in respect of the Proposal and the Capital Reorganisation. The Vendor, its associates and the Offer Parties will abstain from voting on the relevant resolutions, which will be taken by way of poll at the SGM. As at the Latest Practicable Date, the Vendor, its associates and the Offer Parties altogether held 608,042,787 Shares (representing approximately 40.7% of the issued share capital of the Company).

LETTER FROM THE BOARD

The ordinary resolutions numbered 1, 2 and 3 as set out in the notice of the SGM will be voted by poll by the Independent Shareholders. The Vendor, its associates and the Offeror Parties will be required to abstain from voting on these resolutions.

The special resolution numbered 4 as set out in the notice of the SGM will be voted by poll by the Independent Shareholders. The Vendor, its associates and the Offeror Parties will be required to abstain from voting on the resolution.

A notice convening the SGM to be held at Board Room, 1/F, The Aberdeen Marina Club, 8 Shum Wan Road, Aberdeen, Hong Kong on Wednesday, 25 July 2007 at 9:00 a.m. is set out on pages 380 to 383 of this circular. Whether or not you are able to attend the meeting in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as practicable but in any event not later than 48 hours before the time appointed for the holding of the meeting. Completion and return of the form of proxy will not preclude you from attending and voting at the meeting or any adjournment thereof should you so desire.

PROCEDURES BY WHICH SHAREHOLDERS MAY DEMAND A POLL

As mentioned above, the resolutions to approve the Acquisition, the Capital Reorganisation and the Group Reorganisation will be taken by way of poll at the SGM. For the information of the Shareholders, the procedures by which Shareholders may demand a poll at the SGM are set out below.

According to the Bye-Law 66 of the Company's Bye-Laws, a resolution put to the vote of a meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by:

- (a) the chairman of such meeting; or
- (b) by at least three shareholders present in person or in the case of a shareholder being a corporation by its duly authorized representative or by proxy for the time being entitled to vote at the meeting; or
- (c) by a shareholder or shareholders present in person or in the case of a shareholder being a corporation by its duly authorized representative or by proxy and representing not less than one-tenth of the total voting rights of all shareholders having the right to vote at the meeting; or
- (d) by a shareholder or shareholders present in person or in the case of a shareholder being a corporation by its duly authorized representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

LETTER FROM THE BOARD

A demand by a person as proxy for a shareholder or in the case of a shareholder being a corporation by its duly authorized representative shall be deemed to be the same as a demand by a shareholder.

VOTING RECOMMENDATION

The Independent Board Committee comprising all of the independent non-executive Directors, namely Mr. Kan Fook Yee, Mr. Lai Hing Chiu, Dominic and Mr. Chan Yee Hoi, Robert, has been established to advise the Independent Shareholders in respect of the Proposal and the Capital Reorganisation. Madam Lim Ghee, the non-executive Director, is the mother of the executive Directors. Accordingly, Madam Lim Ghee is indirectly interested in the Proposal and the Capital Reorganisation and is not a member of the independent board committee of the Company. Your attention is drawn to their recommendation set out in their letter on pages 35 to 36 of this circular.

INDEPENDENT ADVICE

Hercules has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Proposal and the Capital Reorganisation. Your attention is drawn to their letter to the Independent Board Committee set out on pages 37 to 60 of this circular.

FURTHER INFORMATION

Your attention is drawn to the expected timetable on page 7 of this circular and the additional information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of
Winfoong International Limited
Cheong Pin Chuan, Patrick
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Set out below is the text of the letter of recommendation from the Independent Board Committee in respect of the Proposal and the Capital Reorganisation:



WINFOONG INTERNATIONAL LIMITED

(榮豐國際有限公司*)

(Incorporated in Bermuda with limited liability)

(Stock code: 63)

30 June 2007

To the Independent Shareholders

Dear Sir or Madam,

**VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION,
WHITEWASH WAIVER,
PROPOSED CAPITAL REORGANISATION,
PROPOSED GROUP REORGANISATION
AND
POSSIBLE CONDITIONAL PARTIAL OFFER FOR THE SHARES IN
HONG FOK LAND INTERNATIONAL LIMITED BY
KINGSWAY FINANCIAL SERVICES GROUP LIMITED
ON BEHALF OF YORKWIN INVESTMENTS LIMITED,
BEING A WHOLLY-OWNED SUBSIDIARY OF
HONG FOK CORPORATION LIMITED**

As the Independent Board Committee, we have been appointed to advise you in connection with the details of which are set out in the circular of the Company dated 30 June 2007 (the “Circular”), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

Having considered the terms of the Proposal and Capital Reorganisation and the advice of Hercules in relation thereto as set out on pages 37 to 60 of the Circular, we are of the opinion that the Proposal and the Capital Reorganisation are neither fair and reasonable to, nor in the interest of, the Independent Shareholders. We therefore recommend you to vote against the resolutions to be proposed at the SGM regarding the Proposal and Capital Reorganisation.

* For identification purposes only

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We would like to draw your attention to the advice of Hercules, which is particularly highlighted and summarised in the section headed “Recommendation” in their letter, on pages 37 to 60 of the Circular regarding the other factors you may wish to take into consideration for your decision in light of the Proposal and Capital Reorganisation.

Yours faithfully,
Independent Board Committee

Kan Fook Yee

Lai Hing Chiu, Dominic
Independent non-executive Directors

Chan Yee Hoi, Robert

LETTER FROM HERCULES

Set out below is the text of the letter of advice from Hercules in respect of the Proposal and the Capital Reorganisation for incorporation in this circular:

Hercules **Hercules Capital Limited**

1503 Ruttonjee House
11 Duddell Street
Central
Hong Kong

30 June 2007

*To the Independent Board Committee
and the Independent Shareholders*

Dear Sirs,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION, WHITEWASH WAIVER, PROPOSED CAPITAL REORGANISATION AND PROPOSED GROUP REORGANISATION

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Proposal and the Capital Reorganisation, details of which are set out in the letter from the Board contained in the circular dated 30 June 2007 to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter have the same meanings as defined elsewhere in the Circular unless the context otherwise requires.

On 25 May 2007, the Purchaser, a wholly-owned subsidiary of the Company, entered into the Agreement with the Vendor to acquire the Sale Loan and the Sale Shares, representing the entire issued share capital of Goldease. The Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules. As the Vendor was the controlling Shareholder holding an approximately 40.4% interest, together with its associates and the Offeror Parties holding an approximately 40.7% interest, in the Company as at the Latest Practicable Date, the Acquisition also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. Accordingly, the Acquisition is subject to approval by the Independent Shareholders, by way of poll, at the SGM. The Vendor, its associates and the Offeror Parties are required to abstain from voting on the relevant resolutions approving the transactions contemplated under the Agreement.

The Company will settle part of the Consideration of the Acquisition by way of issuance of Consideration Shares to the Vendor on Completion. Following the allotment and issue of the Consideration Shares, the Offeror Parties will hold approximately 63.0% of the

LETTER FROM HERCULES

enlarged issued share capital of the Company. In the absence of the Whitewash Waiver, the Vendor would be obliged pursuant to Rule 26 of the Takeovers Code to make a mandatory offer to the Shareholders to acquire all the Shares other than those held by the Vendor and parties acting in concert with it. The Vendor has made an application to the Executive for the Whitewash Waiver and the Executive has indicated that it would grant the Whitewash Waiver to the Vendor subject to, *inter alia*, approval of the Whitewash Waiver by the Independent Shareholders, by way of poll, at the SGM.

After arm's length negotiations among the parties to the Agreement, the Vendor has agreed to sell the Singapore Properties to the Group conditional upon, among other things, completion of the Group Reorganization. Pursuant to the Group Reorganisation, (i) the Company will continue to be a listed company and the Remaining Group will be carrying on the Remaining Businesses; (ii) the HF Land Group will be carrying on the Distributed Businesses; and (iii) the HF Land Shares will be distributed in specie to the Shareholders whose names appear on the register of members of the Company on the Record Date on the basis of one HF Land Share for each Share held. To facilitate the issue and allotment of the Consideration Shares and the Distribution in Specie, the Capital Reorganisation, which includes the Share Premium Cancellation and Share Capital Increase, will also be proposed at the SGM for the Independent Shareholders' approval.

As the Acquisition, which forms part and parcel of the Proposal, is conditional, *inter alia*, on completion of the Capital Reorganisation and the passing of the necessary resolutions approving the Distribution in Specie by the Independent Shareholders, the Capital Reorganisation and the Proposal are therefore also subject to approval by the Independent Shareholders, by way of poll, at the SGM. The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Kan Fook Yee, Mr. Lai Hing Chiu, Dominic and Mr. Chan Yee Hoi, Robert, has been formed to advise the Independent Shareholders as to whether the Proposal and the Capital Reorganisation are fair and reasonable and on normal commercial terms so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Hercules has been engaged to advise the Independent Board Committee and the Independent Shareholders in these regards.

BASIS OF OUR OPINION

In formulating our opinion and recommendations, we have reviewed, *inter alia*, (i) the Agreement; (ii) the financial information of the Group as set out in Appendix II to the Circular; (iii) the accountants' reports on the Goldease Group and the HF Land Group as set out in Appendices III and IV to the Circular; (iv) the pro forma financial information of the Enlarged Remaining Group as set out in Appendix VI to the Circular; (v) the property valuation reports of the Goldease Group and the HF Land Group as set out in Appendices VIII and IX to the Circular; (vi) the valuation report of the Bond as set out in Appendix XI to the Circular; (vii) the summary of the memorandum of association and bye-laws of HF Land as set out in Appendix XII to the Circular; and (viii) the price performance of the Shares for the period from 2 May 2006 to the Latest Practicable Date. We have also (i) considered such other information, analyses and market data which we deemed relevant; (ii) conducted verbal discussions with Savills (Singapore) Pte Ltd. and CBRE regarding the methodology, bases and assumptions employed in their valuations; and (iii) conducted verbal

LETTER FROM HERCULES

discussions with Sallmanns regarding the methodology, bases and assumptions employed in the valuation of the Bond. We have assumed that such information and statements, and any representations made to us, are true, accurate and complete in all material respects as of the date hereof and we have relied upon on them in formulating our opinion. We have also assumed that all information, opinions and representations contained or referred to in the Circular are true, accurate and complete in all material respects as at the date of the Circular, and will continue as such at the date of the SGM, and that they may be relied upon in formulating our opinion. The Directors have confirmed that, having made all reasonable enquiries and to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading. We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular to provide a reasonable basis for our recommendation. We have no reason to suspect that any material information has been withheld by the Directors or management of the Company, or is misleading, untrue or inaccurate. We have not, however, for the purpose of this exercise, conducted any independent detailed investigation or audit into the businesses or affairs or future prospects of the Group.

We have not considered the tax consequences on the Shareholders arising from the Proposal and the Capital Reorganisation since these are particular to their individual circumstances. Shareholders who are in any doubt as to their tax position should consult their own professional advisers.

PRINCIPAL FACTORS AND REASONS CONSIDERED

The principal factors that we have taken into consideration in arriving at our opinion are set out below. In reaching our conclusion, we have considered all the factors and analyses in light of each other and ultimately reached our opinion based on the results of all the analyses taken as a whole.

A. The Acquisition

(a) Overview

On 25 May 2007, the Purchaser entered into the Agreement with the Vendor to acquire the Sale Loan and the Sale Shares, representing the entire issued share capital of Goldease, at an aggregate consideration of S\$22,242,122 (equivalent to approximately HK\$114 million), which will be satisfied by cash of S\$4,681,146 (equivalent to approximately HK\$24 million) and the issue of 900,000,000 new Shares at an issue price of HK\$0.10 each to the Vendor by the Company on Completion.

The Agreement is inter-conditional to the proposed Group Reorganisation and Capital Reorganisation. It is also conditional upon the approval of the Whitewash Waiver by the Independent Shareholders.

LETTER FROM HERCULES

(b) Rationale for entering into the Agreement

The Group is principally engaged in property related businesses and provision of horticultural services. As at the Latest Practicable Date, the principal properties of the Group were located in either Hong Kong or the PRC. We were advised by the Directors that they are of the view that the Acquisition provides the Group with a good opportunity to expand and diversify the Group's property investment portfolio into the overseas market.

The Goldease Group is principally engaged in property development, and its principal assets are the Singapore Properties, which comprise 11 apartment units of Jewel of Balmoral at 7C Balmoral Park, Singapore and 4 apartment units of ten@suffolk at Suffolk Road, Singapore with the total floor area of approximately 1,476 sq.m. and 427 sq.m. respectively. The development of the Singapore Properties has been completed and they are available for sale and lease. All units of the Singapore Properties are for residential use.

Singapore has been experiencing a steady economic growth. According to the information from the Singapore Department of Statistics, the gross domestic product of Singapore for the first quarter of 2007 amounted to approximately S\$54.9 billion, representing an increase of approximately 8.5% over the previous corresponding period. Building on the strong buying sentiments in the private residential market, prices for private residential properties in the first quarter of 2007 made their steepest climb in seven years. According to the real estate statistics released by the Singapore Urban Redevelopment Authority ("URA"), the overall prices of private residential properties in Singapore recorded a growth of 4.8% in the first quarter of 2007 as compared to an increase of 3.8% in the last quarter of 2006. During the first quarter of 2007, the average selling price of the prime residential market continued to climb upwards and reached a new peak. A total of 5,592 transactions were recorded during the first quarter of 2007, which surpassed the total of 4,534 transactions recorded in the same period last year.

According to a research conducted by Knight Frank, an independent professional property consultancy company, the outlook for the private residential market in Singapore remains optimistic and the overall private residential property prices are forecasted to grow by another 3% to 5% in the second quarter of 2007 and 12% to 17% for the whole year of 2007.

The residential rental market in Singapore also showed good performance in the first quarter of 2007 as a result of the collective sales activities as well as strong expatriate demand for prime properties. According to the real estate statistics released by the URA, the rentals of private residential properties rose 7.6% in the first quarter of 2007, compared with the 5.3% increase in the previous quarter. Although the number of leases registered in the first quarter of 2007 was about 50% lower than that of the same period last year, the falling vacancy rate from 6.1% in the fourth quarter of 2006 to 5.1% in March 2007 suggested that the underlying demand in the rental market was still healthy.

LETTER FROM HERCULES

According to a market study performed by Savills (Singapore) Pte Ltd., the robust demand and decreasing supply of properties in the prime districts of Singapore due to collective sales are expected to push rents further up by about 4% to 8 % over the next quarter and the rents in suburban markets will also continue to rise by another 5% to 10% due to the spillover effects from the prime districts as well as the increasing number of foreigners choosing to work and study in the suburban areas.

In the absence of any unforeseen adverse factors which may negatively impact the property market in Singapore, we expect that the property market in Singapore shall maintain a steady growth as long as the economic growth in Singapore is sustained.

Given that the property market in Singapore appears promising and the Acquisition shall enable the Group to diversify its property investment portfolio, we consider the acquisition of the Singapore Properties is in the interests of the Company and the Shareholders as a whole.

(c) Information on the Goldease Group

Goldease is an investment holding company incorporated in the British Virgin Islands with limited liability. Its subsidiaries, including Arundel Trading Pte Ltd, Firth Enterprises Pte Ltd and Hong Fok Development (Newton) Pte Ltd, are principally engaged in property development. The Singapore Properties were the major assets of Goldease Group as at the Latest Practicable Date.

The audited combined financial information of the Goldease Group, which was prepared in accordance with International Financial Reporting Standards, is summarised as follows:

Table 1: Summary financial information of the Goldease Group

	For the Year Ended 31 December		
	2006 (audited) (\$\$'000)	2005 (audited) (\$\$'000)	2004 (audited) (\$\$'000)
Revenue			
– gross rental income	364	360	349
– sale of development properties	23,070	–	–
– interest income on late payments	3	–	–
	23,437	360	349
Subtotal			
Other income	84	4	12
(Allowance made)/write-back of allowance for foreseeable losses or diminution in value of development properties, net	849	–	(400)
Depreciation of fixed assets	(36)	(4)	(5)
Cost of sales of development properties	(23,077)	–	–
Other operating expenses	(641)	(90)	(287)
Finance costs	(1,757)	(628)	(406)
	(1,141)	(358)	(737)
Loss from operations before taxation			
Loss for the year	(1,141)	(358)	(737)

LETTER FROM HERCULES

	As at 31 December		
	2006	2005	2004
	(audited)	(audited)	(audited)
	(\$'000)	(\$'000)	(\$'000)
Total assets	33,342	49,990	40,100
Total liabilities	(50,946)	(66,453)	(56,205)
Net liabilities	(17,604)	(16,463)	(16,105)

The turnover of the Goldease Group comprised mainly (i) rental income generated from properties owned by the Goldease Group in Singapore and (ii) sale proceeds of properties owned by the Goldease Group in Singapore. The rental income generated from the properties owned by the Goldease Group in Singapore for the three years ended 31 December 2006 remained stable with an average of approximately S\$358,000 per annum. The increase in turnover for the year ended 31 December 2006 was attributable to the recognition of the sale of units of ten@suffolk during the year.

Due to the high finance costs, the Goldease Group recorded continuous losses during the three years ended 31 December 2006. The accumulated losses resulted in a significant deficit in the Company, which amounted to approximately S\$17.6 million as at 31 December 2006.

Although the residential property market in Singapore has a promising prospect and the Group may leverage on its expertise and experience of property management in Hong Kong to improve the Goldease Group's future performance, we consider that uncertainty will remain a risk in the future development and prospects of the Goldease Group's business given the unsatisfactory track record of the Goldease Group.

In summary, we note that:

- (i) the Goldease Group has been suffering from continuous losses in the three years ended 31 December 2006;
- (ii) there is no sign of a significant recovery in the Goldease Group's performance even a significant amount of revenue from sale of properties was recorded in the financial year ended 31 December 2006;
- (iii) the net liabilities attributable to shareholders of Goldease have been increasing due to continuous operating losses. The net liabilities attributable to shareholders of Goldease increased from approximately S\$16.1 million as at 31 December 2004 to approximately S\$17.6 million as at 31 December 2006; and
- (iv) the future prospects of the Goldease Group are uncertain as the Goldease Group may not be able to turn around its results in the near future.

LETTER FROM HERCULES

Having considered the above, we consider that it is uncertain as to whether the Goldease Group will be able to achieve any significant improvement in its profitability in the near future. If the Goldease Group fails to improve its results, the Group's performance may be negatively impacted after Completion.

(d) Consideration of the Acquisition

The total consideration for the sale and purchase of the Sale Shares and the Sale Loan is S\$22,242,122 (equivalent to approximately HK\$114 million). According to the Directors, the Consideration was determined after arm's length negotiation between the Company and the Vendor with reference to the open market value of the Singapore Properties as at 30 April 2007 of approximately S\$29,428,000 (equivalent to approximately HK\$150.8 million) as appraised by Savills (Singapore) Pte Ltd, an independent valuer.

(i) Valuation of the Singapore Properties

To assess the fairness and reasonableness of the valuation of the Singapore Properties, we have discussed with Savills (Singapore) Pte Ltd and reviewed the methodology, bases and key assumptions employed in the valuation. We understand that Savills (Singapore) Pte Ltd has applied the sales comparison approach which considers prices recently paid for comparable market transactions having similar characteristics and locations. Based on our discussions with Savills (Singapore) Pte Ltd and review of the valuation report, we consider that the methodology applied is consistent with general market practices and overall the bases and assumptions used are fair and reasonable, and therefore we consider the valuation of the Singapore Properties fair and reasonable.

(ii) Our analysis

In forming our opinion on the Consideration, we have considered the following comparison approaches, namely, price-to-earnings approach, dividends approach and net assets approach, all of which are commonly adopted in the evaluation of a company.

Price-to-earnings Approach

The Goldease Group recorded operating losses during each of the past three years and thus evaluation of the consideration for the Sale Shares by reference to historical price-earnings ratio is not possible.

Dividends Approach

The Goldease Group did not declare any dividend in the past three years. Accordingly, dividends approach is not applicable for assessing the consideration for the Sale Shares.

LETTER FROM HERCULES

Net Assets Approach

According to the accountants' report on Goldease Group as set out in Appendix III to this Circular, the combined net liabilities and the book value of the Sale Loan of Goldease Group as at 31 December 2006 amounted to approximately S\$17.6 million and S\$35.9 million respectively. As such, the net value of the combined net liabilities of Goldease Group and the net book value of the Sale Loan was approximately S\$18.3 million as at 31 December 2006.

Based on the property valuation of the Goldease Group as at 30 April 2007 as set out in Appendix VIII to the Circular, the Goldease Group should have a revaluation surplus, which represents the difference between the revalued amount and the book value of the Singapore Properties, net of potential tax liability thereon, of approximately S\$5.7 million. After taking into account of the revaluation surplus of the Singapore Properties, the adjusted net amount of the combined net liabilities of the Goldease Group and the net book value of the Sale Loan would have been approximately S\$24.0 million. Accordingly, the consideration for the Acquisition of approximately S\$22.2 million represents a discount of approximately 7.5% to the adjusted net value of the Sale Shares and the Sale Loan.

In light of the above, we consider that the Consideration amount is fair and reasonable so far as the Independent Shareholders are concerned.

(e) Financing of the Consideration

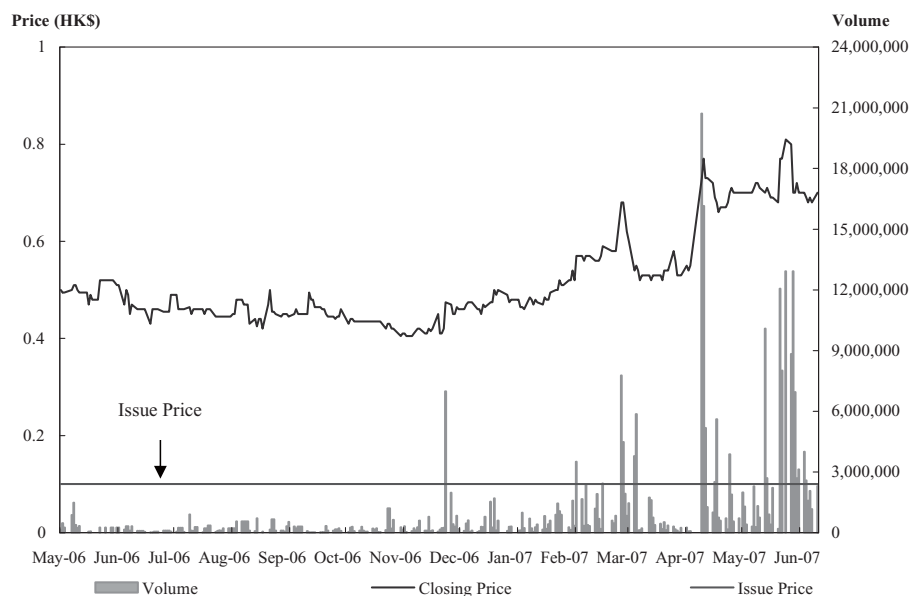
Pursuant to the Agreement, the Consideration will be satisfied by cash of S\$4,681,146 while the remaining balance of S\$17,560,976 will be satisfied by the issue of 900,000,000 new Shares at an issue price of HK\$0.10 per Share on Completion.

(i) Issue price of the Consideration Shares

As stated in the Letter from the Board, the issue price of the Consideration Shares of HK\$0.10 (the "**Issue Price**") was determined by the parties after arm's length negotiation and having taken into account the prevailing market price of the Shares and the possible effects of the Distribution in Specie to the price of the Shares.

LETTER FROM HERCULES

To assess the reasonableness of the Issue Price, we have reviewed the share performance of the Company during the full twelve calendar month period from 2 May 2006 to 25 May 2007, being the date of the Agreement (the “**Pre-announcement Period**”), and from that date to the Latest Practicable Date (the “**Post-announcement Period**”) (the “**Review Period**”). A chart of the historical closing price and trading volume of the Shares during the Review Period is set out below:



Source: Stock Exchange website

Note: On market days when the Shares are not traded, closing price equals to that of the preceding trading day.

LETTER FROM HERCULES

Table 2 below sets out the trading statistics for the Review Period compared with the Issue Price:

Table 2: Trading Statistics for the Review Period

	Closing Price	Premium/ (discount) implied by the Issue Price
	<i>HK\$</i>	<i>%</i>
Last Trading Day	0.810	(87.7)
Average of the 5-day period up to and including the Last Trading Day	0.744	(86.6)
Average of the 20-day period up to and including the Latest Trading Day	0.715	(86.0)
Average of the 30-day period up to and including the Last Trading Day	0.707	(85.9)
Average of the Review Period	0.521	(80.8)
Latest Practicable Date	0.620	(83.9)
Highest (25 May 2007)	0.810	(87.7)
Lowest (31 October 2006, 3 November 2006 and 6 November 2006)	0.405	(75.3)
Unaudited pro forma net assets per Share (<i>Note</i>)	0.109	(8.6)

Source: the Stock Exchange website

Note: Based on the unaudited pro forma net assets of the Enlarged Remaining Group shown in Appendix VI and 2,392,410,986 Shares in issue upon Completion.

Based on the trading statistics shown above, we note that the Issue Price represents significant discounts of 75.3% to 87.7% to the average closing prices for the different periods described above.

However, as Completion and completion of the Group Reorganisation will take place contemporaneously, the market price of the Shares is highly unlikely to remain at current levels following completion of the Group Reorganisation due to the Distribution in Specie. Therefore, we consider that the current market price is not a good reference for assessing the fairness and reasonableness of the Issue Price. Alternatively, we have compared the price-to-book ratio of the Company implied by the Issue Price with that of the market comparables to assess the fairness and reasonableness of the Issue Price.

Pursuant to the unaudited pro forma balance sheet of the Enlarged Remaining Group as set out in Appendix VI to this Circular, the net asset value of the Enlarged Remaining Group after the Completion would be approximately HK\$261.8 million. Based on the total number of issued Shares of 2,392,410,986 after Completion and when the Offer becomes unconditional, the net asset value per Share of the Enlarged Remaining Group after Completion would be approximately HK\$0.109. Accordingly, the price-to-book ratio implied by the Issue Price of HK\$0.1 would be approximately 0.92.

LETTER FROM HERCULES

To assess the fairness and reasonableness of the issue price of the Consideration Shares, we have identified, to the best of our knowledge, all companies which (a) are currently listed on the Main Board of the Stock Exchange; (b) had over 75% of their turnover derived from property investment and trading, including the leasing of properties to generate rental income and to gain from the appreciation in the properties' values in the long term, and provision of property management services based on the latest published annual report prior to the Latest Practicable Date; and (c) had a market capitalisation of not more than HK\$1.2 billion, which we consider as a sensible benchmark as it is reasonably close to the market capitalization of the Company before and after the Completion and it gives reasonably sufficient samples for comparison purpose.

On this basis, we have identified, on our best efforts, 13 companies that meet all the criteria set above. However, as the trading of shares of three identified companies have been suspended for more than three months, we consider that the trading information of those companies may not reflect the current market conditions and thus those companies are excluded from our analysis. Moreover, one of the identified companies had net liabilities. Therefore, such company is also excluded in our price-to-book ratio analysis. The price-to-book ratios of the Company and all the remaining comparable companies (the “**Issue Price Comparables**”) are tabulated as follows:

Table 3: Issue Price Comparables

Company Name (stock code)	Market capitalisation as at the Latest Practicable Date	Latest published net asset value	Price-to-book ratios
	<i>HK\$' million</i>	<i>HK\$' million</i>	<i>times</i>
Dynamic Holdings Limited (29)	1,056	1,027	1.03
New Heritage Holdings Limited (95)	480	469	1.02
Chi Cheung Investment Company, Limited (112)	813	760	1.07
China Fair Land Holdings Limited (169)	231	310	0.75
Tern Properties Company Limited (277)	1,084	1,272	0.85
Berjaya Holdings (HK) Limited (288)	177	27	6.56
Greater China Holdings Limited (431)	235	316	0.74
Paladin Limited (495)	239	82	2.91
Shimao International Holdings Limited (649)	836	629	1.33
Maximum ⁽¹⁾			2.91
Minimum			0.74
Average ⁽¹⁾			1.21
Median ⁽¹⁾			1.03
The Company (63)			
– before completion of the Proposal	925	1,884	0.49
– after completion of the Proposal	239⁽²⁾	262⁽³⁾	0.92

Source: www.hkex.com.hk

LETTER FROM HERCULES

Notes:

1. The price-to-book ratio of Berjaya Holdings (HK) Limited, which is considered as an outlier, is excluded.
2. Calculated based on the Issue Price of HK\$0.1 per Share and 2,392,410,986 issued Shares when the Offer becomes unconditional.
3. Represents the pro forma net asset value of the Enlarged Remaining Group, which is extracted from the pro forma financial statements on the Enlarged Remaining Group as set out in Appendix VI of this circular.
4. The trading of shares of Shimao International Holdings Limited was suspended on the Latest Practicable Date. Therefore, the closing price on 26 June 2007, the day immediately before the Latest Practicable Date, is used to calculate the market capitalisation.

As shown in the above table, shares of the Issue Price Comparables traded between approximately 0.74 times to 2.91 times of their respective net asset values. The average and median price-to-book ratio of the Issue Price Comparables are 1.21 times and 1.03 times respectively. Therefore, the price-to-book ratio of the Company implied by the Issue Price falls within the range indicated by the Issue Price Comparables and it is lower than the average and median price-to-book ratio of the Issue Price Comparables but higher than that of the Company before completion of the Proposal.

In view of the above, we consider that the Issue Price is in line with the valuation of the Issue Price Comparables based on the latest market price by reference to the underlying net asset values and thus the Issue Price, when considered in isolation from the price-to-book ratio perspective, is fair and reasonable so far as the Independent Shareholders are concerned.

(ii) Dilution effect arising from the issue of the Consideration Shares

The Consideration Shares represent approximately 60.3% of the existing share capital of the Company and approximately 37.6% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares. Immediately after the issue of the Consideration Shares and assuming that there will be no change in the shareholding of the Company up to and including the Completion Date (other than the issue of the Consideration Shares), the shareholding of the Independent Shareholders in the Company will be diluted from approximately 59.3% to approximately 37.0%.

The decrease of approximately 37.6% in shareholding of the Company held by the Independent Shareholders is significant in magnitude. However, we consider that other factors such as the benefits and future values to be derived from the Acquisition should also be considered as a whole before concluding whether the potential dilution effect caused by the Acquisition is fair and reasonable to the Independent Shareholders.

LETTER FROM HERCULES

(f) Other Considerations for the Acquisition

The Acquisition is conditional, *inter alia*, on the Group Reorganisation which, upon completion, will result in (i) the Company continuing to be a listed company and the Remaining Group carrying on the Remaining Businesses; (ii) the HF Land Group carrying on the Distributed Businesses; and (iii) the HF Land Shares being distributed in specie to the Shareholders whose names appear on the register of members of the Company on the Record Date on the basis of one HF Land Share for each Share held.

As no application will be made for the listing of the HF Land Share on the Stock Exchange or any other stock exchange, Independent Shareholders who accepts the Proposal will be holding unlisted and illiquid HF Land Shares upon completion of the Group Reorganisation. Nevertheless, it is stated in the letter from the Board that after completion of the Group Reorganisation and subject to the consent from the Executive, Kingsway will, on behalf of the Offeror, make the Offer to the Disinterested HF Land Shareholders. The Offer will provide a partial exit to the Disinterested HF Land Shareholders. In view of the foregoing, we believe that it is appropriate for us to conduct a preliminary evaluation of the terms of the Offer based on the information available up to the Latest Practicable Date before drawing an overall conclusion on the Acquisition, which form part and parcel of the Proposal.

B. The Offer

After completion of the Group Reorganisation and subject to the consent from the Executive, Kingsway will, on behalf of the Offeror, make a conditional partial offer to the Disinterested HF Land Shareholders whose names appear on the register of members of the Company on the Record Date on an assured basis as follows:

**HK\$0.16 in cash plus ONE
3-year Bond with a face value
of HK\$0.24 plus TWO existing**

For each Specified HF Land Share held* Shares held by the Vendor

The Offeror cannot accept more, or less, than 294,789,400 HF Land Shares under the Offer. There is an assured entitlement of Disinterested HF Land Shareholders to sell to the Offeror one-third of the HF Land Shares held by the Disinterested HF Land Shareholders on the Record Date (“**Assured Entitlement**”). In excess of the Assured Entitlement, however, there is no guarantee that all (or any) such excess HF Land Shares will be taken up.

If the Offeror needs to accept further shares to reach its target level of 294,789,400 HF Land Shares (which will occur if any Disinterested HF Land Shareholders either do not accept the Offer, or accept for less than the Assured Entitlement), then the Offeror will be entitled to take acceptances from Disinterested HF Land Shareholders who have tendered more than the Assured Entitlement (“**Surplus Shares**”). The Offeror will take up from each such accepting Disinterested HF Land Shareholder a sufficient number of Surplus Shares to enable it to reach its target level of 294,789,400 HF Land Shares. The number of Surplus Shares acquired from each Disinterested HF Land Shareholder must be in the same proportion as the further HF Land Shares required to the total pool of Surplus Shares.

LETTER FROM HERCULES

The making of the Offer is subject to pre-conditions (i.e. Completion, completion of the Group Reorganisation and consent for the Executive) being fulfilled.

(a) The Offer price

The Offer price (the “**Offer Price**”) for each Specified HF Land Share held is HK\$0.16 payable in cash plus the Bond and two existing Shares held by the Vendor.

(i) Bond valuation

Based on the valuation of the Bonds prepared by Sallmanns as at 25 May 2007, the hypothetical fair value of a Bond is HK\$0.2255.

To assess the fairness and reasonableness of the valuation of the Bond, we have discussed with Sallmanns and reviewed the methodology, bases and key assumptions employed in the valuation. As noted in our discussion with Sallmanns, the value of the Bond is estimated by discounting all future cash flows using a discount rate, which is determined after taking into consideration, *inter alia*, the yields of interest-bearing securities of certain comparable companies of HF Land. Based on our discussions with Sallmanns and review of the valuation report, we consider that the basis and assumptions have been made with due care and objectivity, and they are fair, reasonable and adequate as they are made based on reasonable estimates of available market data, and therefore the valuation is fair and reasonable.

LETTER FROM HERCULES

(ii) *Value of the Offer*

Under the Offer, two existing Shares held by the Vendor are given as part of the consideration. Given the heavy weighting of the Shares in the consideration of the Offer, the Offer Price changes by day with fluctuations in Share prices. To assess the Offer Price, we have also taken into account the historical trading volume of the Shares. We set out in Table 4 below a summary of the Share trading volumes during the Review Period:

Table 4 – Historical trading volume of the Shares

	Total trading volume <i>Shares</i>	Average daily trading volume <i>Shares</i>	Average daily trading volume to issued Shares ⁽¹⁾	Average daily trading volume to free float Shares ⁽²⁾
2006				
May	4,521,332	226,067	0.02%	0.03%
June	1,215,000	55,227	0.00%	0.01%
July	2,971,663	141,508	0.01%	0.02%
August	3,194,326	138,884	0.01%	0.02%
September	2,351,000	111,952	0.01%	0.01%
October	4,212,526	210,626	0.01%	0.02%
November	14,002,097	636,459	0.04%	0.07%
December	7,793,332	410,175	0.03%	0.05%
2007				
January	11,466,700	521,214	0.03%	0.06%
February	31,390,281	1,743,905	0.12%	0.20%
March	19,277,193	876,236	0.06%	0.10%
April	62,052,281	3,447,349	0.23%	0.39%
May	89,443,556	4,259,217	0.29%	0.48%
June (up to the Latest Practicable Date)	34,791,000	1,932,833	0.13%	0.22%

Source: Stock Exchange website

Notes:

1. Based on 1,492,410,986 Shares in issue as at the Latest Practicable Date.
2. Based on 884,368,199 free float Shares, calculated as 1,492,410,986 Shares in issue less 608,042,787 Shares held by the Vendor, its associates and the Offeror Parties as at the Latest Practicable Date.

As illustrated in Table 4, the daily trading volume of the issued Shares has been less than 1% of the free float Shares during the whole Review Period. The average volume of the Shares traded each month since May 2006 represents approximately 1.38% of the shares in issue. The aggregate amount of Shares owned by the Independent Shareholders as at the Latest Practicable Date represents approximately 42.89 times the average monthly trading volume for the Review Period. Given the thin trading volume of the Shares, a sufficiently active

LETTER FROM HERCULES

market may not exist in the Shares to enable the Shareholders, who may wish to dispose of their Shares to do so without exerting a downward pressure on the price of the Shares in the short term.

Independent Board Committee and Independent Shareholders should note that the issue of large quantities of Consideration Shares may cause the existing Shares to decline in value or counteract price appreciation potential. Independent Shareholders would highly unlikely to be able to realise their Shares at the value they enjoyed prior to completion of the Proposal for the aforesaid reason and due to the Group Reorganisation. In addition, given the low liquidity of the Shares during the Review Period, we are of the view that the Disinterested HF Land Shareholders who have received the Shares as a result of acceptance of the Offer, depending on the size of their holdings, may not be able to realise their Shares and significant selling may exert downward pressure on the Share price. Nevertheless, for reference purposes, we set out in Table 5 the implied Offer Price (i) based on the closing price of the Shares during the Review Period; and (ii) with the value of the Shares disregarded.

Table 5 – Implied Offer Price

	<u>Closing Price</u>	<u>Offer Price</u>
	<i>HK\$</i>	<i>HK\$</i>
Last Trading Day (“ Maximum Offer Price ”)	0.810	2.0055
Latest Practicable Date	0.620	1.6255
Average during the Review Period	0.521	1.4275
Highest (25 May 2007)	0.810	2.0055
Lowest (31 October 2006, 3 November 2006 and 6 November 2006)	0.405	1.1955
Excluding the value of the Shares (“ Minimum Offer Price ”)	–	0.3855

LETTER FROM HERCULES

(b) Indicative valuation benchmarks

(i) Price-earnings multiple

One of the most commonly used benchmarks for valuing companies is price-to-earnings ratio (“**P/E**”). Based on 1,492,410,986 HF Land Shares to be issued and the combined income statement of the HF Land Group set out in Appendix IV to the Circular, the HF Land Group recorded a net profit per HF Land Share of HK\$0.11878 for the financial year 2006. Table 6 below summarises the P/E ratios for the HF Land Group based on the Offer Price against various reference periods.

Table 6: P/E Comparison

	<u>Offer Price</u>	<u>P/E</u>
	<i>HK\$</i>	<i>times</i>
Last Trading Day	2.0055	16.88
Latest Practicable Date	1.6255	13.68
Average during the Review Period	1.4275	12.02
Highest (25 May 2007)	2.0055	16.88
Lowest (31 October 2006, 3 November 2006 and 6 November 2006)	1.1955	10.06
Excluding the value of the Shares	0.3855	3.24

(ii) Price-to-book value ratio (“P/B”)

Based on the combined balance sheet of the HF Land Group set out in Appendix IV of this circular and the property valuation on the HF Land Group set out in Appendix IX to the Circular, we set out in Table 7 below the adjusted net asset value (the “**Adjusted NAV**”) of the HF Land Group:

Table 7: Adjusted NAV of the HF Land Group

	<i>HK\$'000</i>
Net asset value as at 31 December 2006	1,719,534
Revaluation surplus on properties held for investment in Hong Kong ⁽¹⁾	6,000
Less: Deferred taxation	<u>(1,050)⁽³⁾</u>
Adjusted NAV	<u>1,724,484</u>
Adjusted NAV per HF Land Share⁽²⁾ (HK\$)	<u>1.15550</u>

Notes:

- Based on the revaluation surplus of (i) Magazine Gap Towers, No. 15 Magazine Gap Road, Mid-Levels, Hong Kong; and (ii) Magazine Heights, No. 17 Magazine Gap Road, Mid-Levels, Hong Kong as shown in Appendix IX to the Circular.

LETTER FROM HERCULES

2. Based on 1,492,410,986 HF Land Shares in issue upon completion of the Group Reorganisation.
3. Based on a 17.5% tax rate.

Table 8 below summarises the P/B ratios of the HF Land Group based on the implied values of the Specified HF Land Shares against various reference periods.

Table 8: P/B ratios of the HF Land Group

	Offer Price	P/B
	<i>HK\$</i>	<i>times</i>
Last Trading Day	2.0055	1.74
Latest Practicable Date	1.6255	1.41
Average during the Review Period	1.4275	1.24
Highest (25 May 2007)	2.0055	1.74
Lowest (31 October 2006, 3 November 2006 and 6 November 2006)	1.1955	1.03
Excluding the value of the Shares	0.3855	0.33

(iii) Dividend yield

In the absence of any dividend payment record of the HF Land Group, we are unable to assess the Offer Price using dividend yield.

(c) Comparable Company Analysis

Set out in Table 9 below is a comparison of the valuation statistics of HF Land implied by the Offer Price with the market valuations at which its comparable companies (“**Comparables**”) are currently trading. We have identified six Comparables based on the best of our knowledge. The Comparables are selected based on the following criteria:

- Hong Kong publicly listed companies with market capitalisation not more than HK\$1.2 billion;
- over 80% of turnover derived from property development, investment and trading, and provision of property management services based on the latest published annual report prior to the Latest Practicable Date; and
- business coverage includes only Hong Kong and the PRC, being all of HF Land Group’s operating geographies.

LETTER FROM HERCULES

Table 9: Trading multiples of the Comparables

Comparables (stock code)	Principal activities	Market capitalisation ⁽¹⁾	P/E ⁽²⁾	P/B ⁽²⁾	Dividend yield ⁽³⁾
		<i>HK\$'million</i>	<i>times</i>	<i>times</i>	<i>%</i>
Dynamic Holdings Limited (29)	Property investment and development	1,056	8.11	1.03	1.25
Shenzhen High-Tech Holdings Limited (106)	Property investment and development and trading, securities trading and investment holding	692	n.a.	0.61	n.a.
Chi Cheung Investment Company Limited (112)	Property development and investment	813	8.62	1.07	n.a.
Dan Form Holdings Company Limited (271)	Property investment & development, estate management and investment holding	1,124	21.06	0.62	n.a.
Shimao International Holdings Limited (649)	Property development and investment, and hotel operation	836 ⁽⁴⁾	n.a.	1.33	n.a.
Northern International Holdings Ltd (736)	Properties investment	294	25.74	14.24	n.a.
Maximum		1,124	25.74	14.24	1.25
Minimum		294	8.11	0.61	1.25
Average		803	15.88	3.15	1.25
Median		825	14.84	1.05	1.25
HF Land					
Maximum Offer Price		2,993	16.88	1.74	n.a.
Minimum Offer Price		575	3.24	0.33	n.a.

Notes:

- Market capitalisations of the Comparables as at the Latest Practicable Date were quoted from Bloomberg. Market capitalisation of HF Land is calculated based on the Offer Price and 1,492,410,986 HF Land Shares in issue upon completion of the Group Reorganisation.
- Trading multiples for the Comparables as at the Latest Practicable Date were quoted from Bloomberg. Implied P/E and P/B for HF Land is calculated based on the Offer Price.
- Dividend yield for the Comparables as at the Latest Practicable Date were quoted from Bloomberg.
- The trading of shares of Shimao International Holdings Limited was suspended on the Latest Practicable Date. Therefore, the closing price on 26 June 2007, being the day immediately before the Latest Practicable Date, is used to calculate the market capitalisation.
- n.a. denotes not applicable.

LETTER FROM HERCULES

As noted in Table 9 above,

- (i) the Maximum Offer Price implies a P/E which is slightly higher than the average and median of the Comparables in the most optimistic case and a P/B which is higher than the median but lower than the average of the Comparables; and
- (ii) the Minimum Offer Price implies a P/E and a P/B which are materially lower than the mean and median of the Comparables.

The Offer Price is therefore inadequate relative to the market valuation of the peers of HF Land. Accordingly, we are of the view that the Offer is unattractive and is not fair and reasonable so far as the Independent Shareholders are concerned.

(d) Other Considerations

(i) The Offer is a partial offer

There is only an assured entitlement of Disinterested HF Land Shareholders to sell to the Offeror one-third of the HF Land Shares registered in their names on the Record Date. In excess of the Assured Entitlement, however, there is no guarantee that all (or any) such excess HF Land Shares will be taken up. There is a high likelihood that Disinterested HF Land Shareholders who accept the Offer will not be able to sell all of their shareholdings and are left with unlisted and illiquid shareholdings.

(ii) The Offer creates uncertainties for shareholders

- The Proposal is likely to result in considerable uncertainty with respect to the outcome of the Share price and thus the implied value of the Offer.
- Disinterested HF Land Shareholders who accept the Offer will receive two Shares as part of the Offer Price. Given the low liquidity of the Shares, Disinterested HF Land Shareholders who have received the Shares as a result of acceptance of the Offer may not be able to realise all or part of their investments in the Company at the time and price they intend to (depending on the size of their holdings).
- Although it is stated in the letter from the Board that it is the intention of the Vendor that the HF Land Group will not conduct any business other than the Distributed Business or hold any asset other than those assets related to the Distributed Business which would be inherited from the Group Reorganisation, unless prior approval from its shareholders has been obtained, the Offeror has not proposed any alternative strategy for delivering additional value for all Disinterested HF Land Shareholders.

LETTER FROM HERCULES

- No dividend policy has been formulated for the HF Land Group. Disinterested HF Land Shareholders' remaining investment in the HF Land Group would be adversely affected if they cannot realise all their investments in HF Land Group.
- As there is no open market for the trading of the HF Land Shares, it would not only affect the transparency of the value of the HF Land Group, but also may have effect on the value of the HF Land Shares.

(iii) Partial value locks up in the Bond and related risks

Given the unlisted and unconvertible nature of the Bonds, Disinterested HF Land Shareholders who have received the Bond(s) as a result of acceptance of the Offer may not be able to unlock the value in the Bonds until maturity.

Although the Vendor will unconditionally guarantee the performance of the Bonds, holders of the Bonds are still subject to the risks associated with holding the Bonds, including the inability of the issuer to pay interest or repay principal on the Bonds, on a timely basis or at all.

(iv) Protection for the HF Land Shareholders

For a listed company on the Stock Exchange, the shareholders of which are protected by the Listing Rules which contains among others, the following provisions:

- requirement to make announcement to inform the shareholders of a listed issuer on major new development which is necessary to enable the shareholders to appraise the position of the listed issuer;
- disclosure and shareholders' approval requirement for dealing with certain transactions, principally acquisitions and disposals;
- protection to independent shareholders for connected transactions;
- publication of results announcements, annual and interim reports within a certain period of time; and
- arrangement for voting by poll and interested parties have to abstain from voting.

However, after completion of the Distribution in Specie, HF Land Group (which is a member of the Group before completion of the Distribution in Specie) no longer needs to comply with the Listing Rules and the HF Land Shareholders are thus no longer protected by the above provisions. HF Land will be only governed by the new bye-laws of HF Land and not subject to the requirements of the Listing Rules.

LETTER FROM HERCULES

The new bye-laws of HF Land contain provisions regarding rights of HF Land Shareholders which are substantially similar to those contained in the bye-laws or articles of association of listed issuers on the Main Board of the Stock Exchange. However, the protection for the HF Land Shareholders would be reduced as compared to the full provisions as provided under the Listing Rules.

Under the circumstance, there does not appear to be any compelling reason for the Independent Shareholders to support the Proposal in light of the terms of the Offer.

C. The Whitewash Waiver

As at the Latest Practicable Date, in addition to the 602,645,787 Shares (representing approximately 40.4% of the issued share capital of the Company) held by the Vendor, parties acting in concert with the Vendor held in aggregate 5,397,000 Shares (representing approximately 0.3% of the issued share capital of the Company). Following the allotment and issue of the Consideration Shares by the Company to the Vendor on Completion, the Vendor and parties acting in concert with it will hold in aggregate 1,508,042,787 Shares (representing approximately 63.0% of the enlarged issued share capital of the Company). In the absence of the Whitewash Waiver, the Vendor would incur an obligation pursuant to Rule 26 of the Takeovers Code to make a mandatory offer to the Shareholders to acquire all the Shares other than those already held by the Vendor and parties acting in concert with it and the Consideration Shares.

Given that (i) the Whitewash Waiver is incidental to the Acquisition; (ii) the Acquisition forms part and parcel of the Proposal; (iii) the Proposal may create considerable uncertainty as to the liquidity of the HF Land Shares and leave the Disinterested HF Land Shareholders a residual shareholding that is unlisted and illiquid; (iv) the Proposal is likely to result in considerable uncertainty with respect to the outcome of the Share price and thus the implied value of the Offer; and (v) the Offer is inadequate from a financial point of view to HF Land Shareholders, we are of the view that the grant of the Whitewash Waiver is neither fair and reasonable nor in the interest of the Independent Shareholders.

D. The Capital Reorganisation

In order to facilitate the Distribution in Specie and the allotment and issue of the Consideration Shares, it is proposed that the Share Premium Cancellation and the Share Capital Increase be considered respectively at the SGM.

Given (i) the Capital Reorganisation is incidental to the Acquisition; (ii) the Acquisition forms part and parcel of the Proposal; (iii) the Proposal may create considerable uncertainty as to the liquidity of the HF Land Shares and leave the Disinterested HF Land Shareholders a residual shareholding that is unlisted and illiquid; (iv) the Proposal is likely to result in considerable uncertainty with respect to the outcome of the Share price and thus the implied value of the Offer; and (v) the Offer is inadequate from a financial point of view to HF Land Shareholders, we are of the view that the Capital Reorganisation is neither fair and reasonable nor in the interest of the Independent Shareholders.

LETTER FROM HERCULES

E. Pro forma financial effects of the Proposal

Set out in Table 10 below is the pro forma financial effects of the Proposal on the Group based on the “Unaudited pro forma combined balance sheet” set out in Appendix VI to the Circular:

Table 10: Pro forma financial effects of the Proposal

	<u>Before the Group Reorganisation</u>	<u>After the Group Reorganisation</u>	<u>Percentage change</u>
	The Group	The Enlarged Remaining Group	%
Number of shares in issue	1,492,410,986	2,392,410,986	60.3
Net asset value (HK\$'000)	1,884,290	261,814	(86.1)
Net asset value per share (HK\$)	1.263	0.109	(91.4)
Current ratio (times)	0.2	15.6	n.a.
Debt/equity ratio (Note 1)	40.2%	74.7%	n.a.

1. Calculated as total liabilities divided by shareholders' equity.
2. n.a. denotes not applicable.

As shown above, net asset value per Share would have decreased by 91.4% had the Acquisition and the Group Reorganisation occurred on 31 December 2006. Although the current ratio would have improved to 15.6 times, the Group's debt-to-equity ratio would have deteriorated from 40.2% to 74.7%.

RECOMMENDATION

Having considered the principal factors discussed above, in particular, the following:

- the Offer is inadequate from a financial point of view to HF Land Shareholders;
- the Proposal is likely to result in considerable uncertainty with respect to the outcome of the Share price and thus the implied value of the Offer;
- the Proposal may create considerable uncertainty as to the liquidity of the HF Land Shares and leave the Disinterested HF Land Shareholders a residual shareholding that is unlisted and illiquid;
- the Offeror has not proposed any alternative strategy for delivering additional value for all HF Land Shareholders; and
- no dividend policy has been formulated for the HF Land Group;

LETTER FROM HERCULES

we consider that the Proposal and the Capital Reorganisation are neither fair and reasonable to, nor in the interest of, the Independent Shareholders. We therefore recommend the Independent Shareholders, as well as the Independent Board Committee to recommend to the Independent Shareholders, to vote against the ordinary resolutions regarding the Proposal and the Capital Reorganisation to be proposed at the upcoming SGM.

Given that the implied values of the Offer will continually change in accordance with the market price movements of the offered Shares and there is still a considerable lead time from the date of this letter to the closing date of the Offer, Disinterested HF Land Shareholders should be mindful of, inter alia, any change in the Hong Kong and international stock markets, financial, economic, market and other conditions, and the latest developments in the operating environment, industry and prospect of the HF Land Group and the Vendor Group before making a decision on the Proposal and the Capital Reorganisation.

Acceptance or rejection of the Proposal and the Capital Reorganisation is a matter for individual Shareholders based on their own views as to fair value and future market conditions, their assessment of the other merits and issues discussed above, and their risk profile, liquidity preference, portfolio strategy, tax position and other factors. In particular, taxation consequences will vary widely across shareholders. Shareholders will need to consider these consequences and consult their own professional advisers if necessary.

Yours faithfully,
For and on behalf of
Hercules Capital Limited
Louis Koo
Managing Director

THE OFFER

After completion of the Group Reorganisation and subject to the consent from the Executive, Kingsway will, on behalf of the Offeror, make a conditional partial offer to the Disinterested HF Land Shareholders whose names appear on the register of members of the Company on the Record Date for the aggregate of one-third of the HF Land Shares held by the Disinterested HF Land Shareholders on the Record Date, being 294,789,400 HF Land Shares based on the issued Shares of the Company as at the Latest Practicable Date, on an assured basis as follows:

	HK\$0.16 in cash plus ONE 3-year Bond with a face value of HK\$0.24 plus TWO existing Shares held by the Vendor
For each Specified HF Land Share held*	

- * The precise number of HF Land Shares for which the Offer is made representing the aggregate of one-third of the HF Land Shares held by the Disinterested HF Land Shareholders on the Record Date.

In the present case, each Specified HF Land Share tendered acceptance by the Disinterested HF Land Shareholders under the Offer is assured to entitle (i) HK\$0.16 in cash; (ii) ONE 3-year Bond with a face value of HK\$0.24; and (iii) TWO existing Shares for every three HF Land Shares held by him on the Record Date if the Offer becomes unconditional.

Consents from the Executive

Pursuant to the Takeovers Code, the Offer is subject to the consent of the Executive. Application has been made to the Executive in this regard.

The making of the Offer is subject to pre-conditions (i.e. Completion, completion of the Group Reorganisation and consent from the Executive) being fulfilled.

The making of the Offer is a possibility only and it may or may not proceed. In the event that the Offer is made, it will be a conditional partial offer.

Conditions of the Offer

Pursuant to Rule 28.5 of the Takeovers Code, the Offer shall be conditional upon:

- (i) the acceptances as equal to or more than 294,789,400 HF Land Shares being received; and
- (ii) approval by the Disinterested HF Land Shareholders, signified on the form of acceptance and transfer of the HF Land Shares specifying the number of HF Land Shares in respect of which the Offer is approved, who hold over 50% of the total number of HF Land Shares (excluding those held by the Vendor, its associates and the Offeror Parties).

The Offeror will declare the Offer unconditional as to acceptances on or prior to the first closing day, upon fulfillment of the above conditions, and comply with Rule 15.3 of the Takeovers Code by extending the final closing day to the 14th day thereafter.

Rule 28.6 of the Takeovers Code

Pursuant to Rule 28.6 of the Takeovers Code, since the Offeror will be interested in more than 50% of the voting rights of HF Land after the Offer becomes unconditional, the Offeror will by then be free, subject to Rule 28.3 of the Takeovers Code, to acquire further HF Land Shares without incurring any obligation to make a general offer.

Rule 28.8 of the Takeovers Code

Pursuant to Rule 28.8 of the Takeovers Code, in the event that a Disinterested HF Land Shareholder tenders acceptances for HF Land Shares in excess of his Assured Entitlement, such shares must be accepted by the Offeror from that Disinterested HF Land Shareholder in the same proportion as the number tendered to the extent necessary to enable the Offeror to obtain the Specified HF Land Shares.

Set out below is the formula according to which, in the event that aggregate valid acceptances received exceeds the Specified HF Land Shares, the valid excess acceptances from each of the relevant Disinterested HF Land Shareholders will be taken up on a pro rata basis in order to enable the Offeror to obtain the Specified HF Land Shares:

$$A \times \frac{B}{C}$$

A: represents the total number of HF Land Shares available for allocation to the HF Land Shareholders who tender acceptances in excess of their Assured Entitlements being:

the Specified HF Land Shares minus the sum of the HF Land Shares in respect of either all or part of the Assured Entitlement of each HF Land Shareholder who validly accepts the Offer

B: represents the number of excess HF Land Shares subject to allocation in respect of which the relevant individual HF Land Shareholder validly accepts the Offer in excess of his Assured Entitlement

C: represents the aggregate number of excess HF Land Shares subject to allocation in respect of which all relevant HF Land Shareholders validly accept the Offer in excess of their Assured Entitlements

If a HF Land Shareholder validly accepts the Offer for the number of HF Land Shares which is less than his Assured Entitlement, the Offeror will include all such HF Land Shares tendered for acceptance in calculating the minimum level of the Specified HF Land Shares required for the Offer to become unconditional. If a HF Land Shareholder tenders an acceptance in excess of his Assured Entitlement, then his Assured Entitlement will be taken up by the Offeror in full first. However, the Offeror may or may not be able to take up all

or part of his excess HF Land Shares depending on the number of HF Land Shares available for allocation from those HF Land Shareholders who accept part or none of their Assured Entitlements.

In the event that aggregate valid acceptances are received for less than the Specified HF Land Shares until the first closing day of the Offer, the Offer will lapse.

Fractional entitlements

Fractions of HF Land Shares will not be taken up by the Offeror under the Offer and accordingly, the number of HF Land Shares that the Offeror will take up from the accepting HF Land Shareholders, whether in respect of their Assured Entitlements or in excess of their Assured Entitlements, will be rounded up or down to the nearest whole number at the sole discretion of the Offeror.

Financing for the Offer

Based on the terms of the Offer and the Specified HF Land Shares, the cash consideration portion of the Offer amounts to approximately HK\$47.2 million. Kingsway, the financial advisor to the Offeror in respect of the Offer, is satisfied that sufficient financial resources are available to the Offeror to satisfy full acceptance of the Offer.

Terms of the Bond

Issuer:	The Offeror
Principal amount:	The Bond will be issued in denominations of HK\$0.24 each. The aggregate number and value of the Bond that will ultimately be issued under the Offer will be ascertained upon the close of the Offer.
Maturity:	On the third anniversary from the date of issue.
Listing:	No application will be made for the listing of or the permission to deal in the Bond on the Stock Exchange or any other stock exchange.
Interest:	The Bond will bear interest from the date of the issue at the rate of 3% per annum on the principal amount of the Bond and interest will be payable by the Offeror semi-annually in arrears from the date of issue of the Bond. The first payment of interest shall be made on the date falling on the day immediately preceding the six-month period after the date of the issue.

Guarantor: The Vendor will unconditionally guarantee the performance of the Bond.

Security: Nil

Estimated value of the Bond

Sallmanns (Far East) Limited, an independent valuer, has advised that if the Bond were in issue as at 25 May 2007, the estimated fair value of the Bond would be HK\$0.2255. Further details in respect of the estimated fair value of the Bond is set out in appendix XI to this circular.

Background of the Offeror and its intention regarding HF Land

The Offeror, a company incorporated in the British Virgin Islands on 27 February 2007, was established solely for the purposes of the Offer. The Offeror is a wholly-owned subsidiary of the Vendor. The board of directors of the Offeror and the Vendor comprises Mr. Cheong Pin Chuan, Patrick, Mr. Cheong Kim Pong, Mr. Cheong Sim Eng and Ms. Cheong Hooi Kheng. Apart from the above, the board of directors of the Vendor also comprises another four non-executive director, namely Madam Lim Ghee, Mr. Jackson Lee, Mr. Lai Meng Seng and Mr. Tan Tock Han. As at the Latest Practicable Date, the directors of the Vendor and their respective associates were in aggregate interested in approximately 70.7% of the total issued share capital of the Vendor and 40.7% of the total issued share capital of the Company. The Vendor is the controlling Shareholder holding an approximately 40.4% interest, together with its associates and the Offeror Parties holding an approximately 40.7% interest, in the Company as at the Latest Practicable Date. The Vendor is, together with its subsidiaries, principally engaged in property investment, property development, property management, investment trading and investment holding and management.

Based on the current shareholding structure of the Company, the Vendor, its associates and the Offeror Parties will be interested in a total of 608,042,787 HF Land Shares immediately upon completion of the Group Reorganisation without taken into account the issuance of the Consideration Shares (representing approximately 40.7% of the then entire issued share capital of HF Land). Given that the HF Land Shares will not be listed on the Stock Exchange or any other stock exchange upon completion of the Group Reorganisation, the Vendor considers that it is appropriate to provide the HF Land Shareholders with an alternative to realize part of their investment in HF Land and increase their investment in the Group by making the Offer. HF Land will either remain as an associated company or become a non-wholly owned subsidiary of the Offeror upon the close of the Offer. Regardless of whether the acceptance of the Specified HF Land Shares being received, it is the intention of the Offeror that the HF Land Group will not make changes to its principal businesses nor conduct any business other than the Distributed Businesses. It is also the intention of the Offeror that the HF Land Group will not hold any assets other than those relating to the Distributed Businesses, nor be injected any major assets, nor dispose of any major assets, after the close of the Offer. The Offeror also has no intention to discontinue the employment of the employees of the HF Land Group after the close of the Offer. If the Offeror received all acceptances of the Specified HF Land Shares, the Offeror Parties will be interested in approximately 60.5% of the issued share capital of HF Land.

Interests of the HF Land Shareholders will be safeguarded by the memorandum of association and bye-laws of the HF Land, which contain provisions substantially similar to those contained in bye-laws of listed issuers on the Main Board of the Stock Exchange. A summary of key terms of the memorandum of association and bye-laws of HF Land is set out in appendix XII to this circular. Independent Shareholders should note that HF Land would remain as a public company under the Takeovers Code.

As at the Latest Practicable Date, the board of directors of HF Land comprises all of the three existing executive Directors, namely Mr. Cheong Pin Chuan, Patrick, Mr. Cheong Kim Pong, Mr. Cheong Sim Eng and Ms. Cheong Hooi Kheng, alternate director to Madam Lim Ghee. None of the independent non-executive Directors has been appointed as a director of HF Land. Upon close of the Offer, the composition of the board of directors of HF Land may change. Further announcements in this regard will be made as and when appropriate.

Stamp duty, dealings and others

As at the Latest Practicable Date, none of the Shareholders or Directors has undertaken or notified the Offeror of an intention to accept or reject the Offer.

The Specified HF Land Shares will be acquired by the Offeror with the right to receive all dividends and distributions declared, paid or made on or after the Record Date and free from all third party rights.

As at the Latest Practicable Date, HF Land has no outstanding securities, options, warrants or derivatives which are convertible into or which confers rights to require the issue of HF Land Shares. The Offeror has confirmed that the Offeror Parties have not entered into any agreements in relation to the issue of any convertible securities, options, warrants or derivatives of HF Land.

The Offeror has confirmed that it has no other arrangements (whether by way of option, indemnity or otherwise) in relation to the HF Land Shares which might be material to the Offer.

The Offeror has further confirmed that there are no other agreements or arrangements to which the Offeror is party which relate to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Offer.

Since HF Land is a company incorporated in Bermuda and its register of members is located and maintained there, no Hong Kong stamp duty is payable on any transfer of the HF Land Shares.

Save for any entitlements to receive HF Land Shares pursuant to the Group Reorganisation, none of the Offeror Parties holds any securities in HF Land. None of the Offeror Parties dealt in any securities in HF Land during the six-month period immediately preceding 25 May 2007 (being the date of commencement of the Offer period as defined in the Takeovers Code and the date of the Joint Announcement).

SHAREHOLDING STRUCTURES

The Company

Set out below are the shareholding structures of the Company (i) as at the Latest Practicable Date; (ii) upon Completion; and (iii) when the Offer becomes unconditional:

Shareholders	As at the Latest Practicable Date		Upon Completion		When the Offer becomes unconditional	
	Shares	%	Shares	%	Shares	%
The Vendor, its associates and the Offeror Parties	608,042,787	40.7	1,508,042,787	63.0	918,463,987	38.4
Barragan Trading Corp.	285,312,566	19.1	285,312,566	11.9	475,520,944	19.9
Public	<u>599,055,633</u>	<u>40.2</u>	<u>599,055,633</u>	<u>25.1</u>	<u>998,426,055</u>	<u>41.7</u>
Total	<u>1,492,410,986</u>	<u>100.0</u>	<u>2,392,410,986</u>	<u>100.0</u>	<u>2,392,410,986</u>	<u>100.0</u>

HF Land

Set out below are the shareholding structures of HF Land (i) upon completion of the Group Reorganisation; and (ii) when the Offer becomes unconditional:

HF Land Shareholders	Upon completion of the Group Reorganisation		When the Offer becomes unconditional	
	HF Land Shares	%	HF Land Shares	%
The Vendor, its associates and the Offeror Parties	608,042,787	40.7	902,832,187	60.5
Barragan Trading Corp.	285,312,566	19.1	190,208,377	12.7
Public	<u>599,055,633</u>	<u>40.2</u>	<u>399,370,422</u>	<u>26.8</u>
Disinterested HF Land Shareholders	<u>884,368,199</u>	<u>59.3</u>	<u>589,578,799</u>	<u>39.5</u>
Total	<u>1,492,410,986</u>	<u>100.0</u>	<u>1,492,410,986</u>	<u>100.0</u>

1. FINANCIAL SUMMARY

Set out below is a financial summary of the Group extracted from the accountants' report thereon contained in this appendix:

RESULTS

	Year ended 31 December		
	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000
Turnover	<u>46,441</u>	<u>128,349</u>	<u>26,169</u>
Profit before taxation	547,386	140,306	154,587
Income tax	<u>(93,025)</u>	<u>(28,244)</u>	<u>(4,055)</u>
Profit before minority interests	454,361	112,062	150,532
Minority interests	<u>79</u>	<u>3,069</u>	<u>–</u>
Profit attributable to shareholders	<u>454,440</u>	<u>115,131</u>	<u>150,532</u>

ASSETS AND LIABILITIES

	As at 31 December		
	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000
Total assets	2,397,915	2,406,180	2,641,002
Total liabilities	<u>(817,441)</u>	<u>(713,620)</u>	<u>(756,712)</u>
Net assets	<u>1,580,474</u>	<u>1,692,560</u>	<u>1,884,290</u>

2. ACCOUNTANTS' REPORT ON THE GROUP

The following is the text of a report, prepared for the sole purpose of incorporation in this circular, received from the independent reporting accountants of the Company, CCIF CPA Limited, Certified Public Accountants, Hong Kong. As described under "Documents available for inspection" in Appendix XIII to this circular, a copy of the accountants' report is available for inspection.

**CCIF****CCIF CPA LIMITED**20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay Hong Kong

30 June 2007

The Directors
Winfoong International Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information regarding Winfoong International Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), including the consolidated balance sheets and balance sheets as at 31 December 2004, 2005 and 2006, and the related consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements of the Group and statements of changes in equity of the Company for each of the years ended 31 December 2004, 2005 and 2006 (the "Relevant Periods") and the notes thereto (collectively the "Financial Information"), for inclusion in a circular of the Company dated 30 June 2007 (the "Circular") in connection with the proposed acquisition of the 100% equity interests in Goldease Investments Limited and proposed reorganisation of the Company.

The Company was incorporated in Bermuda on 6 August 1996 and is an investment holding company. The registered office and the principle place of business of the Company are located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and Room 3201, 9 Queen's Road Central, Hong Kong, respectively.

APPENDIX II
FINANCIAL INFORMATION OF THE GROUP

As at 31 December 2006, the Company had the following subsidiaries which principally affected the results, assets or liabilities of the Group:

Name of company	Place of incorporation/ establishment	Issued and fully/ paid up/registered capital	Attributable equity interest		Principal activities
			Direct	Indirect	
Allied Crown Limited	Hong Kong	2 ordinary shares of HK\$1 each	–	100%	Property holding
Bossiney Limited	Hong Kong	98 ordinary shares of HK\$10 each and 2 non-voting deferred shares of HK\$10 each	–	100%	Property holding
Cheung Kee Garden Limited	Hong Kong	100 ordinary shares of HK\$1 each and 450,000 non-voting deferred shares of HK\$1 each	–	100%	Investment holding and provision of horticultural services
Giant Yield Limited	Hong Kong	98 ordinary shares of HK\$1 each and 2 non-voting deferred shares of HK\$1 each	–	100%	Property holding
Hugoton Limited	Hong Kong	98 ordinary shares of HK\$10 each and 2 non-voting deferred shares of HK\$10 each	–	100%	Property holding
Super Homes Limited	Hong Kong	100 ordinary shares of HK\$1 and 100 non-voting deferred shares of HK\$0.3 each	–	100%	Property holding
Sui Chong International Resources Limited	Hong Kong	1,000 ordinary shares of HK\$1 each	–	100%	Project management
Winfoong Holding Limited	Hong Kong	10,500,000 ordinary shares of HK\$10 each	–	100%	Investment holding
Winfoong Investment Limited	Hong Kong	1,143,724,986 ordinary shares of HK\$0.25 each	–	100%	Investment holding
江門棠泉房地產有限公司*	The People's Republic of China	US\$7,365,356	–	92%	Property development

* Sino-foreign joint venture enterprise

We have acted as auditors of the Company for each of the years ended 31 December 2005 and 2006, while PKF, Certified Public Accountants, acted as auditors of the Company for year ended 31 December 2004. We have audited the consolidated financial statements of the Company which have been prepared by the Company in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), the disclosure requirements of the Hong Kong Companies

Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) for the years ended 31 December 2004, 2005 and 2006.

No accounts of the Group has been audited subsequent to 31 December 2006.

BASIS OF PREPARATION

The Financial Information have been prepared by the directors of the Company (the “Directors”) in accordance with HKFRSs based on the audited consolidated financial statements of the Company.

The Financial Information is in accordance with all applicable HKFRSs issued by the HKICPA, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The Directors are responsible for the preparation and true and fair presentation of the Financial Information in accordance with HKFRSs issued by the HKICPA. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to form an opinion on the Financial Information based on our audit.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have carried out appropriate audit procedures in respect of the audited consolidated financial statements of the Company for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the HKICPA and carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline 3.340 “Prospectus and the Reporting Accountant” issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the Financial Information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Information. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Financial Information, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the 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 Financial Information.

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, for the purpose of this report, the Financial Information gives a true and fair view of the consolidated results, consolidated changes in equity and consolidated cash flows of the Group for the Relevant Periods and the state of affairs of the Group and the Company as at 31 December 2004, 2005 and 2006.

I. FINANCIAL INFORMATION

*(Expressed in Hong Kong dollar)***Consolidated income statements**

	Note	Year ended 31 December		
		2004 HK\$'000	2005 HK\$'000	2006 HK\$'000
Turnover	2	46,441	128,349	26,169
Cost of sales		<u>(20,760)</u>	<u>(81,842)</u>	<u>(8,743)</u>
Gross profit		25,681	46,507	17,426
Valuation gains on investment property		533,016	166,000	20,963
Other revenue	3	1,874	406	309
Other net income/(loss)	3	26,296	(41,147)	1,969
Operating and administrative expenses		<u>(28,673)</u>	<u>(41,764)</u>	<u>(39,776)</u>
Profit from operations		558,194	130,002	891
Finance costs		(10,516)	(20,168)	(24,374)
Profit on disposal of subsidiaries		156	–	–
Share of (loss)/profit of an associate		<u>(448)</u>	<u>30,472</u>	<u>178,070</u>
Profit before taxation	4	547,386	140,306	154,587
Income tax	5(a)	<u>(93,025)</u>	<u>(28,244)</u>	<u>(4,055)</u>
Profit for the year		<u>454,361</u>	<u>112,062</u>	<u>150,532</u>
Attributable to:				
Equity shareholders of the Company	8	454,440	115,131	150,532
Minority interests		<u>(79)</u>	<u>(3,069)</u>	<u>–</u>
Profit for the year		<u>454,361</u>	<u>112,062</u>	<u>150,532</u>
Dividend	24(d)	<u>–</u>	<u>–</u>	<u>–</u>
Earnings per share	9			
Basic		<u>30.45 cents</u>	<u>7.71 cents</u>	<u>10.09 cents</u>
Diluted		<u>N/A</u>	<u>7.66 cents</u>	<u>10.02 cents</u>

The accompanying notes form part of the Financial Information.

Consolidated balance sheets

	Note	As at 31 December		
		2004 HK\$'000	2005 HK\$'000	2006 HK\$'000
Non-current assets				
Fixed assets	11(a)			
Investment properties		1,800,640	1,966,640	1,994,320
Property held for future development		80,000	–	–
Other property, plant and equipment		8,055	2,075	4,685
Interests in leasehold land held for own use under operating leases		29,978	476	464
		1,918,673	1,969,191	1,999,469
Interest in an associate	13	373,159	393,602	612,771
Pledged bank deposits	18	4,191	912	912
Other financial assets	14	3,688	2,750	2,600
Deferred tax assets	23(b)	986	1,791	–
		2,300,697	2,368,246	2,615,752
Current assets				
Inventories	15	74,903	14,370	12,728
Trade and other receivables	16	21,405	19,937	8,097
Tax recoverable		28	12	83
Cash and cash equivalents	18	882	3,615	4,342
		97,218	37,934	25,250
Current liabilities				
Trade and other payables	19	18,392	17,734	22,305
Bank borrowings	20	32,722	80,204	81,891
Current taxation	23(a)	14,449	14,449	–
		65,563	112,387	104,196
Net current assets/(liabilities)		31,655	(74,453)	(78,946)
Total assets less current liabilities		2,332,352	2,293,793	2,536,806
Non-current liabilities				
Bank borrowings	20	526,899	347,219	396,234
Deferred income		5,582	5,582	5,582
Deferred tax liabilities	23(b)	219,397	248,432	250,700
		751,878	601,233	652,516
NET ASSETS		1,580,474	1,692,560	1,884,290

	<i>Note</i>	As at 31 December		
		2004	2005	2006
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
CAPITAL AND RESERVES	24			
Share capital		74,620	74,620	74,620
Reserves		<u>1,502,802</u>	<u>1,617,940</u>	<u>1,809,670</u>
Total equity attributable to equity shareholders of the Company		1,577,422	1,692,560	1,884,290
Minority interests		<u>3,052</u>	—	—
TOTAL EQUITY		<u><u>1,580,474</u></u>	<u><u>1,692,560</u></u>	<u><u>1,884,290</u></u>

The accompanying notes form part of the Financial Information.

Balance sheets

	<i>Note</i>	As at 31 December		
		2004	2005	2006
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets				
Investments in subsidiaries	12	<u>1,418,163</u>	<u>1,418,163</u>	<u>1,418,163</u>
Current assets				
Trade and other receivables	16	<u>231,500</u>	<u>231,243</u>	<u>230,813</u>
Cash and cash equivalents	18	<u>6</u>	<u>7</u>	<u>12</u>
		231,506	231,250	230,825
Current liabilities				
Trade and other payables	19	<u>285</u>	<u>385</u>	<u>401</u>
Net current assets		<u>231,221</u>	<u>230,865</u>	<u>230,424</u>
NET ASSETS		<u>1,649,384</u>	<u>1,649,028</u>	<u>1,648,587</u>
CAPITAL AND RESERVES				
Share capital	24	74,620	74,620	74,620
Reserves		<u>1,574,764</u>	<u>1,574,408</u>	<u>1,573,967</u>
TOTAL EQUITY		<u>1,649,384</u>	<u>1,649,028</u>	<u>1,648,587</u>

The accompanying notes form part of the Financial Information.

Consolidated statements of change in equity

	Attributable to shareholders of the Company										
	Share capital	Share premium	Capital redemption reserve	Contributed surplus	Exchange reserve	Share-based compensation reserve	Fair value reserve	Retained profits	Total	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		Note 24(b)(i)	Note 24(b)(i)	Note 24(b)(ii)	Note 24(b)(iii)	Note 24(b)(iv)	Note 24(b)(v)				
At 1 January 2004	74,620	196,873	121	618,098	(152,966)	-	-	367,624	1,104,370	3,159	1,107,529
Exchange difference on translation of financial statements of overseas subsidiaries	-	-	-	-	(68)	-	-	-	(68)	(28)	(96)
Share of movements in reserves of an associate	-	-	-	-	18,680	-	-	-	18,680	-	18,680
Profit for the year	-	-	-	-	-	-	-	454,440	454,440	(79)	454,361
At 31 December 2004	<u>74,620</u>	<u>196,873</u>	<u>121</u>	<u>618,098</u>	<u>(134,354)</u>	<u>-</u>	<u>-</u>	<u>822,064</u>	<u>1,577,422</u>	<u>3,052</u>	<u>1,580,474</u>
At 1 January 2005	74,620	196,873	121	618,098	(134,354)	-	-	822,064	1,577,422	3,052	1,580,474
Exchange difference on translation of financial statements of overseas subsidiaries	-	-	-	-	(7)	-	-	-	(7)	17	10
Share of movements in reserves of an associate	-	-	-	-	(9,416)	-	519	-	(8,897)	-	(8,897)
Equity settled share-based transactions	-	-	-	-	-	8,911	-	-	8,911	-	8,911
Profit for the year	-	-	-	-	-	-	-	115,131	115,131	(3,069)	112,062
At 31 December 2005	<u>74,620</u>	<u>196,873</u>	<u>121</u>	<u>618,098</u>	<u>(143,777)</u>	<u>8,911</u>	<u>519</u>	<u>937,195</u>	<u>1,692,560</u>	<u>-</u>	<u>1,692,560</u>
At 1 January 2006	74,620	196,873	121	618,098	(143,777)	8,911	519	937,195	1,692,560	-	1,692,560
Exchange difference on translation of financial statements of overseas subsidiaries	-	-	-	-	(162)	-	-	-	(162)	-	(162)
Change in fair value of available-for-sale securities	-	-	-	-	-	-	260	-	260	-	260
Share of movements in reserves of an associate	-	-	-	-	41,047	-	53	-	41,100	-	41,100
Profit for the year	-	-	-	-	-	-	-	150,532	150,532	-	150,532
At 31 December 2006	<u>74,620</u>	<u>196,873</u>	<u>121</u>	<u>618,098</u>	<u>(102,892)</u>	<u>8,911</u>	<u>832</u>	<u>1,087,727</u>	<u>1,884,290</u>	<u>-</u>	<u>1,884,290</u>

The accompanying notes form part of the Financial Information.

Statements of change in equity

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i> <i>Note</i> <i>24(b)(i)</i>	Capital redemption reserve <i>HK\$'000</i> <i>Note</i> <i>24(b)(i)</i>	Contributed surplus <i>HK\$'000</i> <i>Note</i> <i>24(b)(ii)</i>	Share-based compensation reserve <i>HK\$'000</i> <i>Note</i> <i>24(b)(iv)</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2004	74,620	196,873	121	1,386,571	–	(433,531)	1,224,654
Profit for the year	–	–	–	–	–	424,730	424,730
At 31 December 2004	<u>74,620</u>	<u>196,873</u>	<u>121</u>	<u>1,386,571</u>	<u>–</u>	<u>(8,801)</u>	<u>1,649,384</u>
At 1 January 2005	74,620	196,873	121	1,386,571	–	(8,801)	1,649,384
Equity settled share-based transactions	–	–	–	–	8,911	–	8,911
Loss for the year	–	–	–	–	–	(9,267)	(9,267)
At 31 December 2005	<u>74,620</u>	<u>196,873</u>	<u>121</u>	<u>1,386,571</u>	<u>8,911</u>	<u>(18,068)</u>	<u>1,649,028</u>
At 1 January 2006	74,620	196,873	121	1,386,571	8,911	(18,068)	1,649,028
Loss for the year	–	–	–	–	–	(441)	(441)
At 31 December 2006	<u>74,620</u>	<u>196,873</u>	<u>121</u>	<u>1,386,571</u>	<u>8,911</u>	<u>(18,509)</u>	<u>1,648,587</u>

The accompanying notes form part of the Financial Information.

Consolidated cash flow statements

	<i>Note</i>	Year ended 31 December		
		2004 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Operating activities				
Profit before taxation		547,386	140,306	154,587
Adjustment for:				
Valuation gains on investment property		(533,016)	(166,000)	(20,963)
Revaluation (gains)/losses on buildings		(133)	18	48
Depreciation		948	723	655
Amortisation of land lease premium		47	35	12
Impairment loss on property held for future development		–	67,500	–
Finance costs		10,516	20,168	24,374
Interest income		(17)	(104)	(202)
Dividend income from unlisted securities		–	(142)	–
Share of (profit)/loss of an associate		448	(30,472)	(178,070)
Gain/(loss) on disposal of fixed assets		9	(28,054)	150
Profit on disposal of subsidiaries		(156)	–	–
Gains on trading securities		(172)	–	–
Loss on disposal of other financial assets		–	–	208
(Reversal of provision)/provision for impairment of properties held for sale		(26,000)	360	–
Impairment loss on unlisted available-for-sale equity securities		–	2,027	–
Write-off of long outstanding creditors		–	(704)	(2,358)
Impairment loss for bad and doubtful debts		–	–	379
Bad debts written off		–	–	232
Net foreign exchange loss		–	9	57
Equity-settled share-based payment expenses		–	8,911	–
Operating profit/(loss) before changes in working capital		(140)	14,581	(20,891)
Decrease in inventories		10,949	72,673	1,642
Decrease/(increase) in trade and other receivables		(2,206)	1,468	(3,191)
(Decrease)/increase in trade and other payables		(348)	46	5,545

	<i>Note</i>	Year ended 31 December		
		2004	2005	2006
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash generated from/(used in) operations		8,255	88,768	(16,895)
Tax paid				
Hong Kong profits tax paid		(28)	–	(85)
Hong Kong profits tax refunded		80	2	4
PRC income tax refunded		–	–	14
		<u> </u>	<u> </u>	<u> </u>
Net cash generated from/(used in) operating activities		<u>8,307</u>	<u>88,770</u>	<u>(16,962)</u>
Investing activities				
(Placement)/withdrawal of pledged bank deposits		(480)	3,279	–
Payment for purchase of fixed assets		(931)	(678)	(10,521)
Proceeds from disposal of fixed assets		6	63,438	341
Proceeds from sales of trade securities		313	–	–
Proceeds from disposal of other financial assets		–	–	203
New loan receivable		–	(990)	–
Repayment of loans receivable		32	–	–
Net cash inflow from disposal of subsidiaries	25	3,043	–	–
Interest received		17	104	201
Dividend received from an associate		1,156	1,132	–
Dividend received from unlisted securities		–	43	–
		<u> </u>	<u> </u>	<u> </u>
Net cash from/(used in) investing activities		<u>3,156</u>	<u>66,328</u>	<u>(9,776)</u>
Financing activities				
Proceeds from new bank loans		26,000	–	90,860
Repayment of bank loans		(29,640)	(132,198)	(40,158)
Interest paid		(10,516)	(20,168)	(23,250)
		<u> </u>	<u> </u>	<u> </u>
Net cash (used in)/from investing activities		<u>(14,156)</u>	<u>(152,366)</u>	<u>27,452</u>
Net (decrease)/increase in cash and cash equivalents		(2,693)	2,732	714
Cash and cash equivalents at 1 January		3,672	882	3,615
Effect of foreign exchange rate changes		(97)	1	13
		<u> </u>	<u> </u>	<u> </u>
Cash and cash equivalents at 31 December	18	<u>882</u>	<u>3,615</u>	<u>4,342</u>

The accompanying notes form part of the Financial Information.

NOTES ON THE FINANCIAL INFORMATION

(Expressed in Hong Kong dollar)

1. SIGNIFICANT ACCOUNTING POLICIES**a) Statement of compliance**

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

The HKICPA has issued a number of new and revised HKFRSs that are first effective or available for early adoption for the accounting period beginning on or after 1 January 2007. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 31).

b) Basis of preparation of the Financial Information

The measurement basis used in the preparation of the Financial Information is the historical cost basis except that the following assets are stated at their fair value as explained in the accounting policies set out below:

- investment property (see note 1(f));
- other buildings (see note 1(g)); and
- financial instruments classified as available-for-sale securities (see note 1(e)).

The preparation of Financial Information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the Financial Information and estimates with a significant risk of material adjustment in the future period are discussed in note 30.

c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the Financial Information from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised profits but only to the extent that there is no evidence of impairment.

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

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

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(i)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

d) Associate

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the Financial Information under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associate for the year.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

e) Other investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries and associate, are as follows:

Investments in debt and equity securities are initially at cost, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification.

Investment in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss.

Dated debt securities that the Group and/or the Company have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the balance sheet at amortised cost less impairment losses (see note 1 (i)).

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 1(i)).

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity, except foreign exchange gains and losses in respect of monetary items such as debt securities which are recognised directly in profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss. When these investments are derecognised or impaired (see note 1(i)), the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

f) Investment property

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(h)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use.

Investment properties are stated in the balance sheet at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 1(s)(i).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 1(h)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 1(h).

Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified as investment property at fair value. Any difference between the fair value of the property at that date and its previous carrying amount is recognised in profit or loss.

g) Other property, plant and equipment

The following properties held for own use are stated in the consolidated balance sheets at their revalued amount, being their fair value at the date of the revaluation less any subsequent accumulated depreciation:

- land held under operating leases and buildings thereon, where the fair values of the leasehold interest in the land and buildings cannot be measured separately at the inception of the lease and the building is not clearly held under an operating lease (see note 1(h)); and
- buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease (see note 1(h)).

Revaluations are performed with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the balance sheet date.

The other items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(i)):

Changes arising on the revaluation of properties held for own use are generally dealt with in reserves. The only exceptions are as follows:

- when a deficit arises on revaluation, it will be charged to profit or loss to the extent that it exceeds the amount held in the reserve in respect of that same asset immediately prior to the revaluation; and
- when a surplus arises on revaluation, it will be credited to profit or loss to the extent that a deficit on revaluation in respect of that same asset had previously been charged to profit or loss.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(u)).

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

- Buildings situated on leasehold land are depreciated over their estimated useful lives of 40 years.
- Furniture, equipment and other fixed assets are depreciated over 5 years.

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

h) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

i) Classification of assets leased to the Group

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

- property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, accounted for as if held under a finance lease (see note 1(f)); and

- land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

ii) *Operating lease charges*

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see note 1(f)) or is held for development for sale (see note 1(j)(ii)).

i) **Impairment of assets**

i) *Impairment of investments in debt and equity securities and other receivables*

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

- For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.
- For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

- For available-for-sale securities, the cumulative loss that has been recognised directly in equity is removed from equity and is recognised in profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

ii) *Impairment of other assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment (other than properties carried at revalued amounts);
- pre-paid interests in leasehold land classified as being held under an operating lease; and
- investments in subsidiaries and associate.

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. 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 assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss whether the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rate basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss 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 profit or loss in the year in which the reversals are recognised.

j) **Inventories**

i) *Horticultural services*

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the standard cost basis (which approximates the average actual cost) and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

ii) *Property development*

Inventories in respect of property development activities are carried at the lower of cost and net realisable value. Cost and net realisable values are determined as follows:

– Property under development for sale

The cost of properties under development for sale comprises specifically identified cost, including the acquisition cost of land, aggregate cost of development, materials and supplies, wages and other direct expenses, an appropriate proportion of overheads and borrowing cost capitalised (see note 1(u)). Net realisable value represents the estimated selling price less estimated costs of completion and costs to be incurred in selling the property.

– Completed property held for sale

In the case of completed properties developed by the Group, cost is determined by apportionment of the total development costs for that development project, attributable to the unsold properties. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

The cost of completed properties held for sale comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

k) Construction contracts

The accounting policy for contract revenue is set out in note 1(s)(iv). When the outcome of a construction contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the balance sheet date are recorded in the balance sheet at the net amount of costs incurred plus recognised profit less recognised losses and progress billings, and are presented in the balance sheet as the “Gross amount due from customers for contract work” (as an asset) or the “Gross amount due to customers for contract work” (as a liability), as applicable. Progress billings not yet paid by the customer are included in the balance sheet under “Trade and other receivables”. Amounts received before the related work is performed are included in the balance sheet, as a liability, as “Advances received”.

l) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 1(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 1(i)).

m) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

n) Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

p) Employee benefits*i) Short term employee benefits and contributions to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the Black-Scholes Option Pricing Model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share-based compensation reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

q) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax liabilities on a net basis or realise and settle simultaneously.

r) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

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

s) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit or loss as follows:

i) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

ii) Sale of properties

Revenue arising from the sale of properties held for sale is recognised upon the signing of the sale and purchase agreement or the issue of an occupation permit by the relevant government authorities, whichever is the later. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the balance sheet under forward sales deposits and instalments received.

iii) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deductible of any trade discounts.

iv) Contract revenue

When the outcome of a construction contract can be estimated reliably:

- revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimate total contract costs for the contract; and
- revenue from a cost plus contract is recognised by reference to the recoverable costs incurred during the period plus an appropriate proportion of the total fee, measured by reference to the proportion that costs incurred to date bear to the estimated total costs of the contract.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

v) *Management fee income*

Management fee income is recognised at the time when the services are rendered.

vi) *Dividends*

- Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.
- Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

vii) *Interest income*

Interest income is recognised as it accrues using the effective interest method.

t) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

u) Borrowing costs

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

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

v) Related parties

For the purposes of the Financial Information, a party is considered to be related to the Group if:

- i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

- ii) the Group and the party are subject to common control;
- iii) the party is an associate of the Group;
- iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

w) Segment reporting

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

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

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

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

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

2. TURNOVER

The principal activities of the Group were property investment and management, property development and construction, and provision of horticultural services.

Turnover represents the rental income, proceeds from sales of properties, revenue from provision of property management services and revenue from provision of horticultural services. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Gross rentals from investment and other properties	36,146	32,729	20,488
Gross proceeds from properties sold	6,201	92,156	2,091
Revenue from provision of property management services	913	398	389
Revenue from provision of horticultural services	<u>3,181</u>	<u>3,066</u>	<u>3,201</u>
	<u><u>46,441</u></u>	<u><u>128,349</u></u>	<u><u>26,169</u></u>

3. OTHER REVENUE AND NET INCOME/(LOSS)

	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Other revenue			
Interest income			
– bank	15	81	139
– others	<u>2</u>	<u>23</u>	<u>63</u>
	17	104	202
Dividend income from unlisted securities	–	142	–
Compensation received on termination of management services	1,320	–	–
Others	<u>537</u>	<u>160</u>	<u>107</u>
	<u><u>1,874</u></u>	<u><u>406</u></u>	<u><u>309</u></u>
Other net income/(loss)			
Net gain/(loss) on disposal of fixed assets	(9)	28,054	(150)
Net realised and unrealised gains on trading securities	172	–	–
Loss on disposal of non-current financial assets	–	–	(208)
(Reversal of provision)/provision for impairment of properties held for sale	26,000	(360)	–
Impairment loss on property held for future development	–	(67,500)	–
Impairment loss on available-for-sale equity securities	–	(2,027)	–
Revaluation gains/(losses) on buildings	133	(18)	(48)
Write-off of long outstanding creditors	–	704	2,358
Net foreign exchange gain	<u>–</u>	<u>–</u>	<u>17</u>
	<u><u>26,296</u></u>	<u><u>(41,147)</u></u>	<u><u>1,969</u></u>

4. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000
a) Finance costs			
Interest on bank borrowings			
– wholly repayable within five years	2,976	14,850	17,083
– repayable after five years	7,540	5,318	7,291
	<u>10,516</u>	<u>20,168</u>	<u>24,374</u>
b) Staff costs (including directors' remuneration)			
Contributions to defined contribution retirement plan	292	346	290
Equity-settled share-based payment expenses	–	8,911	–
Salaries, wages and other benefits	16,748	21,110	24,072
	<u>17,040</u>	<u>30,367</u>	<u>24,362</u>
c) Other items			
Amortisation of land lease premium	47	35	12
Depreciation of fixed assets	948	723	655
Auditors' remuneration			
– audit services	274	279	444
– tax services	–	54	18
– other services	–	40	55
Operating lease charges: minimum lease payments			
– hire of plant and machinery	–	9	9
– hire of other assets	274	641	2,463
Impairment loss for bad and doubtful debts	–	–	379
Bad debts written off	–	–	232
Share of an associate's taxation	564	(185)	230
Rentals receivable from investment and other properties less direct outgoings of HK\$6,070,000 (2005: HK\$7,539,000; 2004: HK\$9,081,000)	(27,065)	(25,190)	(14,418)
Cost of inventories (note 15(c))	(14,920)	73,507	2,130

5. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

a) Taxation in the consolidated income statements for the years ended 31 December 2004, 2005 and 2006 represented:

	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000
Current tax – Hong Kong Profits Tax			
Under-provision in respect of prior years	25	14	10
Current tax – PRC Income Tax			
Over-provision in respect of prior years	–	–	(14)
Deferred tax			
Origination and reversal of temporary differences	93,000	28,230	4,059
	<u>93,025</u>	<u>28,244</u>	<u>4,055</u>

No provision for Hong Kong Profits Tax has been made as the Group has no estimated assessable profits arising in Hong Kong for the Relevant Periods.

b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before tax	<u>547,386</u>	<u>140,306</u>	<u>154,587</u>
Notional tax on profit before tax, calculated at the rates applicable to profits in the countries concerned	95,792	24,554	27,053
Tax effect of non-deductible expenses	664	752	1,585
Tax effect on non-taxable income	(5,080)	(8,545)	(1,310)
Tax effect on unused tax losses not recognised	3,384	18,738	7,788
Tax effect of prior years' tax losses utilised this year	(926)	(1,554)	(403)
Tax effect of share of profit of an associate	79	(5,333)	(31,162)
Under-provision in prior years			
– Hong Kong Profits Tax	25	14	10
Over-provision in prior years			
– PRC Income Tax	–	–	(14)
Others	<u>(913)</u>	<u>(382)</u>	<u>508</u>
Actual tax expense	<u>93,025</u>	<u>28,244</u>	<u>4,055</u>

6. DIRECTORS' REMUNERATION

Details of directors' remuneration are as follows:

Year ended	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Share-based payments	Retirement scheme contributions	Total
31 December 2004:	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Executive directors:						
Cheong Pin Chuan, Patrick	–	873	–	–	12	885
Cheong Kim Pong	–	84	–	–	–	84
Cheong Sim Eng	–	1,305	–	–	12	1,317
Cheong Pin Seng (<i>note (i)</i>)	–	988	–	–	12	1,000
Independent non-executive directors:						
Kan Fook Yee	100	–	–	–	–	100
Lai Hing Chiu, Dominic	100	–	–	–	–	100
Chan Yee Hoi, Robert	33	–	–	–	–	33
Non-executive directors:						
Lim Ghee	–	–	–	–	–	–
	<u>233</u>	<u>3,250</u>	<u>–</u>	<u>–</u>	<u>36</u>	<u>3,519</u>

APPENDIX II
FINANCIAL INFORMATION OF THE GROUP

Year ended 31 December 2005:	Directors' fees <i>HK\$'000</i>	Salaries, allowances and benefits in kind <i>HK\$'000</i>	Discretionary bonuses <i>HK\$'000</i>	Share-based payments (note (iii)) <i>HK\$'000</i>	Retirement scheme contributions <i>HK\$'000</i>	Total <i>HK\$'000</i>
Executive directors:						
Cheong Pin Chuan, Patrick	–	1,755	–	2,228	12	3,995
Cheong Kim Pong	–	93	–	2,228	–	2,321
Cheong Sim Eng	–	1,317	500	2,228	12	4,057
Cheong Pin Seng (note (i))	–	–	–	–	–	–
Independent non-executive directors:						
Kan Fook Yee	100	–	–	–	–	100
Lai Hing Chiu, Dominic	100	–	–	–	–	100
Chan Yee Hoi, Robert	100	–	–	–	–	100
Non-executive directors:						
Lim Ghee	200	–	–	–	–	200
Cheong Hooi Kheng (note (ii))	–	143	–	2,227	7	2,377
	<u>500</u>	<u>3,308</u>	<u>500</u>	<u>8,911</u>	<u>31</u>	<u>13,250</u>

Year ended 31 December 2006:	Directors' fees <i>HK\$'000</i>	Salaries, allowances and benefits in kind <i>HK\$'000</i>	Discretionary bonuses <i>HK\$'000</i>	Share-based payments <i>HK\$'000</i>	Retirement scheme contributions <i>HK\$'000</i>	Total <i>HK\$'000</i>
Executive directors:						
Cheong Pin Chuan, Patrick	–	2,176	–	–	12	2,188
Cheong Kim Pong	–	98	–	–	–	98
Cheong Sim Eng	–	1,317	1,500	–	12	2,829
Independent non-executive directors:						
Kan Fook Yee	100	–	–	–	–	100
Lai Hing Chiu, Dominic	100	–	–	–	–	100
Chan Yee Hoi, Robert	100	–	–	–	–	100
Non-executive directors:						
Lim Ghee	–	–	300	–	–	300
Cheong Hooi Kheng (note (ii))	–	143	–	–	7	150
	<u>300</u>	<u>3,734</u>	<u>1,800</u>	<u>–</u>	<u>31</u>	<u>5,865</u>

Notes:

- i) Mr. Cheong Pin Seng resigned as director on 12 January 2005.
- ii) Ms. Cheong Hooi Kheng's directorship is alternate to Madam Lim Ghee.

- iii) These represented the estimated value of share options granted to certain directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 1(p)(ii). The details of these benefits in kind, including the principal terms and number of options granted, are disclosed in note 22.

The above emoluments do not include the monetary value of the rent-free accommodation provided to Mr. Cheong Pin Chuan, Patrick, an executive director of the Company, through a property owned by the Group. During the years ended 31 December 2004, 2005 and 2006, the monetary value of such residential accommodation provided to this executive director based on the tenancy agreement entered into by the Group was HK\$720,000, HK\$720,000 and HK\$720,000, respectively.

7. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two are directors for the year ended 31 December 2006 (2005: four; 2004: three) whose emoluments are disclosed in note 6. The aggregate of the emoluments in respect of the other three (2005: one; 2004: two) individuals are as follows:

	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries and other emoluments	5,137	3,491	6,301
Discretionary bonuses	–	500	3,530
Retirement scheme contributions	24	12	36
	<u>5,161</u>	<u>4,003</u>	<u>9,867</u>

The emoluments of three individuals (2005: one individual; 2004: two individuals) with the highest emoluments are within the following bands.

	2004	2005	2006
	<i>Number of individuals</i>	<i>Number of individuals</i>	<i>Number of individuals</i>
HK\$1,500,001 – HK\$2,000,000	1	–	1
HK\$3,500,001 – HK\$4,000,000	1	–	1
HK\$4,000,001 – HK\$4,500,000	–	1	–
HK\$5,000,001 – HK\$5,500,000	–	–	1
	<u>–</u>	<u>–</u>	<u>1</u>

8. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of HK\$424,730,000 for the year ended 31 December 2004, a loss of HK\$9,267,000 for the year ended 31 December 2005 and a loss of HK\$441,000 for the year ended 31 December 2006 which have been dealt with in the financial statements of the Company.

9. EARNINGS PER SHARE**a) Basis earnings per share**

The calculation of basis earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK\$150,532,000 for the year ended 31 December 2006 (2005: HK\$115,131,000; 2004: HK\$454,440,000) and the weighted average of 1,492,410,986 (2005: 1,492,410,986; 2004: 1,492,410,986) ordinary shares in issue during the year ended 31 December 2006.

b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2006 is based on the profit attributable to ordinary equity shareholders of the Company of HK\$150,532,000 (2005: HK\$115,131,000) and the weighted average number of ordinary shares of 1,502,927,847 (2005: 1,503,304,597) shares, calculated as follows:

	2005	2006
Weighted average number of ordinary shares at 31 December	1,492,410,986	1,492,410,986
Effect of deemed issue of shares under the Company's share option scheme (note 22) for nil consideration	<u>10,893,611</u>	<u>10,516,861</u>
Weighted average number of ordinary shares (diluted) at 31 December	<u><u>1,503,304,597</u></u>	<u><u>1,502,927,847</u></u>

The diluted earnings per share for the year ended 31 December 2004 was not shown because there was no dilutive potential ordinary shares in existence as at 31 December 2004.

10. SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

Business segments

The Group comprises the following main business segments:

Property investment and management: the leasing of properties to generate rental income and to gain from the appreciation in the properties' values in the long term, and provision of building management services.

Property construction and development: the development, construction and sale of properties, and project management.

Horticultural services: the provision for horticultural services.

	Property investment and management			Property construction and development			Horticultural services			Inter-segment elimination			Unallocated			Consolidated		
	2004	2005	2006	2004	2005	2006	2004	2005	2006	2004	2005	2006	2004	2005	2006	2004	2005	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	37,059	119,917	21,115	6,201	5,366	1,853	3,181	3,066	3,201	-	-	-	-	-	-	46,441	128,349	26,169
Inter-segment revenue	5,159	2,835	761	4,719	3,657	11,912	-	28	16	(9,878)	(6,520)	(12,689)	-	-	-	-	-	-
Other revenue from external customers	1,320	133	73	-	16	28	-	-	4	-	-	-	537	153	2	1,857	302	107
Total	43,538	122,885	21,949	10,920	9,039	13,793	3,181	3,094	3,221	(9,878)	(6,520)	(12,689)	537	153	2	48,298	128,651	26,276
Segment result	570,982	221,831	31,662	(808)	(64,828)	11,261	-	114	6	(9,878)	(6,520)	(12,689)	(2,119)	(20,699)	(29,551)	558,177	129,898	689
Unallocated operating income and expenses																17	104	202
Profit from operations																558,194	130,002	891
Finance costs																(10,516)	(20,168)	(24,374)
Profit on disposal of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	156	-	-
Share of profit of an associate	(448)	30,472	178,070	-	-	-	-	-	-	-	-	-	-	-	-	(448)	30,472	178,070
Income tax																(93,025)	(28,244)	(4,055)
Profit for the year																454,361	112,062	150,532
Impairment loss on property held for future development	-	-	-	-	67,500	-	-	-	-									
Depreciation and amortisation for the year	382	345	173	1	1	2	57	57	65									

	Property investment and management			Property construction and development			Horticultural services			Consolidated		
	2004	2005	2006	2004	2005	2006	2004	2005	2006	2004	2005	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	1,925,691	1,986,916	2,000,436	88,806	14,610	12,995	967	790	996	2,015,464	2,002,316	2,014,427
Interest in an associate	373,159	393,602	612,771	–	–	–	–	–	–	373,159	393,602	612,771
Unallocated assets										<u>9,292</u>	<u>10,262</u>	<u>13,804</u>
Total assets										<u>2,397,915</u>	<u>2,406,180</u>	<u>2,641,002</u>
Segment liabilities	803,843	698,688	749,599	7,078	5,807	6,187	93	93	216	811,014	704,588	756,002
Unallocated liabilities										<u>6,427</u>	<u>9,032</u>	<u>710</u>
Total liabilities										<u>817,441</u>	<u>713,620</u>	<u>756,712</u>
Capital expenditure incurred during the year	–	94	10,780	–	–	14	4	3	305			

Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

	Hong Kong and Mainland China			Singapore			Total		
	2004	2005	2006	2004	2005	2006	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue from external customers	46,441	128,349	26,169	–	–	–	46,441	128,349	26,169
Other revenue from external customer	1,857	302	107	–	–	–	1,857	302	107
Segment assets	2,024,549	2,012,439	2,028,144	373,366	393,741	612,858	2,397,915	2,406,180	2,641,002
Capital expenditure incurred during the year	<u>931</u>	<u>678</u>	<u>14,198</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>931</u>	<u>678</u>	<u>14,198</u>

11. FIXED ASSETS

a) THE GROUP

	Buildings held for own use carried at fair value HK\$'000	Furniture, equipment and other fixed assets HK\$'000	Sub-total HK\$'000	Investment property HK\$'000	Property held for future development HK\$'000	Interests in leasehold land held for own use under operating leases HK\$'000	Total fixed assets HK\$'000
Cost or valuation:							
At 1 January 2004	6,520	12,119	18,639	1,269,820	215,652	30,300	1,534,411
Exchange adjustments	-	35	35	-	-	-	35
Additions	-	931	931	-	-	-	931
Disposal	-	(374)	(374)	-	-	-	(374)
Disposal of subsidiaries	-	-	-	(2,196)	-	-	(2,196)
Surplus on revaluation	133	-	133	-	-	-	133
Less: elimination of accumulated depreciation	(163)	-	(163)	-	-	-	(163)
Fair value adjustment	-	-	-	533,016	-	-	533,016
At 31 December 2004	<u>6,490</u>	<u>12,711</u>	<u>19,201</u>	<u>1,800,640</u>	<u>215,652</u>	<u>30,300</u>	<u>2,065,793</u>
Representing:							
Cost	-	12,711	12,711	-	215,652	30,300	258,663
Valuation - 2004	<u>6,490</u>	<u>-</u>	<u>6,490</u>	<u>1,800,640</u>	<u>-</u>	<u>-</u>	<u>1,807,130</u>
	<u>6,490</u>	<u>12,711</u>	<u>19,201</u>	<u>1,800,640</u>	<u>215,652</u>	<u>30,300</u>	<u>2,065,793</u>
At 1 January 2005	6,490	12,711	19,201	1,800,640	215,652	30,300	2,065,793
Exchange adjustments	-	(6)	(6)	-	-	-	(6)
Reclassified to property held for sale	-	-	-	-	(32,252)	-	(32,252)
Additions	-	678	678	-	-	-	678
Disposal	(6,000)	(138)	(6,138)	-	-	(29,700)	(35,838)
Deficit on revaluation	(18)	-	(18)	-	-	-	(18)
Less: elimination of accumulated depreciation	(12)	-	(12)	-	-	-	(12)
Fair value adjustment	-	-	-	166,000	-	-	166,000
At 31 December 2005	<u>460</u>	<u>13,245</u>	<u>13,705</u>	<u>1,966,640</u>	<u>183,400</u>	<u>600</u>	<u>2,164,345</u>
Representing:							
Cost	-	13,245	13,245	-	183,400	600	197,245
Valuation - 2005	<u>460</u>	<u>-</u>	<u>460</u>	<u>1,966,640</u>	<u>-</u>	<u>-</u>	<u>1,967,100</u>
	<u>460</u>	<u>13,245</u>	<u>13,705</u>	<u>1,966,640</u>	<u>183,400</u>	<u>600</u>	<u>2,164,345</u>
At 1 January 2006	460	13,245	13,705	1,966,640	183,400	600	2,164,345
Exchange adjustment	-	22	22	-	-	-	22
Additions	-	3,484	3,484	7,037	-	-	10,521
Disposal	-	(3,200)	(3,200)	(320)	-	-	(3,520)
Deficit on revaluation	(48)	-	(48)	-	-	-	(48)
Less: elimination of accumulated depreciation	(12)	-	(12)	-	-	-	(12)
Fair value adjustment	-	-	-	20,963	-	-	20,963
At 31 December 2006	<u>400</u>	<u>13,551</u>	<u>13,951</u>	<u>1,994,320</u>	<u>183,400</u>	<u>600</u>	<u>2,192,271</u>
Representing:							
Cost	-	13,551	13,551	-	183,400	600	197,551
Valuation 2006	<u>400</u>	<u>-</u>	<u>400</u>	<u>1,994,320</u>	<u>-</u>	<u>-</u>	<u>1,994,720</u>
	<u>400</u>	<u>13,551</u>	<u>13,951</u>	<u>1,994,320</u>	<u>183,400</u>	<u>600</u>	<u>2,192,271</u>

	Buildings held for own use carried at fair value HK\$'000	Furniture, equipment and other fixed assets HK\$'000	Sub-total HK\$'000	Investment property HK\$'000	Property held for future development HK\$'000	Interests in leasehold land held for own use under operating leases HK\$'000	Total fixed assets HK\$'000
Accumulated amortisation and depreciation:							
At 1 January 2004	–	10,685	10,685	–	135,652	275	146,612
Exchange adjustments	–	35	35	–	–	–	35
Charge for the year	163	785	948	–	–	47	995
Written back on disposal	–	(359)	(359)	–	–	–	(359)
Elimination on revaluation	(163)	–	(163)	–	–	–	(163)
At 31 December 2004	–	11,146	11,146	–	135,652	322	147,120
At 1 January 2005	–	11,146	11,146	–	135,652	322	147,120
Exchange adjustments	–	(6)	(6)	–	–	–	(6)
Reclassified to property held for sale	–	–	–	–	(19,752)	–	(19,752)
Charge for the year	112	611	723	–	–	35	758
Impairment loss	–	–	–	–	67,500	–	67,500
Written back on disposal	(100)	(121)	(221)	–	–	(233)	(454)
Elimination on revaluation	(12)	–	(12)	–	–	–	(12)
At 31 December 2005	–	11,630	11,630	–	183,400	124	195,154
At 1 January 2006	–	11,630	11,630	–	183,400	124	195,154
Exchange adjustments	–	22	22	–	–	–	22
Charge for the year	12	643	655	–	–	12	667
Written back on disposal	–	(3,029)	(3,029)	–	–	–	(3,029)
Elimination on revaluation	(12)	–	(12)	–	–	–	(12)
At 31 December 2006	–	9,266	9,266	–	183,400	136	192,802
Net book value:							
At 31 December 2004	6,490	1,565	8,055	1,800,640	80,000	29,978	1,918,673
At 31 December 2005	460	1,615	2,075	1,966,640	–	476	1,969,191
At 31 December 2006	400	4,285	4,685	1,994,320	–	464	1,999,469

Impairment loss

Impairment loss of approximately HK\$67,500,000 was raised on property held for future development for the year ended 31 December 2005. In prior years, the land, which is located in the People's Republic of China (the "PRC"), was planned to be developed in four phases as a comprehensive private housing development, the Group has completed certain portion of the first phase of this development project. In view of the market condition and the economic policy of the PRC government, the Group postponed the further development to wait for an opportune time. As at 31 December 2005 and 2006, the Directors were of the view that development would not be recommenced in the foreseeable future and assessed the recoverable amount of the undeveloped land on such basis. Based on this assessment, the carrying amount of this portion of land was written down by HK\$67,500,000. The estimates of recoverable amount were based on the experience of the Directors by reference to the PRC property market.

Notes:

- a) All investment properties of the Group were revaluated as at 31 December 2006 on an open market value basis calculated by reference to recent market transactions in comparable properties (2004 and 2005: net rental income allowing for reversionary income potential). The valuations were carried out by an independent firm of CB Richard Ellis Limited (2004 and 2005: Savills Valuation and Professional Services Limited), who have among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued.

- b) The buildings held by the Group for own use were revalued as at 31 December 2004, 2005 and 2006 at their open market value by reference to recent market transactions in comparable properties. The valuations were carried out by an independent firm of CB Richard Ellis Limited (2004 and 2005: Savills Valuation and Professional Services Limited), who have among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued.

The revaluation deficits of HK\$48,000 for the year ended 31 December 2006 (2005: deficits of HK\$18,000; 2004: surplus of HK\$133,000) have been transferred to the income statement of the Group.

Had these buildings held for own use been carried at cost less accumulated depreciation, the carrying amounts would have been HK\$551,000 as at 31 December 2006 (2005: HK\$570,000; 2004: HK\$7,560,000).

- c) The analysis of net book value of properties as at 31 December 2004, 2005 and 2006 is as follows:

	The Group		
	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
In Hong Kong			
– long leases	1,830,490	1,961,000	1,989,000
– medium-term leases	<u>1,618</u>	<u>1,576</u>	<u>1,184</u>
	1,832,108	1,962,576	1,990,184
Outside Hong Kong			
– long leases	<u>85,000</u>	<u>5,000</u>	<u>5,000</u>
	<u><u>1,917,108</u></u>	<u><u>1,967,576</u></u>	<u><u>1,995,184</u></u>
Representing:			
Building held for own use carried at fair value	6,490	460	400
Investment property	1,800,640	1,966,640	1,994,320
Property held for future development	80,000	–	–
Interests in leasehold land held for own use under operating leases	<u>29,978</u>	<u>476</u>	<u>464</u>
	<u><u>1,917,108</u></u>	<u><u>1,967,576</u></u>	<u><u>1,995,184</u></u>

- d) Fixed assets leased out under operating leases

The Group leases out investment property under operating leases. The leases typically run for an initial period of one to two years, with an option to renew the lease after that date at which time all terms are renegotiated. Lease payments are usually reviewed every year to reflect market rentals. None of the leases includes contingent rentals.

All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment property.

APPENDIX II
FINANCIAL INFORMATION OF THE GROUP

As at 31 December 2004, 2005 and 2006, the Group's total future minimum lease payments under non-cancellable operating leases were receivable as follows:

	The Group		
	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 year	16,882	9,387	6,437
After 1 year but within 5 years	579	–	–
	<u>17,461</u>	<u>9,387</u>	<u>6,437</u>

12. INVESTMENTS IN SUBSIDIARIES

	The Company		
	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	<u>1,418,163</u>	<u>1,418,163</u>	<u>1,418,163</u>

The particulars of principal subsidiaries of the Group have been disclosed in the introduction of this report. All of the Company's controlled subsidiaries as defined under note 1(c) and have been consolidated into the Group's Financial Information.

13. INTEREST IN AN ASSOCIATE

	The Group		
	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net assets	<u>373,159</u>	<u>393,602</u>	<u>612,771</u>
Market value of shares listed in the Republic of Singapore	<u>135,781</u>	<u>251,723</u>	<u>561,912</u>

Particulars of the associate, which is a listed corporate entity, are as follows:

Name of associate	Form of business structure	Place of incorporation and operation	<u>Proportion of ownership interest</u>			Principal activity
			Group's effective interest	Held by the Company	Held by a subsidiary	
Hong Fok Corporation Limited ("HFC")*	Incorporated	Republic of Singapore	20.2%	–	20.2%	Investment holding

* Audited by KPMG, Singapore

Summary financial information on associate

	Assets <i>HK\$'000</i>	Liabilities <i>HK\$'000</i>	Equity <i>HK\$'000</i>	Revenues <i>HK\$'000</i>	Profit/(loss) <i>HK\$'000</i>
2004					
100 per cent	<u>4,936,390</u>	<u>2,375,462</u>	<u>2,560,928</u>	<u>190,376</u>	6,267
Group's effective interest					<u>(448)</u>
2005					
100 per cent	<u>5,128,848</u>	<u>2,386,443</u>	<u>2,742,405</u>	<u>180,555</u>	(42,135)
Group's effective interest					<u>30,472</u>
2006					
100 per cent	<u>6,371,237</u>	<u>2,578,616</u>	<u>3,792,621</u>	<u>321,807</u>	(81,934)
Group's effective interest					<u>178,070</u>

The above financial information of the associate is a summary of the consolidated operating results and financial position of the associate, which are based on its financial statements. The Group's share of the associate's results are based on the associate's financial statements and adjusted for the cross-holding between the Company and the associate as well as the alignment of the associate's accounting policies with those of the Group. In particular as they relate to Singapore Financial Reporting Standard 40 "Investment Property" (the equivalent of HKAS 40), which was not adopted by the associate during the years ended 31 December 2004, 2005 and 2006.

Financial guarantees

At 31 December 2006, HFC had given corporate guarantee to banks and financial institution in respect of credit facilities utilised by its subsidiaries amounting to approximately HK\$2,550,381,000 (2005: HK\$2,369,893,000; 2004: HK\$2,334,686,000).

14. OTHER FINANCIAL ASSETS

	The Group		
	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Available-for-sale equity securities, at fair value	3,278	1,350	1,610
Unlisted debentures, at cost	100	100	–
Investment in club membership	310	310	–
Loan receivable	<u>–</u>	<u>990</u>	<u>990</u>
	<u>3,688</u>	<u>2,750</u>	<u>2,600</u>

Note: Loan receivable is unsecured, interest bearing at HIBOR plus 2% per annum and repayable on 31 August 2010.

15. INVENTORIES

- a) Inventories in the consolidated balance sheets as at 31 December 2004, 2005 and 2006 comprised:

	2004	The Group 2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Plants	251	224	228
Properties held for sale	<u>74,652</u>	<u>14,146</u>	<u>12,500</u>
	<u><u>74,903</u></u>	<u><u>14,370</u></u>	<u><u>12,728</u></u>

- b) The analysis of carrying value of properties as at 31 December 2004, 2005 and 2006 was as follows:

	2004	The Group 2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
In Hong Kong			
– 50 years or more (long leases)	74,652	1,646	–
Outside Hong Kong			
– 50 years or more (long leases)	<u>–</u>	<u>12,500</u>	<u>12,500</u>
	<u><u>74,652</u></u>	<u><u>14,146</u></u>	<u><u>12,500</u></u>

- c) The analysis of the amount of inventories recognised as an expense for the years ended 31 December 2004, 2005 and 2006 was as follows:

	2004	The Group 2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Plants:			
Carrying amount of inventories sold	<u>450</u>	<u>501</u>	<u>484</u>
Properties:			
Carrying amount of inventories sold	10,630	72,646	1,646
Write down of inventories	–	360	–
Reversal of write-down of inventories	<u>(26,000)</u>	<u>–</u>	<u>–</u>
	<u><u>(15,370)</u></u>	<u><u>73,006</u></u>	<u><u>1,646</u></u>

During the year ended 31 December 2004, the reversal of write-down of inventories made in prior years arose due to an increase in the estimated net realisable value of certain properties as a result of a change in property market.

All of the inventories are expected to be recovered within one year.

16. TRADE AND OTHER RECEIVABLES

	The Group			The Company		
	2004	2005	2006	2004	2005	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amount due from a subsidiary	–	–	–	231,227	230,970	230,520
Tax reserve certificate	14,449	14,449	–	–	–	–
Trade debtors	923	432	738	–	–	–
Gross amounts due from customers for contract work (note 17)	595	595	595	–	–	–
Retentions receivable (note 17)	338	338	338	–	–	–
Other debtors, deposits and prepayments	5,100	4,123	6,426	273	273	293
	<u>21,405</u>	<u>19,937</u>	<u>8,097</u>	<u>231,500</u>	<u>231,243</u>	<u>230,813</u>

The amount due from the subsidiary is unsecured, non-interest bearing and has no fixed terms of repayment.

All of the trade and other receivables (including amount due from a subsidiary), apart from amount due to the subsidiary and those mentioned in note 17, are expected to be recovered within one year.

Included in trade and other receivables are trade debtors (net of impairment losses for bad and doubtful debts) with the following ageing analysis as of 31 December 2004, 2005 and 2006:

	The Group		
	2004	2005	2006
	HK\$'000	HK\$'000	HK\$'000
Within 1 month	809	374	561
1 to 3 month	48	54	171
More than 3 months but less than 12 months	66	4	6
	<u>923</u>	<u>432</u>	<u>738</u>

The Group's credit policy is set out in note 26(a).

17. CONSTRUCTION CONTRACTS

	The Group		
	2004	2005	2006
	HK\$'000	HK\$'000	HK\$'000
Costs incurred plus recognised profits less recognised losses to date	75,333	75,333	75,333
Progress payments received and receivable	<u>(74,738)</u>	<u>(74,738)</u>	<u>(74,738)</u>
Gross amounts due from customers for contract work	<u>595</u>	<u>595</u>	<u>595</u>

These amounts are related to construction contracts which have been completed in prior years. Since there are ongoing negotiations on the determination of, inter alia, final contract sums or variation orders between the Group and its contract employers, suppliers, subcontractors and subcontractors' employees, the directors have not been able to agree final completion accounts for these construction contracts.

The gross amounts due from customers for contract work at 31 December 2004, 2005 and 2006 that were expected to be recovered after more than one year were HK\$595,000, HK\$595,000, HK\$595,000, respectively.

In respect of construction contracts completed in prior years, the amount of retentions receivable from customers at 31 December 2004, 2005 and 2006 were HK\$338,000, HK\$338,000, HK\$338,000, respectively. The amounts of those retentions at 31 December 2004, 2005 and 2006 that were expected to be recovered after more than one year were HK\$338,000, HK\$338,000, HK\$338,000, respectively. The amount of retentions payable to suppliers at 31 December 2004, 2005 and 2006 were HK\$3,639,000, HK\$2,795,000, HK\$2,040,000, respectively, which were expected to be payable after more than one year.

18. CASH AND CASH EQUIVALENTS

	The Group			The Company		
	2004	2005	2006	2004	2005	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Deposits with banks and other financial institutions	200	–	–	–	–	–
Cash in hand and at bank	4,873	4,527	5,254	6	7	12
	5,073	4,527	5,254	6	7	12
Pledged bank balances and time deposits for bank borrowings	(4,191)	(912)	(912)	–	–	–
Cash and cash equivalents	<u>882</u>	<u>3,615</u>	<u>4,342</u>	<u>6</u>	<u>7</u>	<u>12</u>

19. TRADE AND OTHER PAYABLES

	The Group			The Company		
	2004	2005	2006	2004	2005	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade creditors	2,314	2,241	1,893	–	–	–
Other creditors and accrued charges	5,712	8,052	14,742	285	385	401
Retentions payable (note 17)	3,639	2,795	2,040	–	–	–
Deposits received	6,727	4,646	3,630	–	–	–
	<u>18,392</u>	<u>17,734</u>	<u>22,305</u>	<u>285</u>	<u>385</u>	<u>401</u>

All of the trade and other payables, apart from those mentioned in note 17, are expected to be settled within one year.

Included in trade and other payables are trade creditors with the following ageing analysis as of 31 December 2004, 2005 and 2006:

	The Group		
	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 month	129	80	30
After 1 month but within 3 months	37	50	10
After 3 months but within 6 months	44	24	16
After 6 months but within 12 months	90	23	15
Over 1 year	<u>2,014</u>	<u>2,064</u>	<u>1,822</u>
	<u>2,314</u>	<u>2,241</u>	<u>1,893</u>

20. BANK BORROWINGS, SECURED

As at 31 December 2004, 2005 and 2006, the secured bank borrowings were repayable as follows:

	The Group		
	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 year or on demand as classified under current liabilities	<u>32,722</u>	<u>80,204</u>	<u>81,891</u>
After 1 year but within 2 years	121,078	41,027	22,745
After 2 years but within 5 years	148,786	234,680	314,848
After 5 years	<u>257,035</u>	<u>71,512</u>	<u>58,641</u>
After 1 year as classified under non-current liabilities	<u>526,899</u>	<u>347,219</u>	<u>396,234</u>
	<u>559,621</u>	<u>427,423</u>	<u>478,125</u>

As at 31 December 2006, the bank facilities of certain subsidiaries were secured by:

- i) fixed charges over certain of the Group's investment properties situated in Hong Kong with an aggregate carrying value of HK\$1,989,000,000 as at 31 December 2006 (2005: HK\$1,961,000,000; 2004: HK\$1,795,000,000);
- ii) assignment of insurance, sale and rental proceeds of the aforementioned investment properties situated in Hong Kong;
- iii) charges over certain of the Group's bank balances of HK\$912,000 as at 31 December 2006 (2005: HK\$912,000; 2004: HK\$4,191,000) for the purpose of assignment of sales and rental proceeds and issued shares of certain wholly-owned subsidiaries of the Group;
- iv) subordination and assignment of intra-group and shareholders' loans to certain wholly-owned subsidiaries of the Group in favour of the banks;
- v) floating charges over the assets of Hugoton Limited and Super Homes Limited ("SHL"), wholly-owned subsidiaries of the Group;
- vi) share mortgages over the entire issued share capital of SHL; and
- vii) corporate guarantees given by the Company (2004 and 2005: the Company and a subsidiary, Luxurious Time Properties Limited).

For the year ended 31 December 2006, the effective interest rates for bank borrowings ranged from 4.86% to 6.14% (2005: 3.84% to 5.88%; 2004: 1.25% to 3.02%) per annum.

21. DEFINED CONTRIBUTION RETIREMENT PLAN

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

22. EQUITY SETTLED SHARE-BASED TRANSACTIONS

The Company has a share option scheme which was adopted on 15 April 2002 whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options at nil consideration to subscribe for shares of the Company. The options vest from the date of grant and are then exercisable within a period of not more than ten years. Each option gives the holder the right to subscribe for one ordinary share in the Company.

- a) The terms and conditions of the grants that existed during the years ended 31 December 2005 and 2006 are as follows, whereby all options are settled by physical delivery of shares:

	Number of instruments	Vesting conditions	Contractual life of options
Options granted to directors/employees:			
– on 18 January 2005	53,040,000	From the date of grant	7.25 years

- b) The number and weighted average exercise prices of share options are as follows:

	2004		2005		2006	
	Weighted average exercise price	Number of options '000	Weighted average exercise price	Number of options '000	Weighted average exercise price	Number of options '000
Outstanding at the beginning of the year	–	–	–	–	HK\$0.377	53,040
Granted during the year	–	–	HK\$0.377	53,040	–	–
Outstanding at the end of the year	–	–	HK\$0.377	53,040	HK\$0.377	53,040
Exercisable at the end of the year	–	–	HK\$0.377	53,040	HK\$0.377	53,040

The options outstanding at 31 December 2006 had an exercise price of HK\$0.377 (2005: HK\$0.377; 2004: No options outstanding) and a weighted average remaining contractual life of 5.3 years (2005: 6.3 years; 2004: No options outstanding).

c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a Black-Scholes Option Pricing Model ("B-S Model"). The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the B-S Model.

Fair value of share options and assumptions

	2005
Fair value at measurement date	HK\$0.168
Market price per share	HK\$0.365
Exercise price per share	HK\$0.377
Expected volatility (expressed as weighted average volatility used in the modelling under B-S model)	62%
Time to expiration	3.62 years
Expected dividend	0%
Risk-free interest rate (based on Hong Kong government bond)	<u>2.4%</u>

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

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

23. INCOME TAX IN THE BALANCE SHEET

a) Current taxation as at 31 December 2004, 2005 and 2006 in the consolidated balance sheets represented:

	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Balance of Hong Kong Profits Tax provision relating to prior years	<u>14,449</u>	<u>14,449</u>	<u>–</u>

b) **Deferred tax assets and liabilities recognised:**

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheets and the movements during the Relevant Periods are as follows:

	Revaluation of investment property HK\$'000	Depreciation allowances in excess of the related depreciation HK\$'000	Tax losses HK\$'000	Total HK\$'000
Deferred tax arising from:				
At 1 January 2004	125,000	1,426	(1,015)	125,411
Charged to profit or loss	<u>93,000</u>	<u>–</u>	<u>–</u>	<u>93,000</u>
At 31 December 2004	<u>218,000</u>	<u>1,426</u>	<u>(1,015)</u>	<u>218,411</u>
At 1 January 2005	218,000	1,426	(1,015)	218,411
Charged/(credited) to profit or loss	<u>29,050</u>	<u>544</u>	<u>(1,364)</u>	<u>28,230</u>
At 31 December 2005	<u>247,050</u>	<u>1,970</u>	<u>(2,379)</u>	<u>246,641</u>
At 1 January 2006	247,050	1,970	(2,379)	246,641
Charged/(credited) to profit or loss	<u>3,650</u>	<u>(1,970)</u>	<u>2,379</u>	<u>4,059</u>
At 31 December 2006	<u>250,700</u>	<u>–</u>	<u>–</u>	<u>250,700</u>
		2004	2005	2006
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net deferred tax asset recognised on the balance sheet		(986)	(1,791)	–
Net deferred tax liability recognised on the balance sheet		<u>219,397</u>	<u>248,432</u>	<u>250,700</u>
		<u>218,411</u>	<u>246,641</u>	<u>250,700</u>

c) **Deferred tax assets not recognised**i) *The Group*

In accordance with the accounting policy set out in note 1(q), at 31 December 2006, the Group has not recognised deferred tax assets in respect of cumulative tax losses of HK\$679,697,000 (2005: HK\$625,136,000; 2004: HK\$523,026,000) as it is not probable that future taxable profits against which the tax losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation

ii) *The Company*

At 31 December 2006, the Company has cumulative tax losses of HK\$9,042,000 (2005: HK\$10,099,000; 2004: HK\$945,000) available for against future taxable profits for an unlimited period of time. No deferred tax asset has been recognised in respect of such

cumulative tax losses as it is not probable that future taxable profits against which the tax losses can be utilised will be available in the relevant tax jurisdiction and such tax losses are subject to the agreement with the tax authority.

24. CAPITAL AND RESERVES

a) Share capital

i) Authorised and issued share capital

	2004		2005		2006	
	Number of shares		Number of shares		Number of shares	
	'000	HK\$'000	'000	HK\$'000	'000	HK\$'000
Authorised:						
Ordinary shares of HK\$0.05 each	<u>2,000,000</u>	<u>100,000</u>	<u>2,000,000</u>	<u>100,000</u>	<u>2,000,000</u>	<u>100,000</u>
Ordinary shares issued and fully paid:						
At 1 January and 31 December	<u>1,492,411</u>	<u>74,620</u>	<u>1,492,411</u>	<u>74,620</u>	<u>1,492,411</u>	<u>74,620</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

ii) Terms of unexpired and unexercised share options at balance sheet date.

Exercise period	Exercise price	2004 Number	2005 Number	2006 Number
18 January 2005 to 14 April 2012	HK\$0.377	<u>–</u>	<u>53,040,000</u>	<u>53,040,000</u>

Each option entitles the holder to subscribe for one ordinary share in the Company. Further details of these options are set out in note 22 to the financial statements.

b) Nature and purpose of reserves

i) Share premium and capital redemption reserve

The application of the share premium account and the capital redemption reserve is governed by the Bermuda Companies Act.

ii) Contributed surplus

The contributed surplus of the Group and the Company represents the difference between the nominal value of the share capital issued by the Company and the aggregate of the share capital and the share premium accounts of the subsidiaries acquired pursuant to the group reorganization in 1996. Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its members out of contributed surplus in certain circumstances.

iii) *Exchange reserve*

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 1(t).

iv) *Share-based compensation reserve*

The fair value of the actual or estimated number of unexercised share options granted to employees of the Company recognised in accordance with the accounting policy adopted for share based payments in note 1(p)(ii).

v) *Fair value reserve*

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the balance sheet date and is dealt with in accordance with the accounting policies in notes 1(e) and (i).

c) **Distributability of reserves**

As at 31 December 2004, 2005 and 2006, the aggregate amounts of reserves available for distribution to equity shareholders of the Company were HK\$1,377,770,000, HK\$1,368,503,000 and HK\$1,368,062,000, respectively.

d) **Dividend**

The Directors do not recommend the payment of a dividend for the Relevant Periods.

25. **NOTE TO CONSOLIDATED CASH FLOW STATEMENTS**

	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net assets disposed of:			
Investment properties	2,196	–	–
Other long term asset	700	–	–
Other receivables	6	–	–
Other payables and accruals	(15)	–	–
Gain on disposal	156	–	–
	<u>3,043</u>	<u>–</u>	<u>–</u>
Satisfied by:			
Cash	<u>3,043</u>	<u>–</u>	<u>–</u>
An analysis of the inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:			
Cash receipt	<u>3,043</u>	<u>–</u>	<u>–</u>

26. FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount. These receivables are due within 60 days from the date of billing. Debtors with balances that are more than 3 months overdue are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheet.

b) Interest rate risk

The interest rates and maturity information of the Group's non-current loan receivable and bank loans are disclosed in notes 14 and 20 respectively.

c) Foreign currency risk

As most of the Group's monetary assets and liabilities are denominated in Hong Kong Dollars and the Group conducted its business transactions principally in Hong Kong Dollars. The Group considers that as the exchange rate risk of the Group is not significant, the Group did not employ any financial instruments for hedging purposes.

d) Fair values

All financial instruments are carried at amounts not materially different from fair values as at 31 December 2004, 2005 and 2006.

e) Estimation of fair values

The estimation of fair values of share-based compensation is disclosed in note 22.

27. COMMITMENTS

- a) Capital commitments outstanding at 31 December 2004, 2005 and 2006 not provided for in the Financial Information were as follows:

	The Group		
	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted for	<u>1,170</u>	<u>13,887</u>	<u>13,498</u>

- b) At 31 December 2004, 2005 and 2006, the total future minimum lease payments under non-cancellable operating leases in respect of office properties and office equipment are payable as follows:

	The Group		
	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 year	656	1,168	2,744
After 1 year but within 5 years	248	18	3,798
	<u>904</u>	<u>1,186</u>	<u>6,542</u>

Significant leasing arrangements in respect of land and buildings classified as being held under finance leases and properties held for sale are described in notes 11 and 15.

Apart from these leases, the Group is the lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

- c) At 31 December 2004, 2005 and 2006, the Company had no material commitments.

28. CONTINGENT LIABILITIES

- a) At 31 December 2006, the Company had given unconditional guarantees to banks to secure loan facilities made available to subsidiaries to the extent of approximately HK\$658 million (2005: HK\$496 million; 2004: HK\$604 million). The extent of such facilities utilised by the subsidiaries at 31 December 2006 amounted to approximately HK\$478 million (2005: HK\$427 million; 2004: HK\$560 million).

Upon refinancing of an old loan of a subsidiary in January 2007, old guarantee in the amount of approximately HK\$238 million was released and new guarantee in the amount of approximately HK\$559 million was provided by the Company to secure the new loan facilities. The guarantees provided by the Company after refinancing in January 2007 have increased to approximately HK\$979 million.

- b) At 31 December 2004, 2005 and 2006, the Company had given corporate guarantees to a bank for issuing letters of indemnity to third parties in respect of contracts undertaken by a subsidiary amounting to approximately HK\$5.4 million, HK\$5.4 million and HK\$402,000, respectively.

29. MATERIAL RELATED PARTY TRANSACTIONS

a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Directors as disclosed in note 6, is as follows:

	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Short-term employee benefits	3,483	4,308	5,834
Post-employment benefits	36	31	31
Equity compensation benefits	–	8,911	–
	<u>3,519</u>	<u>13,250</u>	<u>5,865</u>

Total remuneration is included in “staff costs” (see note 4(b)).

b) **Financing arrangement**

	Amount owed by related party			Related interest income		
	As at 31 December			Year ended 31 December		
	2004	2005	2006	2004	2005	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loan to a director of a wholly-owned subsidiary	–	990	990	–	20	61

Note: The loan bears interest at HIBOR plus 2% per annum, is unsecured and repayable on 31 August 2010. The loan is included in note 14 “Other financial assets”.

30. **ACCOUNTING ESTIMATES AND JUDGEMENTS**

The method, estimates and judgements the management use in applying the Group’s accounting policies have a significant impact on the Group’s financial position and operating results. Some of the accounting policies require the Group to apply estimates and judgements, on matters that are inherently uncertain. Certain critical accounting judgements in applying the Group’s accounting policies are described below.

a) **Depreciation and amortisation**

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The management reviews annually the useful life of an asset and its residual value, if any. Interests in leasehold land held for own use under operating leases are amortised on a straight-line basis over the shorter of the estimated useful lives of the leased assets and the lease term. Both the period and methods of amortisation are reviewed annually. The depreciation and amortisation expenses for future periods are adjusted if there are significant changes from previous estimates.

b) **Valuation of inventories**

Inventories are stated at the lower of cost and net realisable value at the balance sheet date. Net realisable value is determined on the basis of the estimated selling price less the estimated costs necessary to make the sale. The management estimates the net realisable value for inventories based primarily on the latest invoice prices and current market conditions. In addition, the management performs an inventory review on a product-by-product basis at each year end date and assess the need for write down of inventories.

c) **Impairments**

If circumstances indicate that the carrying value of fixed assets may not be recoverable, the assets may be considered “impaired”, and an impairment loss may be recognised in accordance with HKAS 36 “Impairment of Assets”. The carrying amounts of fixed assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amount is reduced to recoverable amount. The recoverable amount of fixed assets is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for the Group’s asset are not available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sale volume, selling price and amount of operating costs. The management uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, selling price and amount of operating costs.

Impairment losses for bad and doubtful debts are assessed and provided based on the management's regular review of ageing analysis and evaluation of collectibility. A considerable level of judgement is exercised by the management when assessing the credit worthiness and past collection history of each individual customer.

Any increase or decrease in the above impairment losses would affect the net profit in future years.

31. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE RELEVANT PERIODS

Up to the date of issue of this report, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the Relevant Periods and which have not been adopted in the Financial Information.

Of these developments, the following relate to matters that may be relevant to the Group's operations and financial statements:

		Effective for accounting periods beginning on or after
HKFRS 7	Financial Instruments: Disclosures	1 January 2007
Amendment to HKAS 1	Presentation of Financial Statements: Capital Disclosure	1 January 2007

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

32. SUBSEQUENT EVENTS

Acquisition of subsidiaries

On 25 May 2007, the Group has entered into a conditional agreement with HFC, an associate of the Company, to acquire the entire equity interest in Goldease Investments Limited ("Goldease") and its subsidiaries (collectively, the "Goldease Group"). Goldease Group is principally engaged in property development, and its principal assets are the Singapore properties.

The details of assets acquired and liabilities assumed as at the acquisition date were as follows:

	Pre-acquisition carrying amounts HK\$'000	Fair value adjustments HK\$'000	Recognised values on acquisitions HK\$'000
Fixed assets	729	–	729
Development properties	162,350	(12,589)	149,761
Trade and other receivables	5,918	–	5,918
Cash and cash equivalents	680	–	680
Bank loans	(70,460)	–	(70,460)
Trade and other payables	(6,301)	–	(6,301)
Amounts due to related companies	(182,504)	–	(182,504)
Share of net identifiable assets and liabilities	<u>(89,588)</u>	<u>(12,589)</u>	(102,177)
Add: Amount due from Goldease Group			182,504
Goodwill on acquisition			<u>33,673</u>
Consideration paid			<u>114,000</u>

Capital and group reorganisation

After 31 December 2006, the Group proposed a capital and group reorganisation. Further details are set out in the section headed “Letter from the Board” of the Circular.

Pursuant to the group reorganisation, the Company will distribute all of ordinary shares of HK\$0.05 each in the issued share capital of Hong Fok Land International Limited (“HF Land”), a company incorporated in Bermuda with limited liability and a wholly-owned subsidiary of the Company as at the date of this report.

The assets and liabilities of HF Land and its subsidiaries (hereinafter collectively referred to as the “HF Land Group”) as at 31 December 2004, 2005 and 2006, and the results and cash flows of the HF Land Group for the years ended 31 December 2004, 2005 and 2006 are set out in the Appendix IV of the Circular.

II. SUBSEQUENT FINANCIAL STATEMENTS

No financial statements of the Group have been audited in respect of any period subsequent to 31 December 2006.

Yours faithfully,
CCIF CPA Limited
Certified Public Accountants
Hong Kong
Yau Hok Hung
Practising Certificate Number P04911

3. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP**(i) For the year ended 31 December 2006****Review of operations and future prospects**

During the year, the Group continues to engage in property related businesses and provision of horticultural services. The decrease in turnover was mainly due to the sale of a commercial property in 2005. Rental income decreased as a result of the commencement of the redevelopment of 38 Conduit Road in the year.

The Group recorded net profit of approximately HK\$150.5 million in the year, representing an increase of 34% from 2005. Contributed to the improvement of the Group's results were:

- (i) increase in the Group's share of valuation gains of an associate by approximately 155.1 million;
- (ii) decrease in impairment loss of a China property of approximately HK\$67.5 million;
- (iii) decrease in net rental income of approximately HK\$10.8 million;
- (iv) decrease in valuation gains on investment properties, net of deferred tax, of approximately HK\$120.9 million;
- (v) increase in interest expense of approximately HK\$4.2 million; and
- (vi) decrease in profit on disposal of properties of approximately HK\$46.9 million attributable to the disposal of a commercial property in 2005.

The net asset value of the Group per share as at 31 December 2006 was approximately HK\$1.26 (2005: HK\$1.13) based on the 1,492,410,986 (2005: 1,492,410,986) shares issued.

The changes in segmental revenue and segmental results were mainly affected by the decrease in valuation gains on investment property in 2006, impairment loss of a China property and disposal of a commercial property in 2005.

The redevelopment of the investment property at 38 Conduit Road has commenced during the year as planned and is expected to be completed by the end of 2009.

The redevelopment project of 15 Magazine Gap Road to improve its rental potential is still at the planning stage and the property has continued to generate rental income during the year.

The Group will continue to look for investment and development opportunities in Hong Kong.

As at 31 December 2006, the Group had a total of 61 employees. Employees are remunerated according to their performance and working experience. On top of basic salaries, discretionary bonus and share options may be granted to eligible employee by reference to individual's performance. In addition, the Group provides social security benefits to its staff such as mandatory provident fund scheme in Hong Kong and the pension scheme in the PRC.

Liquidity and financial resources

All the Group's funding and treasury activities are centrally managed and controlled at the corporate level. There is no significant change in respect of treasury and financing policies from the information disclosed in the Group's latest annual report. The Group has no exposure to foreign exchange rate fluctuations except for the interests in an associate in Singapore which is held as long term investment. The Group's borrowings are denominated in Hong Kong dollars and arranged on a floating rate basis.

The Group's working capital requirements are met by recurring cash flows from the investment properties portfolio and committed undrawn credit facilities. The year-end gearing ratio was 25% (2005: 25%) based on bank loans less cash and bank balances to shareholders' funds including minority interests. As at 31 December 2006, the outstanding bank loans amounted approximately HK\$478.1 million. These loan facilities were secured by the Group's properties. The Company has provided guarantees in respect of bank facilities made available to subsidiaries totaling approximately HK\$658.4 million (2005: 501.4 million).

The following is the maturity profile of the Group's bank borrowings as of 31 December 2006:

Within one year	17%
In the second year	5%
In the third to fifth years, inclusive	66%
After five years	12%
	<u>100%</u>

The current portion of bank loans included property loan of 15 Magazine Gap Road. Subsequent to the year-end in January 2007, the property loan was replaced by a project finance of the redevelopment project. Guarantee in the amount of approximately HK\$238 million was released and new guarantee in the amount of approximately HK\$559 million was provided by the Company to secure the new loan facilities. The total guarantees provided by the Company after refinancing in January 2007 have increased to approximately HK\$980 million.

(ii) For the year ended 31 December 2005**Review of operations and future prospects**

During the year, the Group continues to engage in property related businesses and provision of horticultural services. The increase in turnover was due to the sale of 8/F, 9 Queen's Road Central.

The Group recorded net profit of approximately HK\$115.1 million in the year. The Group's result was affected by:

- (i) surplus on revaluation of investment properties of approximately HK\$166 million with corresponding provision for deferred tax liability of approximately HK\$29.1 million;
- (ii) profit on disposal of properties held for sale of approximately HK\$18.8 million;
- (iii) gain on disposal of land and building of approximately HK\$28.1 million;
- (iv) provision for impairment of property held for future development of approximately HK\$67.5 million;
- (v) the recognition of share-based benefits of approximately HK\$8.9 million on adoption of the new Hong Kong Financial Reporting Standard 2;
- (vi) increase in interest expense of approximately HK\$9.7 million due to increase in interest rate despite the decrease in bank loan; and
- (vii) share of (a) valuation gains on investment properties of approximately HK\$35.6 million and (b) operating loss of approximately HK\$4.9 million of an associate.

The net asset value of the Group per share as at 31 December 2005 was approximately HK\$1.13 based on the 1,492,410,986 shares issued.

The changes in segmental revenue and segmental results were mainly affected by the decrease in valuation gains on investment property, recognition of an impairment loss of a China property and disposal of a commercial property in 2005.

The investment property at 38 Conduit Road has been held for rental purpose. In September 2005, building plan was submitted for the redevelopment of the property. It is expected that redevelopment will commence in 2006. The directors has decided that part of the new building will be sold with sale proceeds to cover the costs of 38 Conduit Road redevelopment and also of 15 Magazine Gap Road redevelopment, when required. The unsold part of the completed property will be held for rental purpose.

The investment property at 15 Magazine Gap Road has been held for rental purpose. Decision to redevelop the property was made towards the end of the year. It is expected that redevelopment will commence in 2006. The redeveloped property will continuously be held for rental purpose.

The Group will continue to look for investment and development opportunities in Hong Kong.

As at 31 December 2005, the Group had a total of 67 employees. Employees are remunerated according to their performance and working experience. On top of basic salaries, discretionary bonus and share options may be granted to eligible employee by reference to individual's performance. In addition, the Group provides social security benefits to its staff such as mandatory provident fund scheme in Hong Kong and the pension scheme in the PRC.

Liquidity and financial resources

The Group's funding and treasury activities are centrally managed and controlled at the corporate level. There is no significant change in respect of treasury and financing policies from the information disclosed in the Group's latest annual report. The Group has no exposure to foreign exchange rate fluctuations except for the interests in an associate in Singapore which is held as long term investment. The Group's borrowings are denominated in Hong Kong dollars and arranged on a floating rate basis.

The Group's working capital requirements are met by recurring cash flows from the investment properties portfolio and committed undrawn credit facilities. The year-end gearing ratio was 25% (2004: 35%) based on bank loans less cash and bank balances to shareholders' funds including minority interests. As at 31 December 2005, the outstanding bank loans amounted approximately HK\$427.4 million. These loan facilities were secured by the Group's properties. The Company has provided guarantees in respect of bank facilities made available to subsidiaries totalling approximately HK\$501.4 million (2004: HK\$609.4 million).

The following is the maturity profile of the Group's bank borrowings as of 31 December 2005:

Within one year	19%
In the second year	9%
In the third to fifth years, inclusive	55%
After five years	<u>17%</u>
	<u><u>100%</u></u>

The current portion of bank loans included property loans of 38 Conduit Road and 15 Magazine Gap Road. The property loan of 38 Conduit Road is expected to be replaced by project finance of the redevelopment project and ultimately settled by the sale proceeds of the redevelopment of 38 Conduit Road. The property loan of 15

Magazine Gap Road is expected to be replaced by project finance of the redevelopment project ("MGR project loan"). Upon completion of the redevelopment of 15 Magazine Gap Road, the MGR project loan will be replaced by a mortgage loan.

(iii) For the year ended 31 December 2004

Review of operations and future prospects

During the year, the Group continued to engage in property related businesses and provision of horticultural services. Despite the decrease in revenue from sale of development properties, turnover was comparable to that of 2003 due to the increase in rental income.

The Group recorded net profit of approximately HK\$22.4 million. The improvement of the Group's results was mainly attributable to the reversal of provision for and surplus on revaluation of properties of approximately HK\$33.3 million in aggregate and the decrease in the share of the downward revaluation of properties held by an associate in Singapore by approximately HK\$22.9 million.

Due to the upward revaluation of properties, the net asset value of the Group per share as at 31 December 2004 increased to approximately HK\$1.21 (2003: HK\$0.82) based on the 1,492,410,986 (2003: 1,492,410,986) shares issued.

The changes in segmental revenue and segmental results were mainly affected by the valuation gains on investment property and decrease in sale of development properties.

The Group will continue to look for investment and development opportunities in Hong Kong.

As at 31 December 2004, the Group had a total of 62 employees. Employees are remunerated according to their performance and working experience. On top of basic salaries, discretionary bonus and share options may be granted to eligible employee by reference to individual's performance. In addition, the Group provides social security benefits to its staff such as mandatory provident fund scheme in Hong Kong and the pension scheme in the PRC.

Liquidity and financial resources

All the Group's funding and treasury activities are centrally managed and controlled at the corporate level. There is no significant change in respect of treasury and financing policies from the information disclosed in the Group's latest annual report. The Group has no exposure to foreign exchange rate fluctuations except for the interests in an associate in Singapore which is held as long term investment. The Group's borrowings are denominated in Hong Kong dollars and arranged on a floating rate basis.

The Group's working capital requirements are met by recurring cash flows from the investment properties portfolio and committed undrawn credit facilities. The year-end gearing ratio was 35% (2003: 45%) based on bank loans less cash and bank balances to shareholders' funds including minority interests. As at 31 December 2004, the outstanding bank loans amounted approximately HK\$559.6 million. These loan facilities were secured by the Group's properties. The Company has provided guarantees in respect of bank facilities made available to subsidiaries totalling approximately HK\$609.4 million (2003: HK\$638.5 million).

The following is the maturity profile of the Group's bank borrowings as of 31 December 2004:

Within one year	6%
In the second year	22%
In the third to fifth years, inclusive	26%
After five years	<u>46%</u>
	<u><u>100%</u></u>

4. INDEBTEDNESS

Borrowings

At the close of business on 30 April 2007, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group and the Enlarged Group had the following indebtedness:

	The Group	The Enlarged Group
	<i>HK\$'000</i>	<i>HK\$'000</i>
Secured bank borrowings	497,550	544,836
Amounts due to related corporations	<u>–</u>	<u>160,532</u>
Total borrowings	<u><u>497,550</u></u>	<u><u>705,368</u></u>

As at 30 April 2007, the amounts due to related corporations are unsecured and settlement is neither planned nor likely to occur in the foreseeable future.

Interest incurred by related corporations on bank borrowings taken to provide financing to the companies within the Enlarged Group is charged to the relevant companies based on the utilization of funds.

Securities and guarantees

As at 30 April 2007, the secured bank borrowings of HK\$497,550,000 of the Enlarged Group denominated in Hong Kong dollar were secured by:

- i) fixed charges over the Group's investment properties situated in Hong Kong with an aggregate carrying amount of HK\$1,992,155,000 as at 30 April 2007;
- ii) assignment of insurance, sale and rental proceeds of the aforementioned investment properties situated in Hong Kong;
- iii) charges over certain of the Group's bank balances of approximately HK\$1,457,000 as at 30 April 2007 for the purpose of assignment of sales and rental proceeds and issued shares of certain wholly-owned subsidiaries of the Group;
- iv) subordination and assignment of intra-group and shareholders' loans to certain wholly-owned subsidiaries of the Group in favour of the banks;
- v) floating charges over the assets of Hugoton Limited and Super Homes Limited ("SHL"), wholly-owned subsidiaries of the Group;
- vi) share mortgages over the entire issued share capital of SHL; and
- vii) corporate guarantees given by the Company.

As at 30 April 2007, the remaining secured bank borrowings of HK\$47,286,000 of the Enlarged Group denominated in Singapore dollar were secured by:

- i) fixed charges over the Goldease Group's development properties with an aggregate carrying amount of approximately HK\$123,028,000 as at 30 April 2007;
- ii) assignment of the rights, titles and interests in sale and purchase agreements, tenancy agreements, building contract, performance bonds and insurances from these properties; and
- iii) guarantees given by Hong Fok Corporation Limited, an associate of the Company.

Contingent liabilities

As at 30 April 2007, the Enlarged Group had no material contingent liabilities.

Disclaimers

Save as aforesaid, the Enlarged Group did not have, at the close of business on 30 April 2007, outstanding liabilities or any mortgages, charges, debentures, loan capital, bank overdrafts, liabilities under acceptance or other similar indebtedness, hire purchase of finance lease obligations or any guarantees or other material contingent liabilities.

The Directors have confirmed that there have been no material changes in the indebtedness and contingent liability of the Enlarged Group since 30 April 2007, up to and including the Latest Practicable Date.

5. MATERIAL CHANGE

Save for the below-mentioned:

- (a) the Acquisition;
- (b) the Group Reorganisation; and
- (c) the Capital Reorganisation;

the Directors are not aware of any material change in the financial or trading position or outlook of the Group since 31 December 2006 (the date to which the latest published audited consolidated financial statements of the Group were made up) up to and including the Latest Practicable Date.

6. WORKING CAPITAL

The Directors are satisfied that after due and careful enquiry and taking into account the existing banking facilities available and the existing cash and bank balances, the Enlarged Remaining Group would have sufficient working capital for its present requirements, that is for at least the next 12 months from the date of publication of this circular, in the absence of unforeseeable circumstances.

ACCOUNTANTS' REPORT ON THE GOLDEASE GROUP

Set out below is the text of the accountants' report on the Goldease Group prepared by KPMG, Certified Public Accountants, Singapore for incorporation in this circular:



The Directors
Winfoong International Limited

30 June 2007

Dear Sirs,

Introduction

We set out below our report on the combined financial statements of Goldease Investments Limited (the "Company") and its subsidiaries (the "Group") which comprise the balance sheets of the Group as at 31 December 2004, 2005 and 2006, the profit and loss accounts, statements of changes in equity and statements of cash flows of the Group for each of the years ended 31 December 2004, 2005 and 2006, and a summary of significant accounting policies and other explanatory notes, as set out on pages 131 to 146 for inclusion in the circular of Winfoong International Limited dated 30 June 2007 (the "Circular") in connection with the proposed reorganisation of Winfoong International Limited (the "Reorganisation").

The Company was incorporated in British Virgin Islands on 9 March 2007. Pursuant to the Reorganisation which was completed on 23 May 2007, the Company became the holding company of Arundel Trading Pte Ltd, Firth Enterprises Pte Ltd and Hong Fok Development (Newton) Pte Ltd (collectively, referred to as "Subsidiaries").

The Company's principal activity is that of investment holding and the wholly-owned Subsidiaries are principally engaged in property development, with principal assets in Singapore.

Basis of Preparation

For the purpose of this report, the combined financial statements of the Group have been prepared based on the audited statutory financial statements of the Subsidiaries and unaudited management accounts of the Company, on the basis set out in Note 1 and accounting policies in Note 3, which are in accordance with International Financial Reporting Standards ("IFRS") and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). No adjustments have been made to the Subsidiaries' audited statutory financial statements in the preparation of these combined financial statements of the Group.

No audited financial statements have been prepared for Goldease Investments Limited as it was recently incorporated and is not subject to statutory audit requirement in its country of incorporation.

We have acted as statutory auditors of the Subsidiaries during the years ended 31 December 2004, 2005 and 2006 (the "Relevant Reporting Period"). The statutory financial statements of the Subsidiaries during the Relevant Reporting Period were prepared in accordance with Singapore Statements of Accounting Standard/Singapore Financial Reporting Standards and were audited by us in accordance with Singapore Standards on Auditing.

Management's responsibility for the financial statements

The management is responsible for the preparation and fair presentation of these financial statements in accordance with IFRS and the Listing Rules. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of 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 financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing ("ISA") and carried out such additional procedures as we considered necessary in accordance with the "Auditing Guideline 3.340 Prospectuses and The Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants (the "Auditing Guideline 3.34"). The ISA require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

Basis of opinion

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 financial statements.

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

We have not audited any financial statements of the Group in respect of any period subsequent to 31 December 2006.

Opinion

In our opinion, for the purposes of this report and on the basis of preparation set out in Note 1 and accounting policies in Note 3, the combined financial statements of the Group are properly drawn up in accordance with International Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group as at 31 December 2004, 2005 and 2006 and the results, changes in equity and cash flows of the Group for each of the years ended 31 December 2004, 2005 and 2006.

KPMG
Certified Public Accountants
Lee Sze Yeng
Singapore

Combined Balance Sheets*As At 31 December*

	<i>Note</i>	2004 S\$	2005 S\$	2006 S\$
Non-current assets				
Fixed assets	4	<u>2,404</u>	<u>11,840</u>	<u>143,166</u>
Current assets				
Development properties	5	39,953,389	49,634,740	31,901,828
Trade and other receivables	6	122,647	124,797	1,162,858
Cash at banks		<u>21,827</u>	<u>218,379</u>	<u>133,617</u>
		<u>40,097,863</u>	<u>49,977,916</u>	<u>33,198,303</u>
Total assets		<u>40,100,267</u>	<u>49,989,756</u>	<u>33,341,469</u>
Share capital	7	1,000,004	1,000,004	1,000,004
Accumulated losses		<u>(17,105,103)</u>	<u>(17,462,956)</u>	<u>(18,604,138)</u>
Total equity		<u>(16,105,099)</u>	<u>(16,462,952)</u>	<u>(17,604,134)</u>
Non-current liabilities				
Amounts due to related corporations	9	27,675,193	37,185,585	35,862,005
Interest bearing loans	10	<u>27,190,323</u>	<u>9,195,391</u>	<u>13,845,391</u>
		<u>54,865,516</u>	<u>46,380,976</u>	<u>49,707,396</u>
Current liabilities				
Trade and other payables	11	342,965	2,076,800	1,238,207
Amount due to a related corporation	9	1,953	–	–
Interest bearing loans	10	<u>994,932</u>	<u>17,994,932</u>	<u>–</u>
		<u>1,339,850</u>	<u>20,071,732</u>	<u>1,238,207</u>
Total liabilities		<u>56,205,366</u>	<u>66,452,708</u>	<u>50,945,603</u>
Total equity and liabilities		<u>40,100,267</u>	<u>49,989,756</u>	<u>33,341,469</u>

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

Combined Profit and Loss Accounts*Year Ended 31 December*

	<i>Note</i>	2004 S\$	2005 S\$	2006 S\$
Revenue	<i>12</i>	349,070	360,386	23,436,967
Other income		<u>11,936</u>	<u>3,627</u>	<u>84,138</u>
		361,006	364,013	23,521,105
(Allowance made)/write-back of allowance for foreseeable losses or diminution in value of development properties, net		(400,000)	–	849,430
Depreciation of fixed assets	<i>4</i>	(5,044)	(3,844)	(36,658)
Cost of sales of development properties		–	–	(23,077,567)
Other operating expenses		(287,352)	(89,582)	(640,766)
Finance costs	<i>13</i>	<u>(405,576)</u>	<u>(628,440)</u>	<u>(1,756,726)</u>
Loss from operations before taxation	<i>14</i>	(736,966)	(357,853)	(1,141,182)
Income tax expense	<i>15</i>	<u>–</u>	<u>–</u>	<u>–</u>
Loss for the year		<u><u>(736,966)</u></u>	<u><u>(357,853)</u></u>	<u><u>(1,141,182)</u></u>

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

Combined Statements of Changes in Equity*Year Ended 31 December*

	Share capital S\$	Accumulated losses S\$	Total S\$
At 1 January 2004	1,000,004	(16,368,137)	(15,368,133)
Loss for the year	<u>–</u>	<u>(736,966)</u>	<u>(736,966)</u>
Total recognised income and expense for the year	<u>–</u>	<u>(736,966)</u>	<u>(736,966)</u>
At 31 December 2004	<u>1,000,004</u>	<u>(17,105,103)</u>	<u>(16,105,099)</u>
At 1 January 2005	1,000,004	(17,105,103)	(16,105,099)
Loss for the year	<u>–</u>	<u>(357,853)</u>	<u>(357,853)</u>
Total recognised income and expense for the year	<u>–</u>	<u>(357,853)</u>	<u>(357,853)</u>
At 31 December 2005	<u>1,000,004</u>	<u>(17,462,956)</u>	<u>(16,462,952)</u>
At 1 January 2006	1,000,004	(17,462,956)	(16,462,952)
Loss for the year	<u>–</u>	<u>(1,141,182)</u>	<u>(1,141,182)</u>
Total recognised income and expense for the year	<u>–</u>	<u>(1,141,182)</u>	<u>(1,141,182)</u>
At 31 December 2006	<u>1,000,004</u>	<u>(18,604,138)</u>	<u>(17,604,134)</u>

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

Combined Statements of Cash Flows*Year Ended 31 December*

	2004	2005	2006
	S\$	S\$	S\$
Operating activities			
Loss from operations before taxation	(736,966)	(357,853)	(1,141,182)
Adjustments for:			
Amortisation of transaction cost of interest bearing loans	23,584	5,068	5,068
Depreciation of fixed assets	5,044	3,844	36,658
Loss on disposal of fixed assets	–	525	–
Allowance made/(write-back of allowance) for foreseeable losses or diminution in value of development properties, net	400,000	–	(849,430)
Interest income	(108)	(85)	(2,501)
Interest expenses	405,576	628,440	1,756,726
	<u> </u>	<u> </u>	<u> </u>
Operating profit/(loss) before working capital changes	97,130	279,939	(194,661)
Changes in working capital:			
Development properties	(354,967)	(8,738,609)	18,871,185
Trade and other receivables	(1,055)	(2,150)	(1,038,061)
Trade and other payables	(67,027)	1,723,704	(833,334)
	<u> </u>	<u> </u>	<u> </u>
Cash (used in)/generated from operations	(325,919)	(6,737,116)	16,805,129
Interest received	108	85	2,501
	<u> </u>	<u> </u>	<u> </u>
Cash flows from operating activities	<u>(325,811)</u>	<u>(6,737,031)</u>	<u>16,807,630</u>
Investing activities			
Purchase of fixed assets	(2,026)	(13,805)	(167,984)
	<u> </u>	<u> </u>	<u> </u>
Cash flows from investing activities	<u>(2,026)</u>	<u>(13,805)</u>	<u>(167,984)</u>
Financing activities			
Interest paid	(1,033,724)	(1,561,051)	(2,050,828)
Repayment of interest bearing loans	–	(1,000,000)	(13,350,000)
Increase/(Decrease) in amounts due to related corporations	1,345,298	9,508,439	(1,323,580)
	<u> </u>	<u> </u>	<u> </u>
Cash flows from financing activities	<u>311,574</u>	<u>6,947,388</u>	<u>(16,724,408)</u>
Net (decrease)/increase in cash at banks	(16,263)	196,552	(84,762)
Cash at banks at beginning of the year	38,090	21,827	218,379
	<u> </u>	<u> </u>	<u> </u>
Cash at banks at end of the year	<u>21,827</u>	<u>218,379</u>	<u>133,617</u>

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

Notes to the Financial Statements

These notes form an integral part of the financial statements.

The financial statements were authorised for issue by the Company's Board of Directors on 30 June 2007.

1 Basis of Preparation

For the purpose of this report, the financial statements have been prepared to reflect the reorganisation of the entities under common control, in which Goldease Investments Limited (the "Company"), Arundel Trading Pte Ltd, Firth Enterprises Pte Ltd and Hong Fok Development (Newton) Pte Ltd (collectively, referred to as "Subsidiaries") are ultimately controlled by Hong Fok Corporation Limited before and after the completion of the Reorganisation. Pursuant to the Reorganisation which was completed on 23 May 2007, Goldease Investments Limited became the holding company of the Subsidiaries.

The principal activity of the Company is that of investment holding. The principal activities of the Subsidiaries consist of property development in Singapore.

For the purpose of this report, the combined financial statements relate to the Company and its Subsidiaries (together referred to as the "Group"). The balance sheets of the Group as at 31 December 2004, 2005 and 2006, the profit and loss accounts, statements of changes in equity and statements of cash flows of the Group for each of the years ended 31 December 2004, 2005 and 2006 (the "Relevant Reporting Period") have been prepared on a combined basis and include the financial information of the companies now comprising the Group as if the current group structure had been in existence throughout the Relevant Reporting Period as prescribed by Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.

All material intra-group transactions and balances have been eliminated on combination.

2 Going Concern

The financial statements have been prepared on a going concern basis notwithstanding the deficiency in net assets as Hong Fok Corporation Limited has undertaken to provide such financial support as is necessary to enable the Group to continue its operations for the foreseeable future.

3 Summary of Significant Accounting Policies

A Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards.

The financial statements have been prepared on the historical cost basis except for certain financial assets and financial liabilities that are stated at their fair values.

The financial statements are presented in Singapore dollars which is the functional currency of the companies within the Group.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in Note 5 – valuation of development properties.

The accounting policies set out below have been applied consistently by the Group. The accounting policies used by the Group have been applied consistently to all periods presented in these financial statements.

B Fixed assets

Owned assets

Fixed assets are stated in the financial statements at cost less accumulated depreciation and impairment loss.

Depreciation

Fixed assets are depreciated on a straight-line basis to write off their costs over their estimated useful lives at an annual rate of 20%.

Depreciation methods, useful lives and residual values are reviewed, and adjusted as appropriate, at each reporting date.

C Development properties

Development properties are properties which are held with the intention of sale in the ordinary course of business and are classified as current assets. They include completed properties and properties under development.

Completed properties are stated at the lower of cost and directors' estimate of net realisable value. Cost includes cost of land, interest cost and other related expenditure. Capitalisation of interest cost and other related expenditure ceases when the temporary occupation permit for the development is issued by the authorities or when active development is suspended for extended periods. Net realisable value represents the estimated selling price less costs to be incurred in selling the properties.

Properties under development are stated at cost less any allowance considered necessary by the directors.

D Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash at banks, trade and other payables and financial liabilities.

Non-derivative financial instruments are recognised initially at fair value plus any attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured at amortised cost using the effective interest method, less allowance for impairment.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or transfers substantially all the risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, that is, the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

E Impairment*Impairment of financial assets*

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Financial assets are tested for impairment on an individual basis. Any impairment loss is recognised in the profit and loss account.

Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. The impairment loss is charged to profit and loss account.

Calculation of recoverable amount

The recoverable amount of an asset is the greater of its value in use and its fair value to use less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

Impairment loss recognised in prior periods is assessed at each reporting date for any indications that the loss has decreased or no longer exists for all assets. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss has been recognised.

F Revenue recognition

Profits on development properties are recognised using the percentage of completion method. The percentage of completion is measured by reference to the costs incurred to date and the estimated total costs for each contract. Profits are recognised only in respect of finalised sales agreements and to the extent that such profits relate to the progress of the construction work.

Rental income is recognised on a straight-line basis over the term of the leases.

Interest income from late payment by tenants is recognised on an accrual basis.

G *Borrowing costs*

Borrowing costs comprise interest and other costs incurred in connection with the borrowing of funds.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of the asset less any income on the temporary investment of these borrowings. The capitalisation rate is based on the attributable cost of the specific borrowings. All other borrowing costs are written off to the profit and loss account in the year in which they are incurred except for fees for the arrangement of financing facilities which are recognised over the period of the facilities on an effective interest basis.

H *Income tax expense*

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the profit and loss account.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of the prior years.

Deferred tax is provided in full, using the balance sheet method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Temporary differences are not recognised on initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

I *Related parties*

For the purposes of these financial statements, 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 or other entities.

J *Segment reporting*

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

4 Fixed Assets

	Furniture S\$
Cost	
At 1 January 2004	23,195
Additions	<u>2,026</u>
At 31 December 2004	25,221
Additions	13,805
Disposals	<u>(1,425)</u>
At 31 December 2005	37,601
Additions	<u>167,984</u>
At 31 December 2006	<u><u>205,585</u></u>
Accumulated depreciation	
At 1 January 2004	17,773
Depreciation for the year	<u>5,044</u>
At 31 December 2004	22,817
Depreciation for the year	3,844
Disposals	<u>(900)</u>
At 31 December 2005	25,761
Depreciation for the year	<u>36,658</u>
At 31 December 2006	<u><u>62,419</u></u>
Carrying amount	
At 1 January 2004	<u><u>5,422</u></u>
At 31 December 2004	<u><u>2,404</u></u>
At 31 December 2005	<u><u>11,840</u></u>
At 31 December 2006	<u><u>143,166</u></u>

5 Development Properties

	<i>Note</i>	2004 S\$	2005 S\$	2006 S\$
Properties in Singapore:				
Freehold properties under development		37,736,954	47,461,131	–
Allowance for foreseeable losses		<u>(16,100,000)</u>	<u>(16,100,000)</u>	<u>–</u>
		21,636,954	31,361,131	–
Progress payments		<u>(1,183,565)</u>	<u>(1,226,391)</u>	<u>–</u>
		<u>20,453,389</u>	<u>30,134,740</u>	<u>–</u>
Freehold completed properties held for resale		22,348,653	22,348,653	39,367,048
Allowance for diminution in value		<u>(2,848,653)</u>	<u>(2,848,653)</u>	<u>(7,465,220)</u>
		<u>19,500,000</u>	<u>19,500,000</u>	<u>31,901,828</u>
		<u>39,953,389</u>	<u>49,634,740</u>	<u>31,901,828</u>
Amount of interest capitalised during the year	<i>13</i>	<u>577,170</u>	<u>942,742</u>	<u>288,843</u>

Freehold properties under development were completed in 2006 and accordingly, reclassified to freehold completed properties held for resale.

Significant assumptions are required in determining the valuation of development properties which involves estimates of the stage of completion, the extent of the cost incurred, the estimated total cost and net realisable value. In making the assumptions, the Group evaluates by relying on past experience and the work of professionals.

Professional valuations obtained for certain properties are prepared using the sales comparison method of valuations in determining the open market value of the properties, taking into account the tenure and location of the properties and the general prevailing economic conditions of the property market.

The development properties are mortgaged to banks for banking facilities extended to the Subsidiaries (Note 10).

6 Trade and Other Receivables

	2004 S\$	2005 S\$	2006 S\$
Trade receivables	65	75	1,153,597
Deposits and prepayments	<u>122,582</u>	<u>124,722</u>	<u>9,261</u>
	<u>122,647</u>	<u>124,797</u>	<u>1,162,858</u>

Trade receivables relate mainly to remaining consideration due for the sale of development properties.

Included in trade and other receivables are trade debtors (net of impairment losses for bad and doubtful debts) with the following ageing analysis as of the balance sheet date:

	2004 S\$	2005 S\$	2006 S\$
Current or less than 1 month	–	10	–
1 to 3 months	–	–	678,545
More than 3 months but less than 12 months	65	–	474,977
More than 12 months	–	65	75
	<u>65</u>	<u>75</u>	<u>1,153,597</u>

7 Share Capital

The Company was incorporated after 31 December 2006.

For the purpose of this report, share capital represents the aggregate amount of issued share capital of the Subsidiaries.

8 Holding Company

The immediate and ultimate holding company is Hong Fok Corporation Limited, a company incorporated in the Republic of Singapore and listed on the Singapore Exchange Securities Trading Limited.

9 Amounts Due To Related Corporations

The amounts due to related corporations are generally non-trade in nature and unsecured and settlement is neither planned nor likely to occur in the foreseeable future.

Interest incurred by related corporations on bank borrowings taken to provide financing to the companies within the Group is charged to the relevant companies based on the utilisation of funds.

The effective interest rates as at the balance sheet date for 2004, 2005 and 2006 ranges from 2.6% to 5.8%, 4.6% to 5.8% and 4.8% to 5.8% per annum respectively. The interest rates will be repriced within six months of the balance sheet date.

The repayment of these amounts is subordinated to the repayment of the bank loans granted to two of the subsidiaries.

10 Interest Bearing Loan

	2004 S\$	2005 S\$	2006 S\$
Singapore dollar secured floating rate bank loans	28,200,000	27,200,000	13,850,000
Unamortised transaction cost	<u>(14,745)</u>	<u>(9,677)</u>	<u>(4,609)</u>
	<u>28,185,255</u>	<u>27,190,323</u>	<u>13,845,391</u>
Repayable:			
Within 1 year	994,932	17,994,932	–
After 1 year but within 5 years	<u>27,190,323</u>	<u>9,195,391</u>	<u>13,845,391</u>
	<u>28,185,255</u>	<u>27,190,323</u>	<u>13,845,391</u>

- (a) The floating rate bank loans are secured by:
- (i) mortgages on development properties (Note 5) and the assignment of the rights, titles and interest in the sale and purchase agreements, tenancy agreements, building contract, performance bonds and insurances from these properties; and
 - (ii) guarantees by the ultimate holding company, Hong Fok Corporation Limited.
- (b) The floating rate bank loans comprise the following:
- (i) S\$11,200,000, S\$10,200,000 and S\$9,200,000 as at 31 December 2004, 2005 and 2006 respectively which are repayable by six-monthly instalments of S\$500,000 from May 2005 to November 2006 and S\$9,200,000 repayable by November 2007. It is classified as a non-current liability in the balance sheet for 2006 as an agreement has been reached with the bank to extend the final maturity of the loan from November 2007 to November 2009; and
 - (ii) S\$17,000,000 as at 31 December 2004 and 2005 was repayable by June 2006 or the date falling 3 months after the date of issuance of temporary occupation permit for the project, whichever is the earlier and S\$4,650,000 as at 31 December 2006 is repayable by June 2008.
- (c) The effective interest rate for the floating bank loans as at 31 December 2004, 2005 and 2006 ranges from 2.8%, 4.8% to 4.9% and 4.9% to 5.1% per annum respectively. The floating interest rates will be repriced within six months of the balance sheet date.

11 Trade and Other payables

	2004	2005	2006
	S\$	S\$	S\$
Trade payables	223,794	1,218,366	365,041
Accrued operating expenses	52,238	34,345	118,668
Accrued development expenditure	–	765,457	622,281
Tenancy deposits	66,200	57,900	45,100
Other payables	733	732	87,117
	<u>342,965</u>	<u>2,076,800</u>	<u>1,238,207</u>

Included in trade and other payable are trade creditors with the following ageing analysis as of the balance sheet date:

	2004	2005	2006
	S\$	S\$	S\$
Due within 1 month or on demand	223,794	1,186,116	332,791
Due after 1 month but within 3 months	–	13,500	13,500
Due after 3 months but within 12 months	–	18,750	18,750
	<u>223,794</u>	<u>1,218,366</u>	<u>365,041</u>

12 Revenue

	2004	2005	2006
	S\$	S\$	S\$
Gross rental income	348,962	360,301	364,035
Sale of development properties	–	–	23,070,431
Interest income on late payments	108	85	2,501
	<u>349,070</u>	<u>360,386</u>	<u>23,436,967</u>

13 Finance Costs

	2004	2005	2006
	S\$	S\$	S\$
Interest charged and chargeable by:			
Related corporations	376,519	664,854	1,064,215
Banks	675,895	1,008,680	1,111,486
	1,052,414	1,673,534	2,175,701
Interest recovered from a related corporation	(69,668)	(102,352)	(130,132)
Interest capitalised into development properties	(577,170)	(942,742)	(288,843)
	<u>405,576</u>	<u>628,440</u>	<u>1,756,726</u>

14 Loss From Operations before Taxation

The following items have been included in arriving at loss from operations before taxation:

	2004	2005	2006
	S\$	S\$	S\$
Statutory audit fees	4,000	8,750	7,500
Professional fees	46,641	18,240	16,240
Property tax expense/(refund)	37,896	(132,919)	43,757
Upkeep of properties	134,486	108,497	336,634
Rental income less direct outgoings of 2004: S\$171,801, 2005: S\$133,363 and 2006: S\$318,434	(177,161)	(226,938)	(45,601)
Amortisation of transaction cost of interest bearing loans	23,584	5,068	5,068
	<u>23,584</u>	<u>5,068</u>	<u>5,068</u>

15 Income Tax Expense

	2004	2005	2006
	S\$	S\$	S\$
Income tax expense	<u>–</u>	<u>–</u>	<u>–</u>
Reconciliation of effective tax rate			
Loss from operations before taxation	<u>(736,966)</u>	<u>(357,853)</u>	<u>(1,141,182)</u>
Income tax using Singapore tax rate at 20%	(147,393)	(71,571)	(228,237)
Income not subject to tax	–	(28,925)	–
Expenses not deductible for tax purposes	7,036	5,700	193,073
Tax benefits not recognised	183,255	1,961	35,164
Tax benefits transferred to a related corporation	–	92,835	–
Utilisation of previously unrecognised tax losses	<u>(42,898)</u>	<u>–</u>	<u>–</u>
Income tax expense	<u>–</u>	<u>–</u>	<u>–</u>

In 2005, unutilised tax losses of S\$464,177 were transferred to a related corporation under the Group Relief System.

Deferred tax assets have not been recognised in respect of the following temporary differences:

	2004	2005	2006
	S\$	S\$	S\$
Deductible temporary differences	11,849,590	11,818,987	1,404,087
Unutilised tax losses	<u>1,525,217</u>	<u>1,507,026</u>	<u>12,118,550</u>
	<u>13,374,807</u>	<u>13,326,013</u>	<u>13,522,637</u>

Deferred tax assets have not been recognised because it is not probable that future taxable profit will be available against which the Group can utilise the benefits. The unutilised tax losses are available for offset against future taxable income subject to agreement with the tax authority. With effect from year of assessment 2008, Singapore corporate tax rate has been revised to 18%.

16 Financial Instruments

Risk management is integral to the whole business of the Group. The Group has a system of controls in place to create an acceptable balance between the cost of risks occurring and the cost of managing the risks. The management continually monitors the Group's risk management process to ensure that an appropriate balance between risk and control is achieved.

Exposure to credit and interest rate risks arises in the normal course of the Group's business. This section provides details of the Group's exposure to financial risk and describes the methods used by the management to control such risk.

Credit risk

Credit risk is the potential risk of financial loss resulting from failure of a customer in meeting its financial and contractual obligations to the Group, as and when they fall due.

The Group's primary exposure to credit risk arises from its trade and other receivables and cash at banks. The management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. The credit policy also requires a security deposit from customers to secure tenancy commitments.

Cash is placed with financial institutions with good credit ratings.

Interest rate risk

The Group's exposure to changes in interest rates relates primarily to interest bearing financial liabilities. Interest rate risk is managed by a related corporation on an ongoing basis with the primary objective of limiting the extent to which interest expense could be impacted from an adverse movement in interest rates.

Estimation of fair values

The carrying amounts of financial assets and liabilities approximate their fair values as they are either short-term in nature or repriceable.

17 New Accounting Standards and Interpretations Not Yet Adopted

The Group has not applied the following accounting standards and interpretations that have been issued as of 31 December 2006 but are not yet effective:

- IFRS 7 Financial Instruments: Disclosures and the Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures
- IFRS 8 Operating Segments
- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
- IFRIC 8 Scope of IFRS 2 Share-based Payment
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 10 Interim Financial Reporting and Impairment
- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions
- IFRIC 12 Service Concession Arrangements

The initial application of these standards and interpretations is not expected to have any material impact on, save for new or amended disclosure to be included in the Group's financial statements. The Group has not considered the impact of accounting standards issued after 31 December 2006.

18 Significant Related Party Transactions

Other than as disclosed elsewhere in the financial statements, significant transactions with related parties are as follows:

	2004	2005	2006
	S\$	S\$	S\$
Paid and payable to related corporations:			
General and administrative expenses			
– Capitalised in development properties	23,960	170,196	37,082
– Included in cost of sales of development properties	–	–	461,409
– Included in other operating expenses	34,896	36,030	36,403
Contract services	317	4,192	511
	<u>317</u>	<u>4,192</u>	<u>511</u>

Remuneration of key management personnel of the Group is borne by related corporations and recharged to the Group by way of general and administrative expenses disclosed above. No separate directors' remuneration is paid by the Group.

19 Subsequent Events

On 25 May 2007, the ultimate holding company, Hong Fok Corporation Limited ("HFC") has entered into a sales and purchase agreement with Winfoong International Limited and Winfoong Assets Limited ("WAL") to sell its interest in the Company, and to transfer the outstanding amounts owing by the Group to subsidiaries of HFC (Note 9) at completion, at an aggregated consideration of S\$22,242,122, which will be satisfied by way of cash of S\$4,681,146 payable by WAL to HFC and the allotment and issue of 900,000,000 ordinary shares in the share capital of Winfoong International Limited upon completion.

20 Subsequent Financial Statements

No audited financial statements have been prepared by the Group in respect of any period subsequent to 31 December 2006.

APPENDIX IV ACCOUNTANTS' REPORT ON THE HF LAND GROUP

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the reporting accountants of the Company, CCIF CPA Limited, Certified Public Accountants, Hong Kong.



CCIF

CCIF CPA LIMITED

20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay Hong Kong

30 June 2007

The Directors
Winfoong International Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to Hong Fok Land International Limited (“HF Land”) and its subsidiaries (hereinafter collectively referred to as the “HF Land Group”) including the combined income statements, combined statements of changes in equity and combined cash flow statements of the HF Land Group for each of the years ended 31 December 2004, 2005 and 2006 (the “relevant period”) and the combined balance sheets of the HF Land Group as at 31 December 2004, 2005 and 2006 and the notes thereto (collectively the “Financial Information”) for inclusion in the circular of Winfoong International Limited (the “Company”) dated 30 June 2007 (the “Circular”) in connection with the proposed distribution of a 100% equity interest in HF Land Group by the Company (the “Distribution in Specie”) as described more fully in the section headed “Letter from the Board” contained in the Circular.

HF Land was incorporated in the Bermuda on 26 March 2007 as a company with limited liability under the Companies Act 1981 of Bermuda. Pursuant to a group reorganisation (the “Group Reorganisation”) which is described more fully in section headed “Letter from the Board” contained in the Circular, HF Land will become the holding company of the subsidiaries comprising the HF Land Group, details of which are set out below. HF Land has not carried on any business since the date of its incorporation.

The registered office and the principle place of business of HF Land are located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and Room 3201, 9 Queen’s Road Central, Hong Kong, respectively.

APPENDIX IV ACCOUNTANTS' REPORT ON THE HF LAND GROUP

After the completion of the Group Reorganisation, HF Land has direct or indirect interests in the following subsidiaries, all of which are private companies, particulars of which are set out below:

Name of company	Place of incorporation/ establishment	Fully paid up/ registered capital	Attributable equity interest		Principal activities
			Direct	Indirect	
Winfoong Limited	British Virgin Islands	100 ordinary shares of US\$1 each	100%	–	Investment holding
Winfoong Enterprise Limited	Hong Kong	2 ordinary shares of HK\$10 each	–	100%	Investment holding
Hugoton Limited	Hong Kong	98 ordinary shares of HK\$10 each and 2 non-voting deferred shares of HK\$10 each	–	100%	Property holding
Bossiney Limited	Hong Kong	98 ordinary shares of HK\$10 each and 2 non-voting deferred shares of HK\$10 each	–	100%	Property holding
Giant Yield Limited	Hong Kong	98 ordinary shares of HK\$1 each and 2 non-voting deferred shares of HK\$1 each	–	100%	Property holding
Hepscott Limited	Hong Kong	2 ordinary shares of HK\$10 each	–	100%	Dormant
Perselle Limited	Hong Kong	2 ordinary shares of HK\$10 each	–	100%	Dormant
Wellow Investment Limited	Liberia	500 ordinary shares of HK\$1 each	–	100%	Investment holding
Winfoong Holding Limited	Hong Kong	10,500,000 ordinary shares of HK\$10 each	–	100%	Investment holding
Magazine Gap Property Management Limited	Hong Kong	2 ordinary shares of HK\$10 each	–	100%	Property management
Allied Crown Limited	Hong Kong	2 ordinary shares of HK\$1 each	–	100%	Property holding
Winfoong Investment Limited	Hong Kong	1,143,724,986 ordinary shares of HK\$0.25 each	–	100%	Investment holding
U-Kwong Holdings Limited	British Virgin Islands	1 share of US\$1 each	–	100%	Investment holding
China Charm Company Limited	Hong Kong	2 ordinary shares of HK\$1 each	–	100%	Property holding
Hammerman Assets Limited	British Virgin Islands	1 share of US\$1 each	–	100%	Investment holding
Wellpool International Limited	Hong Kong	10,000 ordinary shares of HK\$1 each	–	100%	Investment holding
江門棠泉房地產有限公司*	The People's Republic of China (the "PRC")	US\$7,365,356	–	92%	Property development

* *Sino-foreign equity joint venture enterprise*

APPENDIX IV ACCOUNTANTS' REPORT ON THE HF LAND GROUP

The financial statements of the above subsidiaries for the years ended 31 December 2005 and 2006 were audited by us in accordance with the Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), while the financial statements of the above subsidiaries for the year ended 31 December 2004 were audited by PKF, Certified Public Accountants, in accordance with the Hong Kong Standards on Auditing issued by the HKICPA.

No financial statements of the HF Land Group have been audited subsequent to 31 December 2006.

BASIS OF PREPARATION

The Financial Information has been prepared by the directors of HF Land (the “Directors”) based on the audited combined financial statements of the HF Land Group, on the basis set out in Section B Note 1 below which are in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The Directors are responsible for the preparation and true and fair presentation of the Financial Information in accordance with HKFRSs issued by the HKICPA. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of Financial Information that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to form an opinion on these Financial Information based on our audit.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have carried out appropriate audit procedures in respect of the audited financial statements of the HF Land Group for the relevant period in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the Financial Information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Information. The procedures selected depend on the auditor’s judgement, including the assessment of the risk assessments, the auditor considers

APPENDIX IV ACCOUNTANTS' REPORT ON THE HF LAND GROUP

internal control relevant to the entity's preparation and true and fair presentation of the 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 Financial Information.

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, for the purposes of this report and on the basis of presentation set out in Section B Note 1 below, the Financial Information gives a true and fair view of the combined results, changes in equity and cash flows of the HF Land Group for each of the years ended 31 December 2004, 2005 and 2006 and of the combined state of the affairs of the HF Land Group as at 31 December 2004, 2005 and 2006.

APPENDIX IV ACCOUNTANTS' REPORT ON THE HF LAND GROUP

A. FINANCIAL INFORMATION

(Expressed in Hong Kong dollar)

1. Combined income statements

	<i>Note</i>	Year ended 31 December		
		2004	2005	2006
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	3	31,706	27,687	21,217
Cost of sales		<u>(17,395)</u>	<u>(12,035)</u>	<u>(7,477)</u>
Gross profit		14,311	15,652	13,740
Valuation gains on investment property		521,000	152,000	50,000
Other revenue	4	3,865	533	620
Other net income/(loss)	4	(12,029)	(67,870)	(209)
Operating and administrative expenses		<u>(26,875)</u>	<u>(26,588)</u>	<u>(30,640)</u>
Profit from operations		500,272	73,727	33,511
Finance costs		(9,093)	(18,240)	(23,633)
Share of profit of an associate		<u>4,012</u>	<u>34,763</u>	<u>175,690</u>
Profit before taxation	5	495,191	90,250	185,568
Income tax	6(a)	<u>(90,923)</u>	<u>(27,200)</u>	<u>(8,302)</u>
Profit for the year		<u>404,268</u>	<u>63,050</u>	<u>177,266</u>
Attributable to:				
Equity shareholders of HF Land		404,312	66,909	177,266
Minority interests		<u>(44)</u>	<u>(3,859)</u>	<u>–</u>
Profit for the year		<u>404,268</u>	<u>63,050</u>	<u>177,266</u>

The accompanying notes form part of the Financial Information.

APPENDIX IV ACCOUNTANTS' REPORT ON THE HF LAND GROUP

2. Combined balance sheets

	<i>Note</i>	As at 31 December		
		2004	2005	2006
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets				
Fixed assets	<i>11</i>			
Investment properties		1,550,000	1,702,000	1,752,000
Property held for future development		80,000	–	–
Other property, plant and equipment		<u>926</u>	<u>1,175</u>	<u>912</u>
		1,630,926	1,703,175	1,752,912
Interest in an associate	<i>12</i>	377,562	403,028	619,829
Pledged bank deposits	<i>17</i>	1,629	785	899
Other financial assets	<i>13</i>	<u>410</u>	<u>410</u>	<u>–</u>
		<u>2,010,527</u>	<u>2,107,398</u>	<u>2,373,640</u>
Current assets				
Inventories	<i>14</i>	7,653	14,146	12,500
Trade and other receivables	<i>15</i>	536,508	468,047	412,860
Tax recoverable	<i>20(a)</i>	7	1	72
Cash and cash equivalents	<i>17</i>	628	3,359	4,133
		544,796	485,553	429,565
Current liabilities				
Trade and other payables	<i>18</i>	435,569	435,498	439,264
Bank borrowings	<i>19</i>	18,722	80,204	81,891
		<u>454,291</u>	<u>515,702</u>	<u>521,155</u>
Net current assets/(liabilities)		<u>90,505</u>	<u>(30,149)</u>	<u>(91,590)</u>
Total assets less current liabilities		2,101,032	2,077,249	2,282,050
Non-current liabilities				
Bank borrowings	<i>19</i>	433,899	328,079	306,234
Deferred income		5,582	5,582	5,582
Deferred tax liabilities	<i>20(b)</i>	215,185	242,384	250,700
		<u>654,666</u>	<u>576,045</u>	<u>562,516</u>
NET ASSETS		<u>1,446,366</u>	<u>1,501,204</u>	<u>1,719,534</u>

APPENDIX IV ACCOUNTANTS' REPORT ON THE HF LAND GROUP

	<i>Note</i>	As at 31 December		
		2004	2005	2006
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
CAPITAL AND RESERVES	<i>21</i>			
Share capital		1	1	1
Reserves		<u>1,442,503</u>	<u>1,501,203</u>	<u>1,719,533</u>
Total equity attributable to equity shareholders of HF Land		1,442,504	1,501,204	1,719,534
Minority interests		<u>3,862</u>	<u>–</u>	<u>–</u>
TOTAL EQUITY		<u><u>1,446,366</u></u>	<u><u>1,501,204</u></u>	<u><u>1,719,534</u></u>

The accompanying notes form part of the Financial Information.

APPENDIX IV ACCOUNTANTS' REPORT ON THE HF LAND GROUP

3. Combined statements of change in equity

	Attributable to shareholders of HF Land					Total	Minority interests	Total equity
	Share capital	Contributed surplus	Exchange reserve	Other reserve	Retained profits			
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>Note 20(b)(i)</i>	<i>Note 20(b)(ii)</i>					
At 1 January 2004	1	649,689	(157,606)	–	527,422	1,019,506	3,906	1,023,412
Share of movements in reserves of an associate	–	–	18,686	–	–	18,686	–	18,686
Profit for the year	–	–	–	–	404,312	404,312	(44)	404,268
At 31 December 2004	<u>1</u>	<u>649,689</u>	<u>(138,920)</u>	<u>–</u>	<u>931,734</u>	<u>1,442,504</u>	<u>3,862</u>	<u>1,446,366</u>
At 1 January 2005	1	649,689	(138,920)	–	931,734	1,442,504	3,862	1,446,366
Exchange difference on translation of financial statements of overseas subsidiaries	–	–	(43)	–	–	(43)	(3)	(46)
Share of movements in reserves of an associate	–	–	(9,413)	1,247	–	(8,166)	–	(8,166)
Profit for the year	–	–	–	–	66,909	66,909	(3,859)	63,050
At 31 December 2005	<u>1</u>	<u>649,689</u>	<u>(148,376)</u>	<u>1,247</u>	<u>998,643</u>	<u>1,501,204</u>	<u>–</u>	<u>1,501,204</u>
At 1 January 2006	1	649,689	(148,376)	1,247	998,643	1,501,204	–	1,501,204
Exchange difference on translation of financial statements of overseas subsidiaries	–	–	(47)	–	–	(47)	–	(47)
Share of movements in reserves of an associate	–	–	41,037	74	–	41,111	–	41,111
Profit for the year	–	–	–	–	177,266	177,266	–	177,266
At 31 December 2006	<u>1</u>	<u>649,689</u>	<u>(107,386)</u>	<u>1,321</u>	<u>1,175,909</u>	<u>1,719,534</u>	<u>–</u>	<u>1,719,534</u>

The accompanying notes form part of the Financial Information.

APPENDIX IV ACCOUNTANTS' REPORT ON THE HF LAND GROUP

4. Combined cash flow statements

	Year ended 31 December		
	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating activities			
Profit before taxation	495,191	90,250	185,568
Adjustment for:			
Valuation gains on investment property	(521,000)	(152,000)	(50,000)
Depreciation	318	343	359
Impairment loss on property held for future development	–	67,500	–
Finance costs	9,093	18,240	23,633
Interest income	(2)	(49)	(137)
Share of profit of an associate	(4,012)	(34,763)	(175,690)
Loss on disposal of fixed assets	4	9	17
Write-off of amount due from former fellow subsidiaries	11,966	–	–
Provision for impairment of properties held for sale	–	361	–
Loss on disposal of other financial assets	–	–	208
Bad debts written off	–	–	236
Net foreign exchange loss	–	3	4
	<hr/>	<hr/>	<hr/>
Operating loss before changes in working capital	(8,442)	(10,106)	(15,802)
Decrease in inventories	10,630	5,646	1,646
(Increase)/decrease in trade and other receivables	(9,202)	68,490	54,979
Increase/(decrease) in trade and other payables	2,903	(774)	2,862
	<hr/>	<hr/>	<hr/>
Cash (used in)/generated from operations	(4,111)	63,256	43,685
Tax paid			
Hong Kong profits tax paid	(7)	–	(72)
Hong Kong profits tax refunded	20	5	1
PRC tax refunded	–	–	14
	<hr/>	<hr/>	<hr/>
Net cash (used in)/generated from operating activities	(4,098)	63,261	43,628
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>

APPENDIX IV ACCOUNTANTS' REPORT ON THE HF LAND GROUP

	Year ended 31 December		
	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Investing activities			
Withdrawal/(placement) of pledged bank deposits	1,353	844	(114)
Payment for purchase of fixed assets	(677)	(604)	(137)
Proceeds from disposal of fixed assets	2	3	24
Proceeds from sales of other financial assets	–	–	202
Interest received	2	48	136
Dividend received from an associate	<u>1,156</u>	<u>1,131</u>	<u>–</u>
Net cash from investing activities	<u>1,836</u>	<u>1,422</u>	<u>111</u>
Financing activities			
Proceeds from new bank loans	26,000	–	–
Repayment of bank loans	(17,640)	(44,338)	(20,158)
Interest paid	<u>(8,793)</u>	<u>(17,615)</u>	<u>(22,808)</u>
Net cash used in financing activities	<u>(433)</u>	<u>(61,953)</u>	<u>(42,966)</u>
Net (decrease)/increase in cash and cash equivalents	(2,695)	2,730	773
Cash and cash equivalents at 1 January	3,323	628	3,359
Effect of foreign exchange rate changes	<u>–</u>	<u>1</u>	<u>1</u>
Cash and cash equivalents at 31 December	<u><u>628</u></u>	<u><u>3,359</u></u>	<u><u>4,133</u></u>

The accompanying notes form part of the Financial Information.

APPENDIX IV ACCOUNTANTS' REPORT ON THE HF LAND GROUP

B. NOTES ON THE FINANCIAL INFORMATION

(Expressed in Hong Kong dollar)

1. BASIS OF PRESENTATION

The Financial Information presents the combined results, cash flows and financial position of the HF Land Group for the years ended 31 December 2004, 2005 and 2006 on the basis that the HF Land, for the purpose of this report, is regarded as a continuing entity and that the Group Reorganisation had been completed as at the beginning of the relevant period and that the business of the HF Land Group had been conducted by the HF Land throughout the relevant period as they are related to entities under common control. A business combination involving entities or business under common control is a business combination in which all of the combining entities or businesses ultimately are controlled by the same party or parties both before and after the business combination, and that control is not transitory.

The HF Land Group has consistently applied the book value measurement method to all common control transactions. The assets and liabilities transferred from the ultimate controlling party were based on historical costs at which they were recorded in their financial statements.

All material intra-group transactions and balances have been eliminated on combination.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

The Financial Information has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong. A summary of the significant accounting policies adopted by the HF Land Group is set out below.

The Financial Information also complies with the disclosure requirements of Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The HF Land Group has not applied any new standard or interpretation that is not yet effective for the relevant period (see note 28).

b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the Financial Information is the historical cost basis except that the following assets are stated at their fair value as explained in the accounting policies set out below:

- investment property (see note 2(f)); and
- financial instruments classified as available-for-sale securities (see note 2(e)).

HKFRS 1, "First-time adoption of Hong Kong Financial Reporting Standards", has been applied in preparing the Financial Information. The Financial Information is the first set of the HF Land's Financial Information prepared in accordance with HKFRSs.

The preparation of the Financial Information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

APPENDIX IV ACCOUNTANTS' REPORT ON THE HF LAND GROUP

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the Financial Information and estimates with a significant risk of material adjustment in the future period are discussed in note 27.

c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the HF Land Group. Control exists when the HF Land Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

The financial statements of subsidiaries are included in the Financial Information from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised profits but only to the extent that there is no evidence of impairment.

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

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

d) Associate

An associate is an entity in which the HF Land Group or HF Land has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the Financial Information under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the HF Land Group's share of the associate's net assets. The combined income statement includes the HF Land Group's share of the post-acquisition, post-tax results of the associate for the year.

When the HF Land Group's share of losses exceeds its interest in the associate, the HF Land Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the HF Land Group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the HF Land Group's interest in the associate is the carrying amount of the investment under the equity method together with the HF Land Group's long-term interests that in substance form part of the HF Land Group's net investment in the associate.

APPENDIX IV ACCOUNTANTS' REPORT ON THE HF LAND GROUP

Unrealised profits and losses resulting from transactions between the HF Land Group and its associates are eliminated to the extent of the HF Land Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

e) Other investments in debt and equity securities

The HF Land Group's policies for investments in debt and equity securities, other than investments in subsidiaries and associate, are as follows:

Investments in debt and equity securities are initially at cost, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification.

Investment in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss.

Dated debt securities that the HF Land Group have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the balance sheet at amortised cost less impairment losses (see note 2(i)).

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 2(i)).

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity, except foreign exchange gains and losses in respect of monetary items such as debt securities which are recognised directly in profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss. When these investments are derecognised or impaired (see note 2(i)), the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

Investments are recognised/derecognised on the date the HF Land Group commits to purchase/sell the investments or they expire.

f) Investment property

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 2(h)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use.

Investment properties are stated in the balance sheet at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 2(s)(i).

When the HF Land Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 2(h)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 2(h).

Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified as investment property at fair value. Any difference between the fair value of the property at that date and its previous carrying amount is recognised in profit or loss.

APPENDIX IV ACCOUNTANTS' REPORT ON THE HF LAND GROUP

g) Other property, plant and equipment

The other items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 2(i)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 2(u)).

Gains or losses arising from the retirement or disposal of an item of other property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of other property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives of five years.

Where parts of an item of other property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

h) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the HF Land Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

i) Classification of assets leased to the HF Land Group

Assets that are held by HF Land Group under leases which transfer to the HF Land Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the HF Land Group are classified as operating leases except for the property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, accounted for as if held under a finance lease (see note 2(f)).

ii) Operating lease charges

Where the HF Land Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

i) Impairment of assets

i) Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

APPENDIX IV ACCOUNTANTS' REPORT ON THE HF LAND GROUP

- For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.
- For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

- For available-for-sale securities, the cumulative loss that has been recognised directly in equity is removed from equity and is recognised in profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment (other than properties carried at revalued amounts); and
- investment in associate.

If any such indication exists, the asset's recoverable amount is estimated.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. 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 assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

APPENDIX IV ACCOUNTANTS' REPORT ON THE HF LAND GROUP

An impairment loss is recognised in profit or loss whether the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rate basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

- Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss 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 profit or loss in the year in which the reversals are recognised.

j) Inventories

Inventories in respect of property development activities are carried at the lower of cost and net realisable value. Cost and net realisable values are determined as follows:

- Property under development for sale

The cost of properties under development for sale comprises specifically identified cost, including the acquisition cost of land, aggregate cost of development, materials and supplies, wages and other direct expenses, an appropriate proportion of overheads and borrowing cost capitalised (see note 2(u)). Net realisable value represents the estimated selling price less estimated costs of completion and costs to be incurred in selling the property.

- Completed property held for sale

In the case of completed properties developed by the HF Land Group, cost is determined by apportionment of the total development costs for that development project, attributable to the unsold properties. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

The cost of completed properties held for sale comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

k) Construction contracts

The accounting policy for contract revenue is set out in note 2(s)(iv). When the outcome of a construction contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the balance sheet date are recorded in the balance sheet at the net amount of costs incurred plus recognised profit less recognised losses and progress billings, and are presented in the balance sheet as the "Gross amount due from customers for contract work" (as an asset) or the "Gross amount due to customers for contract work" (as a liability), as applicable. Progress billings not yet paid by the customer are included in the balance sheet under "Trade and other receivables". Amounts received before the related work is performed are included in the balance sheet, as a liability, as "Advances received".

APPENDIX IV ACCOUNTANTS' REPORT ON THE HF LAND GROUP

l) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 2(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 2(i)).

m) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

n) Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

p) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

q) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary

APPENDIX IV ACCOUNTANTS' REPORT ON THE HF LAND GROUP

differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the HF Land Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the HF Land Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, HF Land Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax liabilities on a net basis or realise and settle simultaneously.

r) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the HF Land Group or HF Land has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

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

s) Revenue recognition

Provided it is probable that the economic benefits will flow to the HF Land Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit or loss as follows:

- i) Rental income from operating leases

APPENDIX IV ACCOUNTANTS' REPORT ON THE HF LAND GROUP

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

ii) Sale of properties

Revenue arising from the sale of properties held for sale is recognised upon the signing of the sale and purchase agreement or the issue of an occupation permit by the relevant government authorities, whichever is the later. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the balance sheet under forward sales deposits and instalments received.

iii) Contract revenue

When the outcome of a construction contract can be estimated reliably:

- revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimate total contract costs for the contract; and
- revenue from a cost plus contract is recognised by reference to the recoverable costs incurred during the period plus an appropriate proportion of the total fee, measured by reference to the proportion that costs incurred to date bear to the estimated total costs of the contract.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

iv) Management fee income

Management fee income is recognised at the time when the services are rendered.

v) Dividends

- Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.
- Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

vi) Interest income

Interest income is recognised as it accrues using the effective interest method.

t) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

APPENDIX IV ACCOUNTANTS' REPORT ON THE HF LAND GROUP

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

u) **Borrowing costs**

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

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

v) **Related parties**

For the purposes of the Financial Information, a party is considered to be related to the HF Land Group if:

- i) the party has the ability, directly or indirectly through one or more intermediaries, to control the HF Land Group or exercise significant influence over the HF Land Group in making financial and operating policy decisions, or has joint control over the HF Land Group;
- ii) the HF Land Group and the party are subject to common control;
- iii) the party is an associate of the HF Land Group;
- iv) the party is a member of key management personnel of the HF Land Group or the HF Land Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- vi) the party is a post-employment benefit plan which is for the benefit of employees of the HF Land Group or of any entity that is a related party of the HF Land Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

w) **Segment reporting**

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

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

APPENDIX IV ACCOUNTANTS' REPORT ON THE HF LAND GROUP

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

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

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

3. TURNOVER

The principal activities of the HF Land Group were property investment and management, and property development and construction.

Turnover represents the rental income, proceeds from sales of properties, and revenue from provision of property management services. The amount of each significant category of revenue recognised in turnover during the relevant period is as follows:

	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Gross rentals from investment and other properties	25,510	22,249	19,465
Gross proceeds from properties sold	6,088	5,360	1,680
Revenue from provision of property management services	108	78	72
	31,706	27,687	21,217

4. OTHER REVENUE AND NET INCOME/(LOSS)

	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Other revenue			
Interest income			
– bank	2	49	136
– others	–	–	1
	2	49	137
Management fee income	3,686	466	460
Others	177	18	23
	3,865	533	620
Other net income/(loss)			
Net loss on disposal of fixed assets	(4)	(9)	(17)
Loss on disposal of non-current financial assets	–	–	(208)
Provision for impairment of properties held for sale	–	(361)	–
Impairment loss on property held for future development	–	(67,500)	–
Write-off of amounts due from former fellow subsidiaries	(11,966)	–	–
Net foreign exchange (loss)/gain	(59)	–	16
	(12,029)	(67,870)	(209)

APPENDIX IV ACCOUNTANTS' REPORT ON THE HF LAND GROUP

5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	2004 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
(a) Finance costs			
Interest on bank borrowings			
– wholly repayable within five years	–	12,922	16,342
– repayable after five years	<u>9,093</u>	<u>5,318</u>	<u>7,291</u>
	<u>9,093</u>	<u>18,240</u>	<u>23,633</u>
(b) Staff costs (including directors' remuneration)			
Contributions to defined contribution retirement plan	235	248	273
Salaries, wages and other benefits	<u>14,857</u>	<u>18,552</u>	<u>21,326</u>
	<u>15,092</u>	<u>18,800</u>	<u>21,599</u>
(c) Other items			
Depreciation of fixed assets	318	343	359
Auditors' remuneration			
– audit services	115	116	189
– tax services	–	30	–
– other services	8	7	–
Operating lease charges: minimum lease payments			
– hire of other assets (including property rentals)	48	48	48
Bad debts written off	–	–	236
Share of an associate's taxation	564	(185)	230
Rentals receivable from investment and other properties less direct outgoings of HK\$5,789,000 (2005: HK\$6,197,000; 2004: HK\$6,580,000)	18,930	16,052	13,676
Cost of inventories (<i>note 14(c)</i>)	<u>10,630</u>	<u>6,017</u>	<u>1,646</u>

APPENDIX IV ACCOUNTANTS' REPORT ON THE HF LAND GROUP

6. INCOME TAX IN THE COMBINED INCOME STATEMENTS

a) **Taxation in the combined income statements for the years ended 31 December 2004, 2005 and 2006 represented:**

	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax – Hong Kong Profits Tax			
Under-provision in respect of prior years	7	1	–
Current tax – PRC Income Tax			
Over-provision in respect of prior years	–	–	(14)
Deferred tax			
Origination and reversal of temporary differences	90,916	27,199	8,316
	<u>90,923</u>	<u>27,200</u>	<u>8,302</u>

No provision for Hong Kong Profits Tax and PRC Income Tax has been made as the HF Group has no estimated assessable profits arising in Hong Kong and the PRC for the relevant period.

b) **Reconciliation between tax expense and accounting profit at applicable tax rates:**

	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before tax	<u>495,191</u>	<u>90,250</u>	<u>185,568</u>
Notional tax on profit before tax, calculated at the rates applicable to profits in the countries concerned	86,658	15,794	32,475
Tax effect of non-deductible expenses	2,110	19,054	460
Tax effect on non-taxable income	(1)	(7,003)	(253)
Tax effect on unused tax losses not recognised	2,966	5,747	7,114
Tax effect of prior years' tax losses utilised this year	–	(412)	(4)
Tax effect of share of profit of an associate	(703)	(6,083)	(30,746)
Under-provision in prior years			
– Hong Kong Profits Tax	7	1	–
Over-provision in prior years			
– PRC Income Tax	–	–	(14)
Others	(114)	102	(730)
Actual tax expense	<u>90,923</u>	<u>27,200</u>	<u>8,302</u>

APPENDIX IV ACCOUNTANTS' REPORT ON THE HF LAND GROUP

7. DIRECTORS' REMUNERATION

Details of directors' remuneration are as follows:

Year ended 31 December 2004:

	Directors' fees <i>HK\$'000</i>	Salaries, allowances and benefits in kind <i>HK\$'000</i>	Discretionary bonuses <i>HK\$'000</i>	Retirement scheme contributions <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cheong Pin Chuan, Patrick	–	873	–	12	885
Cheong Kim Pong	–	84	–	–	84
Cheong Sim Eng	–	1,305	–	12	1,317
Cheong Hooi Kheng	–	143	–	7	150
	–	2,405	–	31	2,436

Year ended 31 December 2005:

	Directors' fees <i>HK\$'000</i>	Salaries, allowances and benefits in kind <i>HK\$'000</i>	Discretionary bonuses <i>HK\$'000</i>	Retirement scheme contributions <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cheong Pin Chuan, Patrick	–	1,755	–	12	1,767
Cheong Kim Pong	–	93	–	–	93
Cheong Sim Eng	–	1,317	500	12	1,829
Cheong Hooi Kheng	–	143	–	7	150
	–	3,308	500	31	3,839

Year ended 31 December 2006:

	Directors' fees <i>HK\$'000</i>	Salaries, allowances and benefits in kind <i>HK\$'000</i>	Discretionary bonuses <i>HK\$'000</i>	Retirement scheme contributions <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cheong Pin Chuan, Patrick	–	2,103	–	12	2,115
Cheong Kim Pong	–	98	–	–	98
Cheong Sim Eng	–	1,317	1,500	12	2,829
Cheong Hooi Kheng	–	143	–	7	150
	–	3,661	1,500	31	5,192

The above emoluments do not include the monetary value of the rent-free accommodation provided to Mr. Cheong Pin Chuan, Patrick, a director of HF Land, through a property owned by the HF Land Group. During the years ended 31 December 2004, 2005 and 2006, the monetary value of such residential accommodation provided to this director based on the tenancy agreement entered into by the HF Land Group was HK\$720,000, HK\$720,000 and HK\$450,000, respectively.

APPENDIX IV ACCOUNTANTS' REPORT ON THE HF LAND GROUP

8. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals of the HF Land Group include one, two and two directors of HF Land during the years ended 31 December 2004, 2005 and 2006 respectively, whose remuneration is reflected in the analysis presented in note 7 above. Details of remuneration paid to the remaining highest individuals of the HF Land Group are as follows:

	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Basis salaries, allowances and other benefits	6,774	6,299	6,301
Contributions to retirement benefit schemes	48	36	36
Discretionary bonuses	600	1,500	3,530
	<u>7,422</u>	<u>7,835</u>	<u>9,867</u>
Number of individuals	<u>4</u>	<u>3</u>	<u>3</u>

The emoluments of the individuals with the highest emoluments are within the following bands:

	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
HK\$1,000,001 to HK\$1,500,000	2	–	–
HK\$1,500,001 to HK\$2,000,000	1	1	1
HK\$2,000,001 to HK\$2,500,000	–	1	–
HK\$3,000,001 to HK\$3,500,000	–	–	1
HK\$3,500,001 to HK\$4,000,000	1	–	–
HK\$4,000,001 to HK\$4,500,000	–	1	–
HK\$5,000,001 to HK\$5,500,000	–	–	1
	<u>–</u>	<u>–</u>	<u>1</u>

No emoluments were paid by the HF Land Group to the five highest paid individuals during the relevant period as an inducement to join or upon joining the HF Land Group or as compensation for loss of office.

9. EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion is not considered meaningful due to the Reorganisation and the preparation of the results on combined basis as disclosed in Section B Note 1 above.

APPENDIX IV ACCOUNTANTS' REPORT ON THE HF LAND GROUP

10. SEGMENT REPORTING

Segment information is presented in respect of the HF Land Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the HF Land Group's internal financial reporting.

Business segments

The HF Land Group comprises the following main business segments:

Property investment and management: the leasing of properties to generate rental income and to gain from the appreciation in the properties' values in the long term, and provision of building management services.

Property construction and development: the development, construction and sale of properties.

For the year ended 31 December 2004:

	Property investment and management	Property construction and development	Inter-segment elimination	Unallocated	Combined
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue from external customers	25,618	6,088	–	–	31,706
Inter-segment revenue	768	–	(768)	–	–
Other revenue from external customers	171	1	–	3,691	3,863
	<u>26,557</u>	<u>6,089</u>	<u>(768)</u>	<u>3,691</u>	<u>35,569</u>
Total					
Segment result	538,242	(5,444)	(768)	(31,760)	500,270
Unallocated operating income and expenses					<u>2</u>
Profit from operations					500,272
Finance costs					(9,093)
Share of profit of an associate	4,012	–	–	–	4,012
Income tax					<u>(90,923)</u>
Profit for the year					<u>404,268</u>
Depreciation for the year	174	1			

APPENDIX IV ACCOUNTANTS' REPORT ON THE HF LAND GROUP

For the year ended 31 December 2005:

	Property investment and management	Property construction and development	Inter-segment elimination	Unallocated	Combined
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue from external customers	22,327	5,360	–	–	27,687
Inter-segment revenue	756	–	(756)	–	–
Other revenue from external customers	12	3	–	469	484
Total	23,095	5,363	(756)	469	28,171
Segment result	164,242	(70,185)	(756)	(19,623)	73,678
Unallocated operating income and expenses					49
Profit from operations					73,727
Finance costs					(18,240)
Share of profit of an associate	34,763	–	–	–	34,763
Income tax					(27,200)
Profit for the year					63,050
Depreciation for the year	172	1			
Impairment loss on property held for future development	–	67,500			

For the year ended 31 December 2006:

	Property investment and management	Property construction and development	Inter-segment elimination	Unallocated	Combined
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue from external customers	19,537	1,680	–	–	21,217
Inter-segment revenue	450	985	(1,435)	–	–
Other revenue from external customers	10	11	–	462	483
Total	19,997	2,676	(1,435)	462	21,700
Segment result	57,983	(1,192)	(1,435)	(21,982)	33,374
Unallocated operating income and expenses					137
Profit from operations					33,511
Finance costs					(23,633)
Share of profit of an associate	175,690	–	–	–	175,690
Income tax					(8,302)
Profit for the year					177,266
Depreciation for the year	165	1			

APPENDIX IV ACCOUNTANTS' REPORT ON THE HF LAND GROUP

As at 31 December 2004:

	Property investment and management HK\$'000	Property construction and development HK\$'000	Combined HK\$'000
Segment assets	1,553,488	88,568	1,642,056
Interest in an associate	377,562		377,562
Unallocated assets			<u>535,705</u>
Total assets			<u><u>2,555,323</u></u>
Segment liabilities	680,379	3,412	683,791
Unallocated liabilities			<u>425,166</u>
Total liabilities			<u><u>1,108,957</u></u>
Capital expenditure incurred during the year	338	–	

As at 31 December 2005:

	Property investment and management HK\$'000	Property construction and development HK\$'000	Combined HK\$'000
Segment assets	1,704,895	14,189	1,719,084
Interest in an associate	403,028	–	403,028
Unallocated assets			<u>470,839</u>
Total assets			<u><u>2,592,951</u></u>
Segment liabilities	662,807	2,910	665,717
Unallocated liabilities			<u>426,030</u>
Total liabilities			<u><u>1,091,747</u></u>
Capital expenditure incurred during the year	89	–	

As at 31 December 2006:

	Property investment and management HK\$'000	Property construction and development HK\$'000	Combined HK\$'000
Segment assets	1,757,759	12,648	1,770,407
Interest in an associate	619,829	–	619,829
Unallocated assets			<u>412,969</u>
Total assets			<u><u>2,803,205</u></u>
Segment liabilities	651,945	3,146	655,091
Unallocated liabilities			<u>428,580</u>
Total liabilities			<u><u>1,083,671</u></u>
Capital expenditure incurred during the year	3,744	–	

APPENDIX IV ACCOUNTANTS' REPORT ON THE HF LAND GROUP

Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

	Hong Kong and Mainland China	Singapore	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Year ended 31 December 2004:			
Revenue from external customers	31,706	–	31,706
Other revenue from external customers	3,863	–	3,863
Capital expenditure incurred during the year	670	–	670
	<u>2,177,761</u>	<u>377,562</u>	<u>2,555,323</u>
As at 31 December 2004:			
Segment assets	<u>2,177,761</u>	<u>377,562</u>	<u>2,555,323</u>
	Hong Kong and Mainland China	Singapore	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Year ended 31 December 2005:			
Revenue from external customers	27,687	–	27,687
Other revenue from external customers	484	–	484
Capital expenditure incurred during the year	604	–	604
	<u>2,189,923</u>	<u>403,028</u>	<u>2,592,951</u>
As at 31 December 2005:			
Segment assets	<u>2,189,923</u>	<u>403,028</u>	<u>2,592,951</u>
	Hong Kong and Mainland China	Singapore	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Year ended 31 December 2006:			
Revenue from external customers	21,217	–	21,217
Other revenue from external customers	483	–	483
Capital expenditure incurred during the year	3,770	–	3,770
	<u>2,183,376</u>	<u>619,829</u>	<u>2,803,205</u>
As at 31 December 2006:			
Segment assets	<u>2,183,376</u>	<u>619,829</u>	<u>2,803,205</u>

APPENDIX IV ACCOUNTANTS' REPORT ON THE HF LAND GROUP

11. FIXED ASSETS

	Investment property <i>HK\$'000</i>	Property held for future development <i>HK\$'000</i>	Furniture, equipment and other fixed assets <i>HK\$'000</i>	Total fixed assets <i>HK\$'000</i>
Cost or valuation				
At 1 January 2004	1,029,000	215,652	8,299	1,252,951
Additions	–	–	677	677
Disposal	–	–	(117)	(117)
Fair value adjustment	521,000	–	–	521,000
	<u>1,550,000</u>	<u>215,652</u>	<u>8,859</u>	<u>1,774,511</u>
At 31 December 2004	<u>1,550,000</u>	<u>215,652</u>	<u>8,859</u>	<u>1,774,511</u>
Representing:				
Cost	–	215,652	8,859	224,511
Valuation 2004	1,550,000	–	–	1,550,000
	<u>1,550,000</u>	<u>215,652</u>	<u>8,859</u>	<u>1,774,511</u>
At 1 January 2005	1,550,000	215,652	8,859	1,774,511
Reclassified to property held for sale	–	(32,252)	–	(32,252)
Additions	–	–	604	604
Disposal	–	–	(81)	(81)
Fair value adjustment	152,000	–	–	152,000
	<u>1,702,000</u>	<u>183,400</u>	<u>9,382</u>	<u>1,894,782</u>
At 31 December 2005	<u>1,702,000</u>	<u>183,400</u>	<u>9,382</u>	<u>1,894,782</u>
Representing:				
Cost	–	183,400	9,382	192,782
Valuation 2005	1,702,000	–	–	1,702,000
	<u>1,702,000</u>	<u>183,400</u>	<u>9,382</u>	<u>1,894,782</u>
At 1 January 2006	1,702,000	183,400	9,382	1,894,782
Additions	–	–	137	137
Disposal	–	–	(373)	(373)
Fair value adjustment	50,000	–	–	50,000
	<u>1,752,000</u>	<u>183,400</u>	<u>9,146</u>	<u>1,944,546</u>
At 31 December 2006	<u>1,752,000</u>	<u>183,400</u>	<u>9,146</u>	<u>1,944,546</u>
Representing:				
Cost	–	183,400	9,146	192,546
Valuation 2006	1,752,000	–	–	1,752,000
	<u>1,752,000</u>	<u>183,400</u>	<u>9,146</u>	<u>1,944,546</u>

APPENDIX IV ACCOUNTANTS' REPORT ON THE HF LAND GROUP

	Investment property <i>HK\$'000</i>	Property held for future development <i>HK\$'000</i>	Furniture, equipment and other fixed assets <i>HK\$'000</i>	Total fixed assets <i>HK\$'000</i>
Accumulated amortisation and depreciation:				
At 1 January 2004	–	135,652	7,726	143,378
Charge for the year	–	–	318	318
Written back on disposal	–	–	(111)	(111)
	<u>–</u>	<u>–</u>	<u>(111)</u>	<u>(111)</u>
At 31 December 2004	<u>–</u>	<u>135,652</u>	<u>7,933</u>	<u>143,585</u>
At 1 January 2005	–	135,652	7,933	143,585
Reclassified to property held for sale	–	(19,752)	–	(19,752)
Charge for the year	–	–	343	343
Impairment	–	67,500	–	67,500
Written back on disposal	–	–	(69)	(69)
	<u>–</u>	<u>–</u>	<u>(69)</u>	<u>(69)</u>
At 31 December 2005	<u>–</u>	<u>183,400</u>	<u>8,207</u>	<u>191,607</u>
At 1 January 2006	–	183,400	8,207	191,607
Charge for the year	–	–	359	359
Written back on disposal	–	–	(332)	(332)
	<u>–</u>	<u>–</u>	<u>(332)</u>	<u>(332)</u>
At 31 December 2006	<u>–</u>	<u>183,400</u>	<u>8,234</u>	<u>191,634</u>
Net book value:				
At 31 December 2004	<u>1,550,000</u>	<u>80,000</u>	<u>926</u>	<u>1,630,926</u>
At 31 December 2005	<u>1,702,000</u>	<u>–</u>	<u>1,175</u>	<u>1,703,175</u>
At 31 December 2006	<u>1,752,000</u>	<u>–</u>	<u>912</u>	<u>1,752,912</u>

Impairment loss

Impairment loss of approximately HK\$67,500,000 was raised on property held for future development for the year ended 31 December 2005. In prior years, the land, which is located in the People's Republic of China (the "PRC"), was planned to be developed in four phases as a comprehensive private housing development, and the HF Land Group has completed certain portion of the first phase of this development project. In view of the market condition and the economic policy of the PRC government, the HF Land Group postponed the further development to wait for an opportune time. As at 31 December 2005 and 2006, HF Land's directors were of the view that development would not be recommenced in the foreseeable future and assessed the recoverable amount of the undeveloped land on such basis. Based on this assessment, the carrying amount of this portion of land was written down by HK\$67,500,000. The estimates of recoverable amount were based on the experience of HF Land's directors by reference to the PRC property market.

Notes:

- a) All investment properties of the HF Land Group were revaluated as at 31 December 2006 on an open market value basis calculated by reference to recent market transactions in comparable properties (2004 and 2005: net rental income allowing for reversionary income potential). The valuations were

APPENDIX IV ACCOUNTANTS' REPORT ON THE HF LAND GROUP

carried out by an independent firm of CB Richard Ellis Limited (2004 and 2005: Savills Valuation and Professional Services Limited), who have among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued.

- b) The analysis of net book value of investment property as at 31 December 2004, 2005 and 2006 was as follows:

	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
In Hong Kong			
– long leases	1,545,000	1,697,000	1,747,000
Outside Hong Kong			
– long leases	5,000	5,000	5,000
	1,550,000	1,702,000	1,752,000

- c) Fixed assets leased out under operating leases

The HF Land Group leases out investment property under operating leases. The leases typically run for an initial period of one to two years, with an option to renew the lease after that date at which time all terms are renegotiated. Lease payments are usually reviewed every year to reflect market rentals. None of the leases includes contingent rentals.

All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment property.

As at 31 December 2004, 2005 and 2006, the HF Land Group's total future minimum lease payments under non-cancellable operating leases were receivable as follows:

	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 year	11,366	8,679	6,527
After 1 year but within 5 years	54	–	–
	11,420	8,679	6,527

12. INTEREST IN AN ASSOCIATE

	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net assets	377,562	403,028	619,829
Market value of shares listed in the Republic of Singapore	135,781	251,723	561,912

APPENDIX IV ACCOUNTANTS' REPORT ON THE HF LAND GROUP

Particulars of the associate, which is a listed corporate entity, are as follows:

Name of associate	Form of business structure	Place of incorporation and operation	Proportion of ownership interests			Principal activity
			HF Land Group's effective interest	Held by HF Land	Held by a subsidiary	
Hong Fok Corporation Limited ("HFC")*	Incorporated	Republic of Singapore	20.2%	–	20.2%	Investment holding

* Audited by KPMG, Singapore

Summary financial information on associates

	Assets <i>HK\$'000</i>	Liabilities <i>HK\$'000</i>	Equity <i>HK\$'000</i>	Revenues <i>HK\$'000</i>	Profit/(loss) <i>HK\$'000</i>
2004					
100 per cent	<u>4,936,390</u>	<u>2,375,462</u>	<u>2,560,928</u>	<u>190,376</u>	6,267
HF Land Group's effective interest					<u>4,012</u>
2005					
100 per cent	<u>5,128,848</u>	<u>2,386,443</u>	<u>2,742,405</u>	<u>180,555</u>	(42,135)
HF Land Group's effective interest					<u>34,763</u>
2006					
100 per cent	<u>6,371,237</u>	<u>2,578,616</u>	<u>3,792,621</u>	<u>321,807</u>	(81,934)
HF Land Group's effective interest					<u>175,690</u>

The above financial information of the associate is a summary of the consolidated operating results and financial position of the associate, which are based on its financial statements. The HF Land Group's share of the associate's results and net assets are based on the associate's financial statements and adjusted for the cross-holding between HF Land and the associate and the WF Group (see note 26 for the definition of WF Group) as well as the alignment of the associate's accounting policies with those of the HF Land Group. In particular as they relate to Singapore Financial Reporting Standard 40 "Investment Property" (the equivalent of HKAS 40), which was not adopted by the associate during the years ended 31 December 2004, 2005 and 2006.

Financial guarantees

At 31 December 2006, HFC had given corporate guarantees to banks and financial institution in respect of credit facilities utilised by its subsidiaries amounting to approximately HK\$2,550,381,000 (2005: HK\$2,369,893,000; 2004: HK\$2,334,686,000).

APPENDIX IV ACCOUNTANTS' REPORT ON THE HF LAND GROUP

13. OTHER FINANCIAL ASSETS

	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted debentures, at cost	100	100	–
Investment in club membership	310	310	–
	<u>410</u>	<u>410</u>	<u>–</u>

14. INVENTORIES

a) Inventories in the combined balance sheets as at 31 December 2004, 2005 and 2006 comprised:

	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Properties held for sale	<u>7,653</u>	<u>14,146</u>	<u>12,500</u>

b) The analysis of carrying value of properties as at 31 December 2004, 2005 and 2006 was as follows:

	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
In Hong Kong			
– 50 years or more (long leases)	7,653	1,646	–
Outside Hong Kong			
– 50 years or more (long leases)	–	12,500	12,500
	<u>7,653</u>	<u>14,146</u>	<u>12,500</u>

c) The analysis of the amount of inventories recognised as an expense for the years ended 31 December 2004, 2005 and 2006 was as follows:

	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Carrying amount of inventories sold	10,630	5,657	1,646
Write down of inventories	–	360	–
	<u>10,630</u>	<u>6,017</u>	<u>1,646</u>

All of the inventories are expected to be recovered within one year.

APPENDIX IV ACCOUNTANTS' REPORT ON THE HF LAND GROUP

15. TRADE AND OTHER RECEIVABLES

	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Amounts due from fellow subsidiaries	531,339	465,045	407,017
Trade debtors	326	56	230
Gross amounts due from customers for contract work (note 16)	595	595	595
Retentions receivable (note 16)	338	338	338
Other debtors, deposits and prepayments	3,910	2,013	4,680
	536,508	468,047	412,860

The amounts due from fellow subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment, and these amounts have been settled in full subsequent to 31 December 2006.

All of the trade and other receivables (including amounts due from fellow subsidiaries), apart from those mentioned in note 16, are expected to be recovered within one year.

Included in trade and other receivables are trade debtors (net of impairment losses for bad and doubtful debts) with the following ageing analysis as of 31 December 2004, 2005 and 2006:

	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 month	276	56	174
1 to 3 month	–	–	56
More than 3 months but less than 12 months	50	–	–
	326	56	230

The HF Group's credit policy is set out in note 24(a).

16. CONSTRUCTION CONTRACTS

	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Costs incurred plus recognised profits less recognised losses to date	75,333	75,333	75,333
Progress payments received and receivable	(74,738)	(74,738)	(74,738)
Gross amounts due from customers for contract work	595	595	595

These amounts are related to construction contracts which have been completed in prior years. Since there are ongoing negotiations on the determination of, inter alia, final contract sums or variation orders between the HF Land Group and its contract employers, suppliers, subcontractors and subcontractors' employees, the directors have not been able to agree final completion accounts for these construction contracts.

The gross amount due from customers for contract work at 31 December 2006 that is expected to be recovered after more than one year is HK\$595,000 (2004 and 2005: HK\$595,000).

APPENDIX IV ACCOUNTANTS' REPORT ON THE HF LAND GROUP

In respect of construction contracts completed in prior year, the amount of retentions receivable from customers at 31 December 2006 was HK\$338,000 (2004 and 2005: HK\$338,000). The amount of those retentions at 31 December 2006 was expected to be recovered after more than one year that was HK\$338,000 (2004 and 2005: HK\$338,000). The amount of retentions payable to suppliers at 31 December 2006 was HK\$1,640,000 (2005: HK\$1,604,000; 2004: HK\$1,570,000), which was expected to be payable after more than one year.

17. CASH AND CASH EQUIVALENTS

	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash at banks	2,228	4,114	5,002
Cash in hand	29	30	30
	<u>2,257</u>	<u>4,144</u>	<u>5,032</u>
Pledged bank balances and time deposits for bank borrowings	(1,629)	(785)	(899)
Cash and cash equivalents	<u><u>628</u></u>	<u><u>3,359</u></u>	<u><u>4,133</u></u>

18. TRADE AND OTHER PAYABLES

	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Amount due to ultimate holding company	222,509	222,252	221,802
Amounts due to fellow subsidiaries	201,593	200,740	199,975
Trade creditors	1,615	1,695	1,690
Other creditors and accrued charges	3,754	5,795	10,456
Retentions payable (<i>note 16</i>)	1,570	1,604	1,640
Deposits received	4,528	3,412	3,701
	<u><u>435,569</u></u>	<u><u>435,498</u></u>	<u><u>439,264</u></u>

The amounts due to ultimate holding company and fellow subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayments, and these amounts have been repaid in full subsequent to 31 December 2006.

All of the trade and other payables, apart from those mentioned in note 16, are expected to be settled within one year.

Included in trade and other payables are trade creditors with the following ageing analysis as of 31 December 2004, 2005 and 2006:

	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 month	–	42	–
Over 1 year	1,615	1,653	1,690
	<u><u>1,615</u></u>	<u><u>1,695</u></u>	<u><u>1,690</u></u>

APPENDIX IV ACCOUNTANTS' REPORT ON THE HF LAND GROUP

19. BANK BORROWINGS, SECURED

As at 31 December 2004, 2005 and 2006, the secured bank borrowings were repayable as follows:

	2004 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Within 1 year or on demand as classified under current liabilities	18,722	80,204	81,891
After 1 year but within 2 years	107,078	21,887	22,745
After 2 years but within 5 years	69,786	234,680	224,848
After 5 years	257,035	71,512	58,641
After 1 year as classified under non-current liabilities	433,899	328,079	306,234
Total	<u>452,621</u>	<u>408,283</u>	<u>388,125</u>

As at 31 December 2006, the bank facilities of certain subsidiaries were secured by:

- i) fixed charges over certain of the HF Land Group's investment properties situated in Hong Kong with an aggregate carrying value of HK\$1,747,000,000 as at 31 December 2006 (2005: HK\$1,697,000,000; 2004: HK\$1,545,000,000);
- ii) assignment of insurance, sale and rental proceeds of the aforementioned properties situated in Hong Kong;
- iii) charges over certain of the HF Land Group's bank balances of HK\$899,000 as at 31 December 2006 (2005: HK\$785,000; 2004: HK\$1,629,000) for the purpose of assignment of sales and rental proceeds and issued shares of certain wholly-owned subsidiaries of the HF Land Group;
- iv) subordination and assignment of intra-group and shareholders' loans to certain wholly-owned subsidiaries of the HF Land Group in favour of the banks;
- v) floating charges over the assets of Hugoton Limited, wholly-owned subsidiaries of the HF Land Group;
- vi) corporate guarantees given by the ultimate controlling party (2004 and 2005: the ultimate controlling party and a fellow subsidiary).

For the year ended 31 December 2006, the effective interest rates for bank borrowings ranged from 4.86% to 6.14% (2005: 3.84% to 5.88%; 2004: 1.25% to 3.02%) per annum.

20. INCOME TAX IN THE COMBINED BALANCE SHEETS

- a) Tax recoverable in the combined balance sheets as at 31 December 2004, 2005 and 2006 represented:

	2004 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Tax recoverable in respect of provisional Hong Kong Profits Tax paid	<u>7</u>	<u>1</u>	<u>72</u>

APPENDIX IV ACCOUNTANTS' REPORT ON THE HF LAND GROUP

b) Deferred tax assets and liabilities recognised:

The components of deferred tax (assets)/liabilities recognised in the combined balance sheets and the movements during the years ended 31 December 2004, 2005 and 2006 were as follows:

	Revaluation of investment property HK\$'000	Depreciation allowances in excess of the related depreciation HK\$'000	Tax losses HK\$'000	Total HK\$'000
Deferred tax arising from:				
At 1 January 2004	124,175	1,436	(1,342)	124,269
Charged/(credited) to profit or loss	<u>91,175</u>	<u>174</u>	<u>(433)</u>	<u>90,916</u>
At 31 December 2004	<u>215,350</u>	<u>1,610</u>	<u>(1,775)</u>	<u>215,185</u>
At 1 January 2005	215,350	1,610	(1,775)	215,185
Charged to profit or loss	<u>26,600</u>	<u>190</u>	<u>409</u>	<u>27,199</u>
At 31 December 2005	<u>241,950</u>	<u>1,800</u>	<u>(1,366)</u>	<u>242,384</u>
At 1 January 2006	241,950	1,800	(1,366)	242,384
Charged/(credited) to profit or loss	<u>8,750</u>	<u>(1,800)</u>	<u>1,366</u>	<u>8,316</u>
At 31 December 2006	<u>250,700</u>	<u>–</u>	<u>–</u>	<u>250,700</u>
		2004	2005	2006
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net deferred tax liability recognised on the balance sheet		<u>215,185</u>	<u>242,384</u>	<u>250,700</u>

c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 2(q), at 31 December 2006, the HF Land Group has not recognised deferred tax assets in respect of cumulative tax losses of HK\$402,624,000 (2005: HK\$354,295,000; 2004: HK\$321,999,000) as it is not probable that future taxable profits against which the tax losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

21. CAPITAL AND RESERVES

a) Share capital

As HF Land was not yet incorporated prior to 31 December 2006 and the Group Reorganisation was not complete as at 31 December 2006, the share capital in the combined balance sheets as at 31 December 2004, 2005 and 2006 represented issued share capital of Winfoong Limited.

APPENDIX IV ACCOUNTANTS' REPORT ON THE HF LAND GROUP

b) Nature and purpose of reserves

i) Contributed surplus

The contributed surplus of the HF Land Group represents the difference between the nominal value of the share capital issued by Winfoong Limited, a wholly-owned subsidiary of HF Land, and the aggregate of the share capital and the share premium accounts of the subsidiaries acquired pursuant to the group reorganization in 1996. Under the Companies Act 1981 of Bermuda (as amended), the HF Land Group may make distributions to its members out of contributed surplus in certain circumstances.

ii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 2(t).

22. DISTRIBUTABLE RESERVES

HF Land was incorporated on 26 March 2007 and has not carried out any business since the date of its incorporation. Accordingly, there was no reserve available for distribution to shareholders as at 31 December 2006.

On the basis set out in Section B Note 1, the aggregate amounts of distributable reserves at 31 December 2004, 2005 and 2006 of the companies comprising the HF Land Group, including the distributable amounts disclosed in note 21(b)(i), were HK\$1,442,503,000, HK\$1,499,956,000 and HK\$1,718,212,000, respectively.

23. DEFINED CONTRIBUTION RETIREMENT PLAN

HF Land Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement plan. The MPF Scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$20,000. Contributions to the plan vest immediately.

24. FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the HF Land Group's business. These risks are limited by the HF Land Group's financial management policies and practices described below.

a) Credit risk

The HF Land Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount. These receivables are due within 60 days from the date of billing. Debtors with balances that are more than 3 months overdue are requested to settle all outstanding balances before any further credit is granted. Normally, the HF Land Group does not obtain collateral from customers.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the combined balance sheet.

APPENDIX IV ACCOUNTANTS' REPORT ON THE HF LAND GROUP

b) Interest rate risk

The interest rates and maturity information of the HF Land Group's bank loans is disclosed in note 19.

c) Foreign currency risk

As most of the HF Land Group's monetary assets and liabilities are denominated in Hong Kong Dollars and the HF Land Group conducted its business transactions principally in Hong Kong Dollars. The HF Land Group considers that as the exchange rate risk of the HF Land Group is not significant, the HF Land Group did not employ any financial instruments for hedging purposes.

d) Fair values

All financial instruments are carried at amounts not materially different from fair values as at 31 December 2004, 2005 and 2006.

25. COMMITMENTS

At 31 December 2004, 2005 and 2006, the HF Land Group had no material commitments.

26. MATERIAL RELATED PARTY TRANSACTIONS

Transactions with the Winfoong International Limited and its subsidiaries excluding the companies in HF Land Group (the "WF Group") are considered as related party transactions for the years ended 31 December 2004, 2005 and 2006.

Particulars of significant transactions between the HF Land Group and the WF Group during the years ended 31 December 2004, 2005 and 2006 were as follows:

	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Recurring:			
Management fee income received and receivable from WF Group	3,686	466	460
Rental income received and receivable from WF Group	305	–	270
Management fee paid and payable to WF Group	2,990	1,160	1,735
Guarantee fee paid and payable to WF Group	839	839	896
Rental expenses paid and payable to WF Group	<u>48</u>	<u>48</u>	<u>48</u>

In addition, the Directors are also the key management of the HF Land Group. Details of their remuneration during the relevant period are set out in note 7.

Non-recurring:

Decoration cost paid and payable to WF Group	<u>3,484</u>	<u>2,786</u>	<u>2,880</u>
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The HF Land's directors are of the opinion that the above related party transactions were conducted on normal commercial terms and in the ordinary course of business.

APPENDIX IV ACCOUNTANTS' REPORT ON THE HF LAND GROUP

27. ACCOUNTING ESTIMATES AND JUDGEMENTS

The method, estimates and judgements the management use in applying the HF Land Group's accounting policies have a significant impact on the HF Land Group's financial position and operating results. Some of the accounting policies require the HF Land Group to apply estimates and judgements, on matters that are inherently uncertain. Certain critical accounting judgements in applying the HF Land Group's accounting policies are described below.

a) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The management reviews annually the useful life of an asset and its residual value, if any. The depreciation expense for future periods are adjusted if there are significant changes from previous estimates.

b) Valuation of inventories

Inventories are stated at the lower of cost and net realisable value at the balance sheet date. Net realisable value is determined on the basis of the estimated selling price less the estimated costs necessary to make the sale. The management estimates the net realisable value for inventories based primarily on the latest invoice prices and current market conditions. In addition, the management performs an inventory review on a product-by-product basis at each year end date and assess the need for write down of inventories.

c) Impairments

If circumstances indicate that the carrying value of fixed assets may not be recoverable, the assets may be considered "impaired", and an impairment loss may be recognised in accordance with HKAS 36 "Impairment of Assets". The carrying amounts of fixed assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amount is reduced to recoverable amount. The recoverable amount of fixed assets is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for the HF Land Group's asset are not available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sale volume, selling price and amount of operating costs. The management uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, selling price and amount of operating costs.

Impairment losses for bad and doubtful debts are assessed and provided based on the management's regular review of ageing analysis and evaluation of collectibility. A considerable level of judgement is exercised by the management when assessing the credit worthiness and past collection history of each individual customer.

Any increase or decrease in the above impairment losses would affect the net profit in future years.

APPENDIX IV ACCOUNTANTS' REPORT ON THE HF LAND GROUP

28. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE RELEVANT PERIOD

Up to the date of issue of this report, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the relevant period and which have not been adopted in the Financial Information.

Of these developments, the following relate to matters that may be relevant to the Group's operations and financial statements:

		Effective for accounting periods beginning on or after
HKFRS 7	Financial Instruments: Disclosures	1 January 2007
Amendment to HKAS 1	Presentation of Financial Statements: Capital Disclosure	1 January 2007

The HF Land Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the HF Land Group's results of operations and financial position.

29. IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At the date of this report, HF Land's directors consider the immediate parent and ultimate controlling party of HF Land to be Winfoong International Limited, which is incorporated in Bermuda and listed in Hong Kong. This entity produces financial statements available for public use.

30. SUBSEQUENT EVENTS

The following significant transaction took place subsequent to 31 December 2006:

Reorganisation

The companies comprising the HF Land Group undergo a reorganisation to rationalise the HF Land Group's structure for the purpose of the Group Reorganisation. Details of the Group Reorganisation are set out in the section headed "Letter from the Board" of the Circular. As a result of the Group Reorganisation, HF Land will become the holding company of the HF Land Group.

C. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S REMUNERATIONS

Save as disclosed in notes 7 and 8 of section B above, no remuneration has been paid or is payable in respect of the relevant period by HF Land or any of the companies comprising the HF Land Group to the HF Land's directors.

APPENDIX IV ACCOUNTANTS' REPORT ON THE HF LAND GROUP

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by HF Land or any of the companies comprising the HF Land Group in respect of any period subsequent to 31 December 2006.

Yours faithfully,

CCIF CPA Limited
Certified Public Accountants
Hong Kong
Yau Hok Hung
Practising Certificate Number P04911

AUDITED FINANCIAL INFORMATION

(i) Audited financial statements

Set out below are the audited consolidated balance sheets, consolidated profit and loss accounts, consolidated statement of changes in equity and consolidated statement of cash flows and the balance sheets, profit and loss accounts and statement of changes in equity of the Vendor together with the relevant notes to the financial statements as extracted from the annual report of the Vendor for the year ended 31 December 2006:

“BALANCE SHEETS

As At 31 December 2006

	Note	Group		Company	
		2005	2006	2005	2006
		S\$	S\$	S\$	S\$
Non-current Assets					
Fixed assets	3	731,980	568,382	–	–
Subsidiaries	4	–	–	191,362,677	190,290,390
Associates	5	176,412,458	159,688,399	4,455,912	4,250,629
Investment properties	6	867,453,000	1,053,380,000	–	–
Other investments	7	3	3	–	–
Other assets	8	374,960	407,841	–	–
Deferred tax assets	9	50,672	–	–	–
		<u>1,045,023,073</u>	<u>1,214,044,625</u>	<u>195,818,589</u>	<u>194,541,019</u>
Current Assets					
Derivative asset		241,025	–	–	–
Other investments	7	1,084,293	1,174,692	–	–
Development properties	10	50,038,288	31,901,828	–	–
Trade and other receivables	11	2,784,656	4,123,877	3,205	3,205
Cash and cash equivalents	12	966,393	703,120	50,926	50,171
		<u>55,114,655</u>	<u>37,903,517</u>	<u>54,131</u>	<u>53,376</u>
Total Assets		<u><u>1,100,137,728</u></u>	<u><u>1,251,948,142</u></u>	<u><u>195,872,720</u></u>	<u><u>194,594,395</u></u>
Share capital	13	149,898,795	150,712,673	149,898,795	150,712,673
Reserves	14	438,347,242	594,536,712	42,289,554	40,516,506
Total Equity		<u>588,246,037</u>	<u>745,249,385</u>	<u>192,188,349</u>	<u>191,229,179</u>

APPENDIX V**FINANCIAL INFORMATION OF THE VENDOR**

		Group		Company	
	<i>Note</i>	2005	2006	2005	2006
		S\$	S\$	S\$	S\$
Non-current Liabilities					
Obligations under finance leases	15	214,799	82,235	–	–
Interest bearing loans and borrowings	16	367,357,763	485,216,560	–	–
Financial guarantees	17	–	–	2,365,572	1,768,847
Deferred tax liability	9	497,823	513,442	–	–
		<u>368,070,385</u>	<u>485,812,237</u>	<u>2,365,572</u>	<u>1,768,847</u>
Current Liabilities					
Bank overdraft	12	122,892	1,465,118	–	–
Trade and other payables	18	15,090,902	18,781,741	456,268	665,874
Obligations under finance leases	15	145,364	132,564	–	–
Interest bearing loans and borrowings	16	128,230,508	–	–	–
Financial guarantees	17	–	–	862,531	930,495
Tax payable		231,640	507,097	–	–
		<u>143,821,306</u>	<u>20,886,520</u>	<u>1,318,799</u>	<u>1,596,369</u>
Total Liabilities		<u>511,891,691</u>	<u>506,698,757</u>	<u>3,684,371</u>	<u>3,365,216</u>
Total Equity and Liabilities		<u>1,100,137,728</u>	<u>1,251,948,142</u>	<u>195,872,720</u>	<u>194,594,395</u>

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

PROFIT AND LOSS ACCOUNTS

Year Ended 31 December 2006

	<i>Note</i>	Group		Company	
		2005	2006	2005	2006
		S\$	S\$	S\$	S\$
Revenue	19	38,728,589	63,234,740	1,500,000	–
Other income	20	327,419	293,523	871,823	900,011
		39,056,008	63,528,263	2,371,823	900,011
Depreciation of fixed assets	3	(428,060)	(448,288)	–	–
Exchange gain/(loss), net		398,916	(206,134)	339,456	(1,379,937)
Cost of sales of development properties		–	(23,538,447)	–	–
Other operating expenses		(24,938,199)	(26,094,250)	(801,779)	(479,244)
Finance costs	21	(18,781,428)	(25,358,322)	–	–
		(4,692,763)	(12,117,178)	1,909,500	(959,170)
Share of results of associates		(4,383,036)	(3,553,163)	–	–
(Loss)/Profit from operations before taxation	22	(9,075,799)	(15,670,341)	1,909,500	(959,170)
Income tax expense	24	37,577	(429,291)	(242,740)	–
(Loss)/Profit for the year		<u>(9,038,222)</u>	<u>(16,099,632)</u>	<u>1,666,760</u>	<u>(959,170)</u>
Earnings per share (cents):					
Basic/Diluted	25	<u>(1.51)</u>	<u>(2.69)</u>		

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year Ended 31 December 2006

	Note	Share Capital S\$	Share Premium S\$	Capital and Other Reserves S\$	Translation Reserves S\$	Revaluation Reserves S\$	Retained Profit S\$	Total S\$
Group								
At 1 January 2005		149,898,795	813,878	2,371,049	(21,422,138)	322,362,481	89,827,550	543,851,615
Exchange differences on translation of balances at beginning of the year		-	-	-	-	2,035,532	-	2,035,532
Exchange differences on translation of financial statements of foreign subsidiaries and associates		-	-	-	903,494	-	-	903,494
Net surplus on revaluation		-	-	-	-	37,783,400	-	37,783,400
Share of reserves of associates		-	-	771,803	-	13,323,329	(185,724)	13,909,408
Net gains/(losses) recognised directly in equity		-	-	771,803	903,494	53,142,261	(185,724)	54,631,834
Loss for the year		-	-	-	-	-	(9,038,222)	(9,038,222)
Total recognised income and expense for the year		-	-	771,803	903,494	53,142,261	(9,223,946)	45,593,612
Dividend	26	-	-	-	-	-	(1,199,190)	(1,199,190)
At 31 December 2005		<u>149,898,795</u>	<u>813,878</u>	<u>3,142,852</u>	<u>(20,518,644)</u>	<u>375,504,742</u>	<u>79,404,414</u>	<u>588,246,037</u>
At 1 January 2006		149,898,795	813,878	3,142,852	(20,518,644)	375,504,742	79,404,414	588,246,037
Exchange differences on translation of balances at beginning of the year		-	-	(64,767)	-	(9,260,171)	-	(9,324,938)
Exchange differences on translation of financial statements of foreign subsidiaries and associates		-	-	-	(3,012,044)	-	-	(3,012,044)
Exchange differences on monetary items forming part of net investments in foreign subsidiaries		-	-	-	(1,426,715)	-	-	(1,426,715)
Net surplus on revaluation		-	-	-	-	185,182,669	-	185,182,669
Share of reserves of associates		-	-	20,630	-	1,663,378	-	1,684,008
Net gains/(losses) recognised directly in equity		-	-	(44,137)	(4,438,759)	177,585,876	-	173,102,980
Loss for the year		-	-	-	-	-	(16,099,632)	(16,099,632)
Total recognised income and expense for the year		-	-	(44,137)	(4,438,759)	177,585,876	(16,099,632)	157,003,348
Transfer from share premium account to share capital upon implementation of the Companies (Amendment) Act 2005		813,878	(813,878)	-	-	-	-	-
At 31 December 2006		<u>150,712,673</u>	<u>-</u>	<u>3,098,715</u>	<u>(24,957,403)</u>	<u>553,090,618</u>	<u>63,304,782</u>	<u>745,249,385</u>

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

STATEMENT OF CHANGES IN EQUITY

Year Ended 31 December 2006

	<i>Note</i>	Share Capital S\$	Share Premium S\$	Retained Profit S\$	Total S\$
Company					
At 31 December 2004, as previously reported		149,898,795	813,878	40,491,183	191,203,856
Effects of adopting amendments to FRS 39		<u>—</u>	<u>—</u>	<u>516,923</u>	<u>516,923</u>
At 1 January 2005, restated		149,898,795	813,878	41,008,106	191,720,779
Profit for the year		<u>—</u>	<u>—</u>	<u>1,666,760</u>	<u>1,666,760</u>
Total recognised income and expense for the year		—	—	1,666,760	1,666,760
Dividend	26	<u>—</u>	<u>—</u>	<u>(1,199,190)</u>	<u>(1,199,190)</u>
At 31 December 2005		<u>149,898,795</u>	<u>813,878</u>	<u>41,475,676</u>	<u>192,188,349</u>
At 31 December 2005, as previously reported		149,898,795	813,878	40,087,084	190,799,757
Effects of adopting amendments to FRS 39		<u>—</u>	<u>—</u>	<u>1,388,592</u>	<u>1,388,592</u>
At 1 January 2006, restated		149,898,795	813,878	41,475,676	192,188,349
Loss for the year		<u>—</u>	<u>—</u>	<u>(959,170)</u>	<u>(959,170)</u>
Total recognised income and expense for the year		—	—	(959,170)	(959,170)
Transfer from share premium account to share capital upon implementation of the Companies (Amendment) Act 2005		<u>813,878</u>	<u>(813,878)</u>	<u>—</u>	<u>—</u>
At 31 December 2006		<u>150,712,673</u>	<u>—</u>	<u>40,516,506</u>	<u>191,229,179</u>

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended 31 December 2006

	2005	2006
	S\$	S\$
Operating Activities		
Loss from operations before taxation	(9,075,799)	(15,670,341)
Adjustments for:		
Share of results of associates	4,383,036	3,553,163
Amortisation of transaction cost of interest bearing loans and borrowings	670,747	762,101
Depreciation of fixed assets	428,060	448,288
Gain on disposals of fixed assets, net	(96,743)	(4,771)
Gain on disposals of other investments	(224,889)	(43,718)
Impairment loss on other investments	590,980	–
Write-back of impairment loss on other assets	(42,800)	(44,500)
Loss/(Gain) on remeasurement of other investments	378,000	(140,000)
Write-back of allowance for diminution in value of development properties	–	(849,430)
Interest income	(251,887)	(149,143)
Interest expenses	18,781,428	25,358,322
	<u>15,540,133</u>	<u>13,219,971</u>
Operating profit before working capital changes	15,540,133	13,219,971
Changes in working capital:		
Development properties	(8,738,609)	19,274,733
Trade and other receivables	(124,288)	(1,288,997)
Trade and other payables	516,117	3,522,322
	<u>7,193,353</u>	<u>34,728,029</u>
Cash generated from operations	7,193,353	34,728,029
Income tax paid	(106,875)	(87,543)
Interest received	71,427	87,564
Income tax refund	58,212	8,810
	<u>7,216,117</u>	<u>34,736,860</u>
Cash Flows from Operating Activities	<u>7,216,117</u>	<u>34,736,860</u>
Investing Activities		
Additions to investment properties	–	(744,331)
Purchase of other investments	(426,372)	(253,142)
Purchase of fixed assets	(270,060)	(287,562)
Proceeds from disposals of fixed assets	97,268	7,643
Proceeds from disposals of other investments	1,381,319	346,461
(Increase)/Decrease in associates	(400,212)	203,762
Others	50,400	–
	<u>432,343</u>	<u>(727,169)</u>
Cash Flows from Investing Activities	<u>432,343</u>	<u>(727,169)</u>

	2005 S\$	2006 S\$
Financing Activities		
Interest paid	(19,583,503)	(25,477,404)
Dividend paid	(1,199,190)	–
Repayment of interest bearing loans and borrowings	(1,000,000)	(14,187,500)
Payment of finance lease rentals	(135,524)	(145,364)
Proceeds from interest bearing loans and borrowings	<u>15,429,000</u>	<u>4,196,500</u>
Cash Flows from Financing Activities	<u>(6,489,217)</u>	<u>(35,613,768)</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	1,159,243	(1,604,077)
Cash and cash equivalents at beginning of the year	(316,947)	843,501
Effect of exchange rate changes on balances held in foreign currencies	<u>1,205</u>	<u>(1,422)</u>
Cash and Cash Equivalents at end of the year (Note 12)	<u><u>843,501</u></u>	<u><u>(761,998)</u></u>

Note to Consolidated Statement of Cash Flows

During the year, the Group acquired fixed assets with an aggregate cost of approximately S\$288,000 (2005: S\$329,000), of which approximately S\$Nil (2005: S\$59,000) were acquired by means of finance leases. Cash payments of approximately S\$288,000 (2005: S\$270,000) were made to purchase the fixed assets.

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

NOTES TO THE FINANCIAL STATEMENTS*31 December 2006*

These notes form an integral part of the financial statements.

The financial statements were authorised for issue by the Board of Directors on 12 March 2007.

1 CORPORATE INFORMATION

Hong Fok Corporation Limited is a company incorporated in the Republic of Singapore and has its registered office at 300 Beach Road #41-00, The Concourse, Singapore 199555.

The principal activity of the Company is that of investment holding. The principal activities of the subsidiaries consist of property investment, property development, property management, investment trading and investment holding and management.

The consolidated financial statements relate to the Company and its subsidiaries (referred to as the Group) and the Group's interests in associates.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**2.1 BASIS OF PREPARATION**

The financial statements have been prepared in accordance with Singapore Financial Reporting Standards.

The financial statements have been prepared on the historical cost basis except for investment properties that are stated at their revalued amounts and certain financial assets and financial liabilities that are stated at their fair values.

The financial statements are presented in Singapore dollars which is the Company's functional currency. All financial information is presented in Singapore dollars, unless otherwise stated.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 6 – revaluation of investment properties
- Note 10 – estimation of allowance for diminution in value of completed development properties

Accounting policies relating to intra-group financial guarantees as described in Note 2.7, were changed during the year.

Except for the above changes, the accounting policies set out below have been applied consistently by the Group. The accounting policies used by the Group have been applied consistently to all periods presented in these financial statements.

2.2 CONSOLIDATION

Subsidiaries

Subsidiaries are those companies controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operational policies of a company so as to obtain benefits from its activities.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Associates

Associates are companies in which the Group has significant influence, but not control, over their financial and operational policies.

In the Group's financial statements, they are accounted for using the equity method of accounting.

Accounting Policies of Subsidiaries and Associates

Where necessary, accounting policies of subsidiaries and associates have been changed to be consistent with the policies adopted by the Group.

2.3 FOREIGN CURRENCIES

Translation of Foreign Currencies

Monetary assets and liabilities in foreign currencies are translated into Singapore dollars at rates of exchange closely approximate to those ruling at the balance sheet date. Foreign currency transactions are translated at rates ruling on transaction dates. Translation differences are dealt with through the profit and loss account.

Financial Statements of Foreign Entities

The assets and liabilities of foreign subsidiaries and associates are translated into Singapore dollars at rates of exchange closely approximate to those ruling at the balance sheet date. The results of foreign subsidiaries and associates are translated at the average exchange rates for the year. Exchange differences resulting from the translation are taken directly to translation reserves. On disposal, the accumulated translation differences are recognised in the consolidated profit and loss account as part of the gain or loss on sale.

Net Investment in a Foreign Subsidiary

Exchange differences arising from monetary items that in substance form part of the Company's net investment in a foreign subsidiary are recognised in the Company's profit and loss account. Such exchange differences are reclassified to equity in the consolidated financial statements. When the net investment is disposed of, the cumulative amount in equity is transferred to the profit and loss account as an adjustment to the profit or loss arising on disposal.

2.4 FIXED ASSETS

Owned Assets

Fixed assets are stated in the financial statements at cost less accumulated depreciation and impairment loss.

Leased Assets

Where fixed assets are financed by finance leases that give rights approximating to ownership, the assets are capitalised as if they had been purchased outright at the values equivalent to the present value of the total rental payable during the periods of the finance lease and the corresponding lease obligations are included under liabilities. The excess of the lease payments over the recorded lease obligations is treated as finance charges which are allocated over each finance lease term to give a constant rate of interest on the outstanding balance at the end of each period. Leased assets are stated in the financial statements at cost less accumulated depreciation and impairment loss. Assets acquired under finance leases are depreciated in accordance with the policy set out below.

Depreciation

Fixed assets are depreciated on a straight-line basis to write off their costs over their estimated useful lives at the following annual rates:

Office equipment and furniture	–	20% to 100%
Motor vehicles	–	20%
Plant and equipment	–	20% to 30%
Furniture	–	20%

Depreciation methods, useful lives and residual values are reviewed, and adjusted as appropriate, at each reporting date.

2.5 SUBSIDIARIES AND ASSOCIATES

Subsidiaries and associates are held for long-term purposes and are stated at cost less impairment loss.

2.6 INVESTMENT PROPERTIES

Investment properties are those properties which are not held with the intention of sale in the ordinary course of business. They include residential and commercial properties held for their income or investment potential.

Investment properties accounted for as non-current assets are stated at fair value. The fair value is determined annually by independent professional valuers. Any increase in value is credited to the revaluation reserve unless it offsets a previous decrease in value recognised in the profit and loss account. A decrease in value is recognised in the profit and loss account when it exceeds the increase previously recognised in the revaluation reserve.

When an investment property is disposed of, the resulting gain or loss recognised in the profit and loss account is the difference between net disposal proceeds and the carrying amount of the property. Any amount in the revaluation reserve that relates to the property is transferred to the profit and loss account in calculating the gain or loss on disposal.

2.7 FINANCIAL INSTRUMENTS

Non-derivative Financial Instruments

Non-derivative financial instruments comprise investments in financial assets and financial liabilities except for fixed assets, subsidiaries, associates, investment properties and development properties.

Non-derivative financial instruments are recognised initially at fair value plus any attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured at amortised cost using the effective interest method, less allowance for impairment.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or transfers substantially all the risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, that is, the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash at banks and in hand. For the purpose of the consolidated statement of cash flows, cash and cash equivalents are presented net of bank overdraft which is repayable on demand and which form an integral part of the Group's cash management.

Available-for-sale financial assets

The Group's investments in certain unquoted equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than for impairment loss, and foreign exchange gain and loss on available-for-sale monetary items, are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to the profit and loss account.

Investments at fair value through profit or loss

An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated as fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in the profit and loss account.

The fair value of financial assets classified as held for trading is determined as the quoted bid price at the balance sheet date.

Purchases and sales of financial assets held for trading are recognised on the date on which the Group commits to purchase or sell the assets.

Derivative Financial Instruments and Hedging Activities

The Group holds derivative financial instruments to hedge its interest rate risk exposures. The Group does not hold any derivative financial instrument for trading purposes.

Derivatives are recognised initially at fair value plus any attributable transaction costs. Subsequent to initial recognition, derivatives are measured at fair value, and any gain or loss on the hedging instrument is recognised in the profit and loss account. The hedged item is also stated at fair value in respect of the risk being hedged, with any gain or loss being recognised in the profit and loss account.

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counter parties.

Intra-group Financial Guarantees

Financial guarantees are classified as financial liabilities.

Financial guarantees are recognised initially at fair value. Subsequent to initial measurement, the financial guarantees are stated at the higher of the initial fair value less cumulative amortisation and the amount that would be recognised if they were accounted for as contingent liabilities. When financial guarantees are terminated before their original expiry date, the carrying amount of the financial guarantees is transferred to the profit and loss account.

Change in accounting policy

The adoption of the amendments to FRS 39 Financial Instruments: Recognition and Measurement - Financial Guarantee Contracts has resulted in the Company measuring its intra-group financial guarantees at fair value upon inception of the guarantees. These guarantees are subsequently measured at the higher of their initial fair values less cumulative amortisation and the amount that would be recognised if they were accounted for as contingent liabilities. Previously, the financial guarantees were accounted for as contingent liabilities whereby a loss was recognised only if it was probable that it would be incurred.

This change in accounting policy was recognised retrospectively in accordance with the transitional provisions of the amendments to FRS 39 and comparatives have been restated. This change has no impact on the Group's financial statements.

The adoption of the amendments to FRS 39 resulted in the following:

	Company	
	2005	2006
	S\$	S\$
Balance Sheet as at 31 December		
Increase in subsidiaries	4,616,695	4,987,945
Increase in financial guarantees	<u>(3,228,103)</u>	<u>(2,699,342)</u>
Cumulative increase in retained profit	<u>1,388,592</u>	<u>2,288,603</u>
Profit and Loss Account for the year ended 31 December		
Increase in other income and profit for the year	<u>871,669</u>	<u>900,011</u>

The adjustment to retained profit at 1 January 2005 was an increase of S\$516,923.

2.8 DEVELOPMENT PROPERTIES

Development properties are properties which are held with the intention of sale in the ordinary course of business and are classified as current assets. They include completed properties and properties under development.

Completed properties are stated at the lower of cost and directors' estimate of net realisable value. Cost includes cost of land, interest cost and other related expenditure. Capitalisation of interest cost and other related expenditure ceases when the temporary occupation permit for the development is issued by the authorities or when active development is suspended for extended periods. Net realisable value represents the estimated selling price less costs to be incurred in selling the properties.

Properties under development are stated at cost less any allowance considered necessary by the directors.

2.9 IMPAIRMENT

Impairment of Financial Assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Financial assets are tested for impairment on an individual basis. Any impairment loss is recognised in the profit and loss account. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to the profit and loss account.

Impairment of Non-financial Assets

The carrying amounts of the Group's non-financial assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. The impairment loss is charged to profit and loss account unless it reverses a previous revaluation, credited in equity, in which case it is charged to equity.

Calculation of recoverable amount

The recoverable amount of an asset is the greater of its value in use and its fair value to use less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

Impairment loss recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists for all assets. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss has been recognised.

2.10 REVENUE RECOGNITION

Profits on development properties are recognised using the percentage of completion method. The percentage of completion is measured by reference to the costs incurred to date and the estimated total costs for each contract. Profits are recognised only in respect of finalised sales agreements and to the extent that such profits relate to the progress of the construction work.

Rental income and maintenance fees are recognised on a straight-line basis over the term of the leases.

Revenue upon disposals of investments is recognised at the contractual date.

Dividend income is recognised on a receipt basis.

Car park and interest income from late payment by tenants are recognised on an accrual basis. Interest income from deposits is accrued on a time-apportioned basis.

Property management income is recognised upon completion of the services provided.

2.11 KEY MANAGEMENT PERSONNEL

Key management personnel of the Group are those persons having the authority and responsibility for planning, directing and controlling the activities of the entities. The directors of the Group and its subsidiaries, Vice Presidents of the respective departments and Personal Assistant to Directors are considered as key management personnel of the Group.

2.12 EMPLOYEE BENEFITS

Defined Contribution Plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account as incurred.

Share-based Payments

The share option programme allows employees of the associate to acquire shares of the associate. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. At each balance sheet date, estimates of the number of options that are expected to become exercisable are revised and the impact of the revision of original estimates is recognised in the Group's share of the equity results of the associate and in a corresponding adjustment to equity over the remaining vesting period.

2.13 BORROWING COSTS

Borrowing costs comprise interest and other costs incurred in connection with the borrowing of funds.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of the asset less any income on the temporary investment of these borrowings. The capitalisation rate is based on the attributable cost of the specific borrowings. All other borrowing costs are written off to the profit and loss account in the year in which they are incurred except for fees for the arrangement of financing facilities which are recognised over the period of the facilities on an effective interest basis.

2.14 INCOME TAX EXPENSE

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the profit and loss account.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of the prior years.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Temporary differences are not recognised on initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2.15 RELATED PARTIES

For the purposes of these financial statements, 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 or other entities.

2.16 SEGMENT REPORTING

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

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Inter-segment pricing is determined on an arm's length basis. Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one year.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

3 FIXED ASSETS

	Group				Total S\$
	Office Equipment and Furniture S\$	Motor Vehicles S\$	Plant and Equipment S\$	Furniture S\$	
Cost					
At 1 January 2005	1,323,415	1,798,965	1,399,977	678,662	5,201,019
Translation differences	–	1,476	–	–	1,476
Additions	70,694	214,641	25,000	18,725	329,060
Disposals	(166,688)	(341,676)	–	(69,545)	(577,909)
At 31 December 2005	1,227,421	1,673,406	1,424,977	627,842	4,953,646
Translation differences	–	(5,901)	–	–	(5,901)
Additions	61,455	23,744	6,898	195,465	287,562
Disposals	(29,581)	–	–	(68,796)	(98,377)
At 31 December 2006	<u>1,259,295</u>	<u>1,691,249</u>	<u>1,431,875</u>	<u>754,511</u>	<u>5,136,930</u>
Accumulated Depreciation					
At 1 January 2005	1,317,512	1,040,214	1,352,748	659,040	4,369,514
Translation differences	–	1,476	–	–	1,476
Depreciation for the year	74,757	313,517	27,973	11,813	428,060
Disposals	(166,688)	(341,676)	–	(69,020)	(577,384)
At 31 December 2005	1,225,581	1,013,531	1,380,721	601,833	4,221,666
Translation differences	–	(5,901)	–	–	(5,901)
Depreciation for the year	54,990	318,267	27,573	47,458	448,288
Disposals	(28,304)	–	–	(67,201)	(95,505)
At 31 December 2006	<u>1,252,267</u>	<u>1,325,897</u>	<u>1,408,294</u>	<u>582,090</u>	<u>4,568,548</u>
Carrying Amount					
At 1 January 2005	<u>5,903</u>	<u>758,751</u>	<u>47,229</u>	<u>19,622</u>	<u>831,505</u>
At 31 December 2005	<u>1,840</u>	<u>659,875</u>	<u>44,256</u>	<u>26,009</u>	<u>731,980</u>
At 31 December 2006	<u>7,028</u>	<u>365,352</u>	<u>23,581</u>	<u>172,421</u>	<u>568,382</u>

Fixed assets included in the financial statements at a carrying value of approximately S\$197,000 (2005: S\$422,000) were acquired under finance lease agreements.

4 SUBSIDIARIES

	Company	
	2005	2006
	S\$	S\$
Unquoted ordinary shares at cost	121,621,231	121,621,231
Impairment loss	<u>(500,000)</u>	<u>(500,000)</u>
	121,121,231	121,121,231
Financial guarantees	<u>4,616,695</u>	<u>4,987,945</u>
	<u>125,737,926</u>	<u>126,109,176</u>
Amounts due from subsidiaries (mainly non-trade)	115,127,965	114,349,899
Allowance for doubtful receivables	<u>(8,505,000)</u>	<u>(8,505,000)</u>
	106,622,965	105,844,899
Amounts due to subsidiaries (mainly non-trade)	<u>(40,998,214)</u>	<u>(41,663,685)</u>
	<u>65,624,751</u>	<u>64,181,214</u>
	<u>191,362,677</u>	<u>190,290,390</u>

The amounts due from/(to) subsidiaries are unsecured and interest free and settlement is neither planned nor likely to occur in the foreseeable future. As this amount is, in substance, a part of the Company's net investment in the subsidiaries, it is stated at cost less accumulated impairment and presented together with the Company's equity investment in the subsidiaries.

Details of the subsidiaries are as follows:

Name of Subsidiary	Country of Incorporation	Effective Equity Held	
		2005	2006
		%	%
Yat Yuen Hong Holdings Pte. Ltd.	Singapore	100	100
Yat Yuen Hong Company Limited and its subsidiary:	Singapore	100	100
Super Homes Pte. Ltd.	Singapore	100	100
Hong Fok Homes Pte Ltd	Singapore	100	100
Cecil Land Development Pte. Ltd.	Singapore	100	100
Hong Fok Land Ltd and its subsidiary:	Singapore	100	100
Jemmax Investments Pte Ltd	Singapore	100	100
Hong Fok Realty Pte. Ltd.	Singapore	100	100
Vista Parking Services Pte Ltd	Singapore	100	100
Hong Fok Nominees Pte. Ltd.	Singapore	100	100
Innobuild Pte Ltd	Singapore	100	100
Broadway Development Pte Ltd	Singapore	100	100
Turie Pte Ltd	Singapore	100	100
Defoe Pte Ltd and its subsidiary:	Singapore	100	100
Brisco Pte Ltd	Singapore	100	100
Rasco Pte Ltd and its subsidiary:	Singapore	100	100
Hong Fok Development (Newton) Pte Ltd	Singapore	100	100
Firth Enterprises Pte Ltd	Singapore	100	100
Biogem International Pte Ltd	Singapore	100	100
HFC Ventures.com Co Pte Ltd	Singapore	100	100

Name of Subsidiary	Country of Incorporation	Effective Equity Held	
		2005 %	2006 %
Highfeature.com Co Pte Ltd	Singapore	100	100
Arundel Trading Pte Ltd	Singapore	100	100
Bishopgate Holdings Limited	British Virgin Islands	100	100
Gold Triumph Assets Limited	British Virgin Islands	100	100
Warranty Management Pte Ltd	Singapore	100	100
@ Hong Fok Investment Holding Company, Limited and its subsidiaries:			
Superior Homes Limited	Hong Kong	100	100
Hong Fok International Limited	Hong Kong	100	100
Hong Fok Nominees Limited	Hong Kong	100	100
Supreme Homes Company Limited	Hong Kong	100	100
Hong Fok Enterprises Limited and its subsidiary:	Hong Kong	100	100
HFL International Consortium Limited	Cayman Islands	100	100

@ The consolidated financial statements are audited by CCIF CPA Limited, Hong Kong.

Subsidiaries incorporated in Singapore and the British Virgin Islands are audited by KPMG Singapore.

5 ASSOCIATES

	Group		Company	
	2005 S\$	2006 S\$	2005 S\$	2006 S\$
Investments in associates	173,956,546	157,437,770	2,000,000	2,000,000
Amounts due from associates (non-trade)	<u>2,455,912</u>	<u>2,250,629</u>	<u>2,455,912</u>	<u>2,250,629</u>
	<u>176,412,458</u>	<u>159,688,399</u>	<u>4,455,912</u>	<u>4,250,629</u>

As at 31 December 2006, the associates' capital commitments amounted to approximately S\$2,652,000 (2005: S\$2,979,000).

The amounts due from associates are unsecured and interest free and settlement is neither planned nor likely to occur in the foreseeable future. As these amounts are, in substance, a part of the net investment in the associates, they are stated at cost less accumulated impairment, if any.

Details of the associates are as follows:

Name of Associate	Place of Incorporation and Business	Effective Equity Held	
		2005 %	2006 %
@ Winfoong International Limited and its subsidiaries:	Bermuda	40	40
Winfoong Limited and its subsidiaries:	British Virgin Islands	40	40
Winfoong Investment Limited and its subsidiaries:	Hong Kong	40	40
Winfoong Overseas Limited and its subsidiaries:	British Virgin Islands	*59	*59
Maincon (Building) Pte. Ltd. and its subsidiary:	Singapore	*59	*59
Elegant Homes Pte. Ltd.	Singapore	*59	*59
Winfoong Enterprise Limited and its subsidiaries:	Hong Kong	40	40
Hepscott Limited	Hong Kong	40	40
Perselle Limited	Hong Kong	40	40
Hugoton Limited	Hong Kong	40	40
Bossiney Limited	Hong Kong	40	40
Giant Yield Limited	Hong Kong	40	40
Ashwell Enterprises Limited and its subsidiaries:	British Virgin Islands	40	40
World Profit Limited	Hong Kong	40	40
Vision Asset Management Limited	Hong Kong	40	40
Allied Crown Limited	Hong Kong	40	40
Wellow Investment Limited and its subsidiary:	Republic of Liberia	40	40
Winfoong Holding Limited	Hong Kong	40	40
Raglan Investments Limited and its subsidiaries:	British Virgin Islands	40	40
Sui Chong International Development Limited	Hong Kong	40	40
Sui Chong International Resources Limited	Hong Kong	40	40
Sui Chong International (H.K.) Limited	Hong Kong	40	40
Vision Securities Limited	Hong Kong	40	40
Magic Prosper Development Limited	Hong Kong	40	40
Standard Homes Company Limited	Hong Kong	40	40
Treasure Times Services Limited	British Virgin Islands	40	40
Winfoong Hotel Limited	Hong Kong	40	40
Donwin Property Limited	Hong Kong	40	40
Sui Chong Finance Limited	Hong Kong	40	40
Vision Capital Limited	Hong Kong	40	40
Sui Chong Property Management Limited and its subsidiaries:	Hong Kong	40	40
Magazine Gap Property Management Limited	Hong Kong	40	40
Fok On Property Management Limited	Hong Kong	40	40
Fort Property Management Limited	Hong Kong	40	40
Art House Decoration Company Limited	Hong Kong	40	40

Name of Associate	Place of Incorporation and Business	Effective Equity Held	
		2005 %	2006 %
Cheung Kee Landscaping Limited and its subsidiaries:	Hong Kong	40	40
Jade and Pearl Enterprises Limited	British Virgin Islands	40	40
Maple Ridge Group Limited	British Virgin Islands	40	40
Sandalwood Worldwide Limited	British Virgin Islands	40	40
Thumberland Limited	Samoa	40	40
Union Mark Trading Limited	British Virgin Islands	40	40
Zetland Administration Limited	Samoa	40	40
Cheung Kee Garden Limited and its subsidiaries:	Hong Kong	40	40
Sam Kee Garden (H.K.) Limited	Hong Kong	–	40
Top Tips International Limited	British Virgin Islands	40	40
U-Kwong Holdings Limited and its subsidiaries:	British Virgin Islands	40	40
Hammerman Assets Limited and its subsidiaries:	British Virgin Islands	40	40
Wellpool International Limited and its subsidiary:	Hong Kong	40	40
Jiangmen Tangquan Real Estate Company Limited	The People's Republic of China	#37	#37
China Charm Company Limited	Hong Kong	40	40
Luxurious Time Properties Limited and its subsidiary:	British Virgin Islands	40	40
Super Homes Limited	Hong Kong	40	40

@ Winfoong International Limited is listed on The Stock Exchange of Hong Kong Limited and its consolidated financial statements are audited by CCIF CPA Limited, Hong Kong.

* Includes equity interest of approximately 31.8% held directly by the Company and approximately 68.2% held indirectly by Winfoong International Limited.

Includes 92.0% held indirectly by Winfoong International Limited.

Summarised financial information on the associates (without any adjustment for the percentage of ownership held by the Group) is as follows:

	Associates	
	2005	2006
	S\$	S\$
Assets and Liabilities		
Total assets	<u>431,698,070</u>	<u>398,547,215</u>
Total liabilities	<u>98,881,948</u>	<u>98,334,412</u>
Results		
Revenue	<u>27,505,176</u>	<u>5,322,674</u>
Loss for the year	<u>(10,963,441)</u>	<u>(9,122,792)</u>
Market value of the Group's holding in the associates	<u>62,048,410</u>	<u>56,841,551</u>

The above financial information is a summary of the consolidated operating results and financial position of the associates, which are based on its consolidated financial statements and adjusted for the cross-holding between the Company and the associates as well as the alignment of the associates' accounting policies with those of the Group, in particular as they relate to HKAS 40, Investment Property (the equivalent of FRS 40) and HK(SIC) Interpretation 21, Income Taxes – Recovery of Revalued Non-depreciable Assets, adopted by the associates since 2005.

6 INVESTMENT PROPERTIES

	Group	
	2005	2006
	S\$	S\$
At 1 January	829,720,000	867,453,000
Additions	–	744,331
Development expenditure written back	(50,400)	–
Revaluation surplus recognised in equity	<u>37,783,400</u>	<u>185,182,669</u>
At 31 December	<u>867,453,000</u>	<u>1,053,380,000</u>
Investment properties have been revalued as follows:		
Leasehold properties revalued on 15 February 2007 (2005: 12 January 2006)	720,000,000	876,000,000
Freehold properties revalued on 15 February 2007 (2005: 19 January 2006)	<u>147,453,000</u>	<u>177,380,000</u>
	<u>867,453,000</u>	<u>1,053,380,000</u>

Investment properties are revalued by Savills (Singapore) Pte Ltd, a firm of independent professional valuers, on an open market value basis.

The investment properties are mortgaged for credit facilities extended to the Group (Note 16(a)(i)).

Investment properties comprise commercial and residential properties which are mainly leased to external parties.

7 OTHER INVESTMENTS

	Group	
	2005	2006
	S\$	S\$
Available-for-sale Securities:		
Unquoted equity investments	6,885,134	6,753,134
Impairment loss	<u>(6,885,131)</u>	<u>(6,753,131)</u>
	<u>3</u>	<u>3</u>
Securities Held-for-trading:		
Quoted equity investments	912,293	994,692
Unquoted equity investments	<u>172,000</u>	<u>180,000</u>
	<u>1,084,293</u>	<u>1,174,692</u>

Certain investments with a carrying value of approximately S\$990,000 as at 31 December 2006 (2005: S\$908,000) have been pledged as collateral to secure a share margin trading facility granted to a subsidiary. As at 31 December 2006, the amount utilised under the facility granted was S\$Nil (2005: S\$Nil).

It is not practicable to estimate the fair value of the Group's available-for-sale securities because of the lack of quoted market prices and the inability to estimate fair value without incurring excessive costs.

8 OTHER ASSETS

	Group	
	2005	2006
	S\$	S\$
Club membership	609,960	598,341
Impairment loss	<u>(235,000)</u>	<u>(190,500)</u>
	<u>374,960</u>	<u>407,841</u>

9 DEFERRED TAX ASSETS AND LIABILITY

Deferred tax assets and deferred tax liability are attributable to the following:

	At 1 January	Group (Charged)/ Credited to Profit and Loss Account (Note 24)	At 31 December
	<i>S\$</i>	<i>S\$</i>	<i>S\$</i>
2005			
Deferred Tax Assets			
Fixed assets	49,073	2,842	51,915
Tax value of losses carry forward	169,218	(169,218)	–
Others	20,267	(4,648)	15,619
	<u>238,558</u>	<u>(171,024)</u>	<u>67,534</u>
Deferred Tax Liability			
Investment properties	<u>(514,685)</u>	<u>–</u>	<u>(514,685)</u>
2006			
Deferred Tax Assets			
Fixed assets	51,915	(50,672)	1,243
Others	15,619	(15,619)	–
	<u>67,534</u>	<u>(66,291)</u>	<u>1,243</u>
Deferred Tax Liability			
Investment properties	<u>(514,685)</u>	<u>–</u>	<u>(514,685)</u>

Deferred tax assets and deferred tax liability are offset when there is a legally enforceable right to set off tax assets and tax liabilities and when the deferred tax relates to the same taxation authority. The following amounts, determined after appropriate offsetting are included in the balance sheet as follows:

	Group 2005	2006
	<i>S\$</i>	<i>S\$</i>
Deferred tax assets	50,672	–
Deferred tax liability	<u>(497,823)</u>	<u>(513,442)</u>
Deferred tax assets have not been recognised in respect of the following temporary differences:		
Deductible temporary differences	11,842,227	11,841,146
Unutilised tax losses	21,070,437	20,067,171
	<u>32,912,664</u>	<u>31,908,317</u>

Deferred tax assets have not been recognised because it is not probable that future taxable profit will be available against which the subsidiaries of the Group can utilise the benefits. However, the unutilised tax losses are available for offset against future taxable income subject to agreement with the relevant tax authorities.

10 DEVELOPMENT PROPERTIES

	<i>Note</i>	Group	
		2005	2006
		<i>S\$</i>	<i>S\$</i>
Freehold properties under development		47,461,131	–
Allowance for foreseeable losses		<u>(16,100,000)</u>	<u>–</u>
		31,361,131	–
Progress payments		<u>(1,226,391)</u>	<u>–</u>
		30,134,740	–
Completed properties held for resale		22,752,201	33,901,051
Allowance for diminution in value		<u>(2,848,653)</u>	<u>(1,999,223)</u>
		19,903,548	31,901,828
		<u>50,038,288</u>	<u>31,901,828</u>
Amount of interest capitalised during the year	21	<u>942,742</u>	<u>288,843</u>

Freehold properties under development were completed in 2006 and accordingly, reclassified as completed properties held for resale. Included in development properties is allowance for foreseeable losses of S\$5,465,997 (2005: S\$16,100,000).

11 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2005	2006	2005	2006
	<i>S\$</i>	<i>S\$</i>	<i>S\$</i>	<i>S\$</i>
Trade receivables	1,911,677	3,295,340	–	–
Allowance for doubtful receivables	<u>(572,688)</u>	<u>(706,535)</u>	<u>–</u>	<u>–</u>
	1,338,989	2,588,805	–	–
Deposits and prepayments	1,424,836	1,519,781	3,205	3,205
Tax recoverable	13,054	4,244	–	–
Other receivables	<u>7,777</u>	<u>11,047</u>	<u>–</u>	<u>–</u>
	<u>2,784,656</u>	<u>4,123,877</u>	<u>3,205</u>	<u>3,205</u>

12 CASH AND CASH EQUIVALENTS

	Group		Company	
	2005	2006	2005	2006
	<i>S\$</i>	<i>S\$</i>	<i>S\$</i>	<i>S\$</i>
Cash at banks and in hand	966,393	703,120	50,926	50,171
Bank overdraft	<u>(122,892)</u>	<u>(1,465,118)</u>	<u>–</u>	<u>–</u>
Cash and cash equivalents in the consolidated statement of cash flows	<u>843,501</u>	<u>(761,998)</u>	<u>50,926</u>	<u>50,171</u>

The effective interest rate for the bank overdraft at the balance sheet date is 5.8% (2005: 5.8%) per annum.

Details of securities for the bank overdraft are disclosed in Note 16(a)(i) to the financial statements.

13 SHARE CAPITAL

	Group and Company	
	2005	2006
	<i>No. of Shares</i>	<i>No. of Shares</i>
Issued and Fully Paid:		
Ordinary shares	<u>599,595,180</u>	<u>599,595,180</u>

On the date of commencement of the Companies (Amendment) Act 2005 on 30 January 2006:

- the concept of authorised share capital was abolished; and
- shares of the Company ceased to have par value.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

14 RESERVES

	Group		Company	
	2005	2006	2005	2006
	<i>S\$</i>	<i>S\$</i>	<i>S\$</i>	<i>S\$</i>
Share premium	813,878	–	813,878	–
Capital reserves	2,371,049	2,391,679	–	–
Share option reserve	771,803	707,036	–	–
Translation reserves	(20,518,644)	(24,957,403)	–	–
Revaluation reserves	375,504,742	553,090,618	–	–
Retained profit	<u>79,404,414</u>	<u>63,304,782</u>	<u>41,475,676</u>	<u>40,516,506</u>
	<u>438,347,242</u>	<u>594,536,712</u>	<u>42,289,554</u>	<u>40,516,506</u>

Capital reserves comprise the Group's share of fair value reserves of associates and other discretionary transfers from retained profit in prior years.

The share option reserve comprises the cumulative value of employee services received by an associate for the issue of share options in the associate.

The translation reserves comprise exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from the functional currency of the Company and the exchange differences on monetary items which form part of the Company's net investment in foreign subsidiaries.

The revaluation reserves comprise the cumulative net change in the fair value of investment properties (Note 6) and the Group's share of reserves of associates.

The retained profit of the Group include accumulated loss of approximately S\$57,155,000 (2005: S\$58,232,000) attributable to associates.

15 OBLIGATIONS UNDER FINANCE LEASES

Obligations under finance leases are attributable to the following:

	Group					
	Principal S\$	2005 Interest S\$	Payments S\$	Principal S\$	2006 Interest S\$	Payments S\$
Repayable:						
Within 1 year	145,364	16,792	162,156	132,564	15,086	147,650
After 1 year but within 5 years	<u>214,799</u>	<u>24,494</u>	<u>239,293</u>	<u>82,235</u>	<u>9,408</u>	<u>91,643</u>
	<u><u>360,163</u></u>	<u><u>41,286</u></u>	<u><u>401,449</u></u>	<u><u>214,799</u></u>	<u><u>24,494</u></u>	<u><u>239,293</u></u>

Interest on the above finance leases is charged at rates ranging from approximately 3.9% to 5.1% (2005: 3.9% to 5.1%) per annum.

16 INTEREST BEARING LOANS AND BORROWINGS

	Note	Group	
		2005 S\$	2006 S\$
Singapore dollar secured notes/bonds	<i>16 (b)</i>	110,241,025	110,000,000
Singapore dollar secured fixed rate loan from financial institution	<i>16 (c)</i>	80,000,000	80,000,000
Singapore dollar secured floating rate bank loans	<i>16 (d)</i>	213,200,000	199,850,000
Singapore dollar secured revolving bank loan	<i>16 (e)</i>	83,000,000	87,000,000
Hong Kong dollar secured revolving bank loan	<i>16 (f)</i>	<u>10,725,000</u>	<u>10,021,500</u>
		497,166,025	486,871,500
Unamortised transaction cost		<u>(1,577,754)</u>	<u>(1,654,940)</u>
		<u><u>495,588,271</u></u>	<u><u>485,216,560</u></u>
Repayable:			
Within 1 year		128,230,508	–
After 1 year but within 5 years		<u>367,357,763</u>	<u>485,216,560</u>
		<u><u>495,588,271</u></u>	<u><u>485,216,560</u></u>

- (a) The interest bearing loans and borrowings and bank overdraft (Note 12) of the Group are secured by:
- (i) mortgages on and assignment of rental income from investment properties with carrying values of approximately S\$1,053,380,000 as at 31 December 2006 (2005: S\$867,453,000);
 - (ii) mortgages on development properties with carrying values of approximately S\$31,902,000 as at 31 December 2006 (2005: S\$50,861,000) and assignment of the rights, titles and interest in the tenancy agreements, sale and purchase agreements, building contract, performance bonds and insurances from the development properties; and
 - (iii) guarantees by the Company (Note 17).

(b) Singapore Dollar Secured Notes/Bonds

In 2001, a subsidiary of the Company issued S\$110,000,000 4.7% secured bonds due July 2006. Interest was payable quarterly in arrears. Pursuant to an interest rate swap agreement which the subsidiary had entered into, interest in respect of the bonds was effectively paid at a floating rate based on a margin above the three-month Singapore Dollar swap rate. The net effective interest rate at 31 December 2005 was 4.0% per annum.

The bonds were fully prepaid in January 2006 through refinancing of S\$70,000,000 fixed rate notes due January 2011 and S\$40,000,000 floating rate notes due January 2011. The interest rate swap agreement was also terminated at the same time. The effective interest rate of these notes ranges from 4.9% to 5.0% per annum.

(c) Singapore Dollar Secured Fixed Rate Loan from Financial Institution

The 6% fixed rate loan is repayable by September 2009.

(d) Singapore Dollar Secured Floating Rate Bank Loans

The floating rate bank loans comprise the following:

- (i) S\$186,000,000 (2005: S\$186,000,000) which is repayable by September 2009;
- (ii) S\$9,200,000 which is repayable by November 2009 (2005: S\$10,200,000 which was repayable by six-monthly instalments of S\$500,000 from May 2005 to November 2006 and S\$9,200,000 repayable by November 2007); and
- (iii) S\$4,650,000 which is repayable by June 2008 (2005: S\$17,000,000 which was repayable by June 2006 or the date falling 3 months after the date of issuance of temporary occupation permit for the project, whichever is the earlier).

(e) Singapore Dollar Secured Revolving Bank Loan

The Singapore dollar revolving bank loan is repayable by September 2010.

(f) Hong Kong Dollar Secured Revolving Bank Loan

The Hong Kong dollar revolving bank loan is repayable by September 2010.

(g) Interest Rates

Floating interest rates will be repriced within six months of the balance sheet date. The effective interest rate for floating rate bank loans and revolving bank loans ranges from 4.8% to 5.4% (2005: 4.6% to 5.6%) per annum.

17 FINANCIAL GUARANTEES

Intra-group financial guarantees comprise guarantees granted by the Company to banks and financial institution in respect of credit facilities utilised by its subsidiaries amounting to S\$496,049,118 (2005: S\$508,342,392). The periods in which the financial guarantees expire are as follows:

	Company	
	2005	2006
	S\$	S\$
Within 1 year	139,417,392	9,177,618
After 1 year but within 5 years	368,925,000	486,871,500
	<u>508,342,392</u>	<u>496,049,118</u>

18 TRADE AND OTHER PAYABLES

	Group		Company	
	2005	2006	2005	2006
	S\$	S\$	S\$	S\$
Trade payables	2,845,580	2,145,881	–	–
Accrued operating expenses	3,041,724	6,073,892	151,177	363,033
Accrued development expenditure	765,457	622,280	–	–
Tenancy and other deposits	8,103,103	9,589,320	–	–
Unclaimed dividends	293,838	293,698	293,838	293,698
Other payables	41,200	56,670	11,253	9,143
	<u>15,090,902</u>	<u>18,781,741</u>	<u>456,268</u>	<u>665,874</u>

19 REVENUE

The amount of each significant category of revenue recognised during the year, after eliminating intra-group transactions, is as follows:

	Group		Company	
	2005	2006	2005	2006
	S\$	S\$	S\$	S\$
Gross dividend income:				
– Subsidiary	–	–	1,500,000	–
– Quoted investments	86,854	35,321	–	–
Gross rental income	25,984,924	26,215,957	–	–
Maintenance fee	9,200,357	9,019,615	–	–
Car park income	2,084,542	2,203,530	–	–
Property management income	895,680	729,536	–	–
Sale of development properties	–	24,838,756	–	–
Gain on disposals of other investments	224,889	43,718	–	–
Interest income on late payments	251,343	148,307	–	–
	<u>38,728,589</u>	<u>63,234,740</u>	<u>1,500,000</u>	<u>–</u>

20 OTHER INCOME

	Group		Company	
	2005	2006	2005	2006
	S\$	S\$	S\$	S\$
Financial guarantees	–	–	871,669	900,011
Gain on disposals of fixed assets, net	96,743	4,771	–	–
Interest income from deposits	544	836	–	–
Forfeiture/Compensation income	84,629	84,619	–	–
Others	145,503	203,297	154	–
	<u>327,419</u>	<u>293,523</u>	<u>871,823</u>	<u>900,011</u>

21 FINANCE COSTS

	<i>Note</i>	Group 2005 S\$	2006 S\$
Interest expenses on:			
Notes/Bonds		3,901,314	5,351,366
Loans from banks and financial institution and bank overdraft		15,807,294	20,279,007
Finance leases		<u>15,562</u>	<u>16,792</u>
		19,724,170	25,647,165
Interest capitalised in development properties	<i>10</i>	<u>(942,742)</u>	<u>(288,843)</u>
		<u>18,781,428</u>	<u>25,358,322</u>

22 (LOSS)/PROFIT FROM OPERATIONS BEFORE TAXATION

The following items have been included in arriving at (loss)/profit from operations before taxation:

	<i>Note</i>	Group 2005 S\$	2006 S\$	Company 2005 S\$	2006 S\$
Write-back of allowance for diminution in value of development properties		–	(849,430)	–	–
Impairment loss on other investments		590,980	–	–	–
Write-back of impairment loss on other assets		(42,800)	(44,500)	–	–
(Gain)/Loss on remeasurement of other investments		378,000	(140,000)	–	–
Non-audit fees paid to:					
– Auditors of the Company		104,583	40,100	11,433	8,850
– Other auditors		8,000	–	8,000	–
Directors' fees		45,000	273,000	45,000	273,000
Staff costs	<i>23</i>	10,538,558	11,677,666	–	–
Operating lease expense		<u>84,777</u>	<u>85,889</u>	<u>–</u>	<u>–</u>

Included in directors' fee is S\$158,000 (2005: S\$Nil) of medical benefits provided for a director.

Short-term employee benefits, excluding directors' fees, paid to key management personnel during the year amounted to S\$8,318,450 (2005: S\$7,366,812).

23 STAFF COSTS

	Group 2005 S\$	2006 S\$
Salaries and wages	9,812,905	10,919,449
Contributions to defined contribution plans	454,094	433,355
Others	<u>424,351</u>	<u>440,812</u>
	10,691,350	11,793,616
Staff costs capitalised in development properties	<u>(152,792)</u>	<u>(115,950)</u>
	<u>10,538,558</u>	<u>11,677,666</u>

24 INCOME TAX EXPENSE

	Group		Company	
	2005 S\$	2006 S\$	2005 S\$	2006 S\$
Income Tax Expense				
Current year	220,145	363,000	300,000	–
Group relief:				
– Current year	(124,000)	–	–	–
– Prior years	(100,000)	–	–	–
Overprovision in prior years	(204,746)	–	(57,260)	–
	<u>(208,601)</u>	<u>363,000</u>	<u>242,740</u>	<u>–</u>
Deferred Tax Expense				
Reversal of deferred tax assets recognised in prior years	165,541	50,672	–	–
Movements in temporary differences	5,483	15,619	–	–
	<u>171,024</u>	<u>66,291</u>	<u>–</u>	<u>–</u>
	<u>(37,577)</u>	<u>429,291</u>	<u>242,740</u>	<u>–</u>
Reconciliation of Effective Tax Rate				
(Loss)/Profit from operations before taxation	<u>(9,075,799)</u>	<u>(15,670,341)</u>	<u>1,909,500</u>	<u>(959,170)</u>
Income tax using Singapore tax rate at 20%	(1,815,160)	(3,134,068)	381,900	(191,834)
Effect of different tax rates in other countries	122,632	107,164	–	–
Income not subject to tax	(142,772)	(17,709)	(242,225)	(180,002)
Expenses not deductible for tax purposes	397,910	622,488	111,643	371,836
Tax benefits not recognised	204,381	389,546	–	–
Utilisation of previously unrecognised tax losses	–	(36,104)	–	–
Reversal of deferred tax assets recognised in prior years	165,541	50,672	–	–
Benefits of tax losses transferred in	(224,000)	–	–	–
Unabsorbed losses and wear and tear allowance disregarded	639,414	1,822,464	–	–
Effects of results of associates presented net of tax	765,932	618,538	–	–
Overprovision in prior years	(204,746)	–	(57,260)	–
Others	53,291	6,300	48,682	–
	<u>(37,577)</u>	<u>429,291</u>	<u>242,740</u>	<u>–</u>

In 2005, unutilised tax losses of S\$500,000 relating to prior years and the year's losses of S\$620,000 were transferred amongst subsidiaries to offset against taxable profit under the Group Relief System. There were no such transfers in the current year.

25 EARNINGS PER SHARE

The earnings per ordinary share of the Group is calculated based on the consolidated loss for the year of S\$16,099,632 (2005: S\$9,038,222) and the number of ordinary shares in issue of 599,595,180 (2005: 599,595,180).

26 DIVIDEND

	Group and Company	
	2005	2006
	S\$	S\$
First and final dividend paid of Nil cents (2005: 0.25 cents per share less tax at 20% in respect of the previous year)	<u>1,199,190</u>	<u>–</u>

There is no proposed first and final dividend for the financial year. The directors had proposed a first and final dividend of 0.25 cents per share less tax at 20% amounting to S\$1,199,190 for the financial year ended 31 December 2004, which was declared and paid in 2005.

27 FINANCIAL INSTRUMENTS

Risk management is integral to the whole business of the Group. The Group has a system of controls in place to create an acceptable balance between the cost of risks occurring and the cost of managing the risks. The management continually monitors the Group's risk management process to ensure that an appropriate balance between risk and control is achieved.

Exposure to currency, interest rate and credit risks arises in the normal course of the Group's business. This section provides details of the Group's exposure to financial risk and describes the methods used by management to control such risk.

Credit Risk

Credit risk is the potential risk of financial loss resulting from failure of a customer or counter party in meeting its financial and contractual obligations to the Group, as and when they fall due.

The Group's primary exposure to credit risk arises from its other investments, trade and other receivables and cash and cash equivalents. The management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. The credit policy also requires a security deposit from customers to secure tenancy commitments.

Investments and transactions involving derivative financial instruments are allowed only with counter parties that are of high credit quality.

Cash is placed with financial institutions with good credit ratings.

The major concentration of credit risk arises by geographic sectors of counter parties in relation to the Group's other investments, trade and other receivables and cash and cash equivalents. The Group has no significant exposure to any individual counter party. The geographic sector risk concentration is presented in the table below:

	2005		Group		2006	
	S\$	%	S\$	%	S\$	%
Singapore	3,374,178	99	4,457,621	99		
Hong Kong	23,275	1	20,044	1		
Others	2	–	2	–		
	<u>3,397,455</u>	<u>100</u>	<u>4,477,667</u>	<u>100</u>		

Liquidity Risk

The Group monitors its liquidity risk and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and to mitigate the effects of fluctuations in cash flows.

Interest Rate Risk

The Group's exposure to changes in interest rates relates primarily to interest earning financial assets and interest bearing financial liabilities. Interest rate risk is managed by the Group on an ongoing basis with the primary objective of limiting the extent to which interest income and expense could be impacted from an adverse movement in interest rates.

Foreign Currency Risk

The Group incurs foreign currency risk on borrowing costs and borrowings that are denominated in a currency other than Singapore dollars arising from its business operations in Hong Kong, which have the Hong Kong dollar as their functional currency.

Exposure to currency risk is monitored on an ongoing basis and the Group endeavours to keep the net exposure at an acceptable level. When considered necessary, the Group will consider using effective financial instruments to hedge its foreign currency risk.

Estimation of Fair Values

The fair value of interest bearing loans is calculated based on discounted expected future principal and interest cash flows.

The notional amounts of other financial assets and liabilities with a maturity of less than one year (including trade and other receivables, cash at banks and trade and other payables) approximate their fair values.

28 RELATED PARTY TRANSACTIONS

Other than disclosed elsewhere in the financial statements, the transactions with related parties are as follows:

	Group	
	2005 S\$	2006 S\$
Contract services provided to key management personnel	<u>57,339</u>	<u>55,875</u>

29 SEGMENT REPORTING

The information on the business and geographical segments of the Group are as follows:

Business Segments

	Property Investment S\$	Property Development S\$	Property Management S\$	Other Operations S\$	Total S\$
2005					
Revenue and expenses					
Total revenue	<u>37,122,363</u>	<u>398,786</u>	<u>895,680</u>	<u>311,760</u>	<u>38,728,589</u>
Segment results	14,250,114	286,271	65,081	(512,801)	14,088,665
Finance costs	(17,688,626)	(628,440)	–	(464,362)	<u>(18,781,428)</u>
					(4,692,763)
Share of results of associates					(4,383,036)
Income tax expense					<u>37,577</u>
					<u>(9,038,222)</u>
Significant non-cash expenses					
Depreciation	<u>416,109</u>	<u>5,109</u>	<u>6,842</u>	<u>–</u>	<u>428,060</u>
Amortisation	<u>663,892</u>	<u>6,855</u>	<u>–</u>	<u>–</u>	<u>670,747</u>
Allowances and impairment loss, net	<u>286,864</u>	<u>–</u>	<u>–</u>	<u>968,980</u>	<u>1,255,844</u>
Assets and liabilities					
Segment assets	871,730,142	50,395,221	223,506	1,312,675	923,661,544
Associates					176,412,458
Unallocated assets					<u>63,726</u>
Total assets					<u>1,100,137,728</u>
Segment liabilities	452,006,966	47,492,998	121,743	11,540,521	511,162,228
Unallocated liabilities					<u>729,463</u>
Total liabilities					<u>511,891,691</u>
Capital expenditure	<u>315,255</u>	<u>13,805</u>	<u>–</u>	<u>–</u>	<u>329,060</u>

APPENDIX V
FINANCIAL INFORMATION OF THE VENDOR

	Property Investment S\$	Property Development S\$	Property Management S\$	Other Operations S\$	Total S\$
2006					
Revenue and expenses					
Total revenue	<u>37,178,082</u>	<u>25,248,075</u>	<u>729,536</u>	<u>79,047</u>	<u>63,234,740</u>
Segment results	11,383,673	2,466,149	(92,152)	(516,526)	13,241,144
Finance costs	(23,007,281)	(1,756,726)	–	(594,315)	<u>(25,358,322)</u>
					(12,117,178)
Share of results of associates					(3,553,163)
Income tax expense					<u>(429,291)</u>
					<u>(16,099,632)</u>
Significant non-cash expenses					
Depreciation	<u>400,039</u>	<u>36,658</u>	<u>11,591</u>	<u>–</u>	<u>448,288</u>
Amortisation	<u>755,246</u>	<u>6,855</u>	<u>–</u>	<u>–</u>	<u>762,101</u>
Allowances and impairment loss, net of reversals	<u>66,992</u>	<u>(849,430)</u>	<u>22,355</u>	<u>(140,000)</u>	<u>(900,083)</u>
Assets and liabilities					
Segment assets	1,057,289,913	33,341,469	244,175	1,379,942	1,092,255,499
Associates					159,688,399
Unallocated assets					<u>4,244</u>
Total assets					<u>1,251,948,142</u>
Segment liabilities	459,233,038	35,237,895	152,526	11,054,759	505,678,218
Unallocated liabilities					<u>1,020,539</u>
Total liabilities					<u>506,698,757</u>
Capital expenditure	<u>840,165</u>	<u>167,984</u>	<u>23,744</u>	<u>–</u>	<u>1,031,893</u>

Geographical Segments

	Singapore S\$	Hong Kong S\$	Total S\$
2005			
Total revenue	<u>38,728,572</u>	<u>17</u>	<u>38,728,589</u>
Segment assets	923,557,055	168,215	923,725,270
Associates	<u>–</u>	<u>176,412,458</u>	<u>176,412,458</u>
	<u>923,557,055</u>	<u>176,580,673</u>	<u>1,100,137,728</u>
Capital expenditure	<u>329,060</u>	<u>–</u>	<u>329,060</u>
2006			
Total revenue	<u>63,234,732</u>	<u>8</u>	<u>63,234,740</u>
Segment assets	1,092,107,006	152,737	1,092,259,743
Associates	<u>–</u>	<u>159,688,399</u>	<u>159,688,399</u>
	<u>1,092,107,006</u>	<u>159,841,136</u>	<u>1,251,948,142</u>
Capital expenditure	<u>1,031,893</u>	<u>–</u>	<u>1,031,893</u>

30 COMMITMENTS

As at 31 December 2006, the Group's commitments in respect of development and capital expenditure contracted but not provided for in the financial statements amounted to approximately S\$4,381,000 (2005: S\$4,189,000).

The Group leases out its investment and development properties. Non-cancellable operating lease rentals receivable as at 31 December 2006 are as follows:

	Group	
	2005 S\$	2006 S\$
Within 1 year	22,972,006	29,020,432
After 1 year but within 5 years	<u>17,605,652</u>	<u>19,135,158</u>
	<u>40,577,658</u>	<u>48,155,590</u>

31 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The Group has not applied the following accounting standards and interpretations that have been issued as of the balance sheet date but are not yet effective:

FRS 40	Investment Property
FRS 107	Financial Instruments: Disclosures and the Amendment to FRS 1 Presentation of Financial Statements: Capital Disclosures
INT FRS 107	Applying the Restatement Approach under FRS 29 Financial Reporting in Hyperinflationary Economies
INT FRS 108	Scope of FRS 102 Share-based Payment
INT FRS 109	Reassessment of Embedded Derivatives
INT FRS 110	Interim Financial Reporting and Impairment

FRS 40, which becomes mandatory for the Group's 2007 financial statements, permits investment property to be stated at either fair value or cost less accumulated depreciation and accumulated impairment. The Group will continue to state investment property at fair value. Under the fair value model in FRS 40, changes in fair values of investment property are required to be included in the profit and loss account. As a result of adopting FRS 40, the Group expects to reclassify the amount of S\$553,090,618 in its revaluation reserve to retained profit at 1 January 2007.

FRS 107 and the amended FRS 1, which become mandatory for the Group's 2007 financial statements, will require extensive additional disclosures with respect to the Company's financial instruments and share capital. This standard does not have any impact on the recognition and measurement of the Group's financial statements.

Other than for FRS 40, the initial application of these standards and interpretations is not expected to have any material impact on the Group's financial statements. The entity has not considered the impact of accounting standards issued after the balance sheet date.

32 COMPARATIVE INFORMATION

Certain comparatives in the financial statements have been changed from the previous year to conform to current year's presentation and to comply with the new/revised FRSS stated in Note 2.7."

For illustrative purpose only, set out below is the unaudited pro forma financial information of Winfoong International Limited and its subsidiaries (the “Group”) after completion of the acquisition of Goldease Investments Limited and its subsidiaries (“Goldease Group”) and distribution of Hong Fok Land International Limited and its subsidiaries (“HF Land Group”) prepared for the purpose of incorporation in this circular. The unaudited pro forma financial information is prepared in accordance with Paragraph 4.29(1) and Paragraph 14.69(4)(a)(ii) of the Listing Rules to illustrate the effect of such acquisition and distribution on the Group’s financial information.

(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION

Introduction to the unaudited pro forma financial information

The accompanying unaudited pro forma financial information of the Group immediately after the completion of the proposed acquisition (the “Acquisition”) of the entire equity interest in Goldease Investments Limited (“Goldease”) and the proposed distribution (the “Distribution in Specie”) of the entire interest held by the Company in Hong Fok Land International Limited (“HF Land”) (together referred to as the “Enlarged Remaining Group”), including the unaudited pro forma combined income statement and unaudited pro forma combined cash flow statement for the year ended 31 December 2006, which gives effect to the Acquisition and Distribution in Specie as if the Acquisition and Distribution in Specie had been completed on 1 January 2006, and the unaudited pro forma combined balance sheet prepared based on the consolidated balance sheet of the Group as at 31 December 2006 and the combined balance sheets of the Goldease Group and the HF Land Group as at 31 December 2006, which gives effect to the Acquisition and Distribution in Specie as if the Acquisition and Distribution in Specie had been completed on 31 December 2006 (the “Unaudited Pro Forma Financial Information”).

The unaudited pro forma combined income statement and unaudited pro forma combined cash flow statement of the Enlarged Remaining Group are prepared based upon the audited consolidated income statement and audited consolidated cash flow statement of the Group for the year ended 31 December 2006 as set out in Appendix II to this circular and the audited combined income statement and audited combined cash flow statements of the Goldease Group and the HF Land Group for the year ended 31 December 2006 as set out in respective Appendix III and IV to this circular after incorporating the unaudited pro forma adjustments described in the accompanying notes. The unaudited pro forma combined balance sheet of the Enlarged Remaining Group is prepared based upon the consolidated balance sheet of the Group as at 31 December 2006 as set out in Appendix II to this circular and the audited combined balance sheets of the Goldease Group and the HF Land Group as at 31 December 2006 as set out in respective Appendix III and IV after incorporating the unaudited pro forma adjustments described in the accompanying notes. A narrative description of the unaudited pro forma adjustments of the Acquisition and Distribution in Specie that are (i) directly attributable to the transactions concerned and not relating to future events or decisions; (ii) expected to have a continuing impact on the Enlarged Remaining Group; and (iii) factually supportable, are summarised in the accompanying notes.

The combined balance sheet of the Goldease Group as at 31 December 2006, and combined income and cash flow statements of the Goldease Group for the year ended 31 December 2006 as set out in Appendix III to this circular have been prepared in accordance with International Financial Reporting Standards (“IFRSs”). In the opinion of CCIF CPA Limited, the reporting accountants of the Group, there is no difference of transition from IFRSs to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants on the combined financial statements of the Goldease Group as set out in Appendix III to this circular, and there is also no difference between the accounting policies adopted by the Goldease Group and the Group.

The Unaudited Pro Forma Financial Information of the Enlarged Remaining Group is based on a number of assumptions, estimates, uncertainties and currently available information. As a result of these assumptions, estimates and uncertainties, the accompanying Unaudited Pro Forma Financial Information of the Enlarged Remaining Group does not purport to describe the actual financial position of the Enlarged Remaining Group that would have been attained had the Acquisition and Distribution in Specie been completed on 31 December 2006, or the results and cash flows of the Enlarged Remaining Group that would have been attained had the Acquisition and Distribution in Specie been completed on 1 January 2006. Further, the accompanying Unaudited Pro Forma Financial Information of the Enlarged Remaining Group does not purport to predict the Enlarged Remaining Group's future financial position, results or cash flows.

The Unaudited Pro Forma Financial Information of the Enlarged Remaining Group should be read in conjunction with the financial information of the Group as set out in Appendix II to this circular, the financial information of the Goldease Group and the HF Land Group as set out in respective Appendix III and IV to this circular and other financial information included elsewhere in this circular.

1. Unaudited pro forma combined income statement for the year ended 31 December 2006

	The Group HK\$'000	Goldease Group HK\$'000	Pro forma adjustment HK\$'000 Note 4(c)	Pro forma the Enlarged Group HK\$'000	Pro forma adjustments HK\$'000 Note 4(d) HK\$'000 Note 4(e)		Pro forma the Enlarged Remaining Group HK\$'000
Turnover	26,169	115,226		141,395	(21,217)		120,178
Cost of sales	(8,743)	(113,459)		(122,202)	7,477		(114,725)
Gross profit	17,426	1,767		19,193			5,453
Net valuation gains/(loss) on investment property	20,963	-		20,963	(50,000)		(29,037)
Other revenue	309	4,176		4,485	(620)		3,865
Other net income/(loss)	1,969	-		1,969	209		2,178
Operating and administrative expenses	(39,776)	(2,917)		(42,693)	30,640		(12,053)
Profit/(loss) from operations	891	3,026		3,917			(29,594)
Finance costs	(24,374)	(8,637)	4,592	(28,419)	23,633		(4,786)
Share of (loss)/profit of an associate	178,070	-		178,070	(175,690)	(2,380)	-
Profit/(loss) before taxation	154,587	(5,611)		153,568			(34,380)
Income tax	(4,055)	-		(4,055)	8,302		4,247
Profit/(loss) for the year	<u>150,532</u>	<u>(5,611)</u>		<u>149,513</u>			<u>(30,133)</u>
Attributable to:							
Equity shareholders of the Company	150,532	(5,611)		149,513			(30,133)
Minority interests	-	-		-			-
Profit/(loss) for the year	<u>150,532</u>	<u>(5,611)</u>		<u>149,513</u>			<u>(30,133)</u>

See accompanying notes to the Unaudited Pro Forma Financial Information of the Enlarged Remaining Group.

2. Unaudited pro forma combined balance sheet

	The Group HK\$ '000	Goldease Group HK\$ '000	Pro forma adjustments		Pro forma the Enlarged Group HK\$ '000	Pro forma adjustments		Pro forma the Enlarged Remaining Group HK\$ '000
			HK\$ '000 Note 4(a)	HK\$ '000 Note 4(b)		HK\$ '000 Note 4(d)	HK\$ '000 Note 4(e)	
Non-current assets								
Fixed assets								
– Investment properties	1,994,320	–			1,994,320	(1,752,000)		242,320
– Property held for future development	–	–			–	–		–
– Other property, plant and equipment	4,685	729			5,414	(912)		4,502
– Interests in leasehold land held for own use under operating leases	464	–			464	–		464
	<u>1,999,469</u>	<u>729</u>			<u>2,000,198</u>			<u>247,286</u>
Interest in an associate	612,771	–			612,771	(619,829)	7,058	–
Goodwill	–	–	114,000	(80,327)	33,673	–	–	33,673
Pledged bank deposits	912	–			912	(899)		13
Other financial assets	2,600	–			2,600	–		2,600
	<u>2,615,752</u>	<u>729</u>			<u>2,650,154</u>			<u>283,572</u>
Current assets								
Inventories	12,728	162,350		(12,589)	162,489	(12,500)		149,989
Trade and other receivables	8,097	5,918			14,015	(5,843)		8,172
Tax recoverable	83	–			83	(72)		11
Cash and cash equivalents	4,342	680			5,022	(4,133)		889
Net amount due from HF Land Group to the Enlarged Remaining Group	–	–			–	14,760		14,760
	<u>25,250</u>	<u>168,948</u>			<u>181,609</u>			<u>173,821</u>
Current liabilities								
Trade and other payables	(22,305)	(6,301)			(28,606)	17,487		(11,119)
Bank borrowings	(81,891)	–			(81,891)	81,891		–
Current taxation	–	–			–	–		–
	<u>(104,196)</u>	<u>(6,301)</u>			<u>(110,497)</u>			<u>(11,119)</u>
Net current assets/(liabilities)	<u>(78,946)</u>	<u>162,647</u>			<u>71,112</u>			<u>162,702</u>
Total assets less current liabilities	<u>2,536,806</u>	<u>163,376</u>			<u>2,721,266</u>			<u>446,274</u>
Non-current liabilities								
Bank borrowings	(396,234)	(70,460)	(24,000)		(490,694)	306,234		(184,460)
Due to related companies	–	(182,504)		182,504	–	–		–
Deferred income	(5,582)	–			(5,582)	5,582		–
Deferred tax liabilities	(250,700)	–			(250,700)	250,700		–
	<u>(652,516)</u>	<u>(252,964)</u>			<u>(746,976)</u>			<u>(184,460)</u>
NET ASSETS/(LIABILITIES)	<u>1,884,290</u>	<u>(89,588)</u>			<u>1,974,290</u>			<u>261,814</u>
CAPITAL AND RESERVES								
Share capital	74,620	5,089	45,000	(5,089)	119,620	–	–	119,620
Reserves	1,809,670	(94,677)	45,000	94,677	1,854,670	(1,719,534)	7,058	142,194
Total equity/(deficiency) attributable to equity shareholders	<u>1,884,290</u>	<u>(89,588)</u>			<u>1,974,290</u>			<u>261,814</u>
Minority interests	–	–			–	–		–
TOTAL EQUITY/(DEFICIENCY)	<u>1,884,290</u>	<u>(89,588)</u>			<u>1,974,290</u>			<u>261,814</u>

See accompanying notes to the Unaudited Pro Forma Financial Information of the Enlarged Remaining Group.

3. Unaudited pro forma condensed combined cash flow statement for the year ended 31 December 2006

	The Group	Goldease Group	Pro forma adjustments		Pro forma the Enlarged Group	Pro forma adjustments	Pro forma the Enlarged Remaining Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			Notes 4(a) and 4(b)	Note 4(c)		Note 4(d)	
Net cash generated from/ (used in) operating activities	(16,962)	82,633		(4,592)	61,079	(43,628)	17,451
Net cash from/(used in) investing activities	(9,776)	(826)	24,000		13,398	(111)	13,287
Net cash from/(used in) financing activities	<u>27,452</u>	<u>(82,224)</u>	(24,000)	4,592	<u>(74,180)</u>	42,966	<u>(31,214)</u>
Net increase/(decrease) in cash and cash equivalents	714	(417)			297		(476)
Cash and cash equivalents at 1 January 2006	3,615	1,018			4,633	(3,359)	1,274
Effect of foreign exchange rate changes	<u>13</u>	<u>79</u>			<u>92</u>	(1)	<u>91</u>
Cash and cash equivalents at 31 December 2006	<u>4,342</u>	<u>680</u>			<u>5,022</u>		<u>889</u>

See accompanying notes to the Unaudited Pro Forma Financial Information of the Enlarged Remaining Group.

4. Notes to the Unaudited Pro Forma Financial Information

(a) Funding of the Acquisition

Pursuant to an agreement dated 25 May 2007 entered into between the Winfoong Assets Limited (“WAL”) (a wholly-owned subsidiary of the Company) and Hong Fok Corporation Limited (“HFC”), the aggregate consideration payable by WAL for the proposed acquisition of the entire equity interest in Goldease and the outstanding loan owed by the Goldease Group to the subsidiaries of HFC is HK\$114,000,000, to be satisfied by cash of approximately HK\$24,000,000 and the remaining HK\$90,000,000 by allotment and issue to HFC of 900,000,000 new shares by the Company at an issue price of HK\$0.10 each.

These unaudited pro forma adjustments will not have continuing income statement and cash flow effect on the Enlarged Remaining Group, however the final amounts of these adjustments will be determined on the completion date of such allotment and issue.

(b) *Excess of consideration of the Acquisition over the net fair value of the acquired net assets*

Upon completion of the Acquisition, identifiable assets and liabilities of the Goldease Group will be accounted for in the consolidated financial statements of the Enlarged Group at their fair value under the purchase method of accounting. The identifiable assets and liabilities of the Goldease Group are recorded in the unaudited pro forma combined balance sheet of the Enlarged Group at their fair value as if the Acquisition was completed on 31 December 2006. The inventories in respect of development properties decreased by approximately HK\$12,589,000 as a result of the fair value adjustment.

The amount of excess of consideration of the Acquisition over the net fair value of the acquired net assets of HK\$33,673,000 is recognised as goodwill in the unaudited pro forma combined balance sheet as if the Acquisition was completed on 31 December 2006.

The fair value adjustment on development properties is determined by the directors of the Company (the “Directors”) based on the valuation performed by Savills (Singapore) Pte. Ltd. as at 30 April 2007. The Directors are of the opinion that no fair value adjustment is required for other assets as the carrying value of other assets approximates their fair value.

These unaudited pro forma financial information adjustments will not have continuing income statement and cash flow effect on the Enlarged Remaining Group, however the final amounts of these adjustments will be determined on the completion date of the Acquisition which may be different from the amounts presented in this Appendix.

(c) *Elimination of inter-company finance costs*

The unaudited pro forma adjustment reflects the elimination of interest paid to the subsidiaries of HFC by the Goldease Group for the year ended 31 December 2006 as if the outstanding loan owed by the Goldease Group to the subsidiaries of HFC as mentioned in note 4(a) has been acquired by the Group on 1 January 2006.

(d) *Distribution of all the issued capital of HF Land*

Pursuant to the Group Reorganisation, all the issued capital of HF Land will be distributed in specie to the shareholders of the Company on the basis of one HF Land's share for one share of the Company.

The assets and liabilities of HF Land Group as at 31 December 2006 as set out in Appendix IV are deducted from the unaudited pro forma combined balance sheet as if the Distribution in Specie had been completed on 31 December 2006. The results of HF Land Group for the year ended 31 December 2006 are deducted from the unaudited pro forma combined income statement as if the Distribution in Specie had been completed on 1 January 2006.

These unaudited pro forma adjustments will not have continuing income statement and cash flow effect on the Enlarged Remaining Group, however the final amounts of these adjustments will be determined on the completion of the Distribution in Specie which may be different from the amounts presented in this Appendix.

The above unaudited pro forma adjustment reflects the reduction in the profit for the year ended 31 December 2006 of HK\$177,266,000 and the decrease in the net assets of HK\$1,719,534,000 as at 31 December 2006.

(e) *Adjustment for share of net assets and results of the associate*

The unaudited pro forma adjustment reflects the adjustment for the cross-holding between the Group and the HF Land Group.

(f) *Basis of translation*

Translation of S\$ into HK\$ is made in the Unaudited Pro Forma Financial Information of the Enlarged Remaining Group at the average rate of HK\$1 = S\$0.2034 for the preparation of unaudited pro forma combined income statement and combined cash flow statement and the closing rate of HK\$1 = S\$0.1965 for the preparation of unaudited pro forma combined balance sheet.

The following is the text of a comfort letter, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, CCIF CPA Limited, Certified Public Accountants, Hong Kong. As described in the section headed “Documents available for inspection” in Appendix XIII to this circular, a copy of the following comfort letter is available for inspection.

**(B) COMFORT LETTER ON THE UNAUDITED PRO FORMA FINANCIAL
INFORMATION**



CCIF

CCIF CPA LIMITED

20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay Hong Kong

30 June 2007

The directors
Winfoong International Limited

Dear Sirs,

We report on the unaudited pro forma financial information (the “Unaudited Pro Forma Financial Information”) of the Group immediately after the completion of the proposed acquisition of the entire equity interest in Goldease Investment Limited and the proposed distribution of the entire equity interest in Hong Fok Land International Limited by the Company (collectively, the Enlarged Remaining Group) set out in Section (A) of Appendix VI to the circular of Winfoong International Limited (the “Company”, together with its subsidiaries are referred to as the “Group”) dated 30 June 2007 which has been prepared by the directors of the Company solely for illustrative purposes to provide information about how the proposed acquisition of the entire interest in Goldease Investments Limited (“Goldease”) and its subsidiaries (collectively, the “Goldease Group”) and the proposed distribution of the entire interest in Hong Fok Land International Limited (“HF Land”) and its subsidiaries (collectively, the “HF Land Group”), might have affected the audited consolidated income statement and audited consolidated cash flow statement of the Group for the year ended 31 December 2006, and the audited consolidated balance sheet of the Group as at 31 December 2006. The basis of preparation of the Unaudited Pro Forma Financial Information is set out in the section headed “Introduction to the unaudited pro forma financial information” and notes to the Unaudited Pro Forma Financial Information in the Section (A) of the Appendix VI of this circular.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with Paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

It is our responsibility to form an opinion, as required by Paragraph 4.29 of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Report on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

Our work did not constitute an audit or review made in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the Unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the results and cash flows of the Enlarged Remaining Group for the year ended 31 December 2006 or any future periods; or

- the financial position of the Enlarged Remaining Group as at 31 December 2006 or any future date.

Opinion

In our opinion:

- a) the accompanying Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- b) such basis is consistent with the accounting policies of the Group; and
- c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
CCIF CPA Limited
Certified Public Accountants
Hong Kong
Yau Hok Hung
Practising Certificate Number P04911

APPENDIX VII PROPERTY VALUATION ON THE REMAINING GROUP

Set out below is the text of the valuation report on Remaining Group as of the date of valuation 30 April 2007 prepared by CB Richard Ellis Limited for incorporation in this circular:

CBRE
CB RICHARD ELLIS
世邦魏理仕

Suite 3401 Central Plaza
18 Harbour Road
Wanchai, Hong Kong
T 852 2820 2800
F 852 2810 0830

香港灣仔港灣道十八號中環廣場三四零一室
電話852 2820 2800 傳真 852 2810 0830

30 June 2007

The Directors
Winfoong International Limited
Room 3201
9 Queen's Road Central
Central
Hong Kong

Dear Sirs,

RE: VALUATION OF VARIOUS PROPERTIES IN HONG KONG

In accordance with the instruction for us, we, CB Richard Ellis Limited have prepared the following valuation report providing the market value of the property interests held by Winfoong International Limited (referred to as the "Company") and its subsidiaries excluding the Hong Fok Land International Limited (referred to as the HF Land) and the companies to be acquired by HF Land (hereinafter together referred to as the "Remaining Group") located in the Hong Kong. We confirm that we have carried out inspection, made relevant investigations and enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of values of the property interests as at 30 April 2007.

Our valuation is prepared in accordance with the "HKIS Valuation Standard on Properties (First Edition 2005)" published by the Hong Kong Institute of Surveyors, the relevant provisions of the Companies Ordinance and Chapter 5 of Listing Rules published by the Stock Exchange of Hong Kong Limited.

Our opinion of Market Value is defined as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

Property Categorization

In the course of our valuation, the property interests held by the Remaining Group is categorized into the following groups:

Group I:

Property in Group I is held by the Remaining Group in Hong Kong for occupation.

Group II:

Property in Group II is held by the Remaining Group in Hong Kong for development.

Group III:

Property in Group III is held by the Remaining Group for investment.

Valuation Methodologies

In valuing the properties, we have adopted market approach by reference to sales evidence as available on the market and information provided to us including tenancy details, and other relevant information.

Title Investigations

We have caused searches to be made at the Land Registry, but have not been given any legal advice in respect of title. We have not searched the original documents to verify the correctness of any information or to verify whether any amendments have been made which do not appear on the copies handed to us.

Valuation Assumptions

In valuing the property interests, we have assumed that owners of the property interests have free and uninterrupted rights to us and assign the properties during the whole of respective unexpired terms granted.

Our valuation has been made on the assumption that the owner sells the properties on the open market without the benefit or burden of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which could affect the values of the properties.

Other special assumptions for each of the properties, if any, have been stated in the footnotes of the valuation certificate for the respective properties.

Valuation Considerations

We have relied to a very considerable extent on information given by the Remaining Group of the property interests and have accepted information given to us of such matters as planning approvals or statutory notices, easements, tenure, lettings, floor areas and all other relevant matters. We have no reason to doubt the truth and accuracy of the information provided to us by the Remaining Group which is material to our valuations and have been advised by the Remaining Group that no material facts have been omitted from the information provided.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the properties nor for any expenses or taxation which may be incurred in effecting a sale. It is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

We have assumed that all applicable zoning, use regulations and restrictions have been complied with. We have further assumed that the utilizations and improvements of land are within the boundaries of the properties held by the owner or permitted to be occupied by the owner. Unless otherwise stated, no encroachment or trespass exists are considered.

We have inspected that properties to such extent that we consider necessary for the purpose of this valuation. No structural survey has been made nor were any tests carried out on any of the services provided in the properties. We are therefore unable to report whether the properties are free from rot, infestation or any other structural defects.

We have not carried out detailed on-site measurements to verify the correctness of the floor areas in respect of the properties but have assumed that the floor areas shown on the documents handed to us are correct. All documents have been used as reference only and all dimensions, measurements and areas are approximate.

The tax that could arise when the property is sold is profits tax (17.5% on taxable profit). According to the information provided by the management of the Remaining Group, there is no immediate plan to sell the properties.

Unless otherwise stated, all money amounts are stated in Hong Kong Dollars. We enclose herewith our summary of values and valuation certificate.

Yours faithfully,
For and on behalf of
CB Richard Ellis Limited

Gilbert C. H. Chan *MHKIS MRICS RPS (GP)*
Director
Valuation & Advisory Services

Mr. Gilbert C H Chan is Registered Professional Surveyor with over 13 years' valuation experience on all landed properties in Hong Kong.

APPENDIX VII PROPERTY VALUATION ON THE REMAINING GROUP

SUMMARY OF VALUES

No.	Property	Interest attributable to the Remaining Group (%)	Capital values in existing state as at 30 April 2007 HK\$
Group I – Property held for occupation by the Remaining Group in Hong Kong			
1.	4th Floor, Lico Industrial Building, No. 324 Kwun Tong Road, Ngau Tau Kok, Kowloon, Hong Kong	100%	HK\$1,100,000
		Sub-Total	<u>HK\$1,100,000</u>
Group II – Property held for development by the Remaining Group in Hong Kong			
2.	No. 38 Conduit Road Mid-Levels, Hong Kong	100%	HK\$245,000,000
		Sub-Total	<u>HK\$245,000,000</u>
Group III – Property held for investment by the Remaining Group in Hong Kong			
3.	Goods Vehicle Space No. L7 On the Ground Floor, Wing Fok Centre, No. 1 Luen Chit Street, Fanling, New Territories, Hong Kong	100%	HK\$320,000
		Sub-Total	<u>HK\$320,000</u>
		Grand Total	<u>HK\$246,420,000</u>

APPENDIX VII PROPERTY VALUATION ON THE REMAINING GROUP

VALUATION CERTIFICATE**Group I – Properties held for occupation by the Remaining Group in Hong Kong**

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 April 2007
1.	4th Floor, Lico Industrial Building, No. 324 Kwun Tong Road, Ngau Tau Kok, Kowloon, Hong Kong 2/23rd parts or shares of and in Kwun Tong Inland Lot No. 549	<p>The property comprises the whole of the 4th floor of a 10-storey industrial building. It was completed in about 1970.</p> <p>It has a saleable area of approximately 2,261 sq.ft (210.05 sq.m)</p> <p>The property is held under a Government Lease for a term of 99 years less the last three days thereof from 1 July 1898 which has been extended to 30 June 2047.</p> <p>The Government rent payable is equal to an amount equal to 3% of the rateable value of the lot.</p>	<p>The property is occupied by the Remaining Group as a godown.</p>	<p>HK\$1,100,000 <i>(100% interest attributable to the Remaining Group)</i></p>

Notes:

1. The registered owner of the property is Donwin Property Limited which is an indirect wholly-owned subsidiary of the Company.
2. The property is subject to the following encumbrances:
 - (i) Deed of Covenant vide Memorial No. UB789369 dated 28 December 1970.

VALUATION CERTIFICATE

Group II – Property held for development by the Remaining Group in Hong Kong

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 April 2007
2.	No. 38 Conduit Road, Mid-Levels, Hong Kong The Remaining Portion of Inland Lot No. 1253	<p>The Property comprises a site which is roughly trapezoidal in shape with a site area of approximately 7,313 sq.ft. (679.39 sq.m.). According to the proposed development scheme provided, the subject lot will be developed into a 21-storey (plus 3 levels of basement) residential tower. Upon completion, the total gross floor area of the proposed development will be approximately 36,097 sq.ft. (3,353.46 sq.m.).</p> <p>The proposed development is expected to complete by the end of 2009.</p> <p>The lot is held under a Government Lease for a term of 999 years commencing on 25 June 1861. The Government rent for the Lot is HK\$28 per annum.</p>	The foundation of the proposed development is under construction.	<p>HK\$245,000,000 <i>(100% interest attributable to the Remaining Group)</i></p>

Notes:

1. The registered owner of the property is Super Homes Limited vide Memorial No. UB6935567 dated 30 January 1997 is an indirect wholly-owned subsidiary of the Company.
2. The property is subject to a Debenture and Mortgage and a Floating Charge in favour of Hang Seng Bank Limited vide Memorial No. 06110102450027 dated 5 October 2006.
3. The subject site lies within an area zoned “Residential (Group B)” on the Mid-Levels West Outline Zoning Plan No. S/H11/13 gazetted on 5 July 2002.
4. Under the subject Government lease, the use of the subject lot is virtually unrestricted except the usual non-offensive trades clause.
5. Estimated cost of completing the proposed development is approximately HK\$84,800,000.
6. Estimated value after completion of the proposed development is HK\$520,000,000.

APPENDIX VII PROPERTY VALUATION ON THE REMAINING GROUP

5. As advised by the Remaining Group, the approximate gross floor area and usage of the constituent floors of the proposed development is as follows:

Floor	Uses	Approximate gross floor area	
		<i>sq.m.</i>	<i>sq.ft.</i>
Basement I	4 car parking spaces	–	–
Basement II	9 car parking spaces	–	–
Basement III	Plant room / water tank	–	–
Ground	Entrance lobby	–	–
5th	Recreational facilities	–	–
7th to 15th and 17th to 22nd	3 domestic flats on each floor	2,865.70	30,846
16th	Communal sky garden and refuge floor	–	–
23rd	One domestic flat with a private swimming pool	155.38	1,673
25th	One domestic flat with a private swimming pool	126.86	1,366
26th	One domestic flat with a private swimming pool	102.76	1,106
27th	One domestic flat with a private swimming pool	102.76	1,106
	Total	3,353.46	36,097

VALUATION CERTIFICATE

Group III – Property held for Investment by the Remaining Group in Hong Kong

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 April 2007
3.	Goods Vehicle Spaces No. L7 on the Ground Floor, Wing Fok Centre, No. 1 Luen Chit Street, Fanling, New Territories, Hong Kong 1/17,432th parts of shares of and in Fanling Sheung Shui Town Lot No. 69	The property is one of the various goods vehicle spaces on the ground floor of a Private Sector Participation Scheme housing development which was completed in about 1993. The property is held under New Grant No. N12528 from 28 November 1991 to 30 June 2047.	The parking space is vacant.	HK\$320,000 <i>(100% interest attributable to the Remaining Group)</i>

Notes:

1. The registered owner of the property is Sui Chong International (H.K.) Limited which is an indirect wholly-owned subsidiary of the Company.
2. The property is subject to the following encumbrances:
 - (i) Occupation Permit No. NT 125/93 vide Memorial No. N293771 dated 21 September 1993.
 - (ii) Deed of Mutual Covenant and Management Agreement vide Memorial No. N304510 dated 24 February 1994.

Set out below is the text of the property valuation reports on the Goldease Group as of the date of valuation 30 April 2007 prepared by Savills (Singapore) Pte Ltd. for incorporation in this circular:



Savills (Singapore) Pte Ltd
DL: 6536 8600
F: 6536 8611

No. 2 Shenton Way
#17 - 01 SGX Centre 1
Singapore 068804, Singapore

REG No.: 198703410D
T: (65) 6536 5022
savills.com

30 June 2007

The Board of Directors
Winfoong International Limited
Room 3201
9 Queen's Road Central
Hong Kong

Dears Sirs

VALUATION OF THE BALANCE 4 UNITS AT ten@suffolk, SINGAPORE

1 PURPOSE OF REPORT

We refer to your recent instruction to carry out a valuation of the above mentioned property, so as to advise on its **Open Market Value** as at 30 April 2007 for the purpose of inclusion into the circular of Winfoong International Limited dated 30 June 2007.

Open Market Value is defined as an opinion of the best price at which the sale of an interest in property would have been completed unconditionally for cash consideration on the date of valuation, assuming:

- (a) a willing seller;

- (b) that, prior to the date of valuation there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of the price and terms and for the completion of the sale;
- (c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- (d) that no account is taken of any additional bid by a prospective purchaser with a special interest: and
- (e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion.

No allowances have been made for any expenses, or realization, or for taxation which might arise in the event of a disposal. All properties are considered as if free and clear of all mortgages or other charges which may be secured thereon.

2. LOCATION

The subject development is located along Suffolk Road, off Thomson Road, near the junction of Keng Lee Road, Kampong Java Road and Norfolk Road, within a prime and established residential estate.

Prominent residential developments in the vicinity include Suffolk Apartments, Kartar Apartments, The Spinnaker, The Lincoln Modern and Rosevale.

It is about 10 minutes drive to Orchard Road and within 1 kilometre from Novena and Newton MRT stations.

(Please refer to Location Plan under Appendix “A”)

3. SUBJECT DEVELOPMENT

ten@suffolk comprise one (1) block of part 13/part 15-storey residential development (37 units) with basement carparks, a swimming pool, function room, gymnasium, barbeque area, children’s playground, Jacuzzi and foot reflexology path.

Temporary Occupation Permit (TOP) for the said development was issued in March 2006.

(Please refer to Site Layout Plan under Appendix “B”)

4. SUBJECT PROPERTIES

The subject properties comprise 4 balance units within ten@suffolk. The strata floor area of the balance 4 units is 427 square metres (4,596 square feet).

Each unit is furnished with polished marble flooring to the living, dining, attached bathrooms and stores, timber strip flooring to the bedrooms, Burlington stone tiles to the kitchen and bathrooms and ceramic tiles to the utility, yard and toilets. The units are fitted with high and low kitchen cabinets with cooker hob, exhaust hood and ovens. The bedrooms are fitted with wardrobes. Split unit-air-conditioning system are provided in all bedrooms and living/dining areas.

The schedule of Strata Floor Areas (extracted from the letter from M/s Tang Tuck Kim Registered Surveyor dated 7th October 2005) for the balance 4 units is as follows:

Unit	Storey	Type of Use	Strata Floor Area (In Sq M)
#12-01	12th	Flat	110 (incl. A/C ledge 2 sq m, planter 4 sq m)
#12-02	12th	Flat	101 (incl. A/C ledge 3 sq m, planter 2 sq m)
#12-03	12th	Flat	104 (incl. A/C ledge 2 sq m, planter 2 sq m)
#13-01	13th	Flat	112 (incl. A/C ledge 2 sq m, planter 2 sq m balcony 4 sq m)
			427

5. TITLE DETAILS OF SUBJECT PROPERTIES

Based on title search carried out by Savills (Singapore) Pte Ltd.

Legal Description : All of Town Subdivision 28

Tenure : Freehold

Unit	Strata Lot No.
#12-01	U3593A
#12-02	U3606X
#12-03	U3618K
#13-01	U3594K

6. MASTER PLAN (2003)

The subject Development is zoned "Residential" with a maximum permissible plot ratio of 2.8.

7. METHOD OF VALUATION

The **Sales Comparison Method** of valuation has been adopted in determining the **Open Market Value** of the subject properties.

Under the **Sales Comparison Method**, the market value of a property is assessed having regard to recent transactions of similar type properties, preferably in the same locality.

Appropriate adjustments are made to account for differences in tenure, location, condition, etc. This method is based on the substitution principle whereby a prudent purchaser is assumed to pay no more for a particular property than it would cost to buy an equally desirable substitute property available in the market.

This approach also takes into account the general prevailing economic condition affecting the property market.

8. OPINION OF VALUE

In view of the aforementioned and having taken into account the relevant factors and the prevailing market condition, we are of the considered opinion that the **Open Market Value** of the balance 4 units of the subject development as at 30 April 2007 is **S\$5,423,000/-** (Singapore Dollars Five Million Four Hundred And Twenty Three Thousand Only).

Unit	Strata Floor Area (sq m)	Rate (\$psm)	Open Market Value (S\$)
#12-01	110	12,655	1,392,000/-
#12-02	101	12,703	1,283,000/-
#12-03	104	12,596	1,310,000/-
#13-01	112	12,839	<u>1,438,000/-</u>
Total			<u><u>5,423,000/-</u></u>

Yours faithfully
SAVILLS (SINGAPORE) PTE LTD
DANIEL EE
Licensed Appraiser
B. Sc. (Est. Man.), MSISV

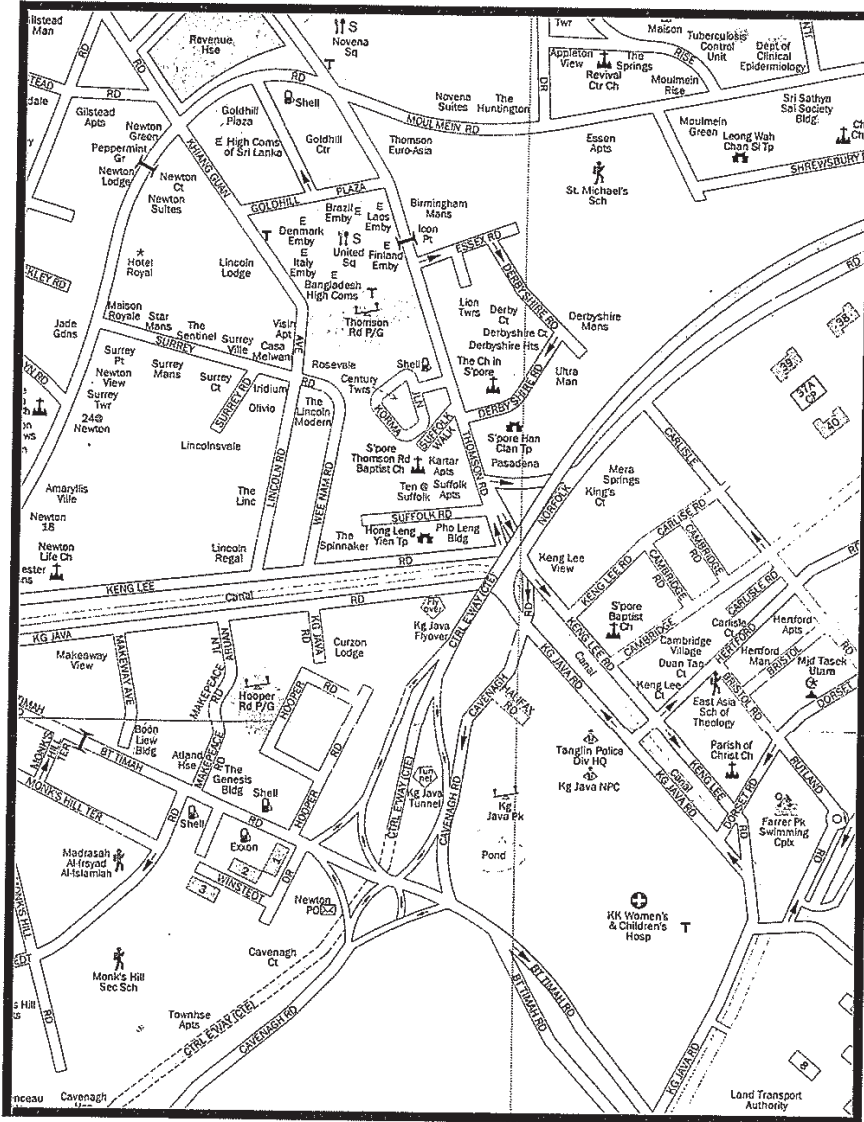
Note: Potential tax liability

Pursuant to the requirements of Rule 11.3 of the Takeovers Code, a valuation is required to state any potential tax liability which might arise on the assumption that the assets were sold at the amount of the valuation, accompanied by an appropriate comment as to the likelihood of any such liability crystallizing based on this assumption.

For properties situated in Singapore, the types of taxes that could arise when the properties are sold are income tax (the corporate rate is 20% for the year of assessment 2007 and 18% for the year of assessment 2008 onwards, subject to applicable deductions) and stamp duty (at the rate of 3% of the consideration (assuming they are sold on the open market), less S\$5,400).

According to information provided by the management of Hong Fok Development (Newton) Pte Ltd, as the properties are held for sale, it is likely that liability for income tax could arise when the properties are sold. As the purchaser of the properties is liable for stamp duty, unless otherwise agreed, it is not likely that stamp duty would be payable by Hong Fok Development (Newton) Pte Ltd as vendor.

Appendix A



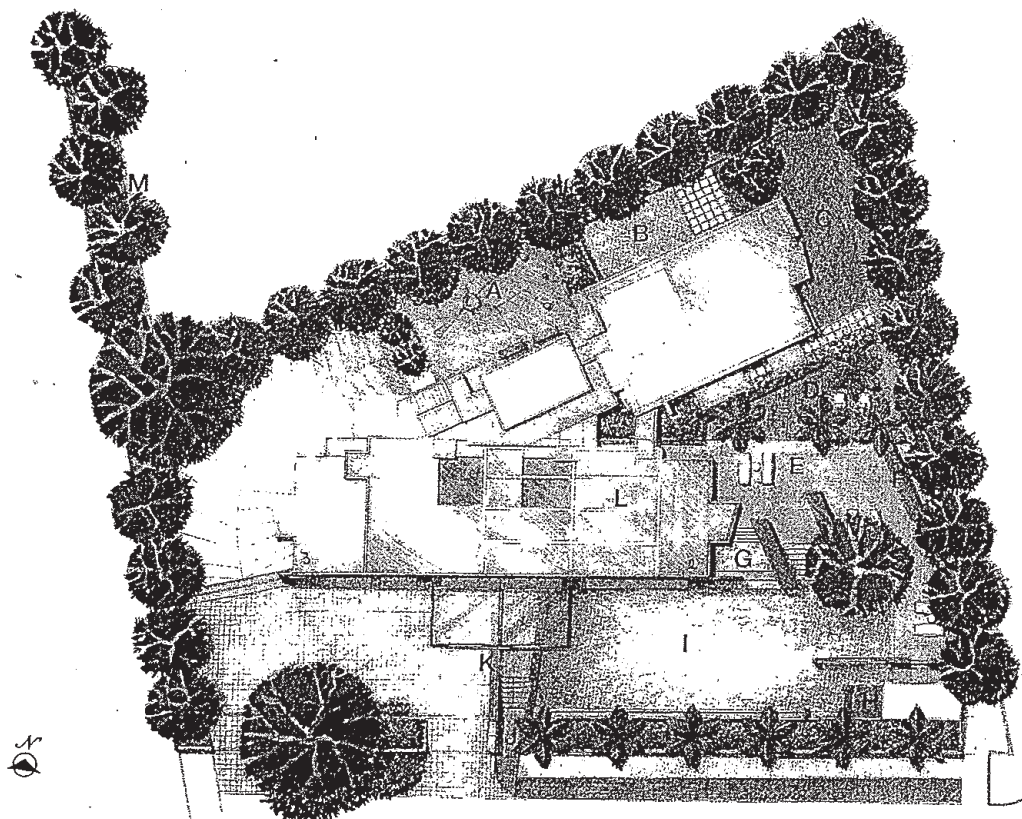
NOT TO SCALE

LEGEND

LOCATION OF SUBJECT DEVELOPMENT

Appendix B

savills
第一太平戴維斯



A - Children's Playground
B - Private Enclosed Space
C - Private Enclosed Space
D - Lawn
E - Pool Deck

F - Barbecue Area
G - Children's Pool
H - Jacuzzi
I - Main Pool
J - Pedestrian Entrance

K - Porte Cochere
L - Gymnasium/Function Room
M - Reflexology Footpath & Fragrant Garden

Site Plan
(Not to Scale)



Savills (Singapore) Pte Ltd
DL: 6536 8600
F: 6536 8611

No. 2 Shenton Way
#17 - 01 SGX Centre 1
Singapore 068804, Singapore

REG No.: 198703410D
T: (65) 6536 5022
savills.com

30 June 2007

The Board of Directors
Winfoong International Limited
Room 3201
9 Queen's Road Central
Hong Kong

Dear Sir

VALUATION OF 7C BALMORAL PARK #02-01, #02-02, #03-01, #04-01, #04-02, #05-01, #05-02, #06-02, #07-01, #09-01 AND #09-02 JEWEL OF BALMORAL SINGAPORE

1. PURPOSE OF REPORT

We refer to the recent instruction to carry out a valuation of the above-mentioned property so as advise you on its **Open Market Value** as at 30 April 2007 for the purposes of inclusion into the circular of Winfoong International Limited dated 30 June 2007.

Open Market Value is defined as an opinion of the best price at which the sale of an interest in property would have been completed unconditionally for cash consideration on the date of valuation, assuming:

- (a) a willing seller;
- (b) that, prior to the date of valuation there had been a reasonable period (having regard to the nature of the property and state of the market) for the proper marketing of the interest, for the agreement of the price and terms and for the completion of the sale;

- (c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- (d) that no account is taken of any additional bid by a prospective purchaser with a special interest: and
- (e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion.

No allowances have been made for any expenses, or realization, or for taxation which might arise in the event of a disposal. All properties are considered as if free and clear of all mortgages or other charges which may be secured thereon.

2. LOCATION

The subject development is situated in a prime residential area, off Stevens Road. It is a short drive away from Orchard Road, the main shopping and entertainment belt of Singapore.

Residential developments in the vicinity include The Balmoral, Pinewood Gardens, Pinetree Condominium and Number One Balmoral.

The Pines, Tanglin Club, American Club and Raffles Girls' Secondary School are located nearby.

(Please refer to Location Plan under APPENDIX "A")

3. THE SUBJECT DEVELOPMENT

Jewel of Balmoral is a 10-storey residential development comprising 14 units of apartments and 2 penthouses. Facilities in the development include swimming pool, children's pool, bubble pool, gymnasium, barbecue pit and basement carpark.

Temporary Occupation Permit (TOP) was issued in February 2000.

(Please refer to Site Layout Plan under APPENDIX "B")

4. THE SUBJECT PROPERTIES

The subject properties comprise 9 units of apartments and 2 penthouses within the said development.

Details of each unit are as follow:

Unit No.	No. of Bedrooms	Strata Floor Area (Sq. M.)
#02-01	1	76
#02-02	1	77
#03-01	3	125
#04-01	3	125
#04-02	3	125
#05-01	3	125
#05-02	3	125
#06-02	3	125
#07-01	3	125
#09-01	3 (penthouse)	224
#09-02	3 (penthouse)	224
Total		<u>1,476</u>

(Please refer to Floor Plans under APPENDIX “C”)

Each unit is furnished with polished marble flooring to the living, dining, bathrooms and powder rooms, timber strip flooring to the bedrooms and ceramic/ homogeneous tiles to the kitchen, utility, yard and toilets. The units are fitted with high and low level kitchen cabinets, cooker hob and hood, built-in oven, microwave oven and dishwasher. Multi-split concealed air-conditioning system are provided in all bedrooms and living/dining areas. The units are also fitted with audio-video intercom and proximity card-key access system and home automation system.

5. TITLE DETAILS OF SUBJECT PROPERTIES

Based on title search carried out by Savills (Singapore) Pte Ltd.

Unit No.	Lot No.	Strata Floor Area (Sq. M.)
#02-01	TS26-U2179A	76
#02-02	TS26-U2180P	77
#03-01	TS26-U2181T	125
#04-01	TS26-U2182A	125
#04-02	TS26-U2188M	125
#05-01	TS26-U2183K	125
#05-02	TS26-U2189W	125
#06-02	TS26-U2190C	125
#07-01	TS26-U2185X	125
#09-01	TS26-U2193V	224
#09-02	TS26-U2194P	224

Tenure : Freehold (Estate in Fee Simple)

Land Lot No. : 823C
Town Subdivision 26

6. VALUATION

Properties owned by Arundel Trading Pte Ltd, a 100% owned subsidiary of Goldease

Unit No.	Strata Floor Area (sq. m.)	Rate (\$psm)	Open Market Value (S\$)
#02-01	76	17,105	1,300,000
#02-02	77	17,013	1,310,000
#03-01	125	16,680	2,085,000
#04-01	125	16,680	2,085,000
#04-02	125	16,680	2,085,000
#05-01	125	16,680	2,085,000
#05-02	125	16,680	2,085,000
#06-02	125	16,680	2,085,000
#07-01	125	16,680	2,085,000
Total			<u>17,205,000</u>

Properties owned by Firth Enterprises Pte Ltd, a 100% owned subsidiary of Goldease

#09-01	224	15,179	3,400,000
#09-02	224	15,179	3,400,000
Total			<u>6,800,000</u>

7. OPINION OF VALUE

In view of the aforementioned and having taken into account the relevant factors and the prevailing market condition, we are of the considered opinion that the **Open Market Value** of the subject properties as at 30 April 2007 is **S\$24,005,000/-** (Singapore Dollars Twenty-Four Million And Five Thousand Only).

Yours faithfully
SAVILLS (SINGAPORE) PTE LTD
DANIEL EE
Licensed Appraiser
B. Sc. (Estate Management), MSISV

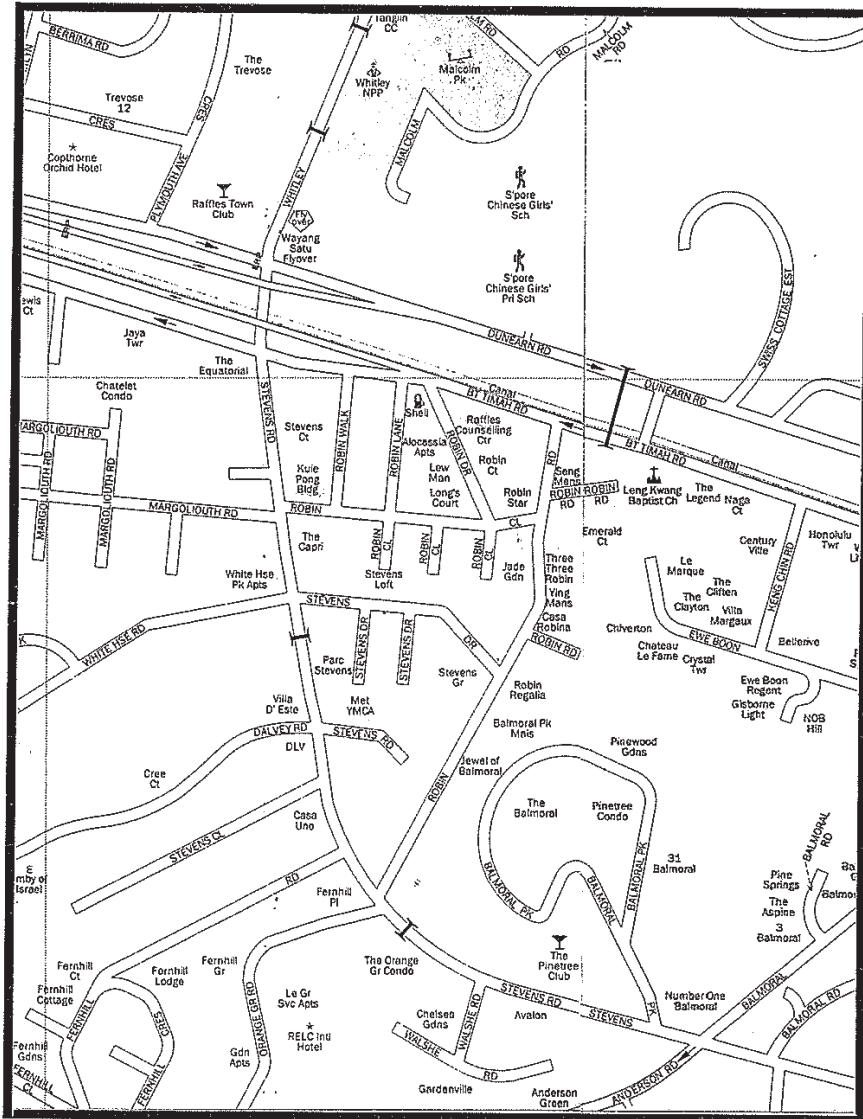
Note: Potential tax liability

Pursuant to the requirements of Rule 11.3 of the Takeovers Code, a valuation is required to state any potential tax liability which might arise on the assumption that the assets were sold at the amount of the valuation, accompanied by an appropriate comment as to the likelihood of any such liability crystallizing based on this assumption.

For properties situated in Singapore, the types of taxes that could arise when the properties are sold are income tax (the corporate rate is 20% for the year of assessment 2007 and 18% for the year of assessment 2008 onwards, subject to applicable deductions) and stamp duty (at the rate of 3% of the consideration (assuming they are sold on the open market), less S\$5,400).

According to information provided by the management of Arundel Trading Pte Ltd and Firth Enterprises Pte Ltd, as the properties are held for sale, it is likely that liability for income tax could arise when the properties are sold. As the purchaser of the properties is liable for stamp duty, unless otherwise agreed, it is not likely that stamp duty would be payable by Arundel Trading Pte Ltd and Firth Enterprises Pte Ltd as vendor.

Appendix A

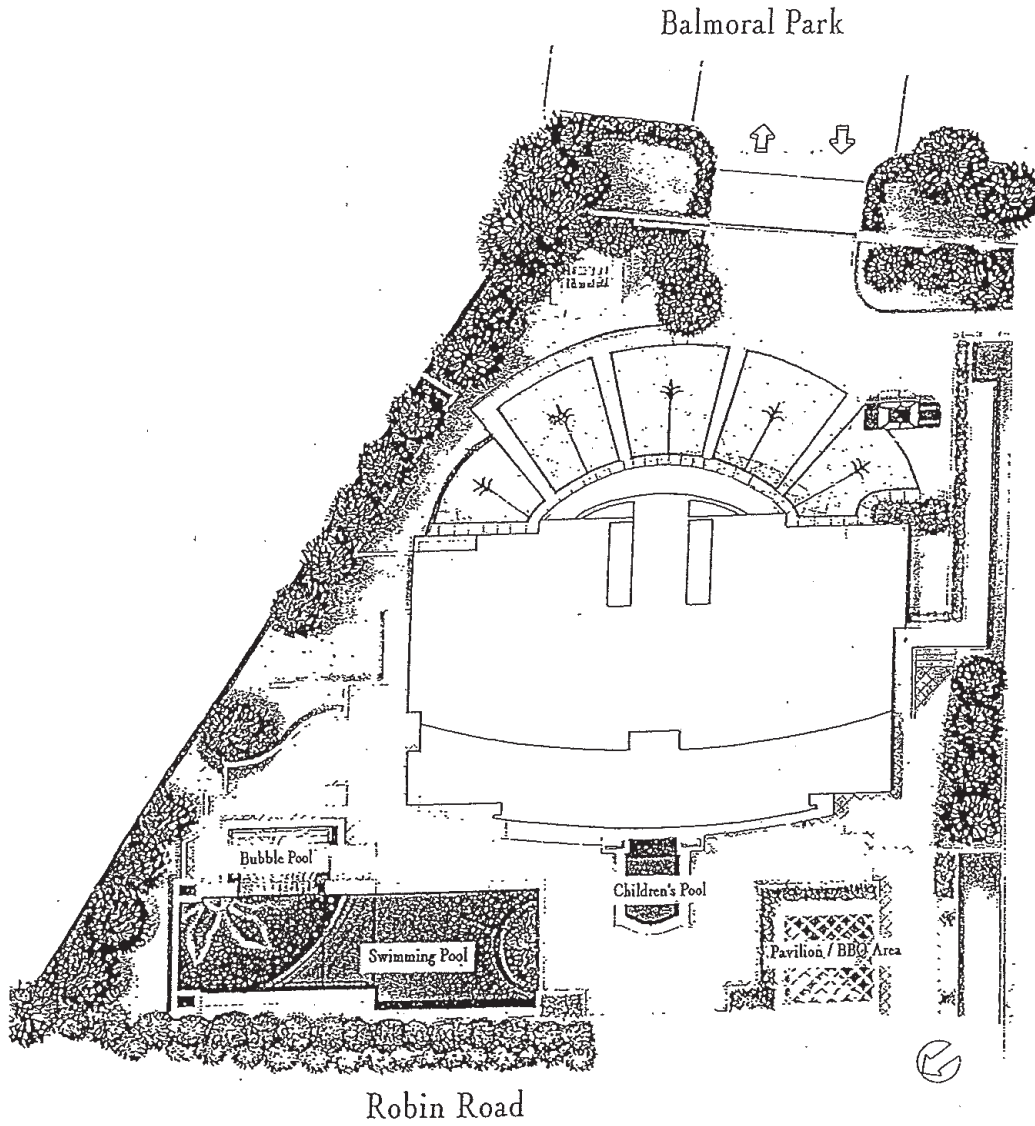


NOT TO SCALE

LEGEND

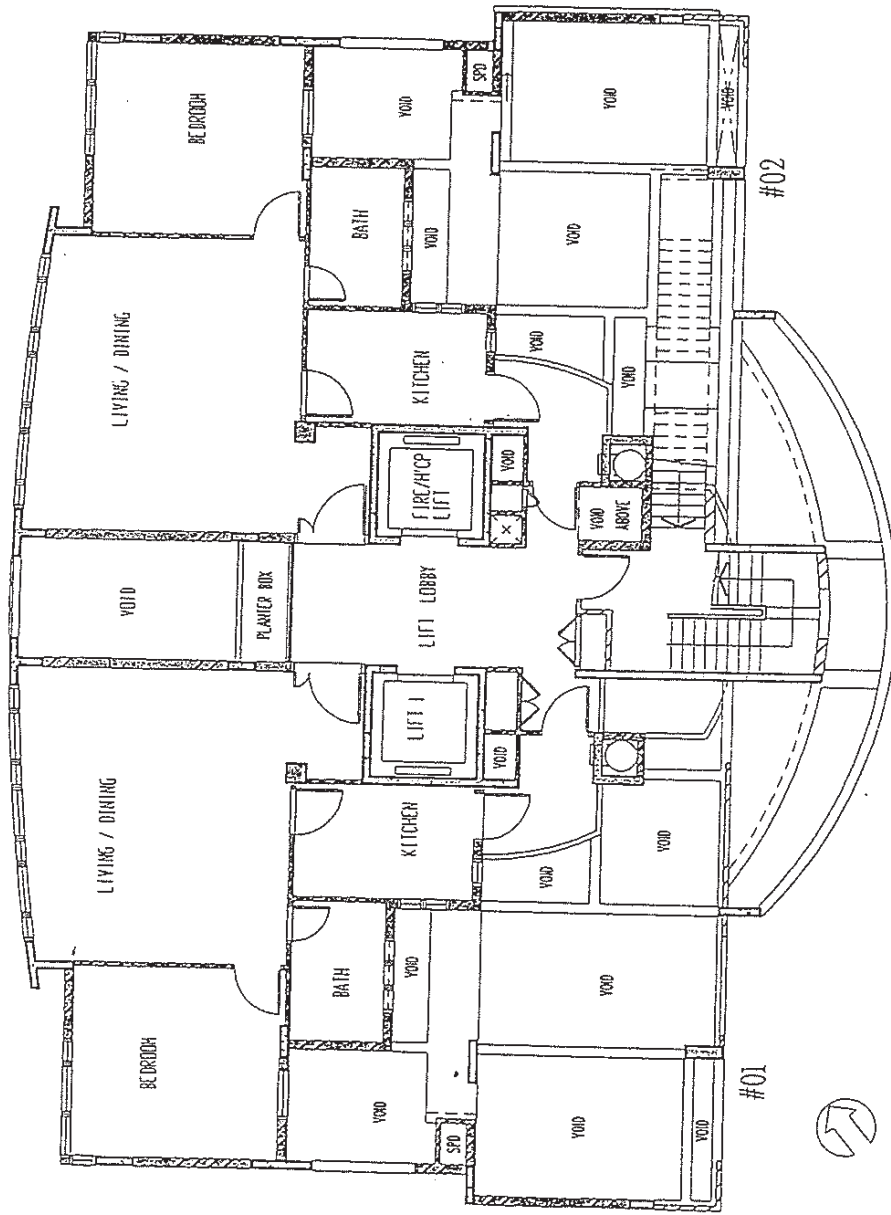
LOCATION OF SUBJECT DEVELOPMENT

Appendix B

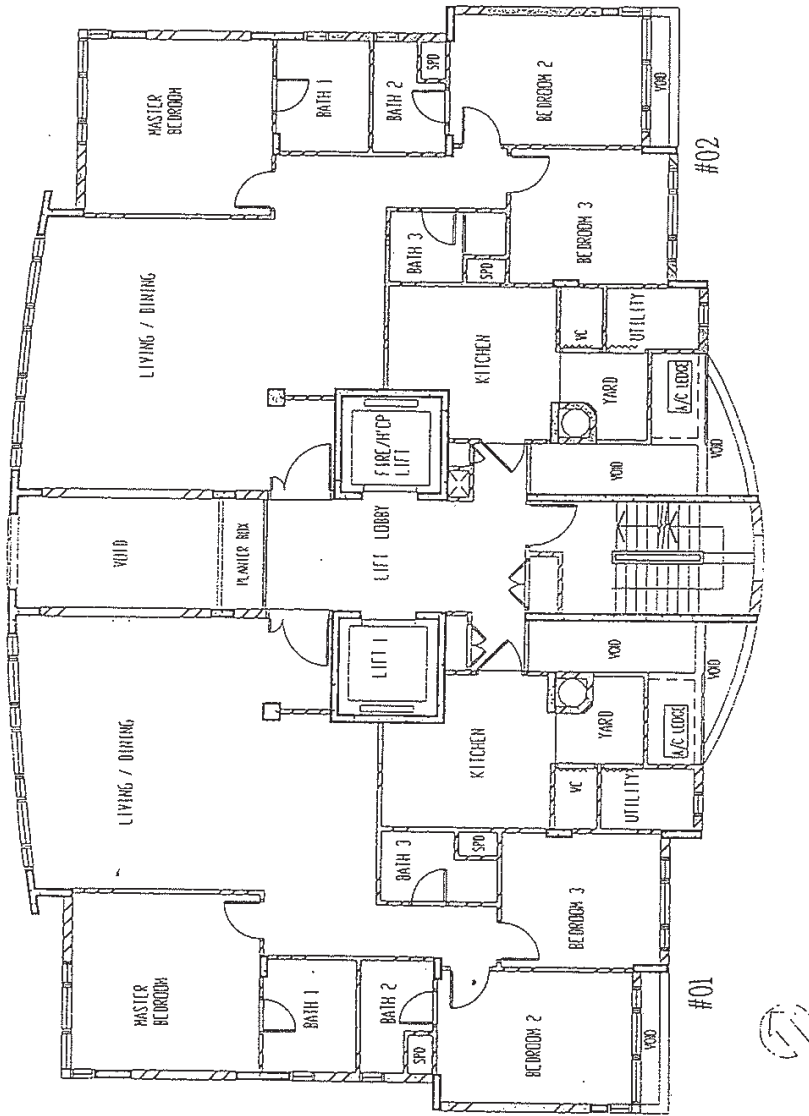


Site Plan
(Not to Scale)

Appendix C

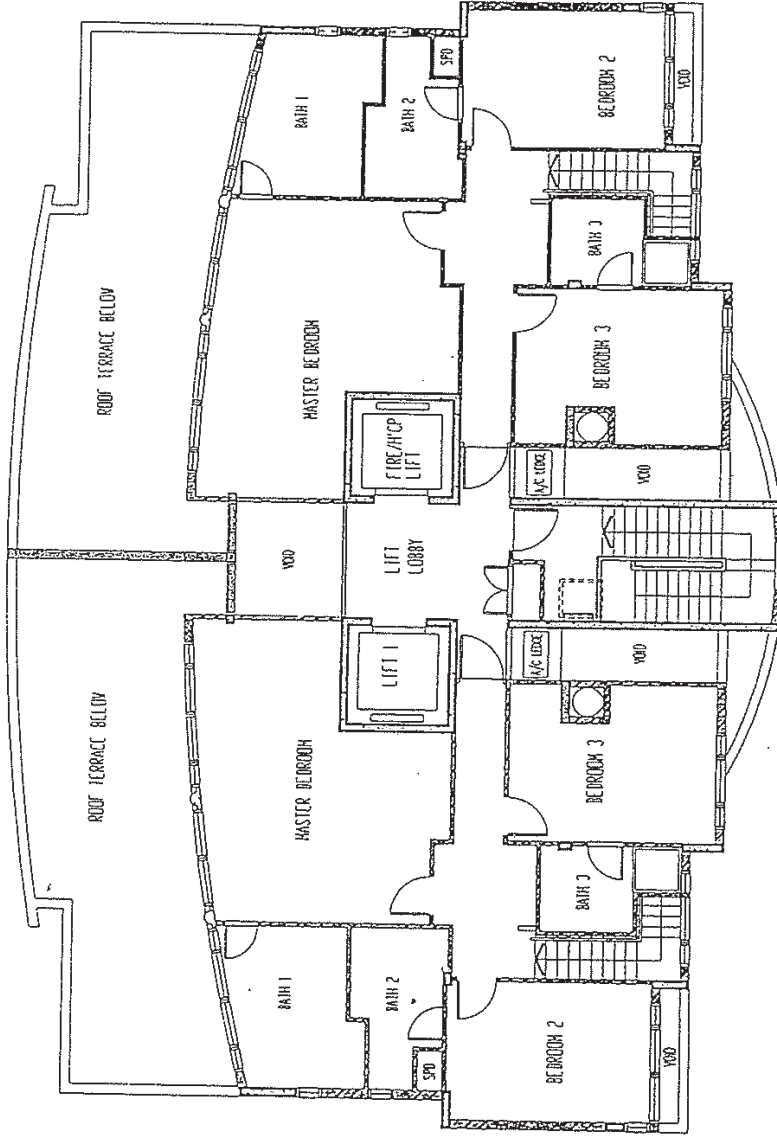


□ Type A : 764 sq ft
Unit #02-01 & #02-02
Floor Plan
(Not to Scale)



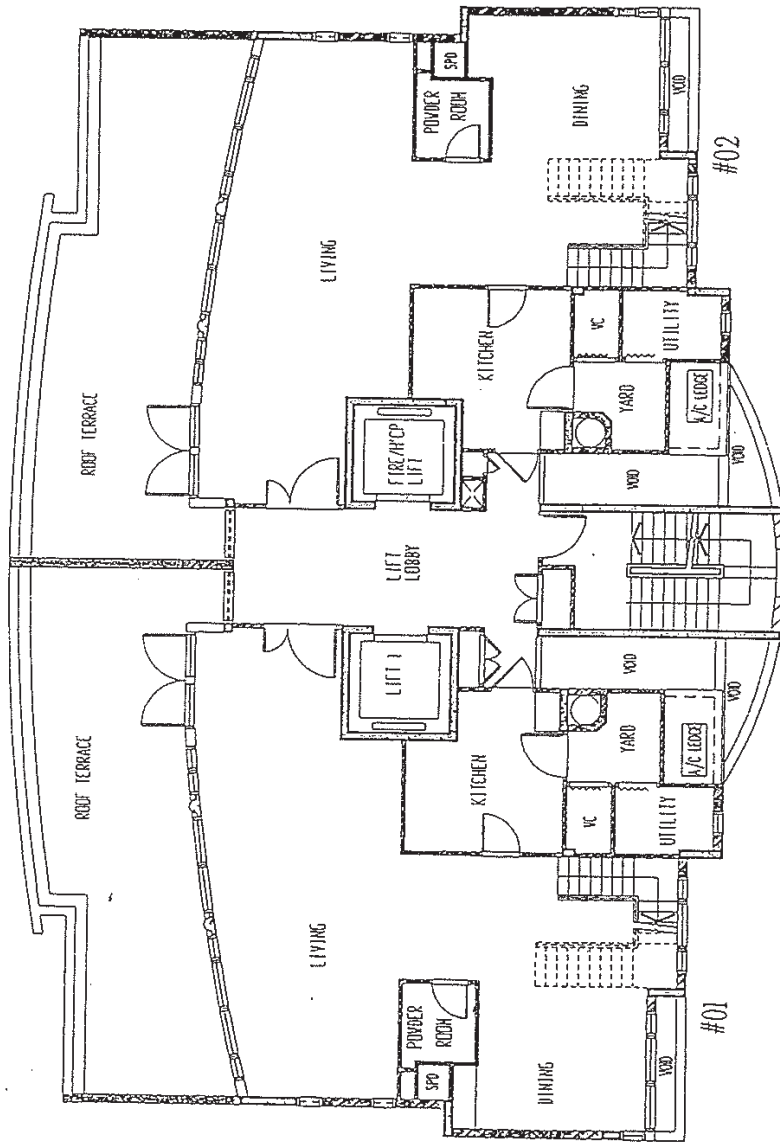
□ Type B : 1346 sq ft
 Units #03-01/02 to #08-01/02

Floor Plan
(Not to Scale)



(PENTHOUSE UPPER STOREY)

Floor Plan
(Not to Scale)



(PENTHOUSE LOWER STOREY)

□ Type C : 2411 sq ft
Units #09-01/02

Floor Plan
(Not to Scale)



Set out below is the text of the property valuation report on the HF Land Group as of the dates of valuation 31 December 2006 and 30 April 2007 respectively prepared by CB Richard Ellis Limited for incorporation in this circular:

CBRE
CB RICHARD ELLIS
世邦魏理仕

Suite 3401 Central Plaza
18 Harbour Road
Wanchai, Hong Kong
T 852 2820 2800
F 852 2810 0830

香港灣仔港灣道十八號中環廣場三四零一室
電話852 2820 2800 傳真 852 2810 0830

30 June 2007

The Directors
Winfoong International Limited
Room 3201
9 Queen's Road Central
Central
Hong Kong

Dear Sirs,

RE: VALUATION OF VARIOUS PROPERTIES IN HONG KONG AND THE PEOPLE'S REPUBLIC OF CHINA ("THE PRC")

In accordance with the instruction for us, we, CB Richard Ellis Limited have prepared the following valuation report providing the market value of the property interests to be held by Hong Fok Land International Limited (referred to as the "HF Land") and the companies to be acquired by HF Land (hereinafter together referred to as the "HF Land Group") located in the Hong Kong and the PRC. We confirm that we have carried out inspection, made relevant investigations and enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of values of the property interests as at 31 December 2006 and 30 April 2007 respectively.

Our valuation is prepared in accordance with the "HKIS Valuation Standard on Properties (First Edition 2005)" published by the Hong Kong Institute of Surveyors, the relevant provisions of the Companies Ordinance and Chapter 5, Practice Notes 12 and 16 of Listing Rules published by the Stock Exchange of Hong Kong Limited.

Our opinion of Market Value is defined as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

Property Categorization

In the course of our valuation, the property interests to be held by the HF Land Group is categorized into the following groups:

Group I:

Properties in Group I are to be held by the HF Land Group in Hong Kong for investment.

Group II:

Property in Group II is to be held by the HF Land Group in the PRC for investment.

Group III:

Property in Group III is to be held by the HF Land Group in the PRC for sale.

Group IV:

Property in Group IV is to be held by the HF Land Group in the PRC for future development

Valuation Methodologies

In valuing the properties, we have adopted market approach by reference to sales evidence as available on the market and information provided to us including tenancy details, and other relevant information.

Title Investigations

For the properties to be held by the HF Land Group in Hong Kong, we have caused searches to be made at the Land Registry, but have not been given any legal advice in respect of title. We have not searched the original documents to verify the correctness of any information or to verify whether any amendments have been made which do not appear on the copies handed to us.

For the properties to be held by the HL Land Group in the PRC, we have been given extracted copies of relevant title documents. We have not checked the titles to the properties and have not scrutinized the original title documents. We have relied on the advice given by the HF Land Group and its legal advisers on PRC laws, Shu Jin Law Firm (廣東信達律師事務所) regarding the titles to the property interests located in the PRC. For the purpose of our valuations, we have assumed that the fellow subsidiaries of HF Land Group has enforceable title to the property interests. In our valuations, we have taken into account the legal opinion of the PRC's legal advisers, and while we have exercised our professional judgment in arriving at our valuations, you are urged to consider our valuation assumptions with caution.

Valuation Assumptions

In valuing the property interests, we have assumed that owners of the property interests have free and uninterrupted rights to us and assign the properties during the whole of respective unexpired terms granted.

Our valuation has been made on the assumption that the owner sells the properties on the open market without the benefit or burden of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which could affect the values of the properties.

Other special assumptions for each of the properties, if any, have been stated in the footnotes of the valuation certificate for the respective properties.

Valuation Considerations

We have relied to a very considerable extent on information given by the HF Land Group of the property interests and have accepted information given to us of such matters as planning approvals or statutory notices, easements, tenure, lettings, floor areas and all other relevant matters. We have no reason to doubt the truth and accuracy of the information provided to us by the HF Land Group which is material to our valuations and have been advised by the HF Land Group that no material facts have been omitted from the information provided.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the properties nor for any expenses or taxation which may be incurred in effecting a sale. It is assumed that the properties are free from encumbrances, restrictions and outgoing of an onerous nature which could affect their values.

We have assumed that all applicable zoning, use regulations and restrictions have been complied with. We have further assumed that the utilizations and improvements of land are within the boundaries of the properties held by the owner or permitted to be occupied by the owner. Unless otherwise stated, no encroachment or trespass exits are considered.

We have inspected that properties to such extent that we consider necessary for the purpose of this valuation. No structural survey has been made nor were any tests carried out on any of the services provided in the properties. We are therefore unable to report whether the properties are free from rot, infestation or any other structural defects.

We have not carried out detailed on-site measurements to verify the correctness of the floor areas in respect of the properties but have assumed that the floor areas shown on the documents handed to us are correct. All documents have been used as reference only and all dimensions, measurements and areas are approximate.

For properties situated in the PRC, the type of taxes that could arise when those properties are sold include enterprise income tax (33% on taxable income), business tax (5% on taxable income), land appreciation tax (progressive rates ranging from 30% to 60% on taxable profit) and stamp duty (0.03% on selling price). For those properties in Hong Kong,

the tax that could arise when the property is sold is profits tax (17.5% on taxable profit). According to the information provided by the management of the Group, except the property in Group III, there is no plan to sell the properties in Group I, Group II and Group IV. For Group III property when sold, the potential tax liability will be enterprise income tax, business tax and land appreciation tax.

Unless otherwise stated, all money amounts are stated in Hong Kong Dollars. The exchange rates adopted in our valuation are HK\$100.00 = RMB100.38 and HK\$100.00 = RMB98.54, which were the approximate exchange rate prevailing as 31 December 2006 and 30 April 2007 respectively.

We enclose herewith our summary of values and valuation certificate.

Yours faithfully,
For and on behalf of
CB Richard Ellis Limited

Gilbert C. H. Chan *MHKIS MRICS RPS (GP)*
Director
Valuation & Advisory Services

Mr Gilbert C H Chan is Registered Professional Surveyor with over 13 years' valuation experience on all landed properties in Hong Kong and in the PRC.

SUMMARY OF VALUES

No.	Property	Interest attributable to the HF Land Group (%)	Capital values in existing state as at 31 December 2006 <i>HK\$</i>	Capital values in existing state as at 30 April 2007 <i>HK\$</i>
Group I – Properties to be held for investment by the HF Land Group in Hong Kong				
1.	Magazine Gap Towers, No. 15 Magazine Gap Road, Mid-Levels, Hong Kong	100%	HK\$837,000,000	HK\$840,000,000
2.	Magazine Heights, No. 17 Magazine Gap Road, Mid-Levels, Hong Kong	100%	HK\$910,000,000	HK\$913,000,000
	Sub-Total		<u>HK\$1,747,000,000</u>	<u>HK\$1,753,000,000</u>
Group II – Property to be held for investment by the HF Land Group in People’s Republic of China				
3.	Units A and B on Levels 2 and 3 of Block Nos. 1, 2, 3, 5, 6, 7, 8, 9 and 10. Chuang’s Metropolis, Panyu, Guangdong Province, The PRC	100%	HK\$5,000,000	HK\$5,000,000
	Sub-Total		<u>HK\$5,000,000</u>	<u>HK\$5,000,000</u>
Group III – Property to be held for sale by HF Land Group in People’s Republic of China				
4.	16 row houses, 13 semi-detached houses and 28 apartment units of Phase 1A, Riverside Villa, Tangxia Town, Jiangmen, Guangdong Province The PRC	92%	HK\$12,500,000	HK\$12,500,000
	Sub-Total		<u>HK\$12,500,000</u>	<u>HK\$12,500,000</u>
Group IV – Property to be held for future development by the HF Land Group in People’s Republic of China				
5.	The remaining portion of land, Riverside Villa, Tangxia Town, Jiangmen, Guangdong Province The PRC	92%	HK\$67,500,000	HK\$67,500,000
	Sub-Total		<u>HK\$67,500,000</u>	<u>HK\$67,500,000</u>
	Grand total		<u>HK\$1,832,000,000</u>	<u>HK\$1,838,000,000</u>

VALUATION CERTIFICATE

Group I – Properties to be held for investment by the HF Land Group in Hong Kong

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 December 2006	Capital value in existing state as at 30 April 2007
1.	Magazine Gap Towers, No.15 Magazine Gap Road, Mid-Levels, Hong Kong Inland Lot No. 2570 and the Extension thereto	<p>The property comprises a 12-storey residential building over ground floor and lower ground floor carport/ recreation podium. It was completed in about 1967 and has been refurbished in 1989.</p> <p>The subject lot has a registered site area of approximately 19,000 sq.ft. (1,765.14 sq.m.).</p> <p>There are a total of 24 apartments and 36 parking spaces, a communal swimming pool and a gymnasium provided within the building.</p> <p>The total gross floor area of the apartments is approximately 55,200 sq.ft. (5,128.21 sq.m.) (excluding car parking spaces).</p> <p>The property is held under a Government lease and Conditions of Extension for common term of 75 years from 4 June 1925 renewed for a further term of 75 years.</p>	<p>Except 5 apartment units are vacant, the property is subject to monthly leases.</p> <p>The total monthly rent receivable is HK\$560,000.</p>	<p>HK\$837,000,000 <i>(100% interest attributable to the HF Land Group)</i></p>	<p>HK\$840,000,000 <i>(100% interest attributable to the HF Land Group)</i></p>

Notes:

1. The registered owner of the property is Hugoton Limited which is a wholly-owned fellow subsidiary of HF Land.
2. The property is subject to the following encumbrances:
 - (i) Deed of Variation of Crown Lease vide Memorial No. UB545645 dated 2 June 1966;
 - (ii) Modification Letter vide Memorial No. UB3153769 dated 18 August 1986;
 - (iii) Letter with Certified True Copy Carpark Lay-out Plan vide Memorial No. UB3549246 dated 19 November 1987;
 - (iv) Deed Polls vide Memorial No. UB8663823 dated 8 April 2002; and
 - (v) Debenture and Mortgage and Floating Charge in favour of Nanyang Commercial Bank Limited “Agent” in its own right and as agent for and on behalf of the banks vide Memorial No. 0702070006089 dated 8 January 2007.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 December 2006	Capital value in existing state as at 30 April 2007
2.	Magazine Heights, No. 17 Magazine Gap Road, Mid-Levels, Hong Kong Inland Lot No. 8021 and the Extension thereto	<p>The property comprises a 12-storey residential building over ground floor and lower ground floor carport/ recreation podium. It was completed in about 1968 and has been refurbished.</p> <p>The subject lot has a registered site area of approximately 23,030 sq.ft. (2,139.54 sq.m.).</p> <p>There are a total of 23 apartments and 40 parking spaces and a gymnasium provided within the building.</p> <p>The total gross floor area of the apartments is approximately 60,000 sq.ft. (5,574.14 sq.m.) (excluding car parking spaces).</p> <p>The property is held under a Government lease and Conditions of Extension for common term of 75 years from 28 August 1920 renewed for a further term of 75 years.</p>	<p>Except 3 apartment units which are vacant, the property is subject to various tenancies for terms mostly for 1 year with the last to be expired in April 2009.</p> <p>The total monthly rent receivable is HK\$1,317,800.</p>	<p>HK\$910,000,000 <i>(100% interest attributable to the HF Land Group)</i></p>	<p>HK\$913,000,000 <i>(100% interest attributable to the HF Land Group)</i></p>

Property 2:*Notes:*

1. The registered owners of the property are Giant Yield Limited (3/24th) and Bossiney limited (21/24th) (Tenants in Common) both of which are wholly-owned fellow subsidiaries of HF Land.
2. The property is subject to the following encumbrances:
 - (i) Deed of Covenant vide Memorial No. UB8205618 dated 10 August 1971;
 - (ii) Modification Letter vide Memorial No. UB6570640 dated 13 March 1996;
 - (iii) Mortgage by Bossiney Limited and Giant Yield Limited in favour of Nanyang Commercial Bank Limited vide Memorial No. UB8312581 dated 22 January 2001 and re-registered vide Memorial No. UB8577556;
 - (iv) Assignment of Rentals by Giant Yield Limited (Re: 3/24 shares) in favour of Nanyang Commercial Bank Limited vide Memorial No. UB8312582 dated 22 January 2001;
 - (v) Assignment of Rentals by Bossiney Limited (Re: 21/24 shares) in favour of Nanyang Commercial Bank Limited vide Memorial No. UB8312583 dated 22 January 2001;
 - (vi) Second Mortgage by Bossiney Limited and Giant Yield Limited in favour of Nanyang Commercial Bank Limited vide Memorial No. UB9137109 dated 26 January 2004;
 - (vii) Rental Assignment and Charge on account by Bossiney Limited (Re: 21/24 shares) in favour of Nanyang Commercial Bank Limited vide Memorial No. UB9138036 dated 26 January 2004; and
 - (viii) Rental Assignment and Charge on account by Giant Yield Limited (Re: 3/24 shares) in favour of Nanyang Commercial Bank Limited vide Memorial No. UB9138037 dated 26 January 2004.

VALUATION CERTIFICATE

Group II – Property to be held for investment by the HF Land Group in People’s Republic of China

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 December 2006	Capital value in existing state as at 30 April 2007
3.	Units A and B on Levels 2 and 3 of Block Nos. 1, 2, 3, 5, 6, 7, 8, 9 and 10, Chuang’s Metropolis, Panyu, Guangdong Province, The PRC	The property comprises a total of 36 apartment units on the 2nd and 3rd levels of nine blocks of 4-storey composite building completed in about 1997. The property has a total gross floor area of approximately 2,866.22 sq.m. (30,852 sq.ft.)	The property is vacant.	HK\$5,000,000 <i>(100% interest attributable to the HF Land Group)</i>	HK\$5,000,000 <i>(100% interest attributable to the HF Land Group)</i>
		Pursuant to the supplemental sale and purchase agreements all dated 6 November 1995, the land use right granted is for a term of 70 years from 22 December 1992 to 22 December 2062.			

Notes:

1. Pursuant to thirty-six Sale and Purchase Agreements all entered into between Panyu Shilou Xindu Real Estate Development Co. Ltd. (Part A) and China Charm Company Limited which is a wholly-owned fellow subsidiary of HF Land (Party B) on 6 November, 1995, Party A agreed to sell the property to Party B at a total consideration of HK\$7,281,156 for residential use.
2. We have been provided with a legal opinion on the title of the property by the HF Land Group’s legal advisor which contains, inter-alia, the following information:
 - (i) According to the officer of the Finance Department of Guangzhou Panyu Chuang’s Real Estate Development Company Limited (an associate of Panyu Shilou Xindu Real Estate Development Co. Ltd.), the subject property has been purchased by China Charm Company Limited. Owing to the transaction process had undertaken in Hong Kong, it was not known whether the consideration had been fully paid. In addition, since completion in 1997, China Charm Company Limited has not proceeded to take possession with the property, submitted related information for the application of real estate certificate and paid the related tax, therefore, the legal title is not confirmed to be vested into China Charm Company Limited.
 - (ii) On the assumption that China Charm Company Limited had fully paid consideration for the purchase of the subject property and subject to re-confirmation of sales and purchase agreement under the prevailing format with the vendor, taken possession of the property and payment of all relevant tax fee according to the provisions of relevant authority governing the sale and purchase of real estate, the China Charm Company Limited after obtaining the Certificate for Real Estate Title of the property, can legally possess, occupy and assign the subject property. Such legal interests are protected and enforceable by the PRC Law.
3. In our valuation, we have taken into account the PRC legal opinion. Our valuation represents the capital value of the property assuming it is freely disposable on the valuation date and the property has been completed and finished in compliance with all relevant regulations.

VALUATION CERTIFICATE

Group III – Property to be held for sale by the HF Land Group in People’s Republic of China

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 December 2006	Capital value in existing state as at 30 April 2007
4.	16 row houses, 13 semi-detached houses and 28 apartment units of Phase 1A, Riverside Villa, Tangxia Town, Jiangmen, Guangdong Province The PRC	<p>The property comprises 16 row houses, 13 semi-detached houses and 28 apartment units of Phase 1A of Riverside Villa.</p> <p>Riverside Villa is planned to be developed in four phases as a comprehensive private housing development, comprising detached houses, row houses and low and high-rise apartment buildings.</p> <p>The total gross floor area of the property is approximately 6,110.18 sq.m. (65,770 sq.ft.).</p> <p>The property is held for a term of 70 years from 8 October 1992 to 8 October 2062.</p>	The property is vacant.	<p>HK\$12,500,000 (92% interest attributable to the HF Land Group: HK\$11,500,000)</p>	<p>HK\$12,500,000 (92% interest attributable to the HF Land Group: HK\$11,500,000)</p>

Notes:

- The property comprises Unit Nos. 4A, 4B, 3B, 2B and 1B in Block L1, Unit Nos. 4A, 3A, 2A, 1A, 3B, 2B and 1B in Block L2, Unit Nos. 2A, 1A and 2B in Block L3, Unit Nos. 2A, 1A and 1B in Block L4, Unit No. 2A in Block L6, Unit Nos. 4A, 3A, 2A, 1A, 4B, 3B, 2B and 1B in Block L8, Unit No 3A in Block L5; Block Nos. R-01, R-02, R-06, R-07, R-11, R-12, R-13, R-14, R-17, R-18, R-19, R-26, R-27, R-30, R-31, R-32 and S-01, S-04, S-07, S-09, S-10, S-11, S-15, S-19, S-20, S-21, S-22, S-23 and S-24 of Phase 1A of Riverside Villa.
- Jiangmen Tangquan Real Estate Company Limited is a 92%-owned fellow subsidiary of HF Land.
- Jiangmen Tangquan Real Estate Company Limited (“the Tangquan Company”) is an equity joint venture company between棠下鎮村鎮建設開發公司 (“Party A”) and Wellpool International Limited (“Party B”), legally established on 23 September 1992. Its joint venture period is 30 years commencing on 23 September 1992.
- According to the Joint Venture Contract, the equity contribution of the Tangquan Company between Party A and Party B is 8% and 92% respectively, amounting a registered capital of US\$10,000,000. Party B may obtain 92% of the profits of the Tangquan Company.
- Pursuant to the Certificate for the Use of State-owned Land No. (1992) 1900693 dated 16th October 1992 and issued by the People’s of Government of Xinhui County (now under Jiangmen City), the land use right of a parcel of land situated at Zhulinyuan of Tangxia Town is vested in Jiangmen Tangquan Real Estate Company Limited for a term of 70 years from 8 October 1992 to 8 October 2062. The land is for real estate use comprising a site area of approximately 312,770.30 sq.m..

6. Pursuant to the Grant of Contract of Land Use Rights entered into between Xinhui County Land Administration Bureau (now under Jiangmen City) (Party A) and Tangquan Company (Party B) on 8 October 1992, Party A has agreed to grant the land use right of a parcel of land situated at Zhulinyuan of Tangxia Town to Party B. The salient conditions are summarised as follows:
- (i) Site Area : 312,770.30 sq.m.
(ii) Uses : the development of commercial/residential buildings, shopping arcade, club house and community facilities
(iii) Plot ratio : 3.6
(iv) Site coverage : 40%
(v) Total gross floor area : not exceeding 1,122,000 sq.m.
(vi) No. of storeys : maximum of 40 storeys (average of 20 storeys)
(vii) Green area ratio : 5%
(viii) Land premium : RMB 2,189,400
(ix) Building covenant : Party B shall complete the gross floor area of the proposed development of not less than 41,000 sq.m. by 30 October 1995 and shall complete the whole development by 22 September 2007.
7. Pursuant to the Business Licence No. 003202 dated 25 November 2002, Tangquan Company was incorporated with a registered capital of US\$10,000,000 and has an operation period from 23 September 1992 to 22 September 2022.
8. We have noted that the said Grant Contract requires a building covenant regarding the completion of the gross floor area of the proposed development of not less than 41,000 sq.m. by 30 October 1995. It appears that such building covenant has not been fulfilled. However, as instructed by HF Land Group, we have valued on the assumption that the breach of the said building covenant would not affect the title of the property.
9. The completed houses of phase 1A of Riverside villa are of 2 to 3-storeys high with individual garden and garage area. The sizes of the houses range from approximately 119.60 sq.m. (1,287 sq.ft.) to 139.43 sq.m. (1,501 sq.ft.). The completed apartment buildings are of 4-storeys with unit sizes ranging from approximately 71.67 sq.m. (771 sq.ft.) to 89.46 sq.m. (963 sq.ft.).
10. As advised by HF Land Group, the approximate gross floor area of each type of subject property is as follows:

Uses	Approximate gross floor area	
	sq.m.	sq.ft.
Row Houses	1,913.64	20,598
Semi-detached houses	1,812.58	19,511
Apartment units	2,383.96	25,661
Total	6,110.18	65,770

11. We have been provided with a legal opinion on the title of the property by HF Land Group's legal advisor which contains, inter-alia, the following information:
- (i) Pursuant to the Grant of Contract of Land Use Rights signed between Tangquan Company and Xinhui County Land Administration Bureau on 8 October 1992 and the Certificate for the Use of State-owned Land No. (1992) 1900693 (新府國用(1992)字第1900693號), it is a parcel of land of 312,770 square metres for real estate purpose, situated at Zhulinyuan of Tangxia Town for a land tenure of 70 years from 8 October 1992 to 8 October 2062.
- (ii) According to the "Construction Land Planning Application" dated 18 October 1992 by the Tangquan Company, the proposed development will be of five phases with the first phase site area of 62,554 square metres, gross floor area of 224,400 square metres and 7-storey medium-density low rise residential development. The application was finally approved by Xinhui Municipal Construction Committee.

According to the evidence provided by Tangquan Company on 7 June 2007 and confirmed by Jiangmen Shi Real Estate Record Office, Tangquan Company has developed 111 residential units of which 54 units have been sold. However, the Phase I development has not been fully completed.

- (iii) In view of Tangquan Company has not within the time limit fully developed the whole subject site, those undeveloped part of the subject site was confirmed as idle land by Jiangmen Municipal Bureau of State Land and Resources on 9 August 2005.
 - (iv) In connection with Idle Land for Non-agricultural Development Management Reinforcement Notice (粵府[1998]72號) issued by Guangdong Provincial Government stipulates that:

Regulation 5: For confirmed idle land, the State Land Authority has the right to levy idle land fee at a standard rate of not more than 15% of land premium per annum for real estate development land;

Regulation 6: If idle land status lasts for more than one year, the State Land Authority should order the owner to develop the land within a specific time period. Should the owner could not implement the development project, the land could be offered for other developer subject to proper reimbursement to the original owner. If idle land status lasts for more than two years, the land use rights may be repossessed by the authority with prior permission from the County People's Government or above. If pre-development preparation works are planned with sufficient financial sources and definite development time schedule, the authority has discretionary power to extend the building covenant once for not more than two years subject to payment for the idle land fee.
 - (v) Simultaneously, according to the condition 4.4 of the Contract of Land Use Rights, the land user should complete the development prior to 22 September 2007. Late charge will be levied at 0.3% of the land premium per day. If the delay for completion is over 360 days, Municipal (County) Bureau of State Land and Resource has the right to repossess the land and void the Certificate for the Use of State-owned Land.
 - (vi) On 7 June 2007, Jiangmen Shi Real Estate Record Office certified that the Tangquan Company retains 57 completed units for sale in "Riverside Villa" located at Zhulinyuan of Tangxia Town in Pengjiang District of Jiangmen Shi. They are completed units with their ownership vested in Tangquan Company and no seizure and mortgage records.
 - (vii) Based on the above, Shu Jin Law Firm opines that the Tangquan Company owns the 57 units in Riverside Villa. The Tangquan Company can occupy, use and assign the property and subject to the bank's approval, mortgage and charge the property. However, there is legal risk that the land use rights of the land and all structures attached on the land might be repossessed by the State Land Authority without compensation.
12. In our valuation, we have taken into account the PRC legal opinion. However, we have been instructed by HF Land Group to value the property assuming there is no legal risk on the repossession and the breach of the building covenant as described in Note 8 above would not affect the title of the property. Further, our valuation represents the capital value of the property assuming it is freely disposable on the valuation date.

VALUATION CERTIFICATE

Group IV – Property to be held for future development by the HF Land Group in People's Republic of China

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 December 2006	Capital value in existing state as at 30 April 2007
5.	The remaining portion of land, Riverside Villa, Tangxia Town, Jiangmen, Guangdong Province The PRC	The subject site is an irregular shaped site having a total site area of approximately 312,770.30 sq.m. (3,366,660 sq.ft.) Riverside Villa is planned to be developed in four phases as a comprehensive private housing development, comprising detached house, row houses and low and high-rise apartment buildings at a total gross floor area of approximately 1,122,000 sq.m. (12,077,208 sq.ft.) As advised by HF Land Group, the gross floor area of the respective types of use is as follows:	The property is vacant.	HK\$67,500,000 (92% interest attributable to the HF Land Group: HK\$62,100,000)	HK\$67,500,000 (92% interest attributable to the HF Land Group: HK\$62,100,000)

Uses	Approximate Gross Floor Area	
	sq.m.	sq.ft.
Villa/ Townhouse	198,000	2,131,272
Medium-rise apartment	216,000	2,325,024
High-rise apartment	703,000	7,567,092
Ancillary commercial and recreational facilities	5,000	53,820
Total	<u>1,122,000</u>	<u>12,077,208</u>

As advised by HF Land Group, Phase 1A of Riverside Villa, comprising 3 detached houses, 24 semi-detached houses, 28 row houses and 56 apartment units and making of total gross floor area of approximately 12,532.92 sq.m. (134,904 sq.ft.) (based on 竣工紙) has been completed.

The property comprises the vacant and undeveloped land of the Riverside Villa.

The property is held for a term of 70 years from 8 October 1992 to 8 October 2062.

Notes:

1. Jiangmen Tangquan Real Estate Company Limited is a 92%-owned fellow subsidiary of HF Land.
2. Jiangmen Tangquan Real Estate Company Limited (“the Tangquan Company”) is an equity joint venture company between 棠下鎮村鎮建設開發公司 (“Party A”) and Wellpool International Limited (“Party B”), legally established on 23 September 1992. Its joint venture period is 30 years commencing on 23 September 1992.
3. According to the Joint Venture Contract, the equity contribution of the Tangquan Company between Party A and Party B is 8% and 92% respectively, amounting a registered capital of US\$10,000,000. Party B may obtain 92% of the profits of the Tangquan Company.
4. Pursuant to the Certificate for the Use of State-owned Land No. (1992) 1900693 dated 16th October 1992 and issued by the People’s of Government of Xinhui County (now under Jiangmen City), the land use right of a parcel of land situated at Zhulinyuan of Tangxia Town is vested in Tangquan Company for a term of 70 years from 8 October 1992 to 8 October 2062. The land is for real estate use comprising a site area of approximately 312,770.30 sq.m..
5. Pursuant to the Grant of Contract of Land Use Rights entered into between Xinhui County Land Administration Bureau (now under Jiangmen City) (Party A) and Tangquan Company (Party B) on 8 October 1992, Party A has agreed to grant the land use right of a parcel of land situated at Zhulinyuan of Tangxia Town to Party B. The salient conditions are summarised as follows:

(i) Site Area	:	312,770.30 sq.m.
(ii) Uses	:	the development of commercial/residential buildings, shopping arcade, club house and community facilities
(iii) Plot ratio	:	3.6
(iv) Site coverage	:	40%
(v) Total gross floor area	:	not exceeding 1,122,000 sq.m.
(vi) No. of storeys	:	maximum of 40 storeys (average of 20 storeys)
(vii) Green area ratio	:	5%
(viii) Land premium	:	RMB 2,189,400
(ix) Building covenant	:	Party B shall complete the gross floor area of the proposed development of not less than 41,000 sq.m. by 30 October 1995 and shall complete the whole development by 22 September 2007.
6. Pursuant to the Business Licence No. 003202 dated 25 November 2002, Tangquan Company was incorporated with a registered capital of US\$10,000,000 and has an operation period from 23 September, 1992 to 22 September, 2022.
7. We have noted that the said Grant Contract requires a building covenant regarding the completion of the gross floor area of the proposed development of not less than 41,000 sq.m. by 30 October 1995. It appears that such building covenant has not been fulfilled. However, as instructed by HF Land Group, we have valued on the assumption that the breach of the said building covenant would not affect the title of the property.
8. We have valued the property in its existing state as vacant land.
9. We have been provided with a legal opinion on the title of the property by HF Land Group’s legal advisor which contains, inter-alia, the following information:
 - (i) Pursuant to the Grant of Contract of Land Use Rights signed between Tangquan Company and Xinhui County Land Administration Bureau on 8 October 1992 and the Certificate for the Use of State-owned Land No. (1992) 1900693 (新府國用(1992)字第1900693號), it is a parcel of land of 312,770 square metres for real estate purpose, situated at Zhulinyuan of Tangxia Town for a land tenure of 70 years from 8 October 1992 to 8 October 2062.

- (ii) According to the “Construction Land Planning Application” dated 18 October 1992 by the Tangquan Company, the proposed development will be of five phases with the first phase site area of 62,554 square metres, gross floor area of 224,400 square metres and 7-storey medium-density low rise residential development. The application was finally approved by Xinhui Municipal Construction Committee.

According to the evidence provided by Tangquan Company on 7 June 2007 and confirmed by Jiangmen Real Estate Record Office, Tangquan Company has developed 111 residential units of which 54 units have been sold. However, the Phase I development has not been fully completed.

- (iii) In view of Tangquan Company has not within the time limit fully developed the whole subject site, those undeveloped part of the subject site was confirmed as idle land by Jiangmen Municipal Bureau of State Land and Resources on 9 August 2005.
- (iv) In connection with Idle Land for Non-agricultural Development Management Reinforcement Notice (粵府[1998]72號) issued by Guangdong Provincial Government stipulates that:

Regulation 5: For confirmed idle land, the State Land Authority has the right to levy idle land fee at a standard rate of not more than 15% of land premium per annum for real estate development land;

Regulation 6: If idle land status lasts for more than one year, the State Land Authority should order the owner to develop the land within a specific time period. Should the owner could not implement the development project, the land could be offered for other developer subject to proper reimbursement to the original owner. If idle land status lasts for more than two years, the land use rights may be repossessed by the authority with prior permission from the County People’s Government or above. If pre-development preparation works are planned with sufficient financial sources and definite development time schedule, the authority has discretionary power to extend the building covenant once for not more than two years subject to payment for the idle land fee.

- (v) Simultaneously, according to the condition 4.4 of the Contract of Land Use Rights, the land user should complete the development prior to 22 September 2007. Late charge will be levied at 0.3% of the land premium per day. If the delay for completion is over 360 days, Municipal (County) Bureau of State Land and Resource has the right to repossess the land and void the Certificate for the Use of State-owned Land.
- (vi) Based on the above, Shu Jin Law Firm opines that the land use rights of the land for Riverside Villa is held by the Tangquan Company but there is a legal risk that the land use rights might be repossessed by the State Land Authority without compensation. It is advised that Tangquan Company should apply for extension of the building covenant at the relevant authority as soon as possible. Subject to the completion of the above procedure, the Tangquan Company could continue to hold the full legal interest of the land use rights of the subject land.
10. In our valuation, we have taken into account the PRC legal opinion. However, we have been instructed by HF Land Group to value the property assuming there is no legal risk on the repossession and breach of the building covenant as described in Note 7 above would not affect the title of the property. Further, our valuation represents the capital value of the property assuming it is freely disposable on the valuation date.

Set out below is the text of the property valuation reports on the Vendor as of the date of valuation 30 April 2007 prepared by Savills (Singapore) Pte Ltd. for incorporation in this circular:



Savills (Singapore) Pte Ltd
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F: 6536 8611

No. 2 Shenton Way
#17 - 01 SGX Centre 1
Singapore 068804, Singapore

REG No.: 198703410D
T: (65) 6536 5022
savills.com

30 June 2007

The Board of Directors
Winfoong International Limited
Room 3201
9 Queen's Road Central
Hong Kong

Dear Sirs

**VALUATION OF 360 ORCHARD ROAD,
INTERNATIONAL BUILDING AND EXCESS DEVELOPMENT LAND
AT THE REAR, SINGAPORE 238869**

1. PURPOSE OF REPORT

We refer to your recent instructions to carry out a valuation of the above-mentioned property so as to advise you on the **Open Market Values** as at 30 April 2007 for the purpose of inclusion into the circular of Winfoong International Limited dated 30 June 2007.

Open Market Value is defined as an opinion of the best price at which the sale of an interest in property would have been completed unconditionally for cash consideration on the date of valuation, assuming:

- (a) a willing seller;
- (b) that, prior to the date of valuation there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of the price and terms and for the completion of the sale;
- (c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- (d) that no account is taken of any additional bid by a prospective purchaser with a special interest; and
- (e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion.

No allowances have been made for any expenses, or realisation, or for taxation which might arise in the event of a disposal. All properties are considered as if free and clear of all mortgages or other charges which may be secured thereon.

2. LOCATION

The subject building is situated about 100 metres from the junction of Orchard/Scotts Road. This junction is considered to be the focus of activity in Orchard Road which is the main shopping/entertainment corridor of Singapore. It adjoins the Shaw House and Lido Cineplex.

The surrounding area is also marked by high-rise hotels and commercial buildings including Shaw Centre, Liat Towers, Wheelock Place, Orchard Towers, Hilton International Singapore, Far East Shopping Centre, Grand Hyatt Singapore, Royal Plaza, Far East Plaza, Wisma Atria, etc.

The underground link from Lucky Plaza to Ngee Ann City through Wisma Atria, Orchard MRT Station, Marriott Hotel and Shaw House, also enhances the locality of International Building.

In addition, being just outside the Restricted Zone of the ERP Gantry, where vehicles need to pay a levy between 7.30 am to 7.00 pm on Mondays to Fridays to enter the zoned areas, the subject Building is in a commercially advantageous position.

(Please refer to Location Plan under APPENDIX 'A')

3. DESCRIPTION

Land

The subject site is a L-shaped land legally known as Lot 956X Town Subdivision 25. The site has an area of approximately **4,224.7 square metres (45,474 square feet)** and a frontage of approximately 29 metres to Orchard Road.

(Please refer to Site Plan under APPENDIX 'B')

Existing Building

INTERNATIONAL BUILDING is a 12-storey (3-storey podium and a 9-storey tower block) office-cum-shopping development with a basement level.

The building is generally constructed of reinforced concrete framed structure with reinforced concrete floors, infilled brickwalls and reinforced concrete flat roof.

The building houses jewellery shop, beauty saloon, hair saloon, restaurants, dental clinic and cafes on the first and second levels. Office units are located on the third to twelfth storeys. The third storey is currently tenanted and used as a karaoke pub. The entrance foyer faces Orchard Road.

(Refer to Floor Layout Plans under APPENDIX 'C').

Vertical access within the building is facilitated by 3 lifts and 2 staircases, as well as 2 escalators between the first and second storeys.

The building is centrally air-conditioned and installed with fire protection equipment which comprises a fire sprinkler system, fire hose reels and dry risers on each floor.

Adequate male and female toilets are provided on every storey.

Finishes to the common areas include marble slab to the first and second storey corridor areas, carpet sheets to the office passage areas and granite tiles to the toilets. The toilet walls are tiled to ceiling height.

A 2-level carpark deck, accessible by Claymore Hill/Scotts Road, is located at the rear of the building. This is where the proposed development will be sited.

4. MASTER PLAN (1985)

Part "Permanent Residential" (maximum density of 185 persons per hectare) and part "main shopping".

According to the Written Statement:

Residential Areas used or intended to be used mainly for residential development are shown as Permanent or Temporary Residential Zones. It is the intention that new developments in temporary Residential Zone should be for permanent residential buildings.

Within the Central Area Map and Town Map, residential development intensity as controlled by density varies from area to area depending on the character of individual area. The quantum of all ancillary or non-residential uses needed for support or management of residential estate such as in condominium development are to be determined by the Competent Authority according to the scale of the residential development.

Main Shopping Areas used or intended to be used mainly for commercial purposes where at least the first storey shall be for shopping use. Banks and post offices can be allowed on the first storey.

5. MASTER PLAN (2003)

Under the Master Plan (2003), the subject property falls under a “Commercial” zoned area with a base plot ratio of 5.6 (gross) and a building height of up to 30 storeys.

Variable increases over and above the fixed plot ratio will be considered if the site falls within the 200 metres, radius around the MRT station box:

- 10% increase in plot ratio if 50% or more of the site is within the area of influence
- 5% increase in plot ratio if less than 50% of the site is within the area of influence

Yat Yuen Hong Company Limited has engaged land surveyor, Messrs Tang Tuck Kim Registered Surveyor and they have determined that 67% of the subject site falls within the 200 metres radius of the Orchard MRT station box (please refer to Survey Plan No. TTK 279/88-Susan under APPENDIX ‘D’).

For the purpose of this valuation, Yat Yuen Hong Company Limited has advised us to take into account the survey carried out by Messrs Tang Tuck Kim. It is to be noted that this information has not been verified by the URA.

6. DEVELOPMENT POTENTIAL OF LAND AT THE REAR

We have been informed that the subject property has an approved Gross Floor Area of **15,059.75 square metres** and a paid-up Plot Ratio of 3.56 (gross).

Given that the existing paid-up plot ratio is 3.56, there is a potential to increase the plot ratio of the site by 2.6, subject to payment of Development Charge. (Please refer to Computation of Development Charge under Appendix 'E'). The overall allowable plot ratio of 6.16 (gross) assumes a variable increase of 10% bonus to the allowable fixed plot ratio of 5.6 (gross).

For the purpose of this valuation, it is assumed that Written Permission will be granted for the said development on the land at the rear.

7. TITLE DETAILS

(Based on title search carried out by Savills (Singapore) Pte Ltd)

Legal Description:	Lot 956X Town Subdivision 25
Tenure:	Freehold
Land Area:	Approximately 4,224.7 square metres (45,474 square feet)

8. PUBLIC SCHEME(S)

We have not carried out any requisitions and as such, we are unable to advise whether or not the subject property will be affected by any proposed public schemes. We suggest that requisitions be made to the relevant authorities.

Public schemes would include road widening, drainage reserves, MRT projects, conservation, etc.

9. METHODS OF VALUATION

We have adopted the **Sales Comparison Method** of Valuation in valuing the existing building and the **Residual Method** in valuing the redevelopment site at the rear.

Under the **Sales Comparison Method**, the market value of a property is assessed having regard to recent transactions of similar type properties, preferably in the same locality. Appropriate adjustments are made to account for differences in tenure, location, condition, etc. This method is based on the substitution principle whereby a prudent purchaser is assumed to pay no more for a particular property than it would cost to buy an equally desirable substitute property available in the market. This approach also takes into account the general prevailing economic condition affecting the property market.

Under the **Residual Method**, the site value is determined by the value of a property which has potential for development, redevelopment or refurbishment. The estimated total cost of work, including fees and other associated expenditure, plus an allowance for interest, developer's risk and profit, is deducted from the gross value of completed project. The resultant figure is then adjusted back to the date of valuation to give the residual value.

10. VALUATION

A. PROPERTIES OWN BY YAT YUEN HONG COMPANY LIMITED

(i) Existing Building

Levels	Use	Floor Area (Sq ft)	Rate (S\$psf)	Open Market Value (S\$)
Basement	Retail	4,553	1,450	6,601,850
1st	Retail	7,300	3,300	24,090,000
2nd	Retail	12,046	2,150	25,898,900
3rd to 12th (exclude 4th storey & #05-05)	Office	80,891	1,350	<u>109,202,850</u>
			Sub-Total	<u><u>165,793,600</u></u>

Say **165,790,000***(ii) Value of Development Rights:*

(Based on Development Gross Plot Ratio of 6.16), and assuming that Planning Approval is granted
(Please refer to APPENDIX 'F' for details)

S\$ 49,480,000**TOTAL S\$215,270,000**

B. PROPERTIES OWN BY SUPER HOMES PTE LTD

(Existing International Building)

Levels	Use	Floor Area (Sq ft)	Rate (S\$psf)	Open Market Value (S\$)
4th Storey	Office	12,253	1,350	16,541,550
#05-05	Office	969	1,350	<u>1,308,150</u>
			TOTAL	<u><u>17,849,700</u></u>

SAY **S\$ 17,850,000****GRAND TOTAL S\$233,120,000**

11. OPINION OF VALUES

In view of the aforementioned and having taken into account the relevant factors and the prevailing market condition, we are of the considered opinion that the Open Market Values as at 30 April 2007 of the following properties are as follows:

(A) PROPERTIES OWN BY YAT YUEN HONG COMPANY LIMITED

Existing International Building (excluding 4th storey and unit #05-05) and Development Rights (based on the Development Gross Plot Ratio of 6.16).

S\$215,270,000/-

(Singapore Dollars Two Hundred And Fifteen Million Two Hundred And Seventy Thousand Only)

(B) PROPERTIES OWN BY SUPER HOMES PTE LTD

(4th Storey and Unit #05-05 of International Building)

S\$17,850,000/-

(Singapore Dollars Seventeen Million Eight Hundred And Fifty Thousand Only)

The estimated **Building Reinstatement Cost** (new) for Fire Insurance purposes of the existing building is **S\$38,000,000/- (Singapore Dollars Thirty-Eight Million Only)**

Yours faithfully
SAVILLS (SINGAPORE) PTE LTD
DANIEL EE
Licensed Appraiser
B. Sc (Estate Management), MSISV

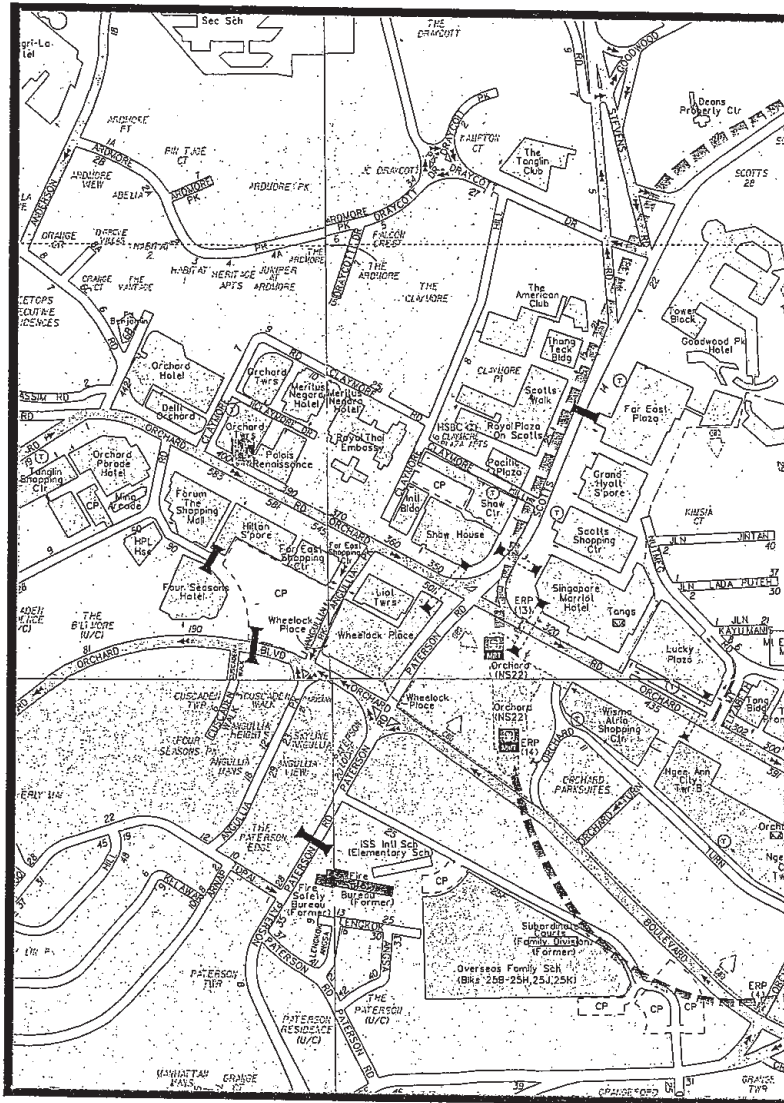
Note: Potential Tax Liability

Pursuant to the requirements of Rule 11.3 of the Takeovers Code, a valuation is required to state any potential tax liability which might arise on the assumption that the assets were sold at the amount of the valuation, accompanied by an appropriate comment as to the likelihood of any such liability crystallizing based on this assumption.

For properties situated in Singapore, the types of taxes that could arise when the properties are sold are income tax (the corporate rate is 20% for the year of assessment 2007 and 18% for the year of assessment 2008 onwards, subject to applicable deductions), stamp duty (at the rate of 3% of the consideration (assuming they are sold on the open market), less S\$5,400) and goods and services tax ("GST") on the non-residential units of the properties sold (at the current rate of 5% and which will be increased to 7% with effect from 1 July 2007).

According to information provided by the management of the Yat Yuen Hong Company Limited and Super Homes Pte Ltd, as the properties are held for investment purposes, the management is of the view that no liability for income tax would crystallize. Further, as the purchaser of the properties is liable for stamp duty, unless otherwise agreed, it is unlikely that stamp duty would be payable by Yat Yuen Hong Company Limited and Super Homes Pte Ltd as vendor. As Yat Yuen Hong Company Limited and Super Homes Pte Ltd are GST-registered persons and intend to contractually pass on to the purchaser of the property any GST liability that may accrue or arise, it is unlikely that any GST liability would crystallize on Yat Yuen Hong Company Limited and Super Homes Pte Ltd as vendor.

APPENDIX A
LOCATION PLAN

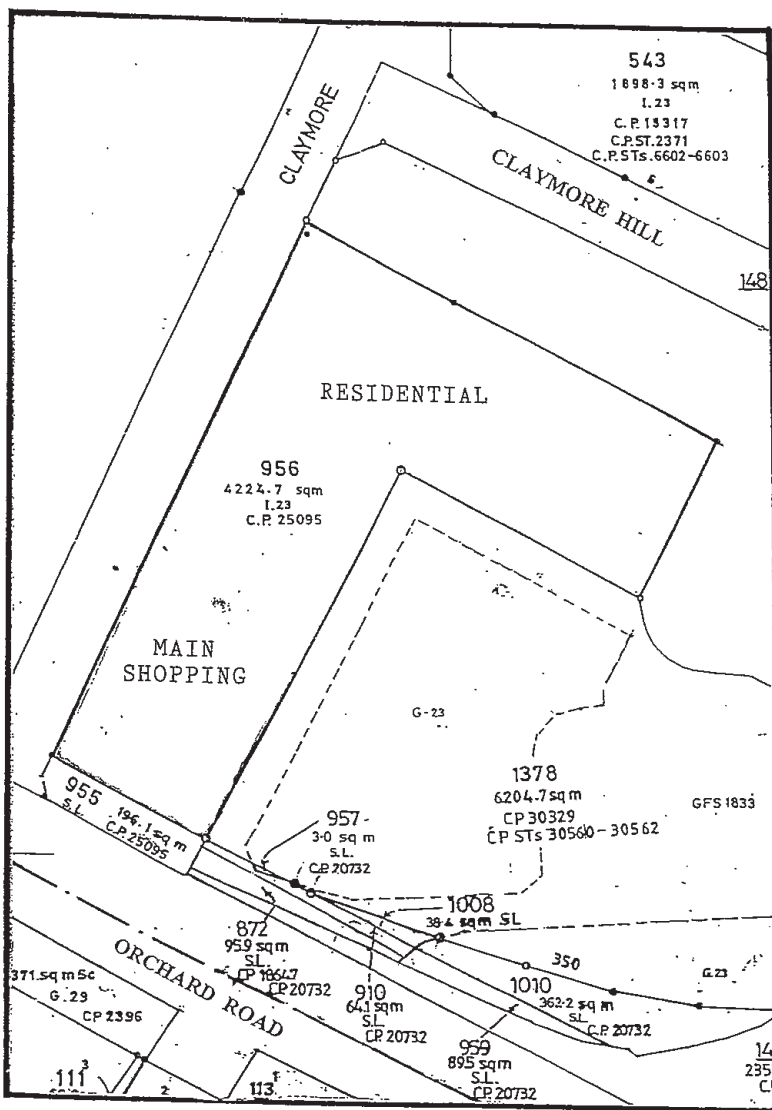


NOT TO SCALE

LEGEND

SITE OF SUBJECT DEVELOPMENT

APPENDIX B
SITE PLAN

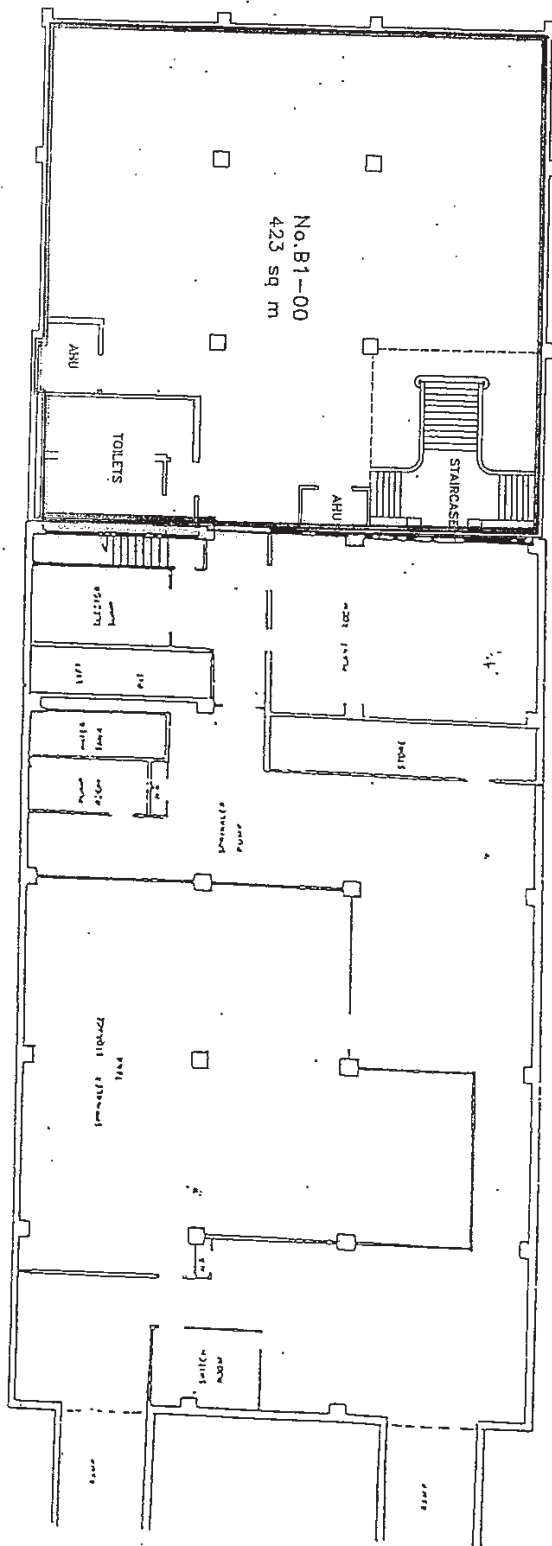


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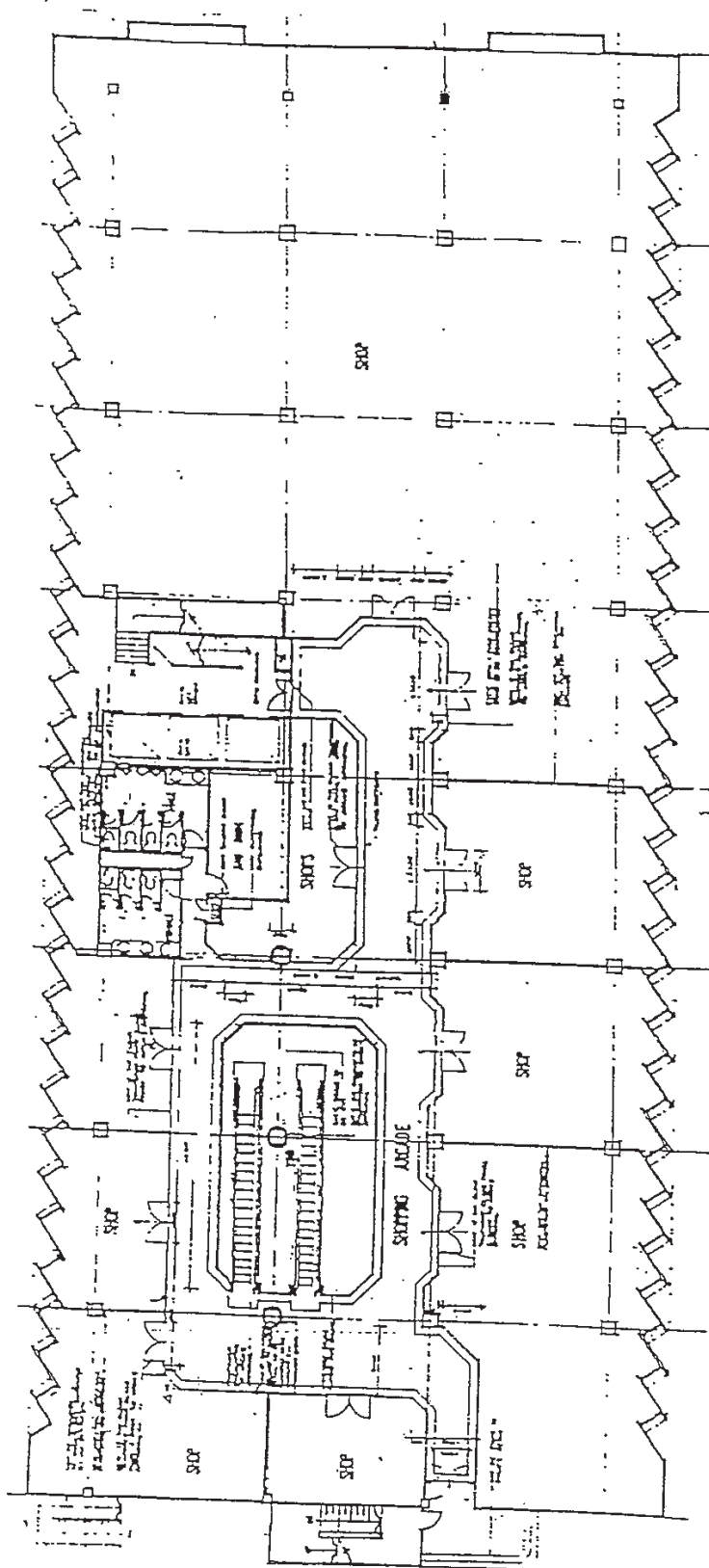
LEGEND

SITE OF SUBJECT PROPERTY

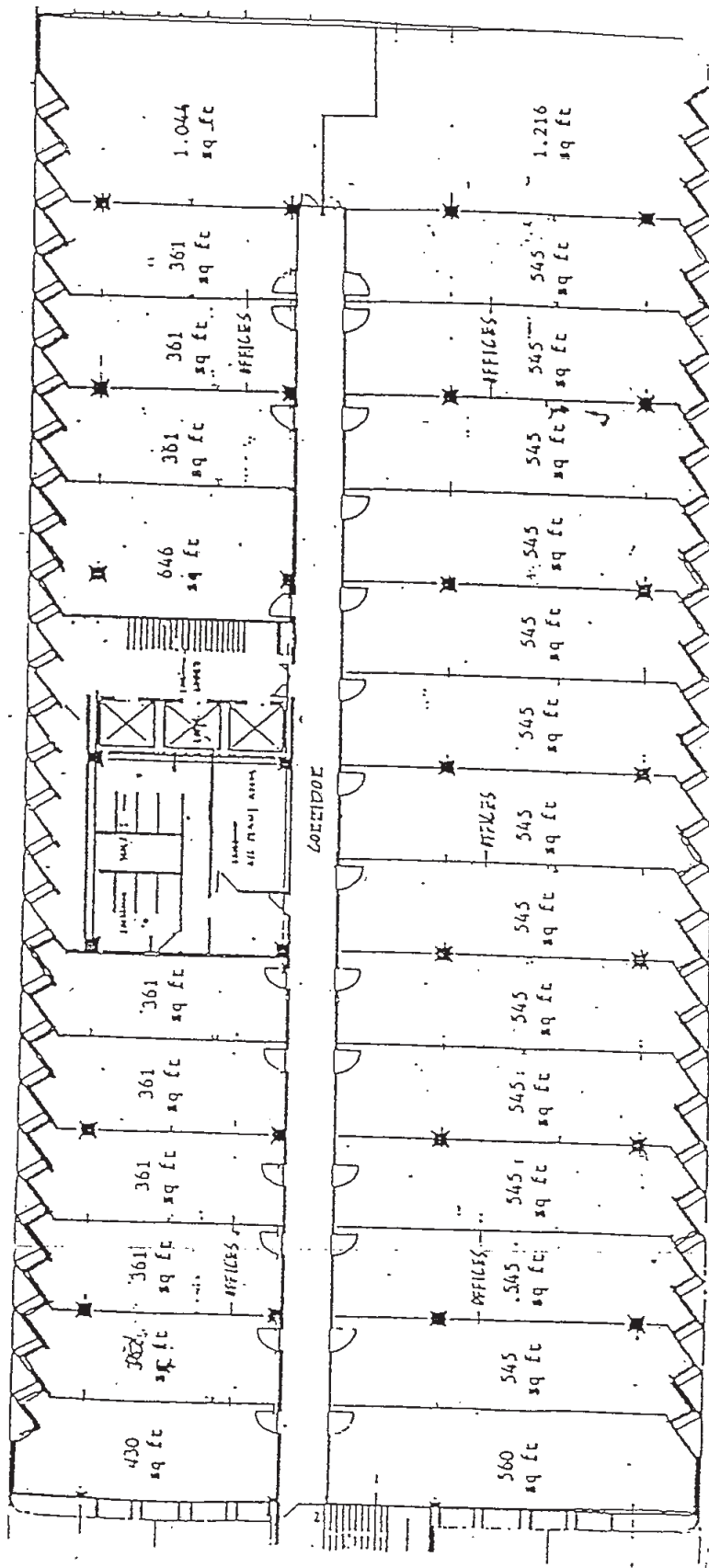
APPENDIX C
FLOOR LAYOUT PLAN



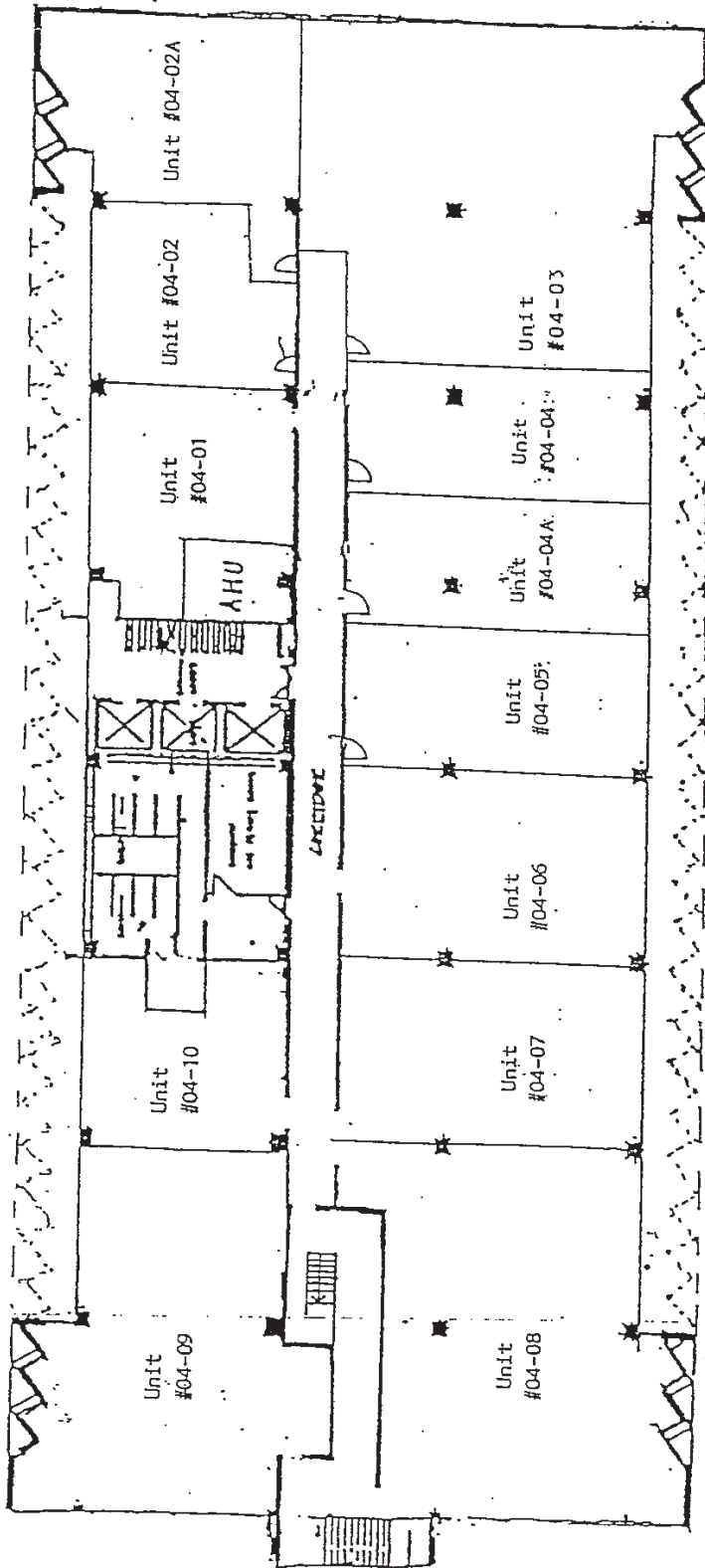
BASEMENT FLOOR LAYOUT PLAN
(Not to Scale)



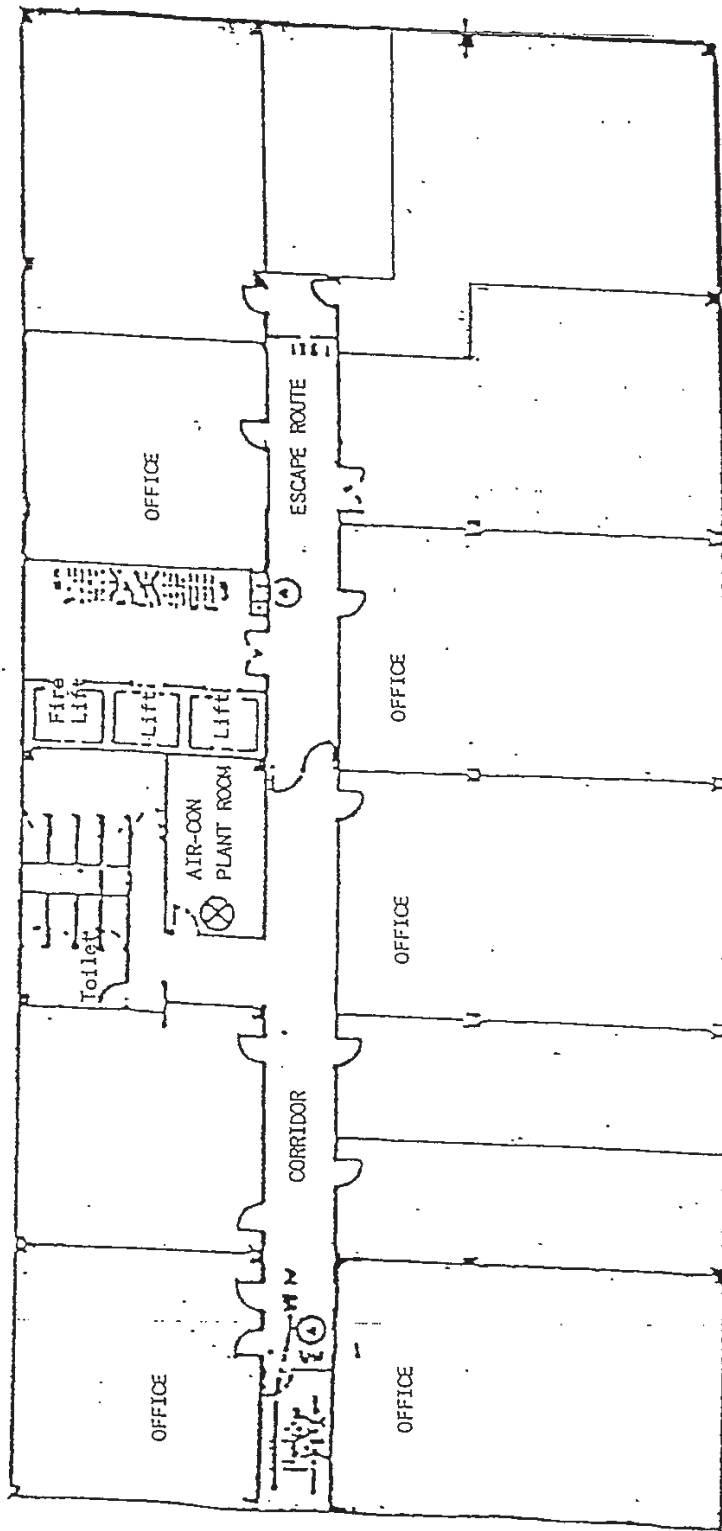
SECOND FLOOR LAYOUT PLAN
(Not to Scale)



THIRD FLOOR LAYOUT PLAN
(Not to Scale)



FOURTH FLOOR LAYOUT PLAN
(Not to Scale)



FIFTH TO TWELFTH FLOOR LAYOUT PLAN

(Not to Scale)

**APPENDIX E
COMPUTATION OF DEVELOPMENT CHARGE**

Development Charge Payable = Proposed Amount – Base Amount

$$\begin{aligned} &= \left[\begin{array}{l} \text{Proposed Plot} \\ \text{Ratio}^* \end{array} \times \begin{array}{l} \text{Land} \\ \text{Area} \end{array} \right] \times \left[\begin{array}{l} \text{Commercial Rate} \\ (9/2006) \end{array} - \begin{array}{l} \text{Approved} \\ \text{GFA} \end{array} \right] \times \begin{array}{l} \text{Commercial Rate} \\ (9/2006) \end{array} \\ &= [6.16^* \times 4,224.7\text{sqm} \times \$6,000\text{psm}^{**}] - [15,059.75\text{sqm} \times 6,000\text{psm}^{**}] \\ &= \$[156,144,912 - 90,358,500] \\ &= \underline{\underline{\$65,786,412}} \end{aligned}$$

For the purpose of valuing the redevelopment site at the rear, we have adopted the permissible plot ratio of 6.16 (gross)

** Based on Development Charge Rates Table with effect from 1 March 2007 Sector 42, Use Group A

**APPENDIX F
RESIDUAL VALUATION FOR
DEVELOPMENT LAND AT THE REAR**

(1) Gross Development Value

	GFA	NFA		\$	\$
	<i>(sq m)</i>	<i>(sq m)</i>	<i>\$psm</i>		
Total GDV	10,964	9,320	19,590		182,578,800
less					
Legal & Disposal Cost	@ 1% of GDV				1,825,788
					<u>180,753,012</u>
less					
Developer's Profit & Risk	@ 12% of GDV				21,909,456
					<u>158,843,556</u>

(2) Development Costs

Building Cost:					
Gross Floor Area (A)	10,964 sqm @ \$2,960 psm				32,453,440
Prof. Fees (B)	7% of Building Cost				2,271,741
Contingency ©	5% of Building Cost & Prof. Fees				1,736,259
Financial cost on construction	5% interest per annum @ 50% for 18 months (A & B)				1,302,194
Development Charge (DC) Payable	@ \$6,000 psm				65,786,412
Financial cost on DC	5% interest per annum @ 50% for 18 months				<u>2,466,990</u>
Total Development Cost					<u>106,017,036</u>
					52,826,520

(3) Residual Land Value

Sum Available for land, acquisition & holding cost less					
Finance Cost on Land:	5% interest per annum @ 50% of land value for 27 months				2,783,599
Property Tax on Land	@ 10% x 5% of land value for 27 months				556,720
					<u>3,340,319</u>
					49,486,201
(4) Land Value					49,486,201

SAY **49,480,000**



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30 June 2007

The Board of Directors
Winfoong International Limited
Room 3201
9 Queen's Road Central
Hong Kong

Dear Sirs

**VALUATION OF 298 & 300 BEACH ROAD THE CONCOURSE
SINGAPORE 199554 & 199555**

1. PURPOSE OF REPORT

We refer to your recent instructions to carry out a valuation of the above-mentioned property so as to advise you on its **Open Market Value** as at 30 April 2007 for the purpose of inclusion into the circular of Winfoong International Limited dated 30 June 2007.

Open Market Value is defined as an opinion of the best price at which the sale of an interest in property would have been completed unconditionally for cash consideration on the date of valuation, assuming:

- (a) a willing seller;
- (b) that, prior to the date of valuation there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of the price and terms and for the completion of the sale;

- (c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- (d) that no account is taken of any additional bid by a prospective purchaser with a special interest; and
- (e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion.

No allowances have been made for any expenses, or realisation, or for taxation which might arise in the event of a disposal. All properties are considered as if free and clear of all mortgages or other charges which may be secured thereon.

2. LOCATION

The Concourse is located at the junction of Beach Road and Jalan Sultan, outside the Electronic Road Pricing (ERP) Scheme Restricted Zone. Its strategic position offers easy and direct access to the eastern part of the island via East Coast Parkway (ECP); the wharves at Keppel Road and the western part of the island via the Ayer Rajah Expressway (AYE).

In recent years, Beach Road has emerged to be an important commercial area providing an alternative to the busy Raffles Place. The nearby twin-tower Gateway together with The Concourse reflects this fast changing trend in the area which was once characterised by shophouses. Slightly further away are the substantial Suntec City and Raffles City developments. Other developments along Beach Road include Shaw Leisure Gallery, as well as The Plaza and Key Point. Opposite the subject property, across Beach Road, is Kampong Glam Conservation Area, an urban renewal project and tourist attraction featuring restored pre-war houses.

The close proximity of Beach Road to the established financial district, Raffles Place, places The Concourse in an excellent position to attract spill over from the financial district. Accessibility to the subject property will be further enhanced by the proposed Nicoll Highway MRT Station, which will be located behind The Concourse, and linked to the subject property. This station will be located along the Circle Line which will run from Dhoby Ghaut to Marina Centre and then continue below Nicoll Highway to Stadium Boulevard, passing through landmarks such as the Singapore Art Museum, town campus of Singapore Management University, Suntec City, Millenia Walk, and the Singapore Indoor Stadium.

(Please refer to Location Plan under APPENDIX 'A')

3. DESCRIPTION

Site

The site occupies an area of approximately 20,491 square metres (220,563 square feet) and enjoys double frontages of approximately 200 metres to both Beach Road and Nicoll Highway.

(Please refer to Site Plan under APPENDIX 'B')

Development

The Concourse, designed by the world renowned American architect the late Paul Rudolph, comprises a 41-storey office tower block with a 5-storey office podium, an annexed 11-storey retail-cum-residential block, and 2 basements.

According to Hong Fok Land Ltd, the development has a gross floor area of approximately 105,917 square metres and total net lettable area of approximately 65,220 square metres. The breakdown of the lettable floor areas by commercial and residential elements are as follows:

	Lettable Area (sq. m.)
Retail	9,914
Office	46,754
Apartments	<u>8,552</u>
Total	<u><u>65,220</u></u>

(Please refer to Floor Layout Plans under APPENDIX 'C')

The general accommodation is as follows:

(i) ***41-Storey Tower Block***

Level	Usage
Basements 1 & 2	Car parks
1st Storey	Office lobby
2nd to 5th Storeys	Offices
6th to 8th Storeys	Plant and machinery
9th to 41st Storeys	Offices

(ii) 11-Storey Retail-Cum-Residential Block

Level	Usage
Basement 2	Car parks
Basement 1	Shops, restaurants and car parks
1st to 2nd Storeys	Shops and restaurants
3rd to 11th Storeys	Apartments

There are a total of 619 car park lots located on basements 1 and 2, accessible via Beach Road. Additionally, there are 5 lorry lots located on the 1st storey loading/unloading bay.

The recreational facilities available within the development are swimming pool and wading pool, a fully-equipped fitness centre, 2 saunas, 2 squash courts of which one is converted to a recreation room with a pool table, and male/female changing rooms. These facilities are located on the 3rd storey of the retail block.

The upper floor enjoys a panoramic view of the sea and cityscape.

Construction

The development is generally constructed of structured steel frames and beams, reinforced concrete floors and flat roof.

External Finishes

The facade of the building are generally cladded with smooth aluminium curtain walling with full height glass panels to the shopping and office floors and sloping aluminium frame windows.

Internal Finishes

AREA	FLOOR	WALL	CEILING
Typical Shop	cement screed, granite	plastered and painted	off-form concrete
Typical Office Unit	cement screed	plastered and painted	suspended ceiling
❖ Typical Apartment	carpet, ceramic	marble, wall paper, mirror panel	suspended ceiling
Common Areas	granite	aluminium cladding, spray textured, granite	suspended ceiling

- ❖ The apartments are fully furnished and fitted with kitchen cabinets, wardrobes and central air-conditioners.

Mechanical & Electrical Services***Lifts & Escalators******(i) Office Tower Block***

The office tower block is divided into 2 zones (low-rise and high-rise zone), each being served by a set of 4 double-decker lifts. The set of lifts in the low-rise zone serves the 1st, 2nd and 9th to 24th storey while that in the high-rise zone serves the 1st, 2nd and 25th to 41st storey. In addition, there is a set of escalator linking the basement car parks to the 1st and 2nd storey atrium. There is also a fireman-cum-service lift serving basement 1 to 41st storey.

(ii) Office Podium (Within Tower Block)

There are 2 lifts serving basement 1 to the 5th storey.

(iii) Retail-Cum-Residential Block

This block is served by 2 passenger lifts and 2 service lifts with 2 sets of escalators per floor serving basement 1 to the 2nd storey. Access to the apartments on the 3rd to the 11th storey in this block is via a separate lift lobby served by 4 sets of lifts.

Air-conditioning

The Concourse is centrally air-conditioned by a chilled water system.

(i) Retail-Cum-Residential Block

Fan coil system for individual small shops and apartments, and variable air volume (VAV) AHU for large shops and restaurants.

(ii) Office Tower Block

Variable Air Volume (VAV) air handling unit with low pressure ductwork and diffusers for the 2nd to 5th storey. Ceiling mounted fan coil units for perimeter zones and CAV AHU for internal zones from the 9th to 41st storey.

Fire Protection

Fire-fighting equipment include fire sprinklers, dry and wet riser systems, fire alarm system, hose reel system, fire extinguishers and fireman intercom system. Fire indicator boards with zone diagrams are also installed on every level, with manual call points and alarms placed throughout the development at strategic points.

Emergency Power Supply

Essential building services including fire fighting services, elevators, lightings, ventilation fans and other safety equipment are fully backed up by 4 standby generators.

Light Fittings

Recessed lights mounted in suspended ceiling for all the offices areas.

Mechanical & Electrical System

The electricity supply for the offices is provided by 4 units of 60 amp 3-phase distribution boards, while that of the shops and restaurants are provided by 60 amp 3-phase or 60 amp single-phase electricity supply.

Telecommunications and computer services are provided by a 3-way flush floor trunking system. The installation of a Master Antennae Television System (MATV) also enables reception of Teleview, Teletext and Singapore Cable Vision.

Building Automation System (BAS)

The BAS monitors and controls M & E equipment including air-conditioning plant and air-handling equipment, ventilation fans, domestic water pumps, electrical services, standby generators and fire alarm detection. The installation of the system ensures efficient operation and maintenance of the building.

Other Services

We have been informed that The Concourse is now broadband enabled by Starhub Pte Ltd, Singtel and Pacific Internet.

4. PROPOSED ADDITIONS AND ALTERATIONS TO THE CONCOURSE

We have been informed that Written Permission from the URA was granted on 31 October 1996 for the proposed addition and alteration works to the existing building. This addition and alteration works involve the enclosing of approximately 8,882 square metres of the existing roof terraces in the office tower to office space. We have also been informed that the Development Charge payable has been fully paid and that this Written Permission has been extended and was lapsed on 31 October 2006. For the purpose of this valuation, we have assumed that the value of the additional gross floor area is still valid on the basis that the Development Charge has been fully paid for the said planning approval from the URA.

(Please refer to Grant of Written Permission dated 31 October 1996 in APPENDIX 'D')

The breakdown in the additional area of 8,882 square metres are as shown under APPENDIX 'E'.

5. MASTER PLAN (2003)

The site is zoned 'Commercial'.

6. TITLE DETAILS

(Based on title search carried out by Savills (Singapore) Pte Ltd)

Legal Description & Land Area	:	Lot 1040T	TS13 –	19,901.3 sqm
		Lot 1043N	TS13 –	<u>591.6 sqm</u>
				<u><u>20,492.9 sqm</u></u>

Tenure : 99 years commencing from 16 June 1980

Registered Owner : Hong Fok Land Ltd

7. INFORMATION PROVIDED TO US

For the preparation of this report, we have been furnished with the following:

- (a) Floor Layout Plan
- (b) Schedule of Floor Areas
- (c) Number of Car Parks
- (d) Floor area of proposed addition and alteration works to the 10th, 12th, 14th, 16th, 18th, 20th, 22nd, 24th, 26th, 28th, 30th, 32nd, 34th, 36th and 38th storeys.
- (e) Floor area of the proposed addition and alteration works attributable to Concourse Shopping Mall

8. METHOD OF VALUATION

The **Sales Comparison Method** has been adopted in determining the **Open Market Value** of the subject property.

Under the **Sales Comparison Method**, the market value of the property is assessed having regard to recent transactions of similar type properties, preferably in the same locality. Appropriate adjustments are made to account for differences in tenure, location, condition, etc. This method is based on the substitution principle whereby a prudent purchaser is assumed to pay no more for a particular property than it would cost to buy an equally desirable substitute property available in the market. This approach also takes into account the general prevailing economic condition affecting the property market.

(Please refer to Evidence of Comparable Sales under APPENDIX 'F')

9. VALUATION

(i) Value of Existing Building

Type	Area (Square Metres)	Approx. Overall Rate (S\$psm)	Open Market Value (S\$)
Retail	9,914	15,050	149,207,486
Office	46,754	13,545	633,282,930
Apartments	8,552	7,981	68,252,584
Carpark (619 lots)			<u>8,000,000</u>
		cf	858,743,000

(ii) Value of Development Rights*

Proposed GFA 8,882 sq metres x \$6,000 psm	=	<u>53,292,000</u>
	TOTAL	<u><u>912,035,000</u></u>
	Say	\$912,000,000

* This involves the proposed enclosure of approximately 3,771 square metres of the existing roof terraces in the office tower to office space and transferring approximately 5,111 square metres of the freed-up roof terrace gross floor area for retail re-development, and assuming that all Development Charges have been fully paid.

(Please refer to Schedule of Valuation under APPENDIX 'G')

10. OPINION OF VALUES

In view of the aforementioned and having taken the relevant factors and the prevailing market condition into account, we are of the considered opinion that the **Open Market Value** of the subject property as at 30 April 2007 is **S\$912,000,000/-** (Singapore Dollars Nine Hundred And Twelve Million Only).

Its **Forced Sale Value** and **Building Reinstatement Cost** for Fire Insurance (new) purposes are estimated at **S\$770,000,000/-** (Singapore Dollars Seven Hundred And Seventy Million Only) and **S\$300,000,000/-** (Singapore Dollars Three Hundred Million) respectively.

Yours faithfully
SAVILLS (SINGAPORE) PTE LTD
DANIEL EE
Licensed Appraiser
B. Sc (Estate Management), MSISV

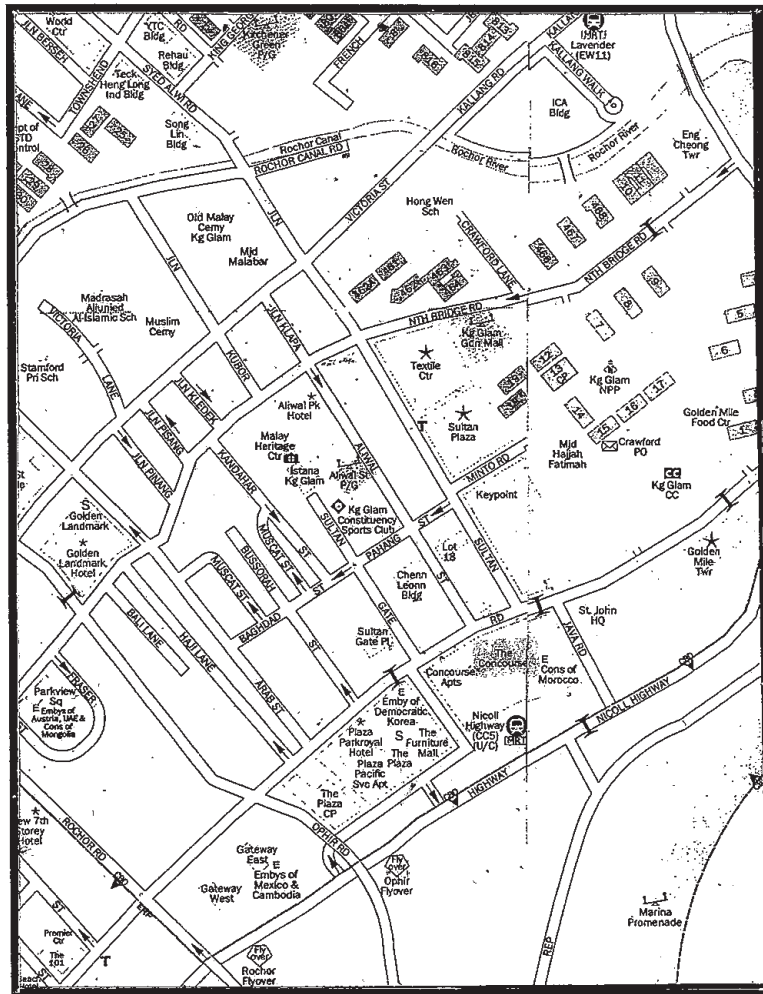
Note: Potential Tax Liability

Pursuant to the requirements of Rule 11.3 of the Takeovers Code, a valuation is required to state any potential tax liability which might arise on the assumption that the assets were sold at the amount of the valuation, accompanied by an appropriate comment as to the likelihood of any such liability crystallizing based on this assumption.

For properties situated in Singapore, the types of taxes that could arise when the properties are sold are income tax (the corporate rate is 20% for the year of assessment 2007 and 18% for the year of assessment 2008 onwards, subject to applicable deductions), stamp duty (at the rate of 3% of the consideration (assuming they are sold on the open market), less S\$5,400) and goods and services tax ("GST") on the non-residential units of the properties sold (at the current rate of 5% and which will be increased to 7% with effect from 1 July 2007).

According to information provided by the management of Hong Fok Land Ltd, as the properties are held for investment purposes, the management is of the view that no liability for income tax would crystallize. Further, as the purchaser of the properties is liable for stamp duty, unless otherwise agreed, it is unlikely that stamp duty would be payable by Hong Fok Land Ltd as vendor. As Hong Fok Land Ltd is a GST-registered person and intends to contractually pass on to the purchaser of the property any GST liability that may accrue or arise, it is unlikely that any GST liability would crystallize on Hong Fok Land Ltd as vendor.

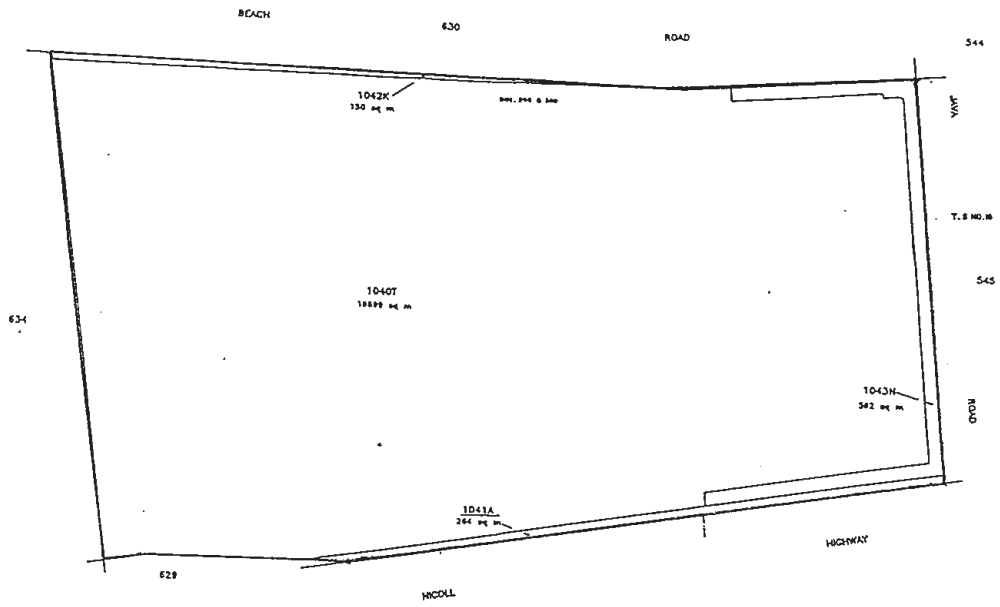
APPENDIX A
LOCATION PLAN



NOT TO SCALE

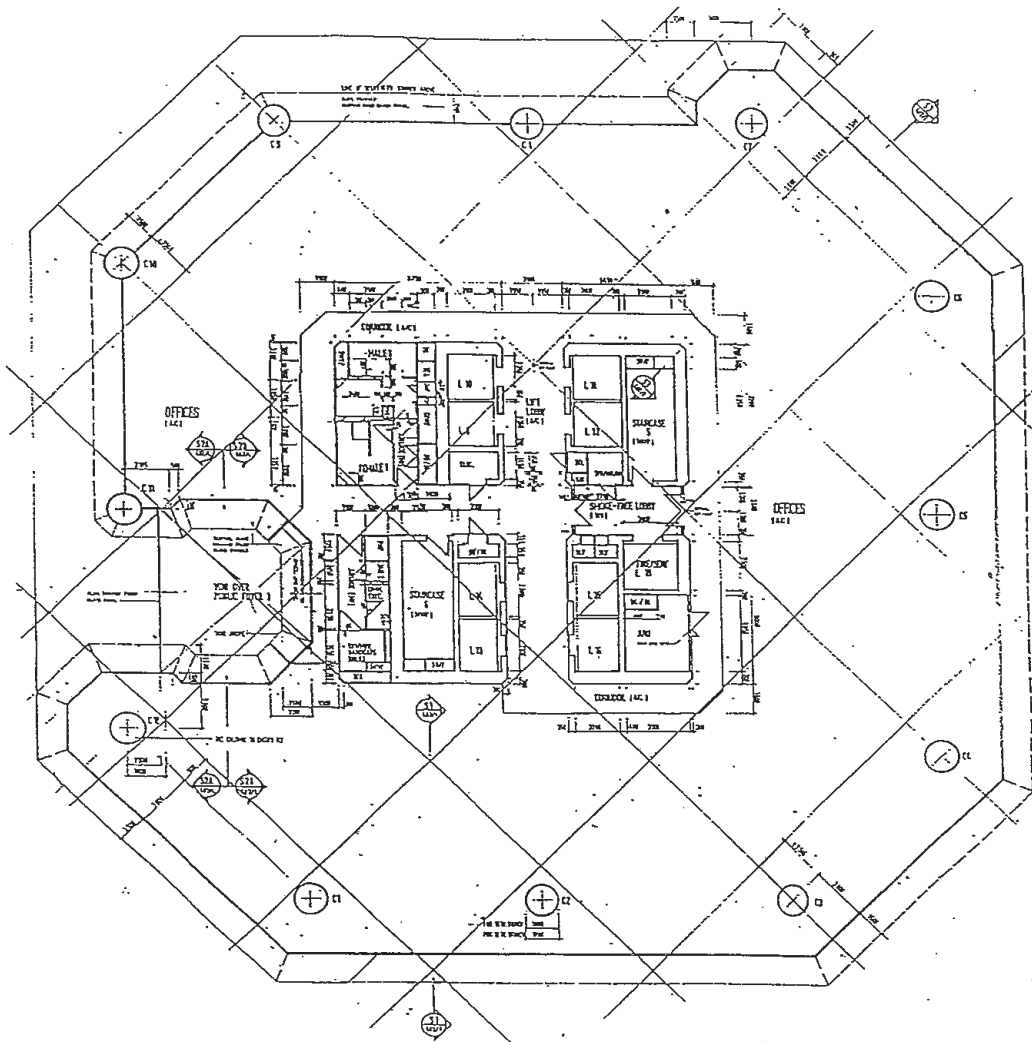
<p>LEGEND</p> <p>LOCATION OF SUBJECT PROPERTY</p>

APPENDIX B
SITE PLAN

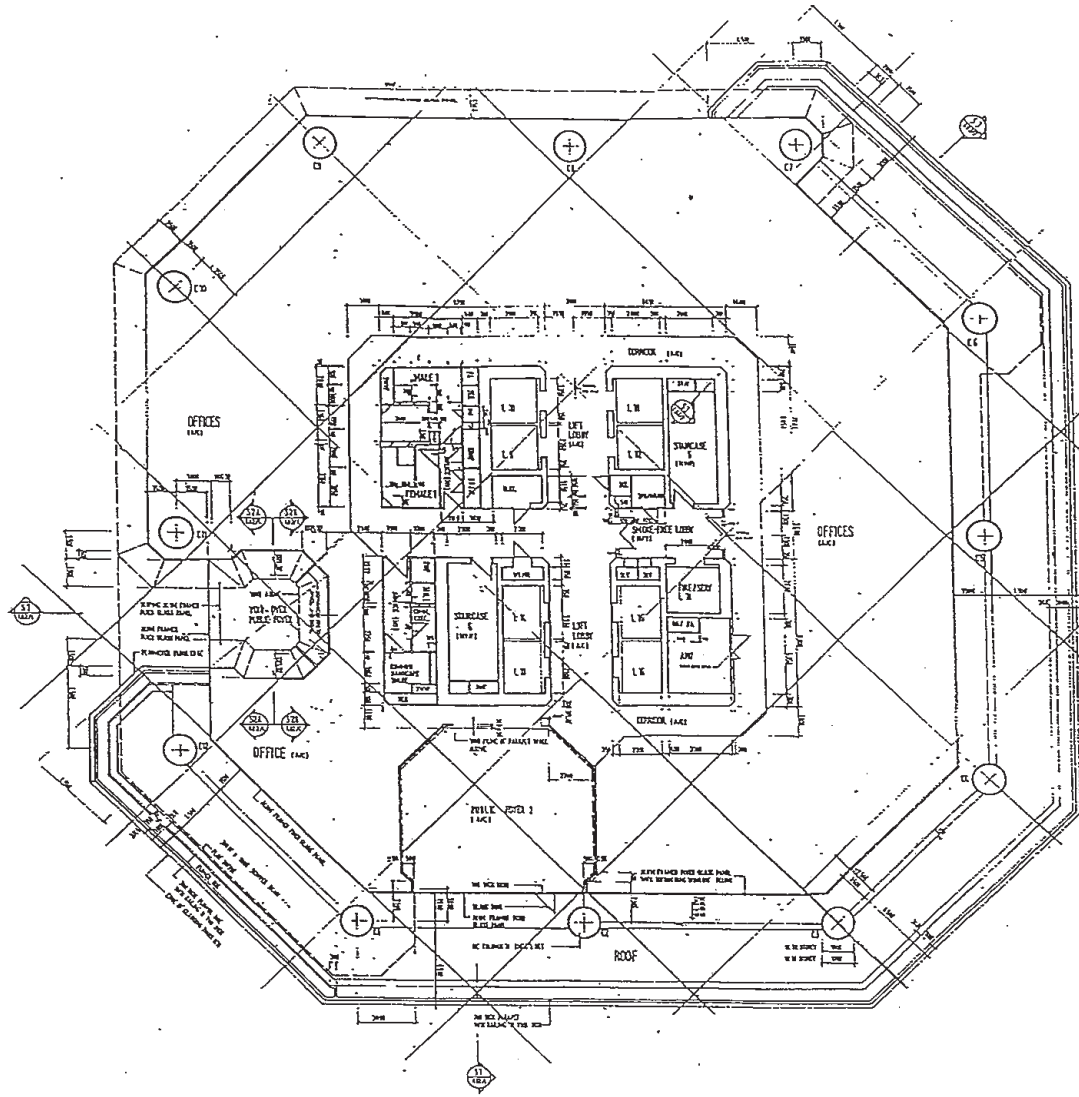


SITE PLAN
(Not To Scale)

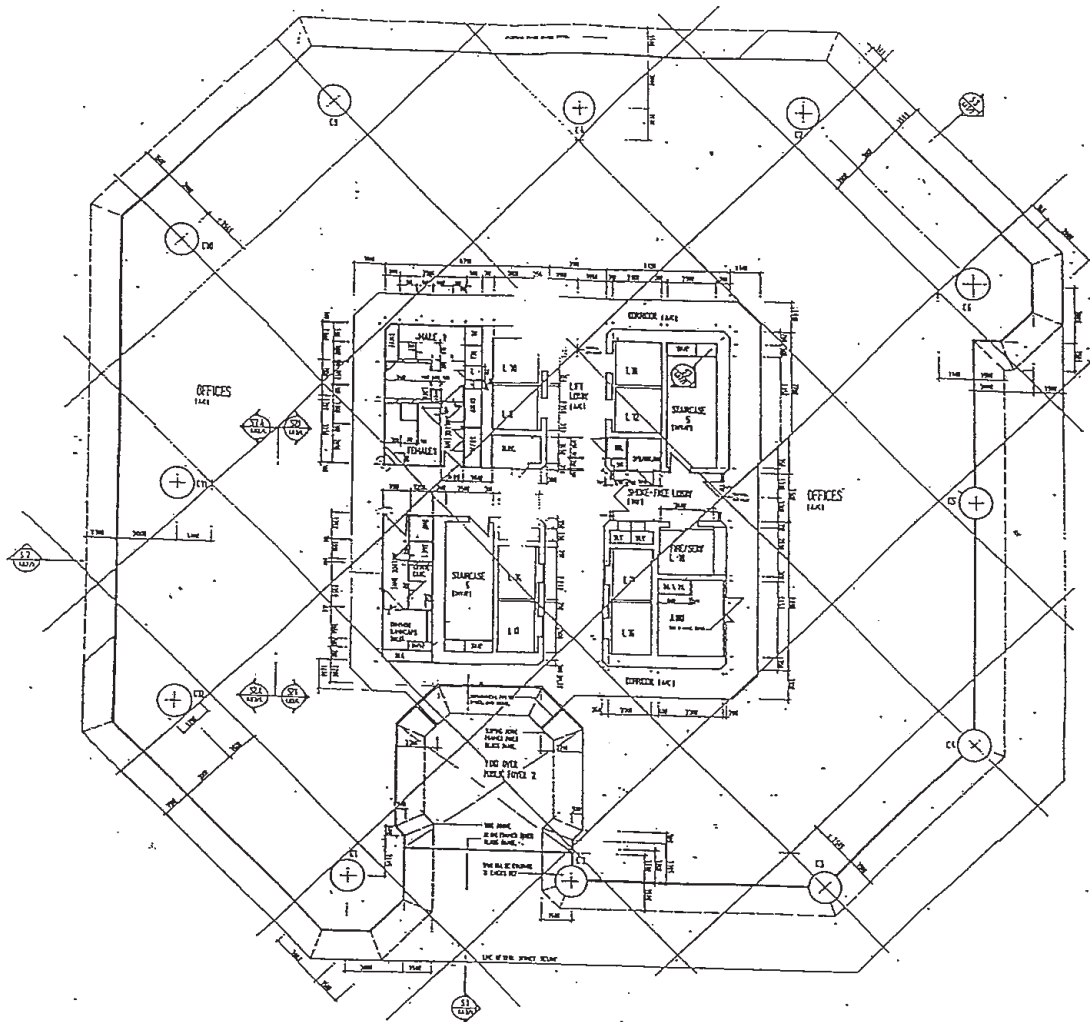
APPENDIX C
FLOOR LAYOUT PLANS



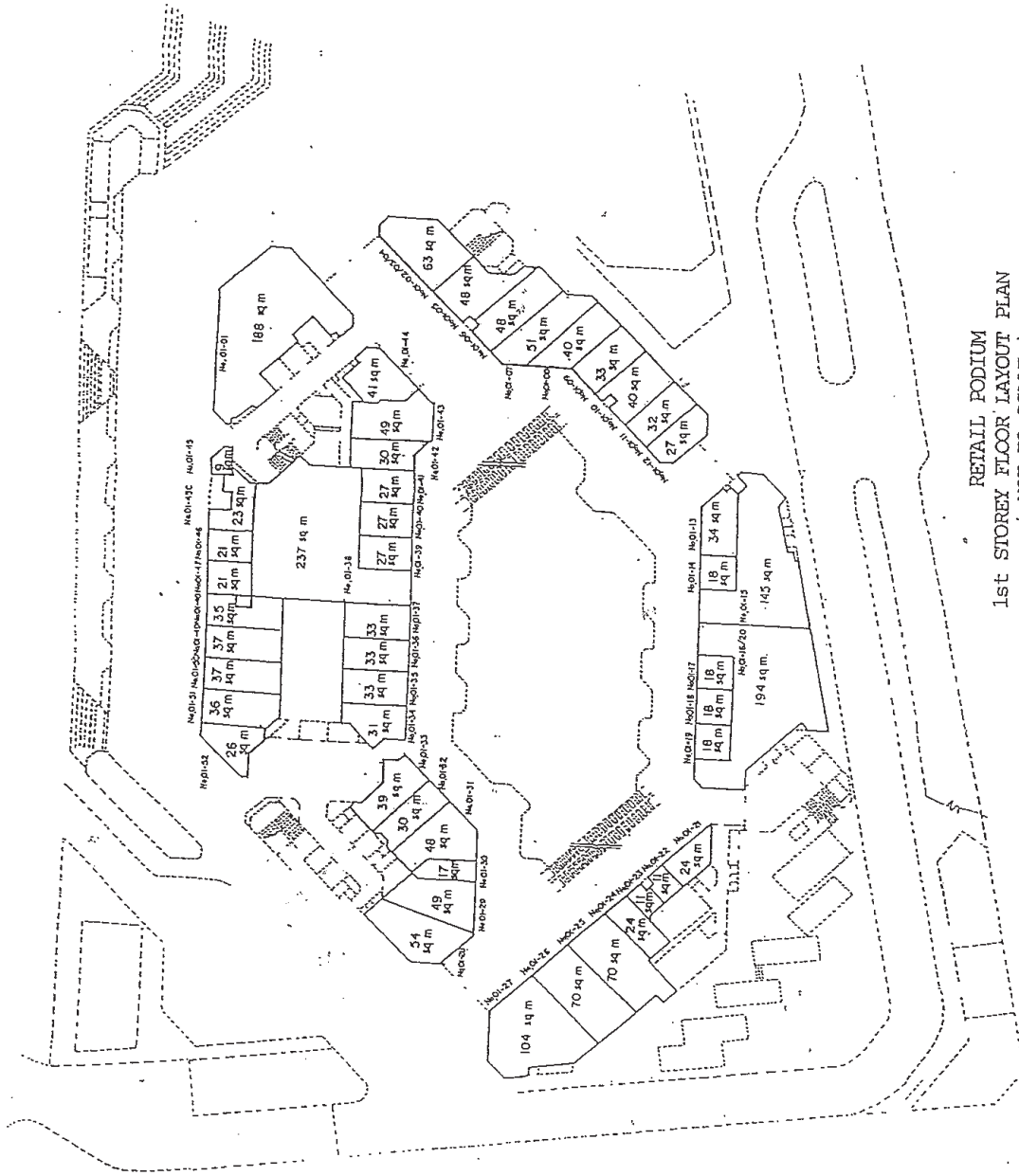
OFFICE TOWER BLOCK
TYPICAL 10th to 35th STOREY LAYOUT PLAN
(NOT TO SCALE)



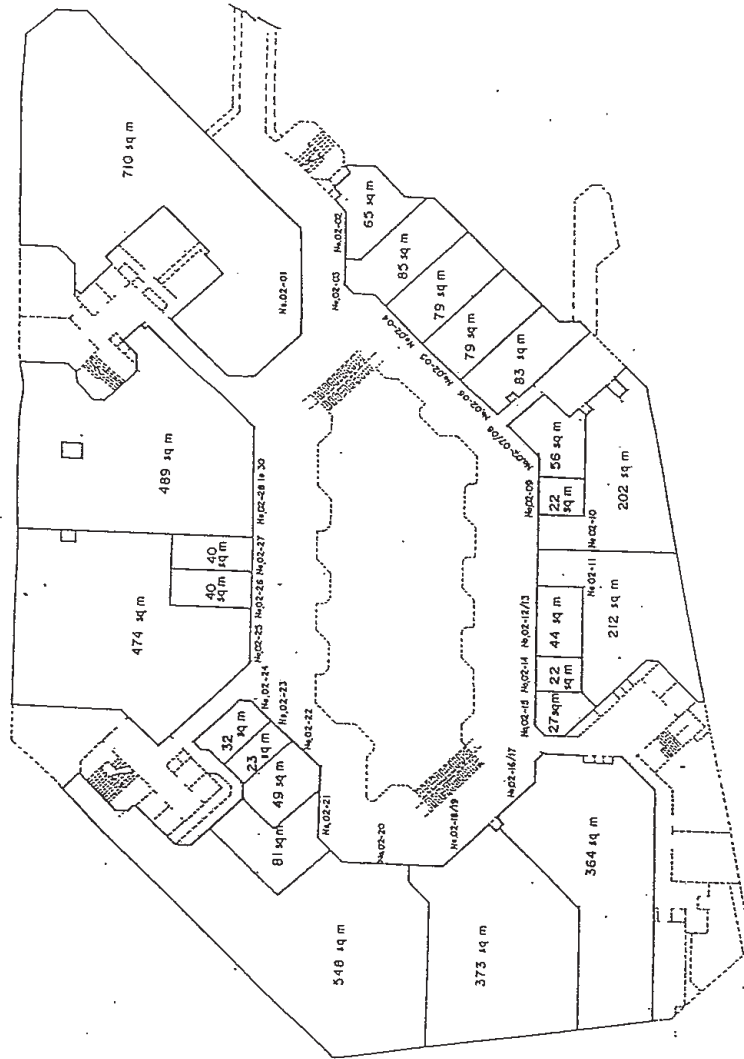
OFFICE TOWER BLOCK
TYPICAL 10th to 35th STOREY LAYOUT PLAN
(NOT TO SCALE)



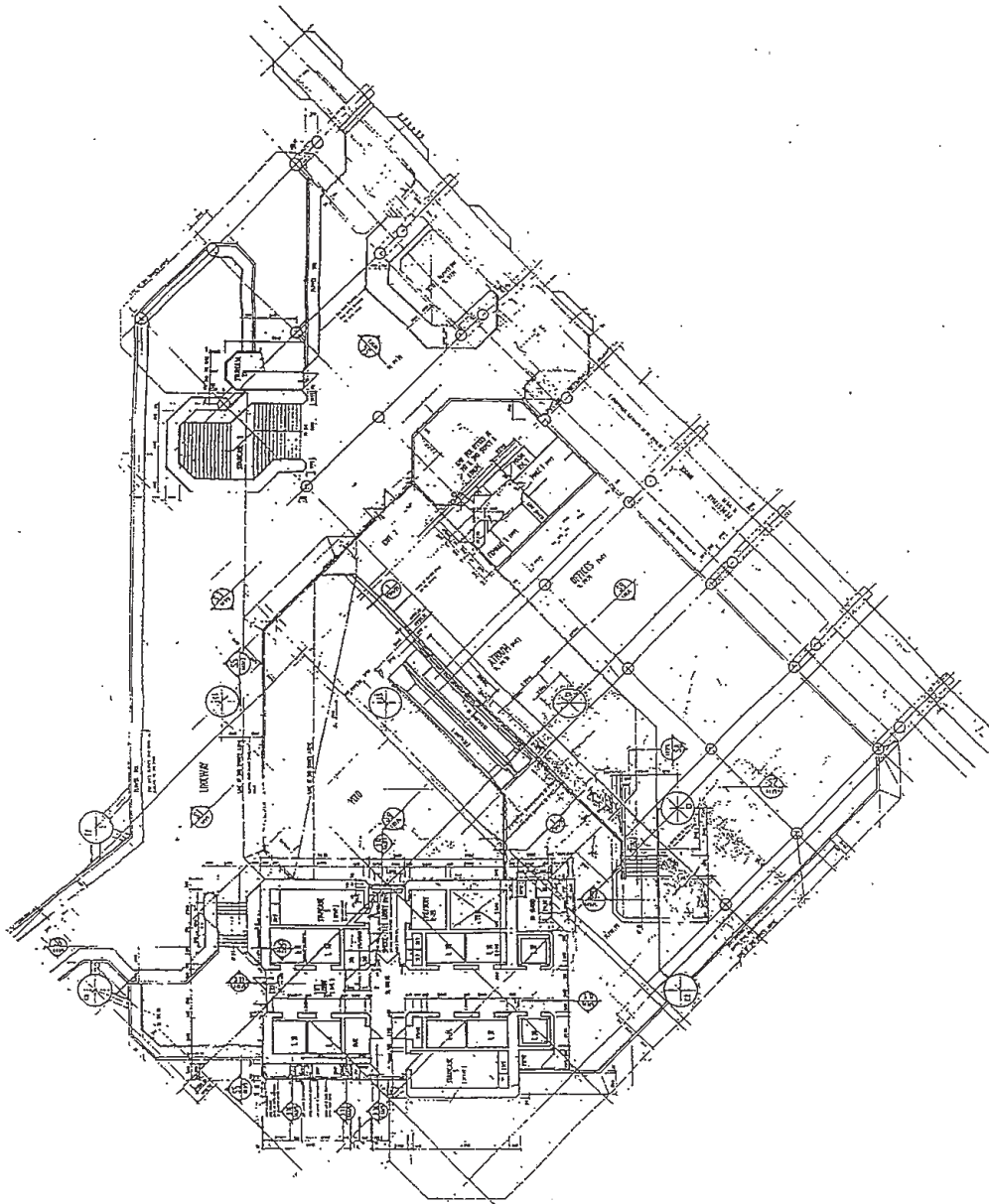
OFFICE TOWER BLOCK
TYPICAL 10th to 35th STOREY FLOOR LAYOUT PLAN
(NOT TO SCALE)



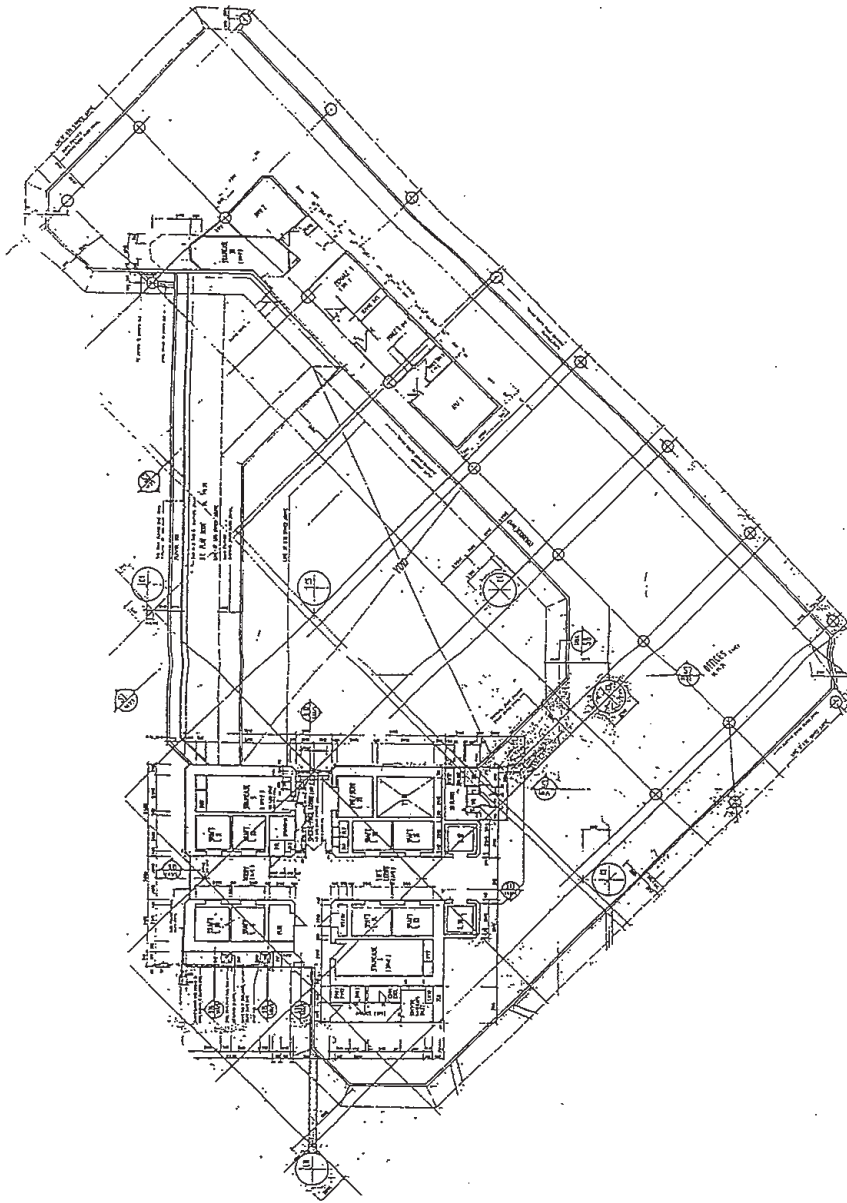
RETAIL PODIUM
1st STOREY FLOOR LAYOUT PLAN
(NOT TO SCALE)



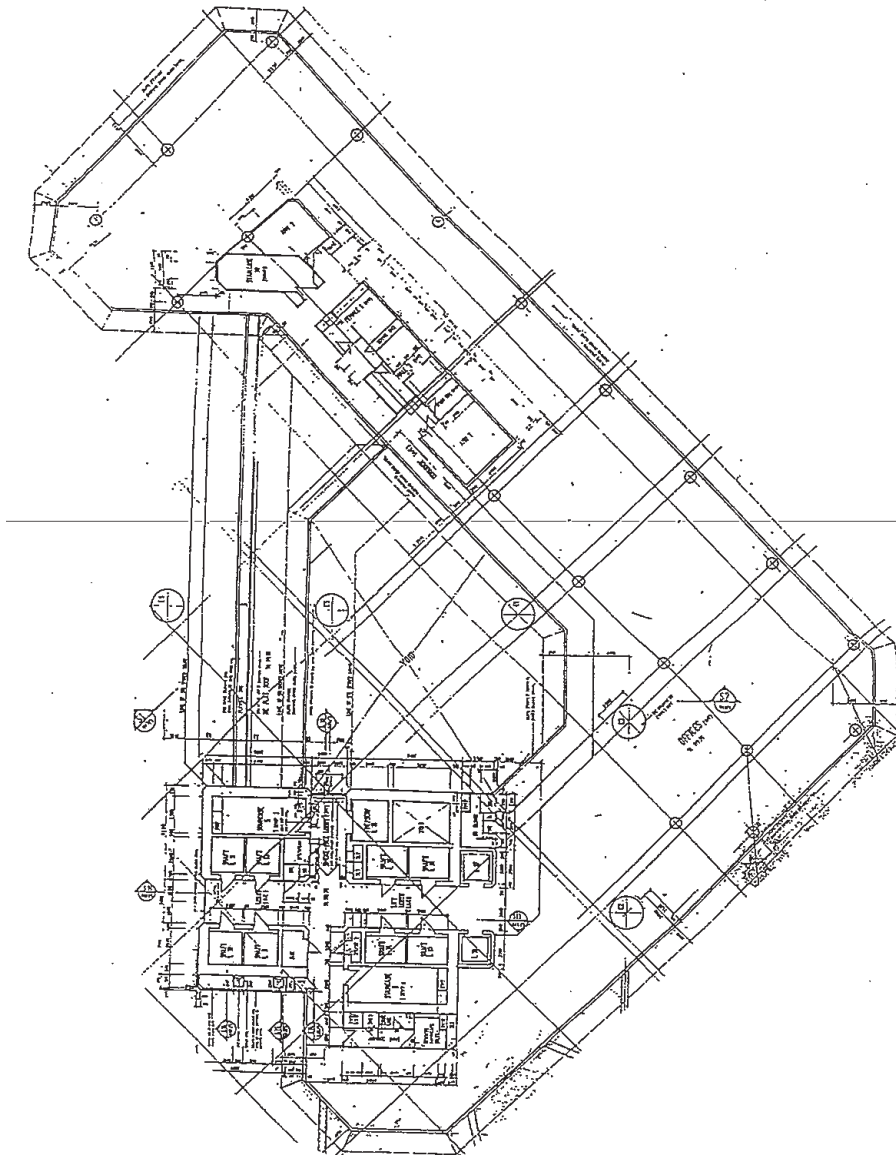
RETAIL PODIUM
2nd STOREY FLOOR LAYOUT PLAN
(NOT TO SCALE)



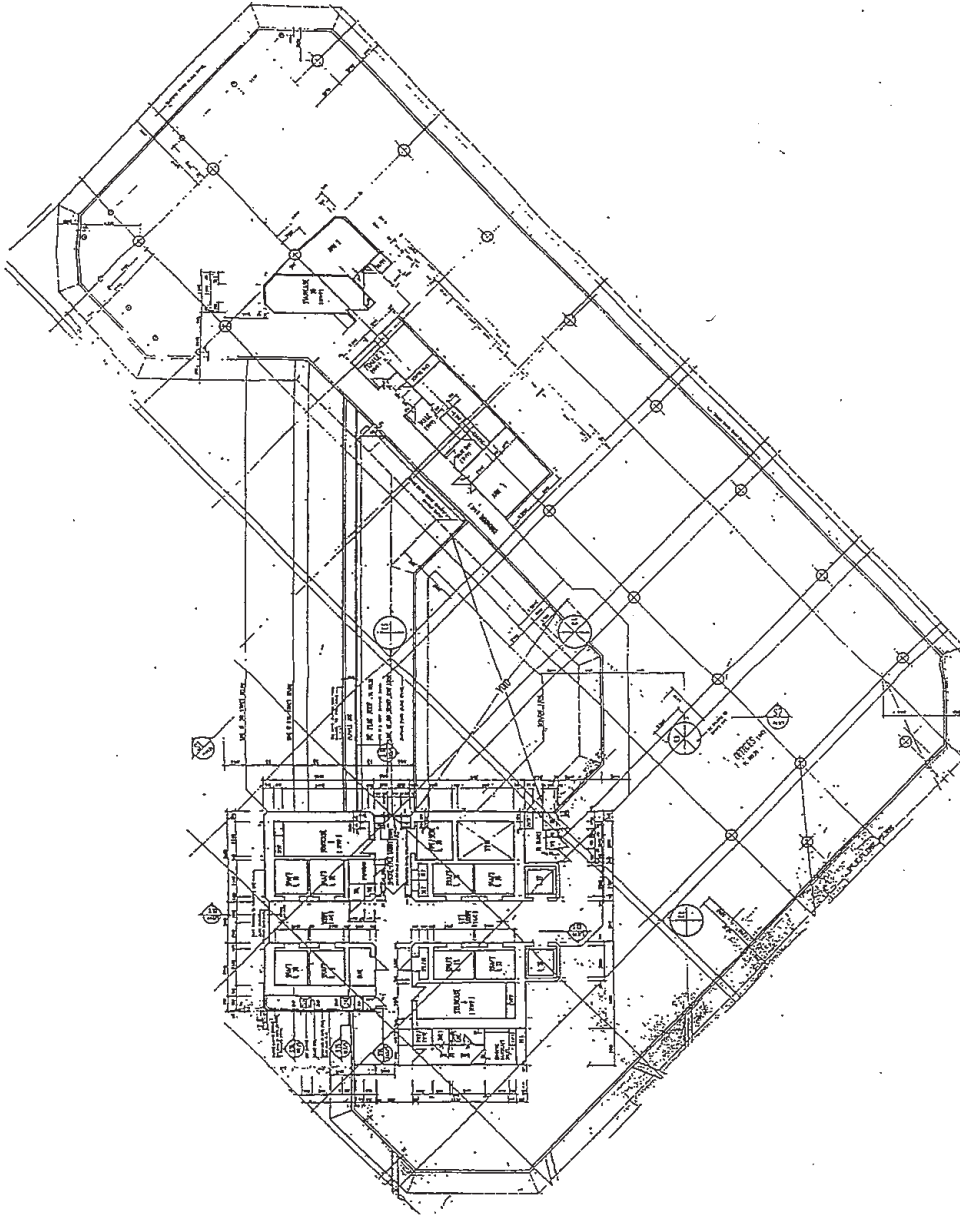
OFFICE TOWER BLOCK
2nd STOREY FLOOR LAYOUT PLAN
(NOT TO SCALE)



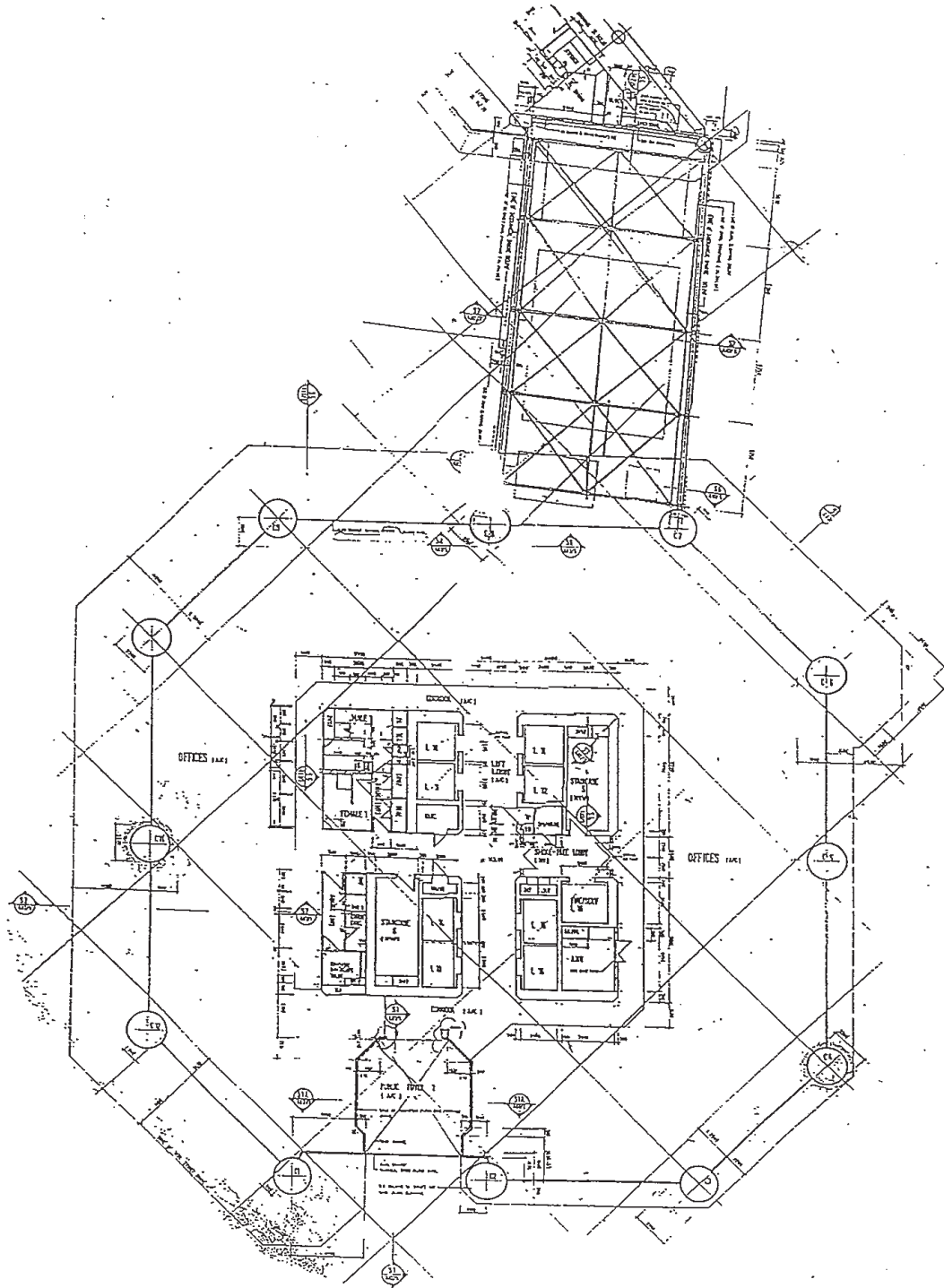
OFFICE TOWER BLOCK
3rd STOREY FLOOR LAYOUT PLAN
(NOT TO SCALE)



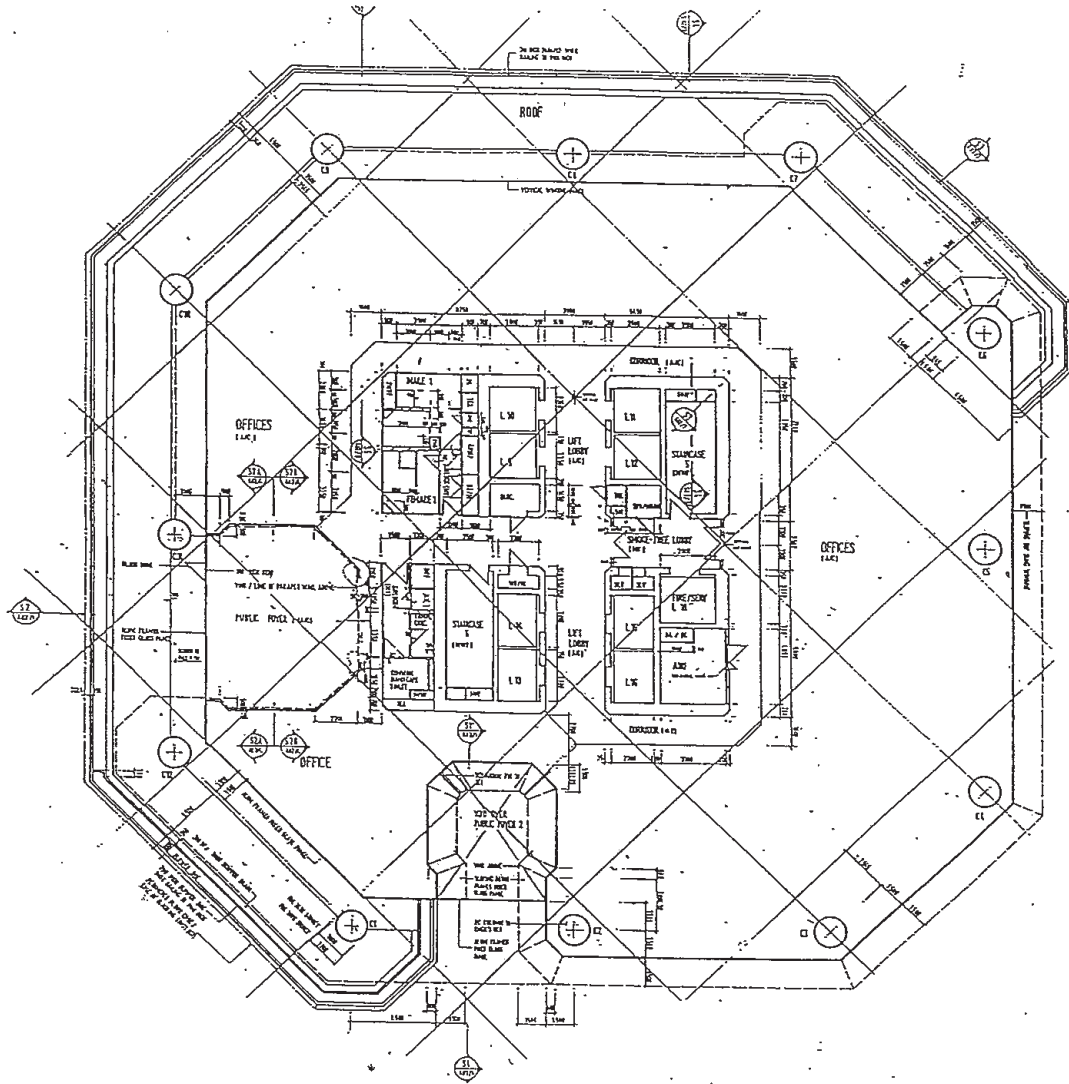
OFFICE TOWER BLOCK
4th STOREY FLOOR LAYOUT PLAN
(NOT TO SCALE)



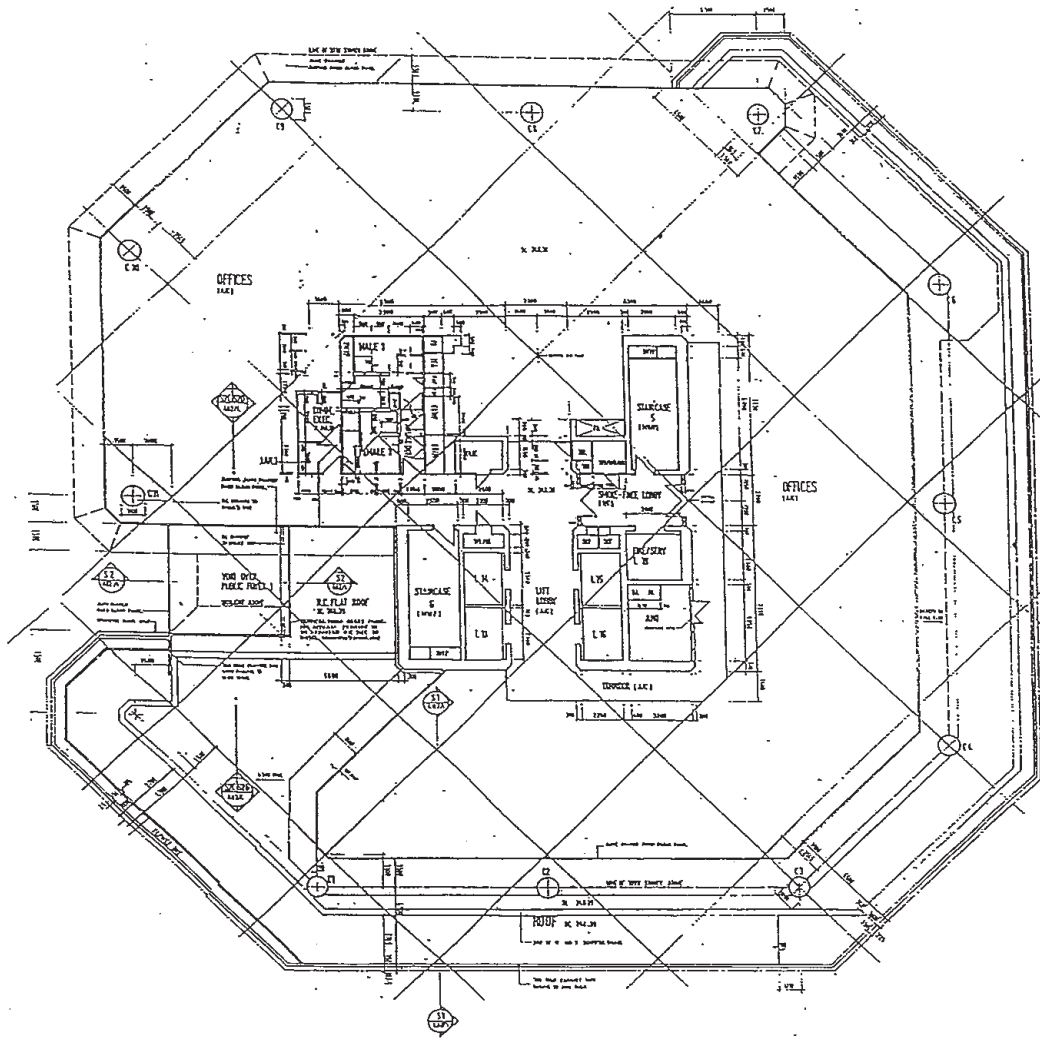
OFFICE TOWER BLOCK
5th STOREY FLOOR LAYOUT PLAN



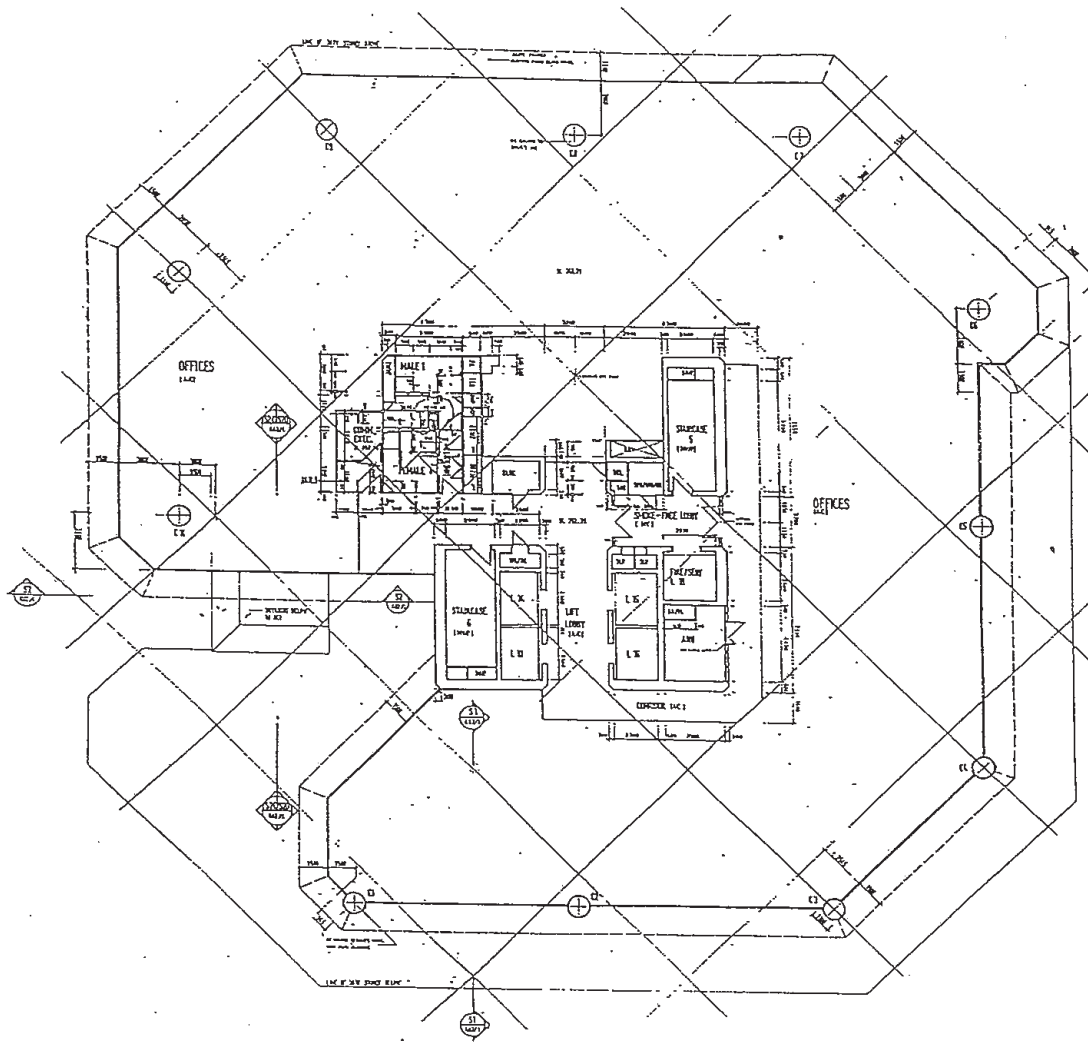
OFFICE TOWER BLOCK
9th STOREY FLOOR LAYOUT PLAN
(NOT TO SCALE)



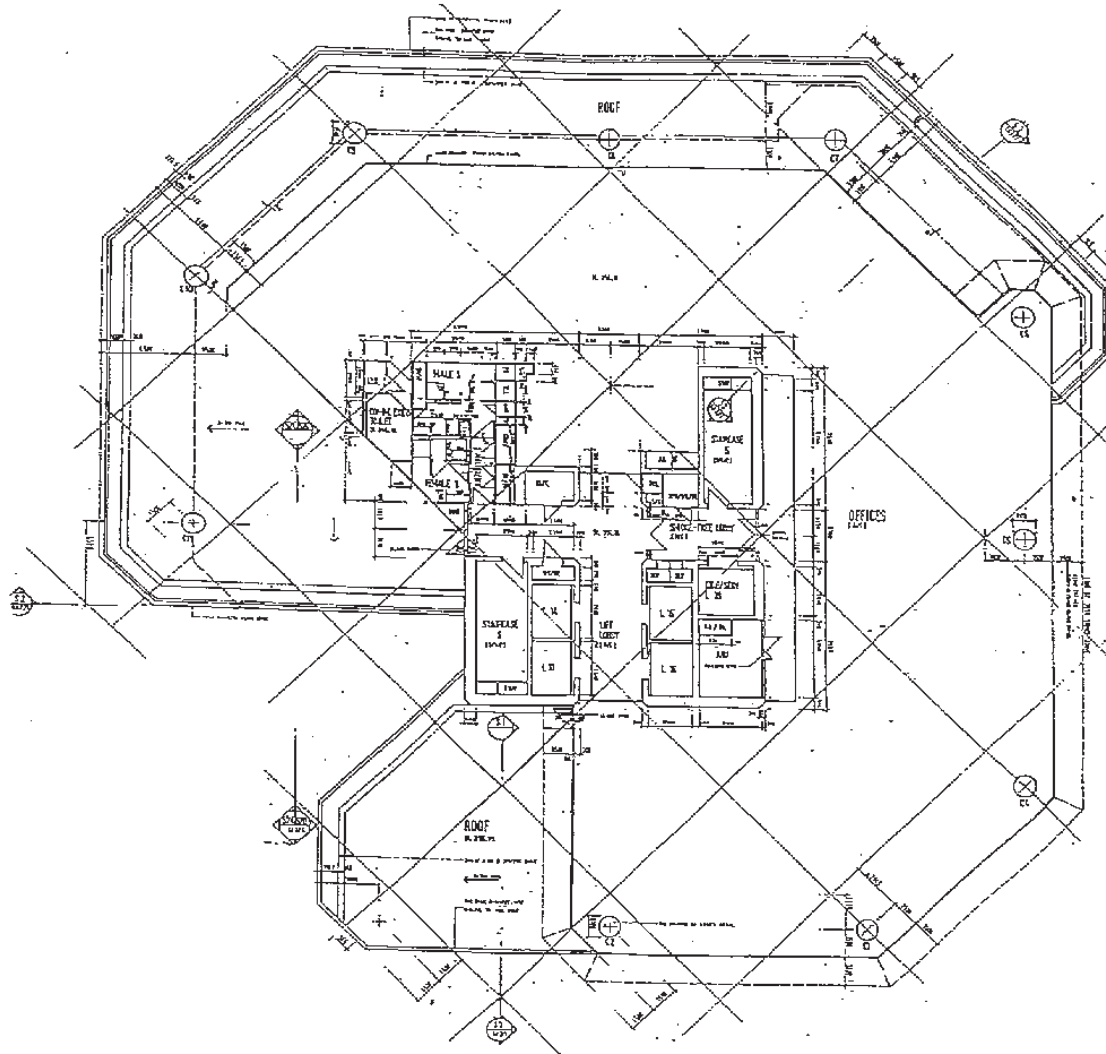
OFFICE TOWER BLOCK
 TYPICAL 10th to 35th STOREY FLOOR LAYOUT PLAN
 (NOT TO SCALE)



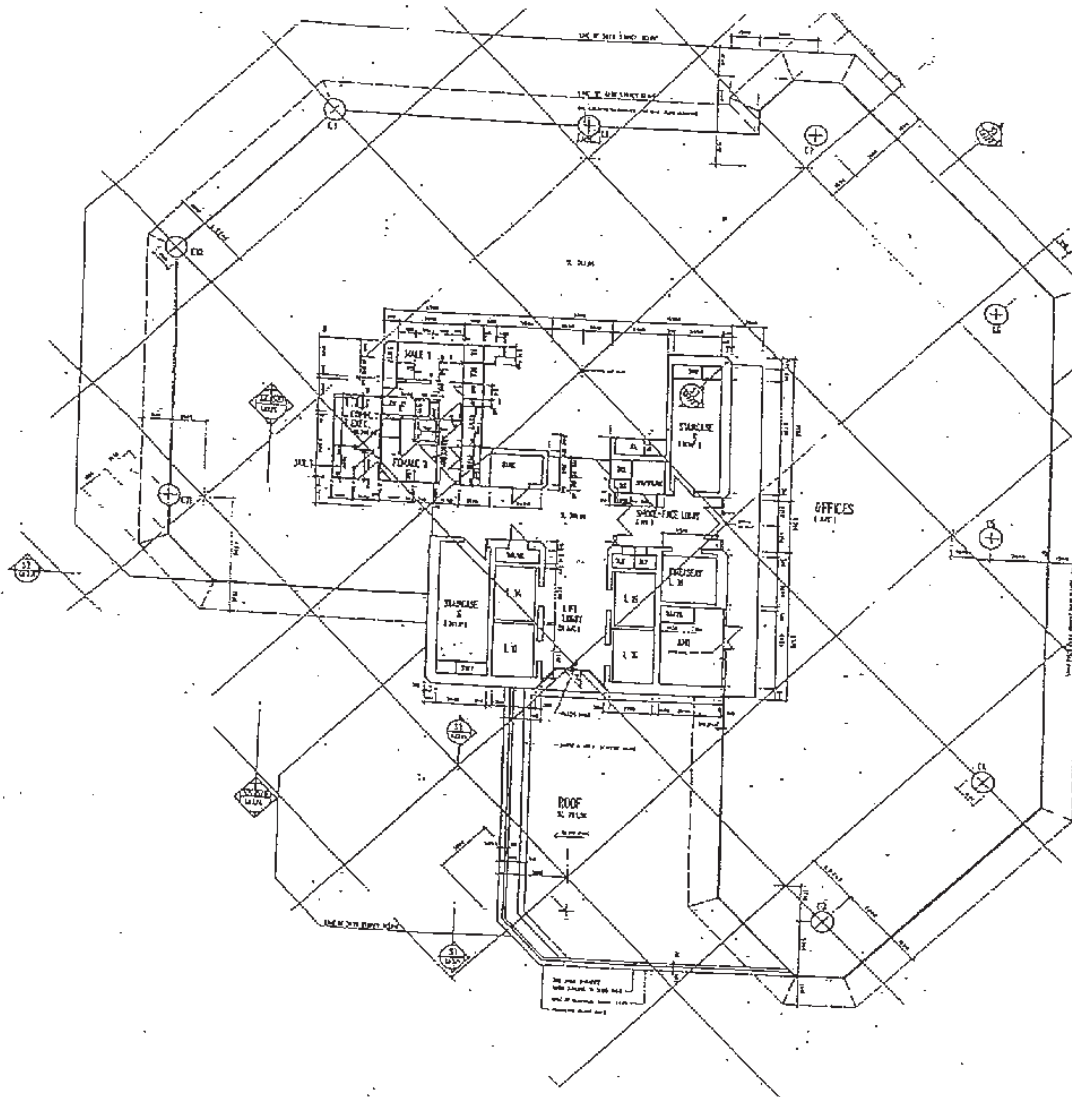
OFFICE TOWER BLOCK
36th STOREY FLOOR LAYOUT PLAN
(NOT TO SCALE)



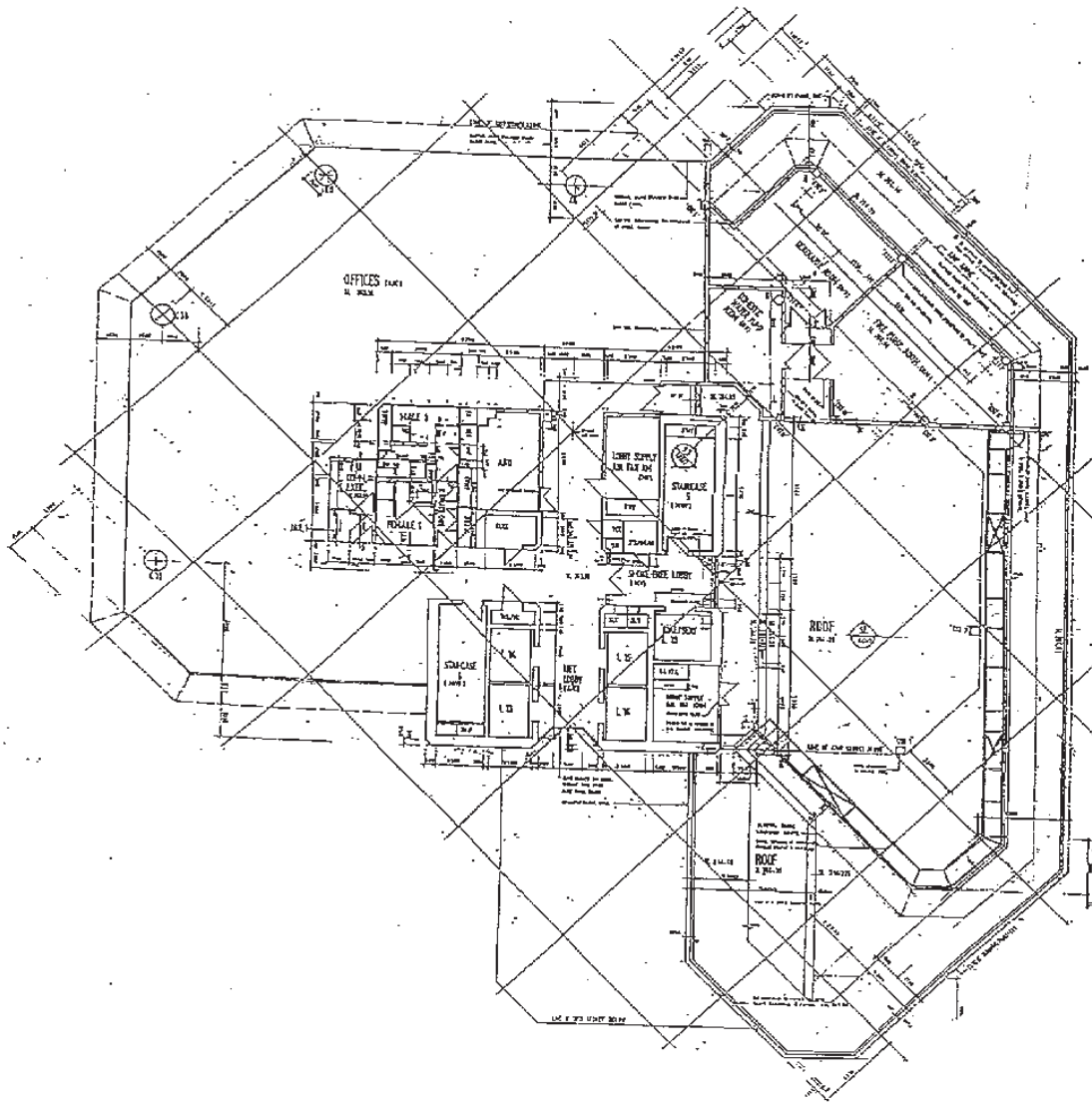
OFFICE TOWER BLOCK
37th STOREY FLOOR LAYOUT PLAN
(NOT TO SCALE)



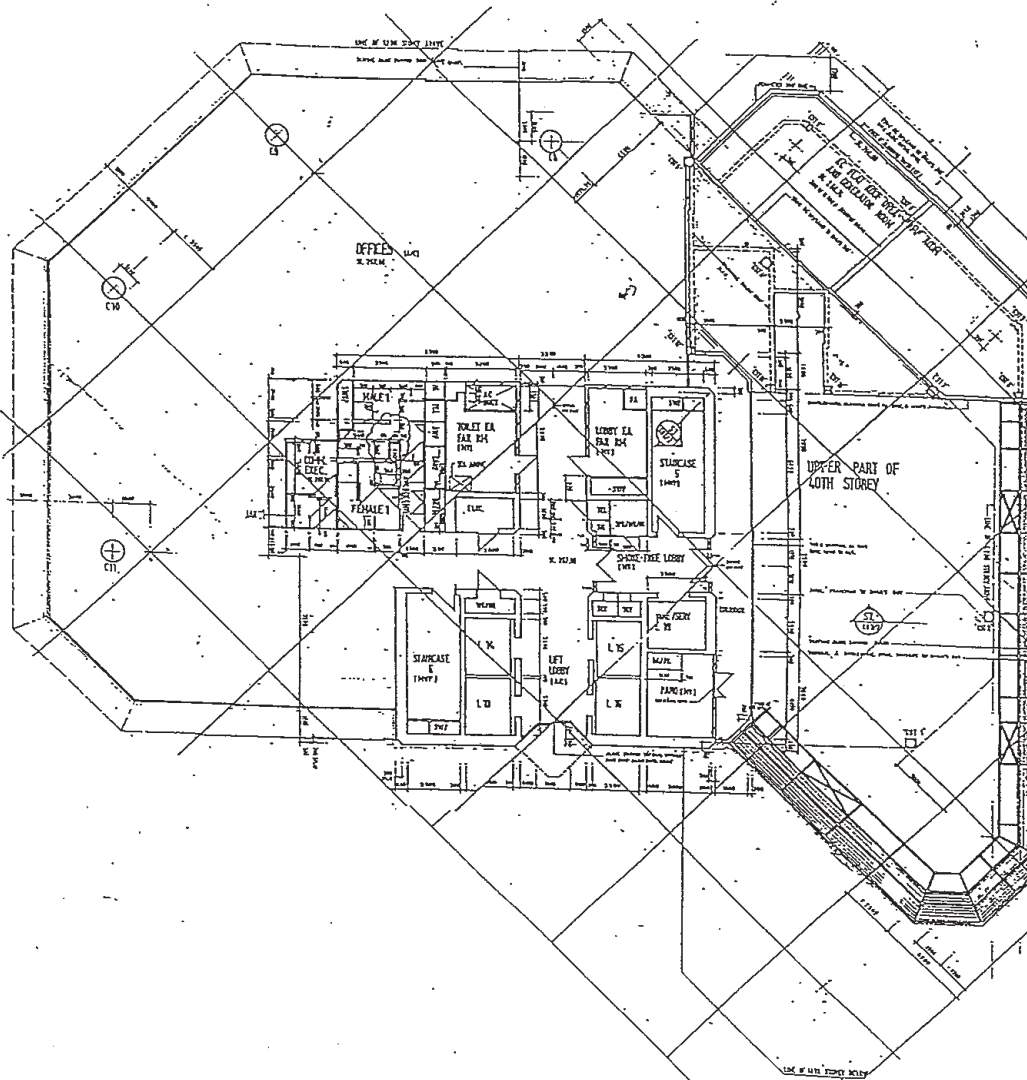
OFFICE TOWER BLOCK
38th STOREY FLOOR LAYOUT PLAN
(NOT TO SCALE)



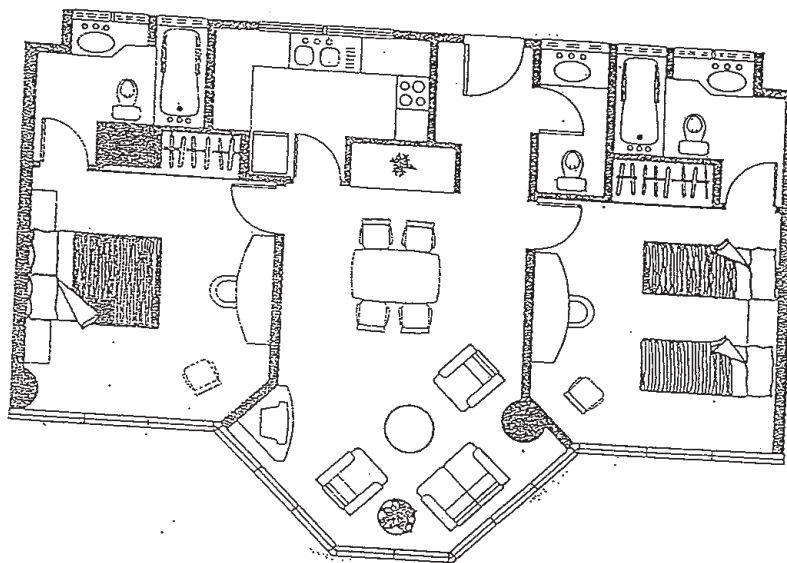
OFFICE TOWER BLOCK
39th STOREY FLOOR LAYOUT PLAN
(NOT TO SCALE)



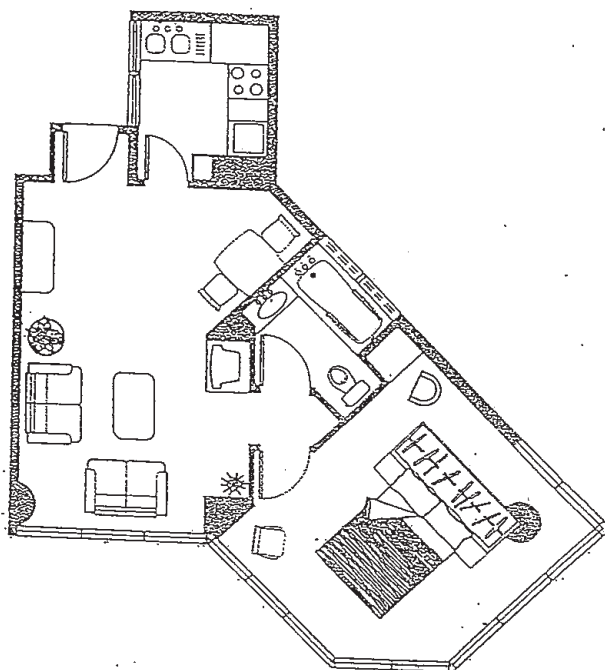
OFFICE TOWER BLOCK
40th STOREY FLOOR LAYOUT PLAN
(NOT TO SCALE)



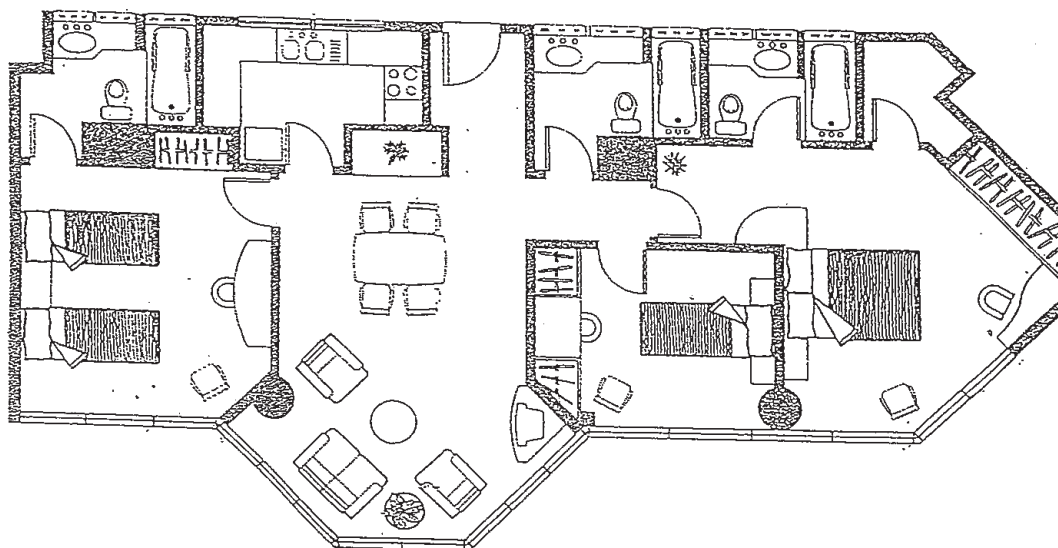
OFFICE TOWER BLOCK
4th STOREY FLOOR LAYOUT PLAN
(NOT TO SCALE)



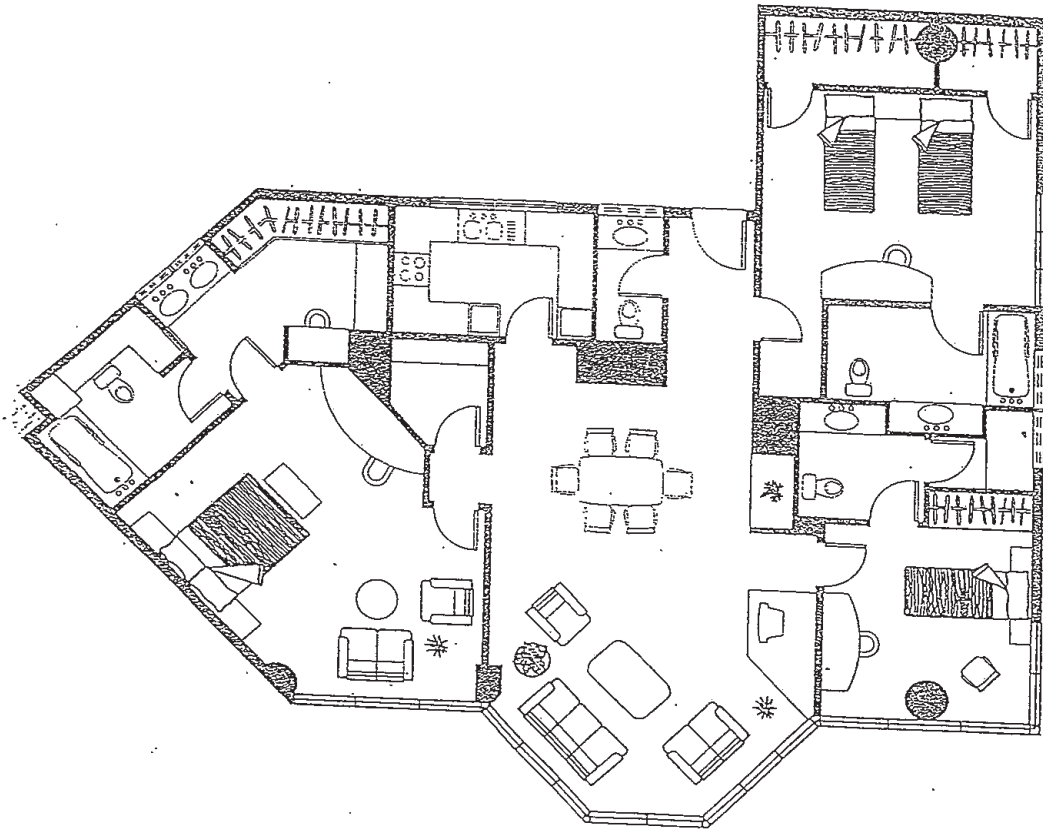
APARTMENT
TYPICAL FLOOR LAYOUT PLAN
(NOT TO SCALE)



APARTMENT
TYPICAL FLOOR LAYOUT PLAN
(NOT TO SCALE)



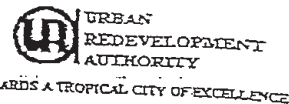
APARTMENT
TYPICAL FLOOR LAYOUT PLAN
(NOT TO SCALE)



PENTHOUSE
TYPICAL FLOOR LAYOUT PLAN
(NOT TO SCALE)

APPENDIX D
GRANT OF WRITTEN PERMISSION
DATED 31 OCTOBER 1996

NOTICE OF GRANT OF WRITTEN PERMISSION
Urban Redevelopment Authority Act, Cap. 232, 1990 Ed.



Our Ref : DC 502/81-9
Subm No. : 050896-30B1
Date : 31-10-1996

FOR OFFICE USE	
Decision No	: 050896-30B1-Z000
CSS No	: -

Applicant
M/S ARCHITECTS 61
56 PRINSEP STREET #03-01
SINGAPORE 188648

PART I - PARTICULARS OF APPLICATION

- Name and Address of Developer
HONG FOK LAND PTE LTD
300 BEACH ROAD #41-00
SINGAPORE 199555
- Date application received
05-08-1996 (DEVELOPMENT CHARGE ON
24-10-96)
- Land to be developed
URA LAND PARCEL 94 & 95 TS 13 AT 300 BEACH
ROAD (KALLANG DGP)
- Development forming the subject of the application -


PROPOSED ADDITION/ALTERATION TO THE APPROVED CONCOURSE DEVELOPMENT

PART II - PARTICULARS OF DECISION

In pursuance of the provision of Section 10(1) of the Planning Act (Cap. 232, 1990 Ed), I am to inform you that permission for the carrying out of the development referred to in Part I hereof has been granted by the Competent Authority subject to the conditions (page 3)

The approved plan registered as (AI) in DC 502/81-09 is enclosed herewith for your retention.

cc
HONG FOK LAND PTE LTD


LOH TECK KIM
for CHIEF PLANNER
URBAN REDEVELOPMENT AUTHORITY
as Competent Authority

ARCHITECTS 61 PRIVATE LIMITED	
JC	
CYC	
MC	- 4 NOV 1996
NR	
TKK	RECEIVED
TPG	
Received	By

DEVELOPMENT CONTROL DIVISION
9 Maxwell Road, 4th Storey, Annex A MND Complex, Singapore
069112


-3-

Subject to the following conditions:

- (a) The total gross floor area of the proposed building shall not exceed 105,917.53 sq.m. The overall plot ratio shall not exceed 5.09. (A breakdown of the floor area by uses is commercial gross floor area = 89,249.32 sq.m. and residential gross floor area = 16,668.21 sq.m.).
- (b) Nothing shall be construed to exempt the person submitting the plan from otherwise complying with the provision of the Planning Act (Cap 232) or any rules made thereunder or any other Act or rules for the time being in force.
- (c) The developer shall comply with The Planning (Provision of Car Parks) Rules and all requirements relating to the provision of car parks and car parking spaces imposed by the Land Transport Authority.
- (d) The developer shall submit proposals and plans for the provision of car parks and car parking spaces to the Land Transport Authority at the same time as the developer submits Building plans to the Building Authority for approval.

Footnotes

- (i) The Written Permission is granted based on planning guidelines. The technical requirements of the relevant departments are to be complied with at Building Plan submission stage.
- (ii) In accordance with Section 10(7) of the Planning Act (Cap 232, 1990 Ed) this Written Permission shall lapse on 31st Oct '98 if the development is not completed by the said date.
- (iii) The developer may wish to note that differential premium, if any, may be leviable by Commissioner of Lands.


LOH TECK KIM (MRS)
FOR CHIEF PLANNER
URBAN REDEVELOPMENT AUTHORITY
AS COMPETENT AUTHORITY

PERMISSION IS GRANTED UNDER SECTION 10(1) OF THE PLANNING ACT (CAP 232, 19909 ED) FOR:

Proposed addition/alteration to the approved Concourse development on URA land parcel 94 & 95 TS 13 at 300 Beach Road as shown coloured on proposal/sketch plan (A) in DC 502/81-9.



LOH TECK KIM (MRS)
FOR CHIEF PLANNER
URBAN REDEVELOPMENT AUTHORITY
AS COMPETENT AUTHORITY

APPENDIX E
BREAKDOWN OF PROPOSED
FLOOR AREA
OF ROOF TERRACES TO BE ENCLOSED

14-JAN-2004 11:01 FROM HONG FOK GROUP

TO 65385540

P.01

NO. 659 P. 1

architects61
singapore • kuala lumpur • shanghai

Michael Ng
Joseph Cheang
Lay Lee Soon

HKP S E
WK BY
(P)

Ref: R5891/ADM/8619-A

9 December 2003

VIA FAX AND MAIL

Hong Fok Land Limited
300 Beach Road
#41-00 The Concourse
Singapore 199555

REC-01
- 9 DEC 2003

Attention of Mr Jimmy Yeo

Dear Sirs

**THE CONCOURSE AT BEACH ROAD
ROOF TERRACE ENCLOSURE**

We refer to your recent request for floor areas of the roof terraces to be enclosed. The following are the areas based on latest URA's Planning Approval dated 21 November 2003 is:

- i. 10th, 12th, 14th, 16th, 18th, 20th, 22nd, 24th, 26th, 28th, 30th, 32nd and 34th Storey is 253.69 m² per floor = 3247.97
- ii. 36th Storey is 193.20m² 193.20
 280.08
- iii. 38th Storey is 280.08m² 3771.35 m²
- iv. The quantum of "freed-up" roof terrace GFA (i.e. even floors between 10th to 38th Storey) that can be transferred for commercial re-development elsewhere within the building is 5110.264m².

Yours faithfully
architects 61 pte ltd


JOSEPH CHEANG

JC/SL/R

architects61 pte ltd architecture • planning • interiors • management
36 prinsep street #03-01 singapore 189648 tel 65.6737 5977 fax 65.6732 5439

TOTAL P.01

APPENDIX F
EVIDENCE OF COMPARABLE SALES

EVIDENCE OF COMPARABLE SALES (RETAIL)

	Address	Unit No.	Floor Area (square metre)	Transacted Price (\$)	Rate (\$psm)	Date of Sale	Tenure
1)	Sim Lim Square (1 Rochor Canal Road)	#03-64	28	400,000	14,286	Apr 2007	99 years with effect from 8 April 1983
2)	Sim Lim Square (1 Rochor Canal Road)	#03-85	33	1,650,000	50,000	Apr 2007	99 years with effect from 8 April 1983
3)	Sim Lim Square (1 Rochor Canal Road)	#01-44	35	3,200,000	91,429	Feb 2007	99 years with effect from 8 April 1983
4)	Burlington Square (175 Bencoolen Street)	#01-50	46	603,280	13,115	Feb 2007	99 years with effect from 10 June 1996
5)	Sunshine Plaza (91 Bencoolen Street)	#01-36	21	348,888	16,614	Mar 2007	99 years with effect from 19 March 1997

EVIDENCE OF COMPARABLE SALES (OFFICE)

	Address	Unit No.	Floor Area (square metre)	Transacted Price (\$)	Rate (\$psm)	Date of Sale	Tenure
1)	Suntec City (7 Temasek Boulevard)	#11-01	1,336	23,250,000	17,403	Mar 2007	99 years with effect from 1 March 1989
2)	Suntec City (9 Temasek Boulevard)	#19-03	348	5,244,400	15,070	Dec 2006	99 years with effect from 1 March 1989
3)	Suntec City (9 Temasek Boulevard)	#37-03	272	4,611,600	16,954	Dec 2006	99 years with effect from 1 March 1989

EVIDENCE OF COMPARABLE SALES (RESIDENTIAL)

	Address	Unit No.	Floor Area (square metre)	Transacted Price (\$)	Rate (\$psm)	Date of Sale	Tenure
1)	Burlington Square (175B Bencoolen Street)	#17-12	87	700,000	8,046	Apr 2007	99 years with effect from 10 June 1996
2)	Burlington Square (175B Bencoolen Street)	#08-09	78	770,000	9,872	Apr 2007	99 years with effect from 10 June 1996
3)	Sunshine Plaza (10 Prinsep Link)	#09-12	105	840,000	8,000	Mar 2007	99 years with effect from 19 March 1997
4)	Sunshine Plaza (10 Prinsep Link)	#09-06	71	615,000	8,662	Mar 2007	99 years with effect from 19 March 1997

APPENDIX G
SCHEDULE OF VALUATION

SCHEDULE OF VALUATION

TYPE	NO. OF BEDROOMS	FLOOR AREA (<i>sm</i>)	RATES (<i>S\$psm</i>)	MARKET VALUE (<i>S\$</i>)	NO. OF UNITS	TOTAL MARKET VALUE (<i>S\$</i>)
RETAIL						
Basement		3,388	13,729			46,513,852
1st Storey		2,388	19,214			45,883,032
2nd Storey		4,138	13,729			56,810,602
						<u>149,207,486</u>
OFFICES						
2nd to 41st Storeys		46,754	13,545			<u>633,282,930</u>
APARTMENTS						
A	1	60	8,749	524,940	5	2,624,700
B & B7	2	95	8,068	766,460	9	6,898,140
B1 to B6	2	96	8,068	774,528	44	34,079,232
C	2	118	7,791	919,338	1	919,338
D	2	110	7,791	857,010	4	3,428,040
E	2	92	8,068	742,256	3	2,226,768
F	2	95	8,068	766,460	3	2,299,380
G	2	104	7,791	810,264	3	2,430,792
H	3	123	7,387	908,601	3	2,725,803
J	2	109	7,791	849,219	2	1,698,438
K	2	124	7,387	915,988	2	1,831,976
L	3	177	7,064	1,250,328	2	2,500,656
M	2	101	7,791	786,891	2	1,573,782
N	1	80	8,403	672,240	2	1,344,480
O	1	56	8,749	489,944	1	489,944
P	1	67	8,749	586,183	1	586,183
Q	1	68	8,749	594,932	1	594,932
						<u>68,252,584</u>
OPEN MARKET VALUE						850,743,000

Set out below is the text of the valuation report on the Bond as of 25 May 2007 prepared by Sallmanns (Far East) Limited for incorporation in this circular:



Corporate valuation and consultancy
www.sallmanns.com



22nd Floor
Siu On Centre
188 Lockhart Road
Wanchai, Hong Kong
Tel : (852) 2169 6000
Fax : (852) 2528 5079

30 June 2007

The Board of Directors
Winfoong International Limited
Room 3201
9 Queen's Road Central
Hong Kong

Dear Sirs,

Introduction

In accordance with your instructions, we have undertaken a valuation exercise to estimate the hypothetical fair value of the unsecured interest-bearing bond (the "Bond") to be issued by Yorkwin Investments Limited ("Yorkwin"), a subsidiary of Hong Fok Corporation Limited ("Hong Fok Corporation") as at 25 May 2007 (the "Issue Date").

Purpose of Valuation

The purpose of this valuation is for inclusion into a shareholders' circular.

Basis of Value

Our valuation was carried out on a fair value basis. Fair value is defined as "the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction."

Approach and Methodology

In this valuation, we have considered two generally accepted approaches, namely, market approach and income approach.

Market Approach considers prices recently paid for similar assets, with adjustments made to market prices to reflect condition and utility of the appraised assets relative to the market comparative. Assets for which there is an established secondary market may be valued by this approach.

Benefits of using this approach include its simplicity, clarity, speed and the need for few or no assumptions. It also introduces objectivity in application as publicly available inputs are used. However, one has to be wary of the hidden assumptions in those inputs as there are inherent assumptions on the value of those comparable assets. It is also difficult to find comparable assets. Furthermore, this approach relies exclusively on the efficient market hypothesis.

Income Approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the project than an amount equal to the present worth of anticipated future benefits (income) from the same or a substantially similar project with a similar risk profile.

This approach allows for the prospective valuation of future net cash flows and there are numerous empirical and theoretical justifications for the present value of the expected future net cash flows. However, this approach relies on numerous assumptions over a period of time and the result may be very sensitive to certain inputs. It also presents a single scenario only.

Selection of Valuation Approach and Methodology

In our opinion, the market approach is inappropriate for valuing the Bond. The approach requires market transactions of comparable assets as an indication of value. However, we have not identified any current market transactions which are comparable. To assess the hypothetical value of the Bond, we adopted the income approach by calculating the future cash flows of the Bond and discounting the computed cash flows using the relevant discount rates as at the Issue Date.

We understand the terms of the Bond to be as follows:

Issuer:	Yorkwin Investments Limited
Principal amount:	The Bond will be issued in denominations of HK\$0.24 each.
Maturity:	On the third anniversary from the date of issue
Listing:	No application will be made for listing.
Interest:	The Bond will bear interest from the date of the issue at the rate of 3% per annum of the principal amount of the Bond.
Frequent:	The interest will be payable semi-annually in arrears.
Guarantor:	Hong Fok Corporation Limited will unconditionally guarantee the performance of the Bond.
Security:	Nil

Yield

To estimate the expected yield of the Bond, we have referenced the yields of interest-bearing securities of selected comparable companies as at Issue Date. Comparable companies have been selected based criteria such as country of operation, industry, market capitalization, turnover and availability of interest-bearing securities.

We have reviewed the financial statements of the comparable companies, including Hong Fok Corporation, and the available market yields of their interest-bearing securities. Such information have been collated and analyzed to determine an estimated annual yield for the Bond.

Information and Documents

In forming our opinion of value with respect to the Bond, we have considered and highly relied upon the following information:

- (i) Background of the relevant companies;
- (ii) Details and documents relating to the issuance of the Bond;
- (iii) Indicators of risk free term structures as at the Issue Date;
- (iv) Indicators of comparable corporate bonds' yield;
- (v) Financial statements of the relevant companies; and
- (vi) Discussions with the management of Hong Fok Corporation.

We have analyzed and considered the features of the Bond. In our valuation, we have assumed and relied upon the accuracy and completeness of the information reviewed by us for the purpose of this exercise. In addition, we have relied upon the statements, information, opinion and representations provided to us by the Company and their officers, executives and employees.

Our opinion is based upon economic, market, financial and other conditions that can be evaluated as they exist on the Issue Date and we assume no responsibility to update or revise our opinion based on events or circumstances occurring after the Issue Date. In arriving at our opinion, we have made assumptions with respect to such economic, market, financial and other conditions and other matters, many of which are beyond our control or the control of any party involved in this valuation exercise.

Opinion of Value

Based on the results of our investigation and analysis, it is our opinion that as at the Issue Date, the hypothetical fair value of the Bond issued by Yorkwin is reasonably stated at the amount of **HK\$0.2255 EACH (HONG KONG CENTS TWENTY TWO POINT FIFTY FIVE EACH)** equivalent to 93.96% of par value.

For and on behalf of
Sallmanns (Far East) Limited
Simon M.K. Chan, CPA
Director

The following is the text of a report received from Kingsway Capital Limited, for inclusion in this circular, in respect of the valuation of the Bond as set out in this appendix.



The Board of Directors
Winfoong International Limited
Room 3201
9 Queen's Road Central
Hong Kong

30 June 2007

Dear Sirs,

We refer to the independent valuation performed by Sallmanns (Far East) Limited (the "Valuation") of the Bond to be issued by the Offeror under the Offeror. The report of the Valuation is contained in Appendix XI to the circular of the Company dated 30 June 2007 (the "Circular"), of which this letter forms part. Capitalised terms defined in the Circular have the same meaning when used in this letter, unless the context otherwise requires.

We have considered the Valuation and have discussed with Sallmanns (Far East) Limited the basis and methodology upon which the Valuation has been made.

We are satisfied that Sallmanns (Far East) Limited and the personnel engaged in the valuation meet the legal and regulatory requirements which apply in the circumstances in which the valuation of the Bond is required and that they have, in respect of the Bond, sufficient current local and international knowledge of the particular market and the skills and understanding necessary to undertake the valuation competently.

Taking into account the basis and methodology of the Valuation adopted by Sallmanns (Far East) Limited upon which the Valuation has been made, we are of the opinion that the Valuation, for which Sallmanns (Far East) Limited is solely responsible, has been prepared after due and careful consideration.

Yours faithfully,
For and on behalf of
Kingsway Capital Limited
Alex Chu
Director

Set out below is a summary of certain provisions of the memorandum of association (the “Memorandum of Association”) and the new bye-laws (the “Bye-laws”) of HF Land (referred to as the “Company” in this appendix) and of certain aspects of Bermuda company law:

1. MEMORANDUM OF ASSOCIATION

The Memorandum of Association states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the Company is an exempted company as defined in the Companies Act. The Memorandum of Association also sets out the objects for which the Company was formed which are unrestricted and that the Company has the capacity, rights, powers and privileges of a natural person. As an exempted company, the Company will be carrying on business outside Bermuda from a place of business within Bermuda.

In accordance with and subject to section 42A of the Companies Act, the Memorandum of Association empowers the Company to purchase its own shares and pursuant to its Bye-laws, this power is exercisable by the board of Directors (the “board”) upon such terms and subject to such conditions as it thinks fit.

2. BYE-LAWS

The Bye-laws will be adopted on or before completion of the Group Reorganisation. The following is a summary of certain provisions of the Bye-laws:

(a) Directors

(i) Power to allot and issue shares and warrants

Subject to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Act, any preference shares may be issued or converted into shares that are liable to be redeemed, at a determinable date or at the option of the Company or, if so authorised by the Memorandum of Association, at the option of the holder, on such terms and in such manner as the Company before the issue or conversion may by ordinary resolution determine. The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Act, the Bye-laws, any direction that may be given by the Company in general meeting and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may

offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any of its subsidiaries

There are no specific provisions in the Bye-laws relating to the disposal of the assets of the Company or any of its subsidiaries.

Note: The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Bye-laws or the Companies Act to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are no provisions in the Bye-laws relating to the making of loans to Directors. However, the Companies Act contains restrictions on companies making loans or providing security for loans to their directors, the relevant provisions of which are summarised in the paragraph headed “Bermuda Company Law” in this appendix.

(v) Financial assistance to purchase shares of the Company

Neither the Company nor any of its subsidiaries shall directly or indirectly give financial assistance to a person who is acquiring or proposing to acquire shares in the Company for the purpose of that acquisition whether before or at the same time as the acquisition takes place or afterwards, provided that the Bye-laws shall not prohibit transactions permitted under the Companies Act.

(vi) Disclosure of interests in contracts with the Company or any of its subsidiaries.

A Director may hold any other office or place of profit with the Company (except that of auditor of the Company) in conjunction with his office of Director for such period and, subject to the Companies Act, upon such terms as the board may determine, and may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Bye-laws. A Director may be or become a director or other officer of, or a member of, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Bye-laws, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Act and to the Bye-laws, no Director or proposed or intending Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;

- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;
- (ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in 5 percent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or
- (ff) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s) as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vii) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such remuneration (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office.

The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably incurred or expected to be incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration provided for by or pursuant to any other Bye-law. A Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependants or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependants, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependants are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(viii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or

appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Note: There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or, subject to authorisation by the members in general meeting, as an addition to the existing board but so that the number of Directors so appointed shall not exceed any maximum number determined from time to time by the members in general meeting. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at the meeting. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) provided that the notice of any such meeting convened for the purpose of removing a Director shall contain a statement of the intention to do so and be served on such Director 14 days before the meeting and, at such meeting, such Director shall be entitled to be heard on the motion for his removal. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors unless otherwise determined from time to time by member of the Company.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period (subject to their continuance as Directors) and upon such terms as the board may determine and the board may revoke or terminate any of such appointments (but without prejudice to any claim for damages that such Director may have against the Company or vice versa). The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(ix) Borrowing powers

The board may from time to time at its discretion exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the

Company and, subject to the Companies Act, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Bye-laws in general, can be varied with the sanction of a special resolution of the Company.

(b) Alterations to constitutional documents

The Bye-laws may be rescinded, altered or amended by a resolution of the Director and confirmation by a special resolution of the members. The Bye-laws state that a special resolution shall be required to alter the provisions of the Memorandum of Association, to confirm any such rescission, alteration or amendment to the Bye-laws or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Act:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association;
- (v) change the currency denomination of its share capital;
- (vi) make provision for the issue and allotment of shares which do not carry any voting rights; and
- (vii) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may, by special resolution, subject to any confirmation or consent required by law, reduce its authorised or issued share capital or, save for the use of share premium as expressly permitted by the Companies Act, any share premium account or other undistributable reserve.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Act, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Bye-laws relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons (or in the case of a member being a corporation, its duly authorised representative) holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person (or in the case of a member being a corporation, its duly authorised representative) or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

(e) Special resolution-majority required

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than 21 clear days' notice has been given.

(f) Voting rights (generally and on a poll) and rights to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Bye-laws, at any general meeting on a show of hands, every member who is present in person (or being a corporation, is present by its duly authorised representative) or by proxy shall have one vote and on a poll every member present in person or by proxy or, being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share.

Notwithstanding anything contained in the Bye-laws, where more than one proxy is appointed by a member which is a clearing house (as defined in the Bye-laws) (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by (i) the chairman of the meeting or (ii) at least three members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting or (iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting or (iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right or (v) by any Director or Directors who, individually or collectively, hold proxies in respect of shares representing five per cent. (5%) or more of the total voting rights at such meeting.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares held by that clearing house (or its nominee(s)) in respect of the number and class of shares specified in the relevant authorisation including the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year other than the year in which its statutory meeting is convened at such time (within a period of not more than 15 months after the holding of the last preceding annual general meeting) and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the provisions of the Companies Act or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or, subject to the Companies Act, at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right of inspecting any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

Subject to the Companies Act, a printed copy of the Director's report, accompanied by the balance sheet and profit and loss account, including every document required by law to be annexed thereto, made up to the end of the applicable financial year and containing a summary of the assets and liabilities of the Company under convenient heads and a statement of income and expenditure, together with a copy of the auditors' report, shall be sent to each person entitled thereto at least 21 days before the date of the general meeting and at the same time as the notice of annual general meeting and laid before the Company in general meeting in accordance with the requirements of the Companies Act provided that this provision shall not require a copy of those documents to be sent to any person whose address the Company is not aware of or to more than one of the joint holders of any shares or debentures; however, to the extent permitted by and subject to compliance with all applicable laws, the Company may send to such persons a summary financial statement derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to a summary financial statement, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Subject to the Companies Act, at the annual general meeting or at a subsequent special general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the members appoint another auditor. Such auditor may be a member but no Director or officer or employee of the Company shall, during his continuance in office, be eligible to act as an auditor of the Company. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditors shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than Bermuda. If the auditing standards of a country or jurisdiction other than Bermuda are used, the financial statements and the report of the auditor should disclose this fact and name such country and jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting and any special general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by at least 21 clear days' notice in writing, and any other special general meeting shall be called by at least 14 clear days' notice (in each case exclusive of the day on which the notice is given or deemed to be given and of the day for which it is given or on which it is to take

effect). The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in Bermuda or such other place in Bermuda at which the principal register is kept in accordance with the Companies Act.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as the Board may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do) .

The registration of transfers may be suspended and the register closed on giving notice by advertisement in an appointed newspaper selected by the Board at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole 30 days in any year.

(k) Power for the Company to purchase its own shares

The Bye-laws supplement the Company's Memorandum of Association (which gives the Company the power to purchase its own shares) by providing that the power is exercisable by the board upon such terms and conditions as it thinks fit.

(l) Power for any subsidiary of the Company to own shares in the Company

There are no provisions in the Bye-laws relating to ownership of shares in the Company by a subsidiary.

(m) Dividends and other methods of distribution

Subject to the Companies Act, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board. The Company in general meeting may also make a distribution to its members out of contributed surplus (as ascertained in accordance with the Companies Act).

No dividend shall be paid or distribution made out of contributed surplus if to do so would render the Company unable to pay its liabilities as they become due or the realisable value of its assets would thereby become less than the aggregate of its liabilities and its issued share capital and share premium account.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to a member by the Company on or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the

dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company. In addition, a proxy or proxies representing either a member who is an individual or a member which is a corporation shall be entitled to exercise the same powers on behalf of the member which he or they represent as such member could exercise.

(o) Call on shares and forfeiture of shares

Subject to the Bye-laws and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20 per cent. per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than 14 clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still

accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect.

Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding 20 per cent. per annum as the board determines.

(p) Inspection of register of members

The register and branch register of members shall be open to inspection between 10:00 a.m. and 12:00 noon on every business day by members of the public without charge at the registered office or such other place in Bermuda at which the register is kept in accordance with the Companies Act, unless the register is closed in accordance with the Companies Act.

(q) Quorum for meetings and separate class meetings

For all purposes the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Bye-laws relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Bermuda law, as summarised in paragraph 4(e) of this appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Act, divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

The Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Other provisions

The Bye-laws provide that to the extent that it is not prohibited by and is in compliance with the Companies Act, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

The Bye-laws also provide that the Company is required to maintain at its registered office a register of directors and officers in accordance with the provisions of the Companies Act and such register is open to inspection by members of the public without charge between 10:00 a.m. and 12:00 noon on every business day.

3. VARIATION OF MEMORANDUM OF ASSOCIATION AND BYE-LAWS

The Memorandum of Association may be altered by the Company in general meeting. The Bye-laws may be amended by the Directors subject to the confirmation of the Company in general meeting. The Bye-laws state that a special resolution shall be required to alter the provisions of the Memorandum of Association or to confirm any amendment to the Bye-laws or to change the name of the Company. For these purposes, a resolution is a special resolution if it has been passed by a majority of not less than three-fourths of the votes cast by such members of the Company as, being entitled to do so, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice specifying the intention to propose the resolution as a special resolution has been duly given. Except in the case of an annual general meeting, the requirement of 21 clear days' notice may be waived by a majority in number of the members having the right to attend and vote at the relevant meeting, being a majority together holding not less than 95 percent in nominal value of the shares giving that right.

4. BERMUDA COMPANY LAW

The Company is incorporated in Bermuda and, therefore, operates subject to Bermuda law. Set out below is a summary of certain provisions of Bermuda company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Bermuda company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Share capital

The Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account", to which the provisions of the Companies Act relating to a reduction of share capital of a company shall apply as if the share premium account were paid up share capital of the company except that the share premium account may be applied by the company:

- (i) in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares;
- (ii) in writing off:
 - (aa) the preliminary expenses of the company; or
 - (bb) the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; or

(iii) in providing for the premiums payable on redemption of any shares or of any debentures of the company.

In the case of an exchange of shares the excess value of the shares acquired over the nominal value of the shares being issued may be credited to a contributed surplus account of the issuing company.

The Companies Act permits a company to issue preference shares and subject to the conditions stipulated therein to convert those preference shares into redeemable preference shares.

The Companies Act includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. Where provision is made by the memorandum of association or bye-laws for authorising the variation of rights attached to any class of shares in the company, the consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required, and where no provision for varying such rights is made in the memorandum of association or bye-laws and nothing therein precludes a variation of such rights, the written consent of the holders of three-fourths of the issued shares of that class or the sanction of a resolution passed as aforesaid is required.

(b) Financial assistance to purchase shares of a company or its holding company

A company is prohibited from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares unless there are reasonable grounds for believing that the company is, and would after the giving of such financial assistance be, able to pay its liabilities as they become due. In certain circumstances, the prohibition from giving financial assistance may be excluded such as where the assistance is only an incidental part of a larger purpose or the assistance is of an insignificant amount such as the payment of minor costs.

(c) Purchase of shares and warrants by a company and its subsidiaries

A company may, if authorised by its memorandum of association or bye-laws, purchase its own shares. Such purchases may only be effected out of the capital paid up on the purchased shares or out of the funds of the company otherwise available for dividend or distribution or out of the proceeds of a fresh issue of shares made for the purpose. Any premium payable on a purchase over the par value of the shares to be purchased must be provided for out of funds of the company otherwise available for dividend or distribution or out of the company's share premium account. Any amount due to a shareholder on a purchase by a company of its own shares may (i) be paid in cash; (ii) be satisfied by the transfer of any part of the undertaking or property of the company having the same value; or (iii) be satisfied partly under (i) and partly under (ii). Any purchase by a company of its own shares may be authorised by its board of directors or otherwise by or in accordance with the provisions of its bye-laws. Such purchase may not be made if, on the date on which the purchase is to be effected, there

are reasonable grounds for believing that the company is, or after the purchase would be, unable to pay its liabilities as they become due. The shares so purchased may either be cancelled or held as treasury shares. Any purchased shares that are cancelled will, in effect, revert to the status of authorised but unissued shares. If shares of the company are held as treasury shares, the company is prohibited to exercise any rights in respect of those shares, including any right to attend and vote at meetings, including a meeting under a scheme of arrangement, and any purported exercise of such a right is void. No dividend shall be paid to the company in respect of shares held by the company as treasury shares; and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) shall be made to the company in respect of shares held by the company as treasury shares. Any shares allotted by the company as fully paid bonus shares in respect of shares held by the company as treasury shares shall be treated for the purposes of the Companies Act as if they had been acquired by the company at the time they were allotted.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Bermuda law that a company's memorandum of association or its bye-laws contain a specific provision enabling such purchases.

Under Bermuda law, a subsidiary may hold shares in its holding company and in certain circumstances, may acquire such shares. The holding company is, however, prohibited from giving financial assistance for the purpose of the acquisition, subject to certain circumstances provided by the Companies Act. A company, whether a subsidiary or a holding company, may only purchase its own shares if it is authorised to do so in its memorandum of association or bye-laws pursuant to section 42A of the Companies Act.

(d) Dividends and distributions

A company may not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that (i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts. Contributed surplus is defined for purposes of section 54 of the Companies Act to include the proceeds arising from donated shares, credits resulting from the redemption or conversion of shares at less than the amount set up as nominal capital and donations of cash and other assets to the company.

(e) Protection of minorities

Class actions and derivative actions are generally not available to shareholders under the laws of Bermuda. The Bermuda courts, however, would ordinarily be expected to permit a shareholder to commence an action in the name of a company to

remedy a wrong done to the company where the act complained of is alleged to be beyond the corporate power of the company or is illegal or would result in the violation of the company's memorandum of association and bye-laws. Furthermore, consideration would be given by the court to acts that are alleged to constitute a fraud against the minority shareholders or, for instance, where an act requires the approval of a greater percentage of the company's shareholders than actually approved it.

Any member of a company who complains that the affairs of the company are being conducted or have been conducted in a manner oppressive or prejudicial to the interests of some part of the members, including himself, may petition the court which may, if it is of the opinion that to wind up the company would unfairly prejudice that part of the members but that otherwise the facts would justify the making of a winding up order on just and equitable grounds, make such order as it thinks fit, whether for regulating the conduct of the company's affairs in future or for the purchase of shares of any members of the company by other members of the company or by the company itself and in the case of a purchase by the company itself, for the reduction accordingly of the company's capital, or otherwise. Bermuda law also provides that the company may be wound up by the Bermuda court, if the court is of the opinion that it is just and equitable to do so. Both these provisions are available to minority shareholders seeking relief from the oppressive conduct of the majority, and the court has wide discretion to make such orders as it thinks fit.

Except as mentioned above, claims against a company by its shareholders must be based on the general laws of contract or tort applicable in Bermuda.

A statutory right of action is conferred on subscribers of shares in a company against persons, including directors and officers, responsible for the issue of a prospectus in respect of damage suffered by reason of an untrue statement therein, but this confers no right of action against the company itself. In addition, such company, as opposed to its shareholders, may take action against its officers including directors, for breach of their statutory and fiduciary duty to act honestly and in good faith with a view to the best interests of the company.

(f) Management

The Companies Act contains no specific restrictions on the power of directors to dispose of assets of a company, although it specifically requires that every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Furthermore, the Companies Act requires that every officer should comply with the Companies Act, regulations passed pursuant to the Companies Act and the bye-laws of the company. The directors of a company may, subject to the bye-laws of the company, exercise all the powers of the company except those powers that are required by the Companies Act or the bye-laws to be exercised by the members of the company.

(g) Accounting and auditing requirements

The Companies Act requires a company to cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Furthermore, it requires that a company keeps its records of account at the registered office of the company or at such other place as the directors think fit and that such records shall at all times be open to inspection by the directors or the resident representative of the company. If the records of account are kept at some place outside Bermuda, there shall be kept at the office of the company in Bermuda such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each three month period, except that where the company is listed on an appointed stock exchange, there shall be kept such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each six month period.

The Companies Act requires that the directors of the company must, at least once a year, lay before the company in general meeting financial statements for the relevant accounting period. Further, the company's auditor must audit the financial statements so as to enable him to report to the members. Based on the results of his audit, which must be made in accordance with generally accepted auditing standards, the auditor must then make a report to the members. The generally accepted auditing standards may be those of a country or jurisdiction other than Bermuda or such other generally accepted auditing standards as may be appointed by the Minister of Finance of Bermuda under the Companies Act; and where the generally accepted auditing standards used are other than those of Bermuda, the report of the auditor shall identify the generally accepted auditing standards used. All members of the company are entitled to receive a copy of every financial statement prepared in accordance with these requirements, at least five days before the general meeting of the company at which the financial statements are to be tabled. A company the shares of which are listed on an appointed stock exchange may send to its members summarized financial statements instead. The summarized financial statements must be derived from the company's financial statements for the relevant period and contain the information set out in the Companies Act. The summarized financial statements sent to the company's members must be accompanied by an auditor's report on the summarized financial statements and a notice stating how a member may notify the company of his election to receive financial statements for the relevant period and/or for subsequent periods.

The summarized financial statements together with the auditor's report thereon and the accompanied notice must be sent to the members of the company not less than 21 days before the general meeting at which the financial statements are laid. Copies of the financial statements must be sent to a member who elects to receive the same within 7 days of receipt by the company of the member's notice of election.

(h) Auditors

At each annual general meeting, a company must appoint an auditor to hold office until the close of the next annual general meeting; however, this requirement may be waived if all of the shareholders and all of the directors, either in writing or at the general meeting, agree that there shall be no auditor.

A person, other than an incumbent auditor, shall not be capable of being appointed auditor at an annual general meeting unless notice in writing of an intention to nominate that person to the office of auditor has been given not less than 21 days before the annual general meeting. The company must send a copy of such notice to the incumbent auditor and give notice thereof to the members not less than 7 days before the annual general meeting. An incumbent auditor may, however, by notice in writing to the secretary of the company waive the requirements of the foregoing.

Where an auditor is appointed to replace another auditor, the new auditor must seek from the replaced auditor a written statement as to the circumstances of the replacement. If the replaced auditor does not respond within 15 days, the new auditor may act in any event. An appointment as auditor of a person who has not requested a written statement from the replaced auditor is voidable by a resolution of the shareholders at a general meeting. An auditor who has resigned, been removed or whose term of office has expired or is about to expire, or who has vacated office is entitled to attend the general meeting of the company at which he is to be removed or his successor is to be appointed; to receive all notices of, and other communications relating to, that meeting which a member is entitled to receive; and to be heard at that meeting on any part of the business of the meeting that relates to his duties as auditor or former auditor.

(i) Exchange control

An exempted company is usually designated as “non-resident” for Bermuda exchange control purposes by the Bermuda Monetary Authority. Where a company is so designated, it is free to deal in currencies of countries outside the Bermuda exchange control area which are freely convertible into currencies of any other country. The permission of the Bermuda Monetary Authority is required for the issue of shares and securities by the company and the subsequent transfer of such shares and securities. In granting such permission, the Bermuda Monetary Authority accepts no responsibility for the financial soundness of any proposals or for the correctness of any statements made or opinions expressed in any document with regard to such issue. Before the company can issue or transfer any further shares and securities in excess of the amounts already approved, it must obtain the prior consent of the Bermuda Monetary Authority.

The Bermuda Monetary Authority has granted general permission for the issue and transfer of shares and securities to and between persons regarded as resident outside Bermuda for exchange control purposes without specific consent for so long as any equity securities, including shares, are listed on an appointed stock exchange (as

defined in the Companies Act). Issues to and transfers involving persons regarded as “resident” for exchange control purposes in Bermuda will be subject to specific exchange control authorisation.

(j) Taxation

Under present Bermuda law, no Bermuda withholding tax on dividends or other distributions, nor any Bermuda tax computed on profits or income or on any capital asset, gain or appreciation will be payable by an exempted company or its operations, nor is there any Bermuda tax in the nature of estate duty or inheritance tax applicable to shares, debentures or other obligations of the company held by non-residents of Bermuda. Furthermore, a company may apply to the Minister of Finance of Bermuda for an assurance, under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, that no such taxes shall be so applicable until 28th March 2016, although this assurance will not prevent the imposition of any Bermuda tax payable in relation to any land in Bermuda leased or let to the company or to persons ordinarily resident in Bermuda.

(k) Stamp duty

An exempted company is exempt from all stamp duties except on transactions involving “Bermuda property”. This term relates, essentially, to real and personal property physically situated in Bermuda, including shares in local companies (as opposed to exempted companies). Transfers of shares and warrants in all exempted companies are exempt from Bermuda stamp duty.

(l) Loans to directors

Bermuda law prohibits the making of loans by a company to any of its directors or to their families or companies in which they hold more than a 20 per cent. interest, without the consent of any member or members holding in aggregate not less than nine-tenths of the total voting rights of all members having the right to vote at any meeting of the members of the company. These prohibitions do not apply to (a) anything done to provide a director with funds to meet the expenditure incurred or to be incurred by him for the purposes of the company, provided that the company gives its prior approval at a general meeting or, if not, the loan is made on condition that it will be repaid within six months of the next following annual general meeting if the loan is not approved at or before such meeting, (b) in the case of a company whose ordinary business includes the lending of money or the giving of guarantees in connection with loans made by other persons, anything done by the company in the ordinary course of that business, or (c) any advance of moneys by the company to any officer or auditor under Section 98(2)(c) of the Companies Act which allows the company to advance moneys to an officer or auditor of the company for the costs incurred in defending any civil or criminal proceedings against them, on condition that the officer or auditor shall repay the advance if any allegation of fraud or dishonesty is

proved against them. If the approval of the company is not given for a loan, the directors who authorised it will be jointly and severally liable for any loss arising therefrom.

(m) Inspection of corporate records

Members of the general public have the right to inspect the public documents of a company available at the office of the Registrar of Companies in Bermuda which will include the company's certificate of incorporation, its memorandum of association (including its objects and powers) and any alteration to the company's memorandum of association. The members of the company have the additional right to inspect the bye-laws of a company, minutes of general meetings and the company's audited financial statements, which must be presented to the annual general meeting. Minutes of general meetings of a company are also open for inspection by directors of the company without charge for not less than two hours during business hours each day. The register of members of a company is open for inspection by members of the public without charge. The company is required to maintain its share register in Bermuda but may, subject to the provisions of the Companies Act, establish a branch register outside Bermuda. Any branch register of members established by the company is subject to the same rights of inspection as the principal register of members of the company in Bermuda. Any person may on payment of a fee prescribed by the Companies Act require a copy of the register of members or any part thereof which must be provided within fourteen days of a request. Bermuda law does not, however, provide a general right for members to inspect or obtain copies of any other corporate records.

A company is required to maintain a register of directors and officers at its registered office and such register must be made available for inspection for not less than two hours in each day by members of the public without charge. If summarized financial statements are sent by a company to its members pursuant to section 87A of the Companies Act, a copy of the summarized financial statements must be made available for inspection by the public at the registered office of the company in Bermuda.

(n) Winding up

A company may be wound up by the Bermuda court on application presented by the company itself, its creditors or its contributors. The Bermuda court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Bermuda court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the

expiry of the period or the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

Where, on a voluntary winding up, a majority of directors make a statutory declaration of solvency, the winding up will be a members' voluntary winding up. In any case where such declaration has not been made, the winding up will be a creditors' voluntary winding up.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators within the period prescribed by the Companies Act for the purpose of winding up the affairs of the company and distributing its assets. If the liquidator at any time forms the opinion that such company will not be able to pay its debts in full, he is obliged to summon a meeting of creditors.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting requires at least one month's notice published in an appointed newspaper in Bermuda.

In the case of a creditors' voluntary winding up of a company, the company must call a meeting of creditors of the company to be summoned on the day following the day on which the meeting of the members at which the resolution for winding up is to be proposed is held. Notice of such meeting of creditors must be sent at the same time as notice is sent to members. In addition, such company must cause a notice to appear in an appointed newspaper on at least two occasions.

The creditors and the members at their respective meetings may nominate a person to be liquidator for the purposes of winding up the affairs of the company provided that if the creditors nominate a different person, the person nominated by the creditors shall be the liquidator. The creditors at the creditors' meeting may also appoint a committee of inspection consisting of not more than five persons.

If a creditors' winding up continues for more than one year, the liquidator is required to summon a general meeting of the company and a meeting of the creditors at the end of each year to lay before such meetings an account of his acts and dealings and of the conduct of the winding up during the preceding year. As soon as the affairs of the company are fully wound up, the liquidator must make an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon shall call a general meeting of the company and a meeting of the creditors for the purposes of laying the account before such meetings and giving an explanation thereof.

(o) Power to acquire shares of shareholders dissenting from scheme or contract approved by majority

Boardly speaking, where this is a general offer for shares of a company, pursuant to section 102 of the Companies Act, if the offer is approved by the holders of 90 per cent. in value of the shares which are the subject of the offer, the offeror can compulsorily acquire the shares of dissentient shareholders. Shares owned by the offeror or its subsidiary or their nominees at the date of the offer do not, however, count towards the 90%. If the offeror or any of its subsidiaries or any nominee of the offeror or any of its subsidiaries together already own more than 10% of the shares in the subject company at the date of the offer do not, however, count towards the 90%. If the offeror or any of its subsidiaries or any nominee of the offeror or any of its subsidiaries together already own more than 10% of the shares in the subject company at the date of the offer the offeror must offer the same terms to all holders of the same class and the holders who accept the offer, besides holding not less than 90% in value of the shares, must also represent not less than 75% in number of the holders of those shares.

The 90% acceptance must be obtained within 4 months after the making of the offer and, once obtained, the compulsory acquisition may be commenced within 2 months of the acquisition of 90%. Dissentient shareholders do not have express appraisal rights but are entitled to seek relief (within one month of the compulsory acquisition notice) from the Supreme Court of Bermuda which has power to make such orders as it thinks fit.

(p) Holders of ninety-five per cent. Of shares may acquire remainder

The holder of 95% or more of the shares or any class of shares may serve a notice on the remaining shareholders or class of shareholders under section 103 of the Companies Act to acquire their shares. Dissentient shareholders have a right to apply to the Supreme Court of Bermuda within one month of the compulsory acquisition notice to have the value of their shares appraised by the Supreme Court of Bermuda. Under section 103 of the Companies Act, if one dissentient shareholder applies to the Supreme Court of Bermuda and is successful in obtaining a higher valuation that valuation must be paid to all shareholders being squeezed out.

5. GENERAL

Conyers Dill & Pearman, the Company's legal advisers on Bermuda law, have sent to the Company a letter of advice summarising certain aspects of Bermuda company law. This letter, together with a copy of the Companies Act, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix XIII. Any person wishing to have a detailed summary of Bermuda company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts, the omission of which would make any statement in this circular misleading.

This circular includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Company. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts, the omission of which would make any statement in this circular misleading.

Information (including that about the Offer in appendix I to this circular) and confirmation relating to the Offeror, its associates and the Offeror Parties with it set out in this circular has been duly extracted from the Joint Announcement or provided by the Offeror. Information and confirmation relating to the Vendor, its associates and the Offeror Parties with it set out in this circular has been duly extracted from the Joint Announcement or provided by the Vendor. The Directors jointly and severally accept responsibility for the correctness and fairness of reproduction or presentation of such information.

SHARE CAPITAL**(a) Share capital**

The authorised and issued capital of the Company as at the Latest Practicable Date were, and immediately following completion of the Acquisition will be, as follows:

<i>Authorised:</i>		<i>HK\$</i>
<u>2,000,000,000</u>	Shares	<u>100,000,000.00</u>
 <i>Issued and fully paid:</i>		
1,492,410,986	Shares as at the Latest Practicable Date	74,620,549.30
<u>900,000,000</u>	Consideration Shares to be issued pursuant to the Acquisition	<u>45,000,000.00</u>
<u>2,392,410,986</u>	Shares upon completion of the Acquisition	<u>119,620,549.30</u>

All the issued Shares rank pari passu with each other in all respects including the rights as to voting, dividends and return of capital. The Consideration Shares to be allotted and issued will, when issued and fully paid, rank pari passu in all respects with the existing Shares.

Since 31 December 2006 (being the end of the last financial year of the Company), no new Shares have been issued by the Company.

As at the Latest Practicable Date, there are no other outstanding options, warrants or conversion rights affecting Company's share.

MARKET PRICES

The table below shows the closing prices of the Shares as recorded on the Stock Exchange on (i) the Last Trading Day; (ii) the last trading day of each of the calendar months during the period commencing 6 months preceding the date of the Joint Announcement; and (iii) the Latest Practicable Date.

Date	Share price <i>HK\$</i>
30 November 2006	0.47
29 December 2006	0.48
31 January 2007	0.54
28 February 2007	0.65
30 March 2007	0.53
30 April 2007	0.70
Last Trading Day	0.81
Latest Practicable Date	0.62

The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the period commencing six months prior to the date of the Joint Announcement up to and including the Latest Practicable Date were HK\$0.81 on 25 May 2007 and HK\$0.45 on 28 November 2006, 29 November 2006 and 13 December 2006 respectively.

DIRECTORS' AND CHIEF EXECUTIVE'S DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests and short positions of Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have taken under such provisions of the SFO); or were required, pursuant to Section 352 of the SFO, to be entered in the register kept by the Company, or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

(i) Long positions in shares and underlying shares of the Company

Name of Director	Type of interests and number of Shares held		Total	Percentage
	Corporate <i>(Note (a))</i>	Individual/ Family		
Cheong Pin Chuan, Patrick	602,645,787	3,397,000	606,042,787	40.6%
Cheong Kim Pong	602,645,787	–	602,645,787	40.4%
Cheong Sim Eng	602,645,787	–	602,645,787	40.4%
Cheong Hooi Kheng <i>(Note (b))</i>	602,645,787	2,000,000	604,645,787	40.5%

Notes:

- (a) These Directors were deemed to have corporate interests in the shares in the Company by virtue of their beneficial interests in the shares in Hong Fok Corporation Limited (“HFC”), a substantial shareholder of the Company. The 602,645,787 shares represented the same interests and were duplicated amongst these Directors.
- (b) Ms. Cheong Hooi Kheng’s directorship is alternate to Madam Lim Ghee.

(ii) Long positions in shares of an associated corporation, Hong Fok Corporation Limited (“HFC”)

Name of Director	Type of interests and number of shares held				Total	Percentage
	Personal	Family	Corporate	Other (Note (a))		
Cheong Pin Chuan, Patrick	5,163,140	1,125,300 (Note b)	94,598,912 (Note c)	121,336,000	222,223,352	37.1%
Cheong Kim Pong	2,571,980	503,000 (Note d)	94,598,912 (Note e)	121,336,000	219,009,892	36.5%
Cheong Sim Eng	62,182,000	207,000 (Note f)	28,421,512 (Note g)	121,336,000	212,146,512	35.4%
Cheong Hooi Kheng (Note (h))	9,534,820	–	–	121,336,000	130,870,820	21.8%
Lim Ghee (Note i)	–	–	–	121,336,000	121,336,000	20.2%

Notes:

- (a) These shares of HFC were beneficially held by Winfoong Holding Limited, a wholly-owned subsidiary of the Company. Mr. Cheong Pin Chuan, Patrick, Mr. Cheong Kim Pong, Mr. Cheong Sim Eng and Ms. Cheong Hooi Kheng were deemed to have interests in the shares of HFC by virtue of their direct and indirect interests in the Company.
- (b) These 1,125,300 shares of HFC (representing approximately 0.2% of the total issued share capital of HFC) were beneficially owned by Madam Helen Zee Yee Ling, the wife of Mr. Cheong Pin Chuan, Patrick.
- (c) These shares of HFC represents (1) 5,588,000 shares and 22,833,512 shares of HFC (representing approximately 0.9% and 3.8% of the total issued share capital of HFC respectively) beneficially owned by Corporate Development Limited and Goodyear Realty Co. Pte. Ltd. respectively; and (2) 66,177,400 shares of HFC (representing approximately 11.0% of the total issued share capital of HFC) beneficially owned by P.C. Cheong Pte. Ltd.. The issued share capital for each of Corporate Development Limited and Goodyear Realty Co. Pte. Ltd. are owned as to one-quarter by each of Mr. Cheong Pin Chuan, Patrick, Mr. Cheong Kim Pong, Mr. Cheong Sim Eng and Mr. Cheong Pin Seng.
- (d) These 503,000 shares of HFC (representing approximately 0.1% of the total issued share capital of HFC) were beneficially owned by Madam Margaret Choo, the wife of Mr. Cheong Kim Pong.
- (e) These shares of HFC represents (1) 5,588,000 shares and 22,833,512 shares of HFC (representing approximately 0.9% and 3.8% of the total issued share capital of HFC respectively) beneficially owned by Corporate Development Limited and Goodyear Realty Co. Pte. Ltd. respectively; and (2) 66,177,400 shares of HFC (representing approximately 11.0% of the total issued share capital of HFC) beneficially owned by K.P. Cheong Investments Pte. Ltd.. The issued share capital for each of Corporate Development Limited and Goodyear Realty Co. Pte. Ltd. are owned as to one-quarter by each of Mr. Cheong Pin Chuan, Patrick, Mr. Cheong Kim Pong, Mr. Cheong Sim Eng and Mr. Cheong Pin Seng.
- (f) These 207,000 shares of HFC (representing approximately 0.1% of the total issued share capital of HFC) were beneficially owned by Madam Low Lee Chen, the wife of Mr. Cheong Sim Eng.

- (g) These shares of HFC represent 5,588,000 shares and 22,833,512 shares of HFC (representing approximately 0.9% and 3.8% of the total issued share capital of HFC respectively) beneficially owned by Corporate Development Limited and Goodyear Realty Co. Pte. Ltd. respectively. The issued share capital for each of Corporate Development Limited and Goodyear Realty Co. Pte. Ltd. are owned as to one-quarter by each of Mr. Cheong Pin Chuan, Patrick, Mr. Cheong Kim Pong, Mr. Cheong Sim Eng and Mr. Cheong Pin Seng.
- (h) Ms. Cheong Hooi Kheng's directorship is alternate to Madam Lim Ghee.
- (i) These shares were beneficially held by Winfoong Holding Limited, a wholly-owned subsidiary of the Company. Madam Lim Ghee, as a director of the Company was deemed to have control in the shares of HFC held by the Company.
- (j) Apart from Directors' interests in HFC mentioned above, the associates of the Directors also interested in the shares of HFC as at the Latest Practicable Date. Details of the interests of the associates of the Directors in HFC as at the Latest Practicable Date were as follow:
- (1) Mr. Cheong Pin Seng, the brother of Mr. Cheong Pin Chuan, Patrick, Mr. Cheong Kim Pong, Mr. Cheong Sim Eng and Ms. Cheong Hooi Kheng (all of them are Directors of the Company), interested in 46,657,712 shares of HFC (representing approximately 7.8% of the total issued share capital of HFC) of which (1) 111,200 shares of HFC were held by his wife, Madam Lim Peck Choo, (2) 5,588,000 shares and 22,833,512 shares of HFC (representing approximately 0.9% and 3.8% of the total issued share capital of HFC respectively) beneficially owned by Corporate Development Limited and Goodyear Realty Co. Pte. Ltd. respectively and (3) 18,125,000 shares of HFC (representing approximately 3.0% of the total issued share capital of HFC) beneficially owned by P.S. Cheong Pte. Ltd. (in Liquidation). The issued share capital for each of Corporate Development Limited and Goodyear Realty Co. Pte. Ltd. are owned as to one-quarter by each of Mr. Cheong Pin Chuan, Patrick, Mr. Cheong Kim Pong, Mr. Cheong Sim Eng and Mr. Cheong Pin Seng.
 - (2) Ms. Cheong Puay Kheng, the sister of Mr. Cheong Pin Chuan, Patrick, Mr. Cheong Kim Pong, Mr. Cheong Sim Eng and Ms. Cheong Hooi Kheng (all of them are Directors of the Company), interested in 9,552,818 shares of HFC (representing approximately 1.6% of the total issued share capital of HFC).
 - (3) Ms. Cheong Loo Kheng, the sister of Mr. Cheong Pin Chuan, Patrick, Mr. Cheong Kim Pong, Mr. Cheong Sim Eng and Ms. Cheong Hooi Kheng (all of them are Directors of the Company), interested in 8,803,818 shares of HFC (representing approximately 1.5% of the total issued share capital of HFC).
 - (4) Ms. Cheong Lay Kheng, the sister of Mr. Cheong Pin Chuan, Patrick, Mr. Cheong Kim Pong, Mr. Cheong Sim Eng and Ms. Cheong Hooi Kheng (all of them are Directors of the Company), interested in 9,250,818 shares of HFC (representing approximately 1.5% of the total issued share capital of HFC).
 - (5) Ms. Cheong Gim Kheng, the sister of Mr. Cheong Pin Chuan, Patrick, Mr. Cheong Kim Pong, Mr. Cheong Sim Eng and Ms. Cheong Hooi Kheng (all of them are Directors of the Company), interested in 13,159,818 shares of HFC (representing approximately 2.2% of the total issued share capital of HFC) of which 148,000 shares of HFC were held by her husband, Mr. Tan Tock Han who is also a director of HFC.
 - (6) Mr. Cheong Alk Yen, Roy, the son of Mr. Cheong Kim Pong, interested in 1,320,000 shares of HFC (representing approximately 0.2% of the total issued share capital of HFC).

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock

Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have taken under such provisions of the SFO); or were required, pursuant to Section 352 of the SFO, to be entered in the register kept by the Company, or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, to be notified to the Company and the Stock Exchange.

As at the Latest Practicable Date, none of the Directors and the chief executive of the Company, except for Mr. Cheong Pin Chuan, Patrick, Mr. Cheong Kim Pong, Mr. Cheong Sim Eng, Ms. Cheong Hooi Kheng and Madam Lim Ghee who are also directors of the Vendor; and Mr. Cheong Pin Chuan, Patrick, Mr. Cheong Kim Pong, Mr. Cheong Sim Eng and Ms. Cheong Hooi Kheng and their respective associates were in aggregate interested in approximately 70.7% of the Vendor as disclosed under the section headed “Background of the Offeror and its intention regarding HF Land” in appendix I to this circular, was a director or employee of a company which has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

SUBSTANTIAL SHAREHOLDERS’ INTERESTS AND SHORT POSITIONS IN SHARES

As at the Latest Practicable Date, to the best knowledge of the Directors or chief executive of the Company, the following parties (other than a Director or chief executive of the Company), had interests or short positions in the Shares or underlying Shares which are required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was expected, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital (together with any options in respect of such capital) carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Substantial Shareholders and Other Persons’ Interests

		Number of shares held			
	Note	Direct	Indirect	Total	Percentage
HFL International Consortium Limited (“HFL)		555,202,784	–	555,202,784	37.2%
Hong Fok Enterprises Limited (“HFE)	(i)	–	555,202,784	555,202,784	37.2%
Hong Fok Investment Holding Company, Limited (“HFIH)	(ii)	47,443,003	555,202,784	602,645,787	40.4%
Hong Fok Corporation Limited (“HFC)	(iii)	–	602,645,787	602,645,787	40.4%
Barragan Trading Corp.		285,312,566	–	285,312,566	19.1%
Praise Time Co Limited		136,000,000	–	136,000,000	9.1%

Notes:

- (i) HFE was deemed to have the same beneficial interests as its wholly-owned subsidiary, HFL, did in the issued share capital of the Company by virtue of HFE’s interest in HFL.

- (ii) HFIH was deemed to have the same beneficial interests as its wholly-owned subsidiary, HFE, did in the issued share capital of the Company by virtue of HFIH's interest in HFE. In addition, HFIH was directly interested in approximately 3% of the issued share capital of the Company.
- (iii) HFC was deemed to have the same beneficial interests as its wholly-owned subsidiary, HFIH, did in the issued share capital of the Company by virtue of HFC's interest in HFIH.

Save as disclosed above, the Directors or chief executive of the Company are not aware of any person (other than a Director or chief executive of the Company), who, as at the Latest Practicable Date, had interests or short positions in the Shares or underlying Shares which are required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was expected, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital (together with any options in respect of such capital) carrying rights to vote in all circumstances at general meetings of any other member of the Group.

SHAREHOLDINGS

- (i) As at the Latest Practicable Date, there was no agreement, arrangement or understanding which the Consideration Shares will be transferred, charged or pledged to any other persons.
- (ii) As at the Latest Practicable Date, there was no agreement, arrangement or understanding (including any compensation arrangement) between the Vendor or any parties acting in concert with it and any of the Directors, recent Directors, the Shareholders or recent Shareholders having any connection with or dependent upon the Acquisition and/or the Whitewash Waiver.
- (iii) As at the Latest Practicable Date, the Vendor was the controlling Shareholder holding an approximately 40.4% interest, parties acting in concert with it holding in aggregate 0.3% interest, in the Company. These approximately 0.3% interest in the Company were held (a) as to approximately 0.2% of the issued share capital of the Company (or 3,397,000 Shares) by Madam Helen Zee Yee Ling, the wife of Mr. Cheong Pin Chuan, Patrick; and (b) as to approximately 0.1% of the issued share capital of the Company (or 2,000,000 Shares) by Ms. Cheong Hooi Kheng, the sister of Messrs Cheong Pin Chuan, Patrick, Cheong Kim Pong and Cheong Sim Eng.
- (iv) As at the Latest Practicable Date, the directors of the Vendor and their respective associates were in aggregate interested in approximately 40.7% of the total issued share capital of the Company.
- (v) As at the Latest Practicable Date, the Group was interested in approximately 20.2% of the total issued share capital of the Vendor.
- (vi) As at the Latest Practicable Date as set out under the section headed "Directors' and chief executive's disclosure of interests" above, the Directors and their associates were in aggregate interested in approximately 40.7% of the total issued share capital of the Company and were in aggregate interested in approximately 70.7% of the total issued share capital of the Vendor.

(vii) As at the Latest Practicable Date, none of the subsidiaries, pension fund of the Company or its subsidiaries, Somerley, Hercules, Kingsway Capital Limited, CCIF CPA Limited (“CCIF”), KPMG Singapore, Sallmanns (Far East) Limited (“Sallmanns”), CB Richard Ellis Limited (“CBRE”), Savills (Singapore) Pte Ltd (“Savills”) and Conyers Dill & Pearman (“Conyers”) and any other advisers to the Company as specified in class (2) of the definition of associate under the Takeovers Code owned or controlled any shares, options, warrants, derivatives or securities convertible into the shares of the Company.

(viii) As at the Latest Practicable Date, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of “associate” in the Takeovers Code.

DEALINGS

Save for the Consideration Shares to be issued to the Vendor on Completion pursuant to the Agreement and as mentioned in the table below, none of the persons whose shareholdings are disclosed in (iii) to (vi) under the section headed “Shareholdings” in this appendix dealt for value in the shares, options, warrants, derivatives or securities convertible into shares in question for each of the Company and the Vendor during the period beginning six months prior to 25 May 2007 (being the commencement date of the offer period as defined in the Takeovers Code and the date of the Joint Announcement) up to and including the Latest Practicable Date.

Name	Date of dealing	Number of shares of HFC involved	Buy/Sell
Cheong Pin Chuan, Patrick	13 June 2007	500,000 (<i>note a</i>)	Buy
Cheong Kim Pong	13 June 2007	500,000 (<i>note a</i>)	Buy
Cheong Sim Eng	13 June 2007	500,000 (<i>note a</i>)	Buy
	13 June 2007	906,000	Buy
	15 June 2007	400,000	Buy
	18 June 2007	447,000	Buy
	22 June 2007	150,000	Buy
Cheong Hooi Kheng	15 June 2007	300,000	Buy
Cheong Pin Seng	12 April 2007	20,752,376	Sell
	12 April 2007	28,045,800 (<i>note b</i>)	Sell
	30 April 2007	10,000 (<i>note c</i>)	Buy
	13 June 2007	500,000 (<i>note a</i>)	Buy
Cheong Gim Kheng	13 June 2007	100,000	Buy
Cheong Puay Khung	12 June 2007	10,000	Buy
	15 June 2007	5,000	Buy

Note:

- (a) It represents the shares of HFC dealt by Goodyear Realty Co. Pte. Ltd which is owned as to one-quarter by each of Mr. Cheong Pin Chuan, Patrick, Mr. Cheong Kim Pong, Mr. Cheong Sim Eng and Mr. Cheong Pin Seng.
- (b) It represents the shares of HFC dealt by P.S. Cheong Pte. Ltd (in Liquidation) of which approximately 97% is owned by Mr. Cheong Pin Seng.
- (c) It represents the shares of HFC dealt by Madam Lim Peck Choo, the wife of Mr. Cheong Pin Seng.

None of the persons whose shareholdings are disclosed in (vii) and (viii) under the section headed "Shareholdings" in this appendix, dealt for value in the shares, options, warrants, derivatives or securities convertible into shares in question during the period from 25 May 2007 (being the commencement date of the offer period as defined in the Takeovers Code and the date of the Joint Announcement) up to and including the Latest Practicable Date.

ARRANGEMENTS

- (i) As at the Latest Practicable Date, no person had irrevocably committed themselves to vote for or against the resolutions to be proposed at the SGM to approve the Acquisition and Whitewash Waiver. Mr. Cheong Pin Chuan, Patrick, Mr. Cheong Kim Pong, Mr. Cheong Sim Eng and Ms. Cheong Hooi Kheng, shareholders of the Company and also interested in the Acquisition, are required to abstain from voting at the SGM.
- (ii) No benefit (other than statutory compensation) will be given to any Director as compensation for loss of office in any member of the Group or otherwise in connection with the Acquisition and/or the Whitewash Waiver.
- (iii) As at the Latest Practicable Date, there was no agreement or arrangement between the Directors and any other person which is conditional on or dependent upon the outcome of the Acquisition and/or the Whitewash Waiver.
- (iv) As at the Latest Practicable Date, there was no material contract entered into by the Vendor in which a Director had a material personal interest.

MATERIAL CONTRACTS

Save for the Agreement, there was no contracts (not being contracts entered into in the ordinary course of business) were entered into by the Group within the two years immediately preceding the date of the Joint Announcement and up to the Latest Practicable Date, and were or may be material.

LITIGATION

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

SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had service contract with the Company or any of its subsidiaries or associated companies (i) which (including both continuous and fixed term contract) have been entered into or amended within 6 months before the date of the Joint Announcement; (ii) which are continuous contracts with a notice period of 12 months or more or (iii) which are fixed term contracts with more than 12 months to run irrespective of the notice period.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at the Latest Practicable Date, none of the Directors had interests in any businesses which compete or were likely to compete, either directly or indirectly, with the businesses of the Group.

DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

So far as the Directors were aware, as at the Latest Practicable Date:

- (i) none of the Directors or their associates had any direct or indirect interest in any assets which have been, since 31 December 2006 (being the date to which the latest published audited financial statements of the Group were made up), acquired or disposed of by or leased to or were proposed to be acquired or disposed of by or leased to any member of the Group; and
- (ii) none of the Directors or their associates was materially interested in any contract or arrangement entered into by any member of the Group and subsisting at the Latest Practicable Date which was significant in relation to the business of the Group.

EXPERTS AND CONSENTS

- (i) The following are the qualifications of the experts who had given their opinions and advice which are included in this circular:

Name	Qualification
Sommerley	a corporation licensed under the SFO to conduct types 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities under the SFO
Hercules	a corporation licensed under the SFO to carry out Type 6 (advising on corporate finance) regulated activity for the purposes of the SFO
Kingsway Capital Limited	a corporation licensed under the SFO to conduct type 6 (advising on corporate finance) regulated activities under the SFO
CCIF	certified public accountants
KPMG Singapore	certified public accountants
CBRE	chartered surveyors and financial and business valuers
Savills	chartered surveyors and financial and business valuers
Sallmanns	chartered surveyors and financial and business valuers
Conyers	Bermuda legal advisers

- (ii) As at the Latest Practicable Date, none of Sommerley, Hercules, Kingsway Capital Limited, CCIF, KPMG Singapore, CBRE, Sallmanns, Savills and Conyers had any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (iii) Each of Sommerley, Hercules, Kingsway Capital Limited, CCIF, KPMG Singapore, CBRE, Sallmanns, Savills and Conyers has given and has not withdrawn its written consent to the issue of this circular, with the inclusion of its letter or report or references to its name in the form and context in which they are included.

- (iv) As at the Latest Practicable Date, none of Somerley, Hercules, Kingsway Capital Limited, CCIF, KPMG Singapore, CBRE, Sallmanns, Savills and Conyers had any direct or indirect interest in any assets which have been, since 31 December 2006 (being the date to which the latest published audited financial statements of the Group were made up), acquired or disposed of by or leased to or were proposed to be acquired or disposed of by or leased to any member of the Group.

MISCELLANEOUS

- (i) The qualified accountant of the Company (as required under the Listing Rules) and company secretary of the Company is Ms. Cheng Kin Nam, Julia a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.
- (ii) The Company's branch share registrar is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (iii) Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong has been appointed as the transfer agent to handle registration of transfer of HF Land Shares. The charge for transfer of HF Land Shares is expected to be HK\$2.50 per HF Land Share certificate cancelled or issued. Both charges shall be borne by the HF Land Shareholder or transferee who lodges the request with the transfer agent. New share certificates will be available for collection within 10 business days upon surrender of the old share certificates to the transfer agent for splitting or lodgement of the transfer form and related share certificate(s) to the transfer agent for registration of transfer.
- (iv) The registered office of the Offeror is located at P.O. Box 957, Offshore Incorporations Centre Road Town, Tortola, British Virgin Islands. Directors of the Offeror are Mr. Cheong Pin Chuan, Patrick, Mr. Cheong Kim Pong, Mr. Cheong Sim Eng and Ms. Cheong Hooi Kheng.
- (v) The financial adviser of the Offeror is Kingsway, the office of which is 5/F, Hutchison House, 10 Harcourt Road, Hong Kong.
- (vi) The registered office and principal place of business in Singapore of the Vendor is located at 300 Beach Road #41-00, The Concourse, Singapore 199555. Directors of the Vendor are Mr. Cheong Pin Chuan, Patrick, Mr. Cheong Kim Pong, Mr. Cheong Sim Eng and Ms. Cheong Hooi Kheng, Madam Lim Ghee, Mr. Jackson Lee, Mr. Lai Meng Seng and Mr Tan Tock Han.
- (vii) This circular has been prepared in both English and Chinese languages. In the case of any inconsistency, the English text shall prevail over the Chinese text.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection between 9:00 a.m. and 5:45 p.m. from Monday to Friday at 3201, 9 Queen's Road Central, Hong Kong at the date of this circular up to and including 23 July 2007:

- (i) the memorandum of association and the bye-laws of the Company;
- (ii) the memorandum of association and the new bye-laws of HF Land;
- (iii) the annual reports of the Company for the year ended 31 December 2005 and 2006;
- (iv) the letter of recommendation from the Independent Board Committee to the Independent Shareholders, the text of which is set out in pages 35 to 36 of this circular;
- (v) the letter of advice from Hercules, the text of which is set out on pages 37 to 60 of this circular;
- (vi) the accountants' report on the Group from CCIF, the text of which is set out in Appendix II to this circular;
- (vii) the accountants' report on the Goldease Group from KPMG Singapore, the text of which is set out in Appendix III to this circular;
- (viii) the accountants' report on the HF Land Group from CCIF, the text of which is set out in Appendix IV to this circular;
- (ix) the financial information of the Vendor, the extract of which is set out in Appendix V to this circular;
- (x) the pro forma financial information on the Enlarged Remaining Group and the comfort letter in connection therewith from CCIF, the text of each of which is set out in Appendix VI to this circular;
- (xi) the property valuation report on the Remaining Group from CBRE, the text of which is set out in Appendix VII to this circular;
- (xii) the property valuation reports on the Goldease Group from Savills, the text of which is set out in Appendix VIII to this circular;
- (xiii) the property valuation report on the HF Land Group from CBRE, the text of which is set out in Appendix IX to this circular;
- (xiv) the property valuation reports on the Vendor from Savills, the text of which is set out in Appendix X to this circular;
- (xv) the valuation report on the Bond from Sallmanns and the comfort letter in connection therewith from Kingsway Capital Limited, the text of which is set out in Appendix XI to this circular;

- (xvi) the letter from Conyers as referred to in the section headed “General” in Appendix XII to this circular summarising certain aspects of Bermuda company law, together with a copy of the Companies Act 1981 of Bermuda;
- (xvii) the material contracts as referred to in the section headed “Material contracts” in this appendix; and
- (xviii) the written consents as referred to in the section headed “Experts and consents” in this appendix.

Copies of the above documents will be available for inspection on the SFC’s website at www.sfc.hk during the period from the date of this circular up to and including the date of the SGM.

NOTICE OF SGM



WINFOONG INTERNATIONAL LIMITED

(榮豐國際有限公司*)

(Incorporated in Bermuda with limited liability)

(Stock code: 63)

NOTICE IS HEREBY GIVEN that a special general meeting of **Winfoong International Limited** (the “**Company**” and together with its subsidiaries, the “**Group**”) will be held at Board Room, 1/F, The Aberdeen Marina Club, 8 Shum Wan Road, Aberdeen, Hong Kong on Wednesday, 25 July 2007 at 9:00 a.m. for the purpose of considering and, if thought fit, passing, with or without amendment, the following resolutions as ordinary resolutions and special resolution of the Company:

ORDINARY RESOLUTIONS

1. “**THAT:**

- (a) (i) the conditional sale and purchase agreement (the “**Sale and Purchase Agreement**”) dated 25 May 2007 entered into among (i) the Company, (ii) Winfoong Assets Limited (“**Winfoong Assets**”), a wholly-owned subsidiary of the Company, and (iii) Hong Fok Corporation Limited (“**Hong Fok**”) (a copy of which is tabled at the meeting and marked “**A**” and initialed by the chairman of the meeting for identification purposes and all the transactions contemplated thereby, whereby Winfoong Assets agreed to purchase and Hong Fok agreed to sell (i) the entire issued share capital of Goldease Investments Limited (“**Goldease**”) and (ii) an inter-company loan owing by the subsidiaries of Goldease to the subsidiaries of Hong Fok in an amount of not less than approximately S\$33.2 million, for a total consideration of S\$22,242,122 (equivalent to approximately HK\$114,000,000) which will be satisfied as to S\$4,681,146 (equivalent to approximately HK\$24,000,000) paid in cash and as to the balance thereof by the allotment and issue of 900,000,000 new shares of HK\$0.05 each in the share capital of the Company (collectively the “**Consideration Shares**”) at an issue price of HK\$0.10 per share to Hong Fok (the “**Acquisition**”) be and are hereby approved, confirmed and ratified ;
- (ii) conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and the permission to deal in, the Consideration Shares, the allotment and issue of the Consideration Shares at an issue price of HK\$0.10 per share to Hong Fok to satisfy part of the consideration for the Acquisition pursuant to the Sale and Purchase Agreement be and is hereby approved, confirmed and approved; and

* For identification purposes only

NOTICE OF SGM

- (iii) the execution of the Sale and Purchase Agreement by the Company and Winfoong Assets be and is hereby approved, confirmed and ratified, and any one director of the Company, or any two directors of the Company where the affixation of the common seal of the Company is necessary, be and is/are hereby authorised to do all things and take all steps which, in his/her opinion, may be necessary or desirable in connection with the matters contemplated in, and for completion of, the Acquisition; and
 - (b) subject to the conditions set out under the section headed “Conditions precedent” on page 25 of the circular of the Company dated 30 June 2007 (the “**Circular**”) being fulfilled or waived, as the case may be, conditional upon the Sale and Purchase Agreement having been completed in accordance with its terms and conditions, and subject to the Share Premium Cancellation (as defined in the Special Resolution numbered 4 set out in the notice of this meeting dated 30 June 2007) becoming effective:
 - (i) all the shares of Hong Fok Land International Limited held by the Company will be distributed to the shareholders of the Company whose names are registered in the register of members of the Company at the close of business on 25 July 2007 on a one for one basis by a cancellation and distribution of the share premium in the share premium account of the company and a distribution of the retained earnings and contributed surplus of the Company (the “**Distribution in Specie**”) as detailed in the Circular; and
 - (ii) the directors of the Company be and are hereby authorized to take any and all steps and to do and, or procure to be done any and all acts and things, and to approve, sign and execute any and all documents which in their absolute discretion consider to be necessary, desirable or expedient to implement and carry into effect the Distribution in Specie.”
2. “**THAT** any obligations which may arise under Rule 26 of the Hong Kong Code on Takeovers and Mergers and which would require Hong Fok Corporation Limited (“**Hong Fok**”) and parties acting in concert with it to make a mandatory general offer to the shareholders of the Company for all the issued shares of the Company other than those shares already owned or agreed to be acquired by Hong Fok and parties acting in concert with it as a result of the allotment and issue of the Consideration Shares (as defined in the Ordinary Resolution numbered 1 above) to Hong Fok pursuant to the Sale and Purchase Agreement (as defined in the Ordinary Resolution numbered 1 above) be and are hereby waived and that any director of the Company be and is hereby authorised to do all things and acts and sign all documents which he/she may consider desirable or expedient to implement and/or give effect to any matters relating to or in connection with the waiver of such obligations.”

NOTICE OF SGM

3. “**THAT** subject to the conditions set out under the section headed “Conditions precedent” on page 18 of the circular of the Company dated 30 June 2007 being fulfilled or waived, as the case may be, the authorised share capital of the Company be increased from HK\$100 million divided into 2,000,000,000 shares of HK\$0.05 each to HK\$150 million divided into 3,000,000,000 shares of HK\$0.05 each by the creation of an additional 1,000,000,000 new shares of HK\$0.05 each, and that the directors of the Company be and are hereby authorised to do all such acts, deeds and things and shall execute all such documents, including under seal where applicable, as they consider necessary, desirable or expedient to give effect to the increase in the authorised share capital of the Company.”

SPECIAL RESOLUTION

4. “**THAT** subject to the conditions set out under the section headed “Conditions precedent” on page 18 of the circular of the Company dated 30 June 2007 (the “**Circular**”) being fulfilled or waived, as the case may be, subject to compliance with section 46(2) of the Companies Act 1981 of Bermuda (as amended) and with effect from the passing of this resolution:
- (a) the entire amount standing to the credit of the share premium account of the Company as at the Effective Date (as defined in the Circular) be cancelled (the “**Share Premium Cancellation**”);
 - (b) the credits arising from the Share Premium Cancellation be applied for the purposes of the Distribution in Specie (as defined in the Ordinary Resolution numbered 1 set out in the notice of this meeting dated 30 June 2007) and the remaining balance of such credit (if any) will be credited to the contributed surplus account of the Company; and
 - (c) the directors of the Company be and are hereby authorized to take any and all steps and to do and, or procure to be done any and all acts and things, and to approve, sign and execute any and all documents which in their absolute discretion consider to be necessary, desirable or expedient to implement and carry into effect the Share Premium Cancellation.”

By order of the Board of
Winfoong International Limited
Cheong Pin Chuan, Patrick
Managing Director

Hong Kong, 30 June 2007

NOTICE OF SGM

Notes:

1. A shareholder entitled to attend and vote at the above meeting may appoint one or more than one proxy to attend and to vote instead of him. A proxy need not be a shareholder of the Company.
2. Where there are joint registered holders of any share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at the meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.
3. In order to be valid, the form of proxy duly completed and signed in accordance with the instructions printed thereon together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof must be delivered to the office of the Company's registrars, Computershare Hong Kong Investor Services Limited, at Shop 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the special general meeting or any adjournment thereof.