Annual Report
# 2007

NEW CITY (CHINA) DEVELOPMENT LIMITED
新城市（中國）建設有限公司

Stock Code: 456

# Contents

## BOARD OF DIRECTORS

### Executive Directors

Mr. Han Junran (Chairman)
Mr. Fu Yiu Kwong

### Independent Non-Executive Directors

Mr. Chan Yiu Tung, Anthony
Mr. Wong Shing Kay, Oliver
Mr. Zheng Qing

## COMPANY SECRETARY

Mr. Seto Man Fai

## REGISTERED OFFICE

Scotia Centre, 4th Floor
P.O. Box 2804, George Town
Grand Cayman, Cayman Islands

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Units 2804-06, 28/F, Cosco Tower
Grand Millennium Plaza
183 Queen's Road Central
Hong Kong

## PRINCIPAL PLACE OF BUSINESS IN THE PEOPLE'S REPUBLIC OF CHINA

27th Floor, Investment Plaza
No. 27 Finance Street
Xi Cheng District
Beijing, China
Postal Code: 100032

## AUDITOR

Parker Randall CF (H.K.) CPA Limited
Room 201, 2/F, Two Grand Tower
625 Nathan Road
Kowloon
Hong Kong

## PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
China Construction Bank

## PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Butterfield Fund Services (Cayman) Limited
Butterfield House, 68 Fort Street
P. O. Box 705
Grand Cayman KY1-1107
Cayman Islands

## SHARE REGISTRARS AND TRANSFER OFFICE IN HONG KONG

Union Registrars Limited
Rooms 1901-1902, Fook Lee Commercial Centre
Town Place, 33 Lockhart Road
Wanchai
Hong Kong

## AUTHORISED REPRESENTATIVES

Mr. Han Junran
Mr. Seto Man Fai

| | 2007 HK$'000 | 2006 HK$'000 | Change |
|---|---|---|---|
| Turnover | **2,160,427** | — | N/A |
| Profit/(Loss) from operations | **451,539** | (22,436) | N/A |
| Profit/(Loss) for the year | **231,720** | (32,909) | N/A |
| Deficiency of shareholders' Funds | **(52,870)** | (194,702) | -73% |
| Total assets | **864,380** | 1,971,762 | -56% |
| Total liabilities | **(917,250)** | (2,166,464) | -58% |
| Earning/(Loss) per share (HK cents) | **50.46** | (12.11) | N/A |

I am pleased to present this annual report of New City (China) Development Limited (the "Company") and its subsidiaries (the "Group") for the financial year 2007.

## BUSINESS REVIEW

During the year, the sale of China Securities Plaza is deemed to have been completed. The Group recorded a turnover of approximately HK$2,160,427,000 and recorded a profit of approximately HK$231,720,000 after tax for the year. Furthermore, the Company entered into an agreement to acquire 51% equity interest of Qin Huang Dao Ocean West Hill Real Property Development Company Limited on 15 August 2007 and was approved by shareholders on 18 March 2008.

## ARRANGEMENTS FOR THE RESUMPTION OF TRADING OF SHARES

Trading in the shares has been suspended on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 30 December 2003 at the request of the Company pending release of an announcement in relation to a major transaction of the Company involving China Securities Plaza. The Company was placed into the second stage of the delisting procedures on 12 January 2005 as the Stock Exchange is concerned about whether the Company meets the sufficient assets and operations requirements under Rule 13.24 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company is now actively preparing further information for submission to the Stock Exchange in order to substantiate that it meets the requirements under Rule 13.24 of the Listing Rules. Trading in the shares will remain suspended pending fulfillment of any conditions which may be imposed on the Company by the Stock Exchange and the Company will make an announcement upon resumption of trading.

## OUTLOOK

Although growth is halted by an increased level of government intervention and further worsen by the unfavourable impact of falling share prices in mainland China, the property market will still warrant a sound investment since the continuous trend of urbanisation resulted from strong economic growth creates an unsatisfied need of better quality residential and commercial properties. However, as a result of macro policy, bankers have become more prudent in providing funding for property projects, it is therefore vital for the successful property developers to be able to secure their financial resources internally.

Following the completion of our deal with China Network Communications Group Corporation ("CNC") and the settlement of many delinquent financial responsibilities, we have come to a new era of our Group. We will continual our expansion in the China's property market through joint ventures since under this direction, lesser financial burdens will be placed both on the Group and to our shareholders. It is believed that with the many good business networks both China and Hong Kong and backed up by proven business performances in our past, we will be able to secure profitable development projects in maintaining sound continuous growth of the Group.

## APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my appreciation to the management team and staff for their dedication and contribution to the Group.

**Han Junran**
Chairman

Hong Kong, 23 April 2008

## FINANCIAL REVIEW

### Result

For the year under review, the Group reported a turnover of approximately HK$2,160,427,000 (2006: nil) which represents the sale of China Securities Plaza. The Group's net profit for the year was approximately HK$231,720,000 (2006: net loss of approximately HK$32,909,000). The basic earning per share for the year was 50.46 HK cents (2006: loss per share of 12.11 HK cents). Administrative expenses was approximately HK$100,083,000 which includes bad debt provision of approximately HK$78,849,000 for the year of 2007 (2006: approximately HK$23,933,000). Finance costs of approximately HK$78,593,000 (2006: approximately HK$10,473,000) was mainly interest expenses on other borrowings.

### Liquidity, Financial Resources and Funding Requirements

As at 31 December 2007, the Group had obligations under finance leases of approximately HK$310,000 (as at 31 December 2006: nil) and the bank borrowings amounted to approximately RMB90,000,000 (equivalent to approximately HK$93,750,000) (as at 31 December 2006: approximately RMB90,000,000 and equivalent to approximately HK$90,000,000), that is secured and interest-bearing.

The loan of HK$165,000,000 as at 31 December 2007 (as at 31 December 2006: HK$165,000,000) was secured on the shares in the Company held by a director and a former director was interest free before 1 July 2005 and extended the repayment date up to 31 December 2005 into two portions: (i) repayment by cash amounting to HK$55,000,000 was interest bearing at 10% per annum; (ii) the balance of which amounting to HK$110,000,000 will transfer such aggregate appraisal value of property to the borrower. Other unsecured loan of HK$15,000,000 as at 31 December 2007 (as at 31 December 2006: HK$15,000,000) was interest bearing at 10% per annum. And, the short term loan of HK$1,000,000 as at 31 December 2007 (as at 31 December 2006: nil) was interest bearing at the rate equal to prime rate plus 2%.

As at 31 December 2007, the Group's total assets was approximately HK$864,380,000 (as at 31 December 2006: approximately HK$1,971,762,000) whereas total debts amounted to approximately HK$274,750,000 as at 31 December 2007 (as at 31 December 2006: approximately HK$300,000,000). As at 31 December 2007, the cash and bank balances was approximately HK$42,739,000 (as at 31 December 2006: approximately HK$64,084,000) and the current ratio (current assets/current liabilities) was 1.67 as at 31 December 2007 (as at 31 December 2006: 0.91).

## Gearing Ratio

The gearing ratio (total debts/total assets of the Group) was 0.32 as at 31 December 2007 (as at 31 December 2006: 0.15). This ratio was higher than the gearing ratio of last year mainly due to the sale of China Securities Plaza was completed and received the consideration property from CNC.

## Exchange Risks

The majority of the Group's operations are located in the People's Republic of China ("PRC"), and the main operational currencies are Hong Kong Dollars and Renminbi. The Company is paying regular and active attention to Renminbi exchange rate fluctuation and consistently assess exchange risks.

## Pledge Assets

As at 31 December 2007, the Group had pledged the property of China Securities Plaza, the development of project in Beijing to secure bank loans granted approximately HK$93,750,000 (as at 31 December 2006: approximately HK$90,000,000).

## Contingent Liabilities

(a) The Group has given guarantees to banks in respect of the loans of the amounts US$2,500,000 and RMB14,000,000 granted to Beijing New Rank Real Estate Development Co., Limited, a former subsidiary of the Group.

(b) On 23 December 2003, the Group had entered into an agreement with CNC for the construction of China Securities Plaza. Pursuant to the agreement, the construction should be completed on 30 June 2005 and its ownership should be delivered to CNC before 30 December 2005. Relevant penalties will be required upon the late delivery of ownership as 0.03% interest per day based on money received by the Group upon the late delivery within 12 months from the day of risk and reward of property which have been transferred on 25 December 2006.

(c) On 19 January 2006, the Beijing Arbitration Committee made an arbitration award in favor of 北京太陽紅投資諮詢有限公司 (the "Beijing Tai Yang Hong") that the agreement dated 6 June 2003 for the purchase of the entire 12th Floor of China Securities Plaza entered into between Beijing Tai Yang Hong and Beijing Zhong Zheng Real Estate Development Co., Ltd ("BJCSB"), the 51% indirect owned subsidiary of the Group be cancelled and that the sum of approximately RMB14,000,000 being refund of the purchase price paid and RMB800,000 being damages be paid by BJCSB to Beijing Tai Yang Hong. BJCSB has applied to the People's Court in Beijing for stay of enforcement of such award.

## Prospect

The Group will endeavour in settling the overdue financial burdens of the Group by disposing the completed property. As this building is situated in the prime business zone of Beijing, it is believed that there will be strong demand and a quick sale could be possible. Subsequent to this disposal, the Qin Huang Dao Ocean West Hill Real Property Development Company Limited project will become the project of paramount importance to our Group. In order to avoid in becoming a sole-project company, the Board will secure more profitable projects so as to strengthen the business and financial base of our Group.

## Employees

As at 31 December 2007, the Group has employed about 56 employees in both the PRC and Hong Kong. The Group adopts a competitive remuneration package for its employees. Remuneration packages are reviewed annually with reference to the then prevailing market employment practices and legislation.

## CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company (the "Board") has from time to time review the corporate governance practices as to commit the maintenance of high standards of corporate governance practices and to comply with the increasingly stringent regulatory requirements. Except for the deviations disclosed in this report, during the year ended 31 December 2007, the Company has complied with the mandatory code provisions set out in the Code on Corporate Governance Practices (the "Code") in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

## THE BOARD OF DIRECTORS

### Composition and role of the Board

The Board is responsible for the overall strategic development and business operation of the Group and also monitors the financial performance and control on business operation. The Board will from time to time review the Company's governance practices and will provide complete and sufficient information to its members as to ensure effective performance of their responsibilities. Currently, the Board is comprised of two executive directors and three independent non-executive directors, which includes:

| | | |
|---|---|---|
| Executive directors | : | Mr. Han Junran (Chairman) |
| | | Mr. Fu Yiu Kwong |
| Independent non-executive directors | : | Mr. Chan Yiu Tung Anthony |
| | | Mr. Wong Shing Kay Oliver |
| | | Mr. Zheng Qing |

Biographical details of the Board members are set out in page 12 of this annual report.

The Company has complied with Rule 3.10(1) of the Listing Rules to appoint at least three independent non-executive directors, together with the requirements of Rule 3.10(2) of the Listing Rules stipulating that at least one of the independent non-executive directors must have appropriate professional qualifications or accounting or related financial management expertise. The Board considers that each independent non-executive director is independent in character and judgment and that they all meet the specific independence criteria as required by the Listing Rules.

The Company has received from each independent non-executive director an annual confirmation pursuant to Rule 3.13 of the Listing Rules and the Company still considers such directors to be independent.

During the year ended 31 December 2007, four full Board meetings were held by the Company and complies with the Code provision A.1.1. The Company has already established profound regime to ensure effective communication among the directors.

The attendance of each director is as follows:

| Name of director | Number of meetings attended |
|---|---|
| Mr. Han Junran | 4/4 |
| Mr. Fu Yiu Kwong | 4/4 |
| Mr. Chan Yiu Tung Anthony | 4/4 |
| Mr. Wong Shing Kay Oliver | 4/4 |
| Mr. Zheng Qing | 4/4 |

## Chairman and Chief Executive Officer

According to the Code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. As the current nature of the Group's business is not complicated, the Board believes the current management structure is sufficient for monitoring and controlling the operation of the Group. The Company will review its structure from time to time and make relevant arrangements to observe the provisions of the Listing Rules whenever necessary.

## Appointment, re-election and removal of the directors

The non-executive directors of the Company are not appointed for specific terms, thus deviates from Code provision A.4.1. In addition, the chairman of the Board and/or the managing directors of the Company are not subject to retirement by rotation, which also deviates from Code provision A.4.2. However, in view of the fact that non-executive directors are subject to retirement by rotation in accordance with the Articles of Association of the Company, the Company considers that there are sufficient measures in place to ensure that the corporate governance of the Company are no less exacting than the Code provisions. Nevertheless, the Company will review its relevant Articles of Association and will propose any amendments to ensure observance of the provisions of the Listing Rules whenever necessary.

## Accountability and audit

The directors are responsible for preparation of accounts for the year ended 31 December 2007, which give a true and fair view of the state of affairs of the Group and of the financial results for the year. In preparing the accounts for the year ended 31 December 2007, the Directors have:—

1. selected suitable accounting policies and applied them consistently;

2. adopted appropriate Hong Kong Financial Reporting Standards; and

3. made adjustments and estimates that are prudent and reasonable and ensured that the accounts are prepared on the going concern basis.

The directors are also responsible for keeping proper accounting records so as to give a reasonable and accurate financial position of the Company at all times. In addition, the Board is responsible for the internal control of the Group and is committed to the fulfillment of effectual internal control system, which protects the interests of the shareholders of the Company.

## SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules for securities transactions by directors of the Company. All the members of the Board have confirmed, following the specific enquiry by the Company, that they have complied with the required standards as set out in the Model Code throughout the year ended 31 December 2007. The Model Code also applies to other specified senior management of the Group.

## REMUNERATION COMMITTEE

The Company has not established the Remuneration Committee for the year ended 31 December 2007, which deviates from Code provision B.1 as the Company has set up policy for fixing the remuneration packages for all directors and the senior management depending on the individual's performance and responsibility, market trend and company performance. The Board will review from time to time the necessity to establish the Remuneration Committee.

## AUDIT COMMITTEE

Members of the Audit Committee comprises:
Mr. Wong Shing Kay Oliver (Chairman of the Audit Committee)
Mr. Chan Yiu Tung Anthony
Mr. Zheng Qing

All of the Audit Committee members are independent non-executive directors. The Board considers that each of the Audit Committee members owns comprehensive commercial experience and there is a suitable mix of expertise in business, accounting and financial management on the Audit Committee. The composition and members of the Audit Committee comply with the requirements under Rule 3.21 of the Listing Rules.

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the accounts for the year ended 31 December 2007.

During the year ended 31 December 2007, two Audit Committee meetings were held and all the members have attended the meetings. The Board has reviewed the internal control system of the Group and confirmed that its opinion on the appointment of the auditors conforms with that of the Audit Committee.

## AUDITORS' REMUNERATION

For the year ended 31 December 2007, the auditors' remuneration paid by the Company is set out in note 10 to the financial statement.

## COMMUNICATION WITH THE SHAREHOLDERS

Communication between the Company and its shareholders are achieved through various means including the convening of general meetings, the dispatch of annual reports, interim reports and circulars. Chairman of the Board also proposes separate resolution for each substantive issue including re-election of directors.

## EXECUTIVE DIRECTORS

**Mr. Han Junran**, aged 51, holds a bachelor of law degree from China Politics and Laws University in 1998 and a master degree in banking from China Institute of Social Science. Previously, Mr. Han has worked for the Beijing Municipal Government since 1988 and was responsible for city planning and property development. Mr. Han has also worked for Beijing City Development Company since 1983 as an assistant general manager and has participated in various district development projects such as the Western station, Wangfujing Shopping District and Asia Olympic Village. Mr. Han joined the Group in December 1999 as the Group's general manager. Mr. Han is currently the Chairman of the Company and is responsible for the Group's project development and management.

**Mr. Fu Yiu Kwong, MBA**, aged 50, has over 25 years of experience in the accounting profession. Mr. Fu has worked for various local listed companies. He has extensive experience in auditing, merger and acquisition, business re-engineering and company re-structuring. Mr. Fu joined the Group in March 2003 as the Group's Finance Director and is responsible for all financial matters relating to the Group.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Chan Yiu Tung, Anthony**, aged 49, graduated from University of Toronto in 1982. Mr. Chan has over 20 years experience in the construction and property investment field and is currently the managing director of two construction companies in Hong Kong. Mr. Chan is currently the Supervisor of KYT Excel Foundation Primary School and Manager of Building Contractor's Association School and member of various organizations including Lions Club of Hong Kong West (President during the years 1996/97 and 2001/02), The Hong Kong Construction Association Ltd (Hon. Secretary), H.K. General Building Contractors Association Ltd (Vice President), Kwong Yuet Tong Hong Kong (Vice Chairman), Association of Hong Kong Nanjing Fellows Ltd (Director), The Chinese General Chamber of Commerce (Shamshuipo) (Council Member), Levy Committee of Construction Industry Training Authority (Council Member), Land Sub-committee of Land and Building Advisory Committee (Council Member), Provisional Construction Industry Co-ordination Board (Environment) (Council Member), Commercial & Industrial Committee of DAB (Council Member), Guangzhou Overseas Friendship-Liaison Association (Council Member), Yan Oi Tong (Directors for the years 2005/06, 2006/07 and 2007/08), The Hong Kong Chan Clan General Association (Life Hon. Chairman and Vice Chairman). Mr. Chan was appointed as Independent Non-Executive Director of the Company in August 2002.

**Mr. Wong Shing Kay, Oliver**, aged 56, obtained his professional accounting qualifications in both Hong Kong and Canada. Mr. Wong is an associate member of the Institute of Chartered Accountants in England and Wales and a fellow member of the Association of Chartered Certified Accountants of the United Kingdom. Mr. Wong is also a fellow member of the Hong Kong Institute of Certified Public Accountants, an ordinary member of The Society of Chinese Accountants and Auditors and an associate member of Certified General Accountants of Canada. Mr. Wong had worked in various renowned auditing firms in Hong Kong with over 15 years of experience in handling auditing, financial accounting and taxation matters. Mr. Wong is currently appointed as independent non-executive director and the chairman of audit committee for several listed companies in Hong Kong. He also assumed the duty of financial controller for many listed companies in both Hong Kong and Canada during the past ten years. Mr. Wong is presently practicing as a Certified Public Accountant in Hong Kong. He is knowledgeable with expertise in financial accounting, taxation, import-export business and company management. Mr. Wong was appointed as Independent non-executive director of the Company in March 2003.

**Mr. Zheng Qing**, aged 42, has extensive experience in property development and management. Mr. Zheng is a director of various companies in the fields of property development management and securities investment in the PRC.

The Directors present their annual report and the audited financial statements of the Company and the Group for the year ended 31 December 2007.

## PRINCIPAL ACTIVITIES

The principal activities of the Company is investment holding. Details of the principal activities of its subsidiaries are set out in note 36 to the financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2007 and the state of affairs of the Company and the Group at that date are set out in the financial statements on page 23 to 68.

The Directors do not recommend the payment of any interim or final dividend for the year ended 31 December 2007.

## RESERVES

Movements in the reserves of the Company and the Group during the year are set out in note 30 to the financial statements and the consolidated statement of changes in equity respectively.

## DISTRIBUTABLE RESERVES

The Company's reserves available for distribution represent the aggregate of share premium and contributed surplus less accumulated losses. Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Articles of Association and provided that immediately following the distribution of dividend, the Company is able to pay its debts as they fall due in the ordinary course of business.

The Company had no reserves available for distribution to shareholders as at 31 December 2007.

## PROPERTY, PLANT AND EQUIPMENT

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

## DIRECTORS

The directors of the Company during the year were:

### Executive directors

Mr. Han Junran (Chairman)
Mr. Fu Yiu Kwong

### Non-executive directors

| | |
|---|---|
| Mr. Suo Qiang | (appointed on 12 March 2007 and resigned on 26 March 2007) |
| Mr. Qi Yong | (appointed on 12 March 2007 and resigned on 26 March 2007) |

### Independent non-executive directors

Mr. Chan Yiu Tung, Anthony
Mr. Wong Shing Kay, Oliver
Mr. Zheng Qing

In accordance with the Articles of Association, Messrs. Chan Yiu Tung, Anthony and Zheng Qing shall retire from office and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

The Company has received annual confirmations of independence from each of the independent non-executive directors of the Company and as at the date of this report still considers them to be independent.

## DIRECTORS' SERVICE CONTRACTS

Mr. Han, the Chairman and executive Director, has entered into a service agreement with the Company commencing 16 December 2002 for a period of three years and continuing thereafter until his directorship terminated. As detailed in the circular of the Company dated 26 June 2007, Mr. Han also has entered into a management agreement dated 25 October 2005 with the Company for a term of 3 years commencing from 1 April 2005.

Mr. Fu Yiu Kwong, the executive Director, has entered into a service agreement with the Company for a period of two years commencing 13 March 2003 and continuing thereafter on a yearly basis until terminated by either party giving to the other not less than six months' notice.

The term of each of the independent non-executive directors is from the date they were last elected to the date of their retirement by rotation in accordance with the Company's Articles of Association.

Apart from the above, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' INTERESTS AND SHORT POSITION IN SHARES AND UNDERLYING SHARES

As at 31 December 2007, the interests and short positions of the directors and their associates in the share capital and underlying shares of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:—

### Long positions
### Ordinary shares of HK$0.001 each of the Company

| Name of director | Capacity | Number of issued ordinary shares held | Percentage of the issued share capital of the Company |
|---|---|---|---|
| Han Junran ("Mr. Han") | Beneficial owner (Note i) | 13,587,900 | 5% |

Note:

(i) Pursuant to a share charge entered into between New Rank Groups Limited ("NRG"), a wholly-owned subsidiary of Silver World Limited which is, in turn, wholly-owned by Royal Bank of Canada Trust Company (Cayman) Limited ("Royal Bank Trustee"), and Mr. Han as chargors and Starry Joy Properties Investment Ltd. ("Starry Joy"), a wholly-owned subsidiary of Poly (Hong Kong) Investments Limited ("Poly HK"), as chargee dated 23 June 2003, among other things, Mr. Han charged his interest in 5% of the issued share capital of the Company, representing 13,587,900 shares of the Company, in favour of Starry Joy.

Pursuant to the New City Guarantee, Mr. Han pledged his interest in 5% of the issued share capital of the Company, representing 13,587,900 shares of the Company, in favour of China Poly Group Corporation ("Poly Corporation").

Other than as disclosed above, none of the directors nor their associates had any interests and short positions in the share capital and underlying shares of the Company or any of its associated corporations (within the meaning of the SFO) which is required to be recorded in the register to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

There were no contract of significance to which the Company, its holding companies and any of its subsidiaries, was a party and in which a director had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

## SHARE OPTION SCHEME

The Company adopted a share option scheme on 14 June 2002 which will remain in force for a period of 10 years from the date of adoption. As at 31 December 2007, no option has been granted since the adoption of the share option scheme.

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company or any of it subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the directors nor any of their spouse or children under the age of 18, had any rights to subscribe for the securities of the Company, or exercised any such rights.

## MANAGEMENT CONTRACT

The Company had entered into a management contract with Million Rich Consultants Limited ("Million Rich") during the year ended 2003 for the provision of administrative and financial advisory services to the Group. An amount of HK$3,600,000 was paid. The contract is determinable by either party giving to the other party to the agreement of six months' notice. No director of the Company has any interest in Million Rich.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTEREST IN SHARES AND UNDERLYING SHARES

As at 31 December 2007, the register of substantial shareholders maintained by the Company pursuant to Section 336 of SFO shows that other than the interests disclosed above in respect of a director of the Company, the following persons had notified the Company of relevant interests and short positions in the issued share capital of the Company:—

| Name of shareholder | Capacity | Number of issued ordinary shares held (long position (L)/ short position (S)) | Percentage of the issued share capital of the Company |
|---|---|---|---|
| Poly HK | Person having a security interest in shares (Notes 1 and 5) | 67,939,500 (L) | 25% |
| NRG | Beneficial owner (Notes 1 and 2) | 54,351,600 (L)<br>54,351,600 (S) | 20% |
| Silver World Limited | (Note 2) | 54,351,600 (L)<br>54,351,600 (S) | 20% |
| Royal Bank Trustee | (Note 3) | 54,351,600 (L)<br>54,351,600 (S) | 20% |
| Wei Ping | Beneficial owner | 47,032,000 (L) | 17.31% |
| Lu Shu Guang | (Note 4) | 13,587,900 (L) | 5% |

Notes:

(1) Pursuant to a share charge entered into between NRG and Mr. Han as chargors and Starry Joy, a wholly-owned subsidiary of Poly HK, as chargee dated 23 June 2003, NRG and Mr. Han charged their respective interests in 20% and 5% of the issued share capital of the Company, representing 54,351,600 shares and 13,587,900 shares of the Company respectively, in favour of Starry Joy. By virtue of its shareholding in Starry Joy, Poly HK is deemed to be interested in 67,939,500 shares of the Company under the SFO.

(2) NRG is a wholly-owned subsidiary of Silver World Limited which is, in turn, wholly-owned by Royal Bank Trustee.

(3) Royal Bank Trustee is the trustee of a discretionary trust called New Rank Trust. The beneficiaries of the New Rank Trust include a holding company and its wholly-owned subsidiary and certain relatives of Mr. Leung Kwo and Ms. Lau Shun, wife of Mr. Leung Kwo, provided that such individuals are not residents of Canada of tax purpose nor residents of the PRC. The holding company is wholly-owned by another discretionary trust called Hold Trust. The beneficiaries under the Hold Trust include the lineal descendants (together with their spouses) of every degree of consanguinity of the paternal grandfather and maternal grandfather of each of Mr. Leung Kwo and Ms. Lau Shun provided that they are not residents of Canada for tax purposes nor residents of the PRC.

(4) Ms. Lu Shu Guang is the spouse of Mr. Han, a Director and Chairman of the Company. Ms. Lu is deemed interested in the 13,587,900 shares of the Company held by Mr. Han under the SFO.

(5) Pursuant to the New City Guarantee, Mr. Leung Kwo and Mr. Han respectively pledged their respective interests in 20% and 5% of the issued share capital of the Company, representing 54,351,600 shares and 13,587,900 shares of the Company respectively, in favour of Poly Corporation

So far as is known to any director of the Company, the companies (other than members of the Group) directly or indirectly interested in 5% or more of the voting power at general meetings of the subsidiaries of the Company are set out below:

| Name of owner | Name of subsidiary | Percentage of equity interest |
|---|---|---|
| Guozheng Economic Development Company Limited ("Guozheng") (Note 1) | Beijing Zhong Zheng Real Estate Development Co., Ltd ("Beijing Zhong Zheng") | 34% |
| Starry Joy (Note 2) | Tong Sun Limited ("Tong Sun") | 49% |

Notes:

(1) Beijing Zhong Zheng was established on 5 June 1995. Its existing joint venture partners are Tong Sun, a subsidiary of the Company, Guozheng and Beijing Finance Street Construction & Development Co. Ltd. ("Finance Street Development") and its capital contributions are as to 66% by Tong Sun and 34% by Guozheng. Pursuant to an agreement entered into between Finance Street Development, Guozheng and Tong Sun on 9 October 1999, Tong Sun became entitled to 100% of the economic benefit of Beijing Zhong Zheng and Guozheng becomes entitled to a fixed distribution by way of the ownership right of an office space in the China Securities Plaza of gross floor area of 7,000 square meters upon the completion of construction of the China Securities Plaza.

(2) Starry Joy is entitled to a preferred dividend of HK$94.6 million of Tong Sun and repayment of its loan and loan from Poly HK together with interest accrued thereon are in priority over the preferred dividend payment to the Group by Tong Sun, which is up to HK$136 million. After the payment of the aforesaid preferred dividend payments and repayment of all loans from Starry Joy and Poly HK, dividend and/or distribution to be declared by Tong Sun will be in the following proportion:

The Group: 75%
Starry Joy: 25%

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions as at 31 December 2007 representing 5% or more of the issued share capital of the Company.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors, the directors confirm that the Company has maintained during the year the amount of public float as required under the Listing Rules.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company had not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's shares during the year.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated.

## MAJOR SUPPLIERS

For the year ended 31 December 2007, purchases attributable to the Group's largest supplier accounted for approximately 67% of the Group's total purchases and aggregate purchases attributable to the five largest suppliers of the Group accounted for approximately 82% of the Group's total purchases.

To the knowledge of the directors, none of the directors, or their respective associates, or shareholders owning more than 5% of the Company's issued share capital had any beneficial interests in any of the five largest customers of suppliers.

## AUDITOR

KLL Associates CPA Limited ("KLL"), appointed as auditor of the Company on 1 April 2005 to fill the casual vacancy upon the resignation of Messrs. Deloitte Touche Tohmatsu on 31 March 2005. KLL then resigned as auditor of the Company because of the combination of their practice with that of BDO McCabe Lo Limited ("BDO") effective on 1 August 2005. Accordingly, BDO were appointed as new auditor of the Company following the resignation of KLL effective from 23 September 2005.

On 28 December 2006, SHINEWING (HK) CPA Limited ("SHINEWING") was appointed as auditor of the Company to fill the casual vacancy upon the resignation of BDO on 15 December 2006. SHINEWING subsequently resigned as auditor of the Company on 2 August 2007 and C & F (CPA) Limited ("C&F") was appointed auditor of the Company to fill the causal vacancy left by SHINEWING.

On 3 October 2007, C&F is affiliated with Parker Randall International and its name was then changed to Parker Randall CF (H.K.) CPA Limited. Accordingly Parker Randall CF (H.K.) CPA Limited was appointed as new auditor of the Company. A resolution will be submitted to the annual general meeting to re-appoint Parker Randall CF (H.K.) CPA Limited as auditor of the Company.

On behalf of the Board
**Han Junran**
Chairman

23 April 2008, Hong Kong

To the shareholders of
**NEW CITY (CHINA) DEVELOPMENT LIMITED**
*(Incorporated in the Cayman Islands with limited liability)*

## REPORT ON THE FINANCIAL STATEMENTS

We have audited the consolidated financial statements of New City (China) Development Limited set out on pages 23 to 68, which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, the consolidated statements of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of 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.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and report our opinion solely to you, as a body and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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 judgment, 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 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.

## OPINION

In our opinion, the financial statements give a true and fair view of the state of the Company's affairs and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Parker Randall CF (H.K.) CPA Limited**
*Certified Public Accountants*
**Lau Po Ming, Peter**
Practising Certificate No.: P2732

Rm. 201, 2/F., Two Grand Tower,
625 Nathan Road, Kowloon,
Hong Kong

23 April 2008, Hong Kong

Year ended 31 December 2007

| | Notes | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| Turnover | 8 | **2,160,427** | — |
| Cost of sales | | **(1,870,713)** | — |
| Gross Profit | | **289,714** | — |
| Other revenue | 9 | **261,908** | 1,497 |
| Administrative expenses | | **(100,083)** | (23,933) |
| Profit/(Loss) from operations | 10 | **451,539** | (22,436) |
| Finance costs | 12 | **(78,593)** | (10,473) |
| Profit/(Loss) before taxation | | **372,946** | (32,909) |
| Taxation | 13 | **(141,226)** | — |
| Profit/(Loss) for the year | | **231,720** | (32,909) |
| Attributable to: | | | |
| Equity holders of the Company | | **231,720** | (32,909) |
| Minority interests | | **—** | — |
| | | **231,720** | (32,909) |
| Dividends | 14 | **94,600** | — |
| Earning/(Loss) per share (HK cents) | | | |
| Basic | 15 | **50.46** | (12.11) |
| Diluted | 15 | **25.46** | — |

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

# Consolidated Balance Sheet

As at 31 December 2007

| | Notes | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 16 | **2,634** | 1,992 |
| | | **2,634** | 1,992 |
| **CURRENT ASSETS** | | | |
| Property for sale - completed property | 18 | **729,167** | — |
| Property for sale - under development | 19 | **—** | 1,720,280 |
| Accounts receivable | 20 | **70,387** | — |
| Prepayments, deposits and other receivables | 21 | **19,453** | 185,406 |
| Bank balances and cash | 22 | **42,739** | 64,084 |
| | | **861,746** | 1,969,770 |
| **CURRENT LIABILITIES** | | | |
| Trade payables | 23 | **103,818** | 183,866 |
| Accruals and other payables | | **138,728** | 142,971 |
| Advances from a customer | | **—** | 1,512,166 |
| Obligations under finance leases | 24 | **73** | — |
| Bank borrowings | 25 | **93,750** | 90,000 |
| Other borrowings | 26 | **71,000** | 210,000 |
| Taxes payable | 13 | **92,692** | — |
| Provisions | 27 | **16,129** | 15,484 |
| | | **516,190** | 2,154,487 |
| **NET CURRENT ASSETS/(LIABILITIES)** | | **345,556** | (184,717) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **348,190** | (182,725) |

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

As at 31 December 2007

| | Notes | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Trade payables | 23 | **33,415** | — |
| Obligations under finance leases | 24 | **237** | — |
| Other borrowing | 26 | **110,000** | — |
| Taxes payable | 13 | **93,545** | — |
| Convertible bonds | 28 | **69,263** | 11,977 |
| Preference dividend payable | 14 | **94,600** | — |
| | | **401,060** | 11,977 |
| **NET LIABILITIES** | | **(52,870)** | (194,702) |
| **Capital and reserves** | | | |
| Share capital | 29 | **272** | 272 |
| Reserves | 30 | **(53,142)** | (194,974) |
| | | **(52,870)** | (194,702) |
| Minority interests | | **—** | — |
| **DEFICIENCY OF SHAREHOLDERS' FUNDS** | | **(52,870)** | (194,702) |

Approved and authorised for issued by the Board of Directors on 23 April 2008

**Han Junran**
*Director*

**Fu Yiu Kwong**
*Director*

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

# Consolidated Statement of Changes in Equity

Year ended 31 December 2007

| | Share capital HK$'000 | Share premium HK$'000 | Contributed surplus HK$'000 | Convertible bond equity reserve HK$'000 | Translation reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2006 | 272 | 20,773 | 4,755 | 226 | 3,134 | (195,577) | (166,417) |
| Exchange differences arising on translation of foreign operations | — | — | — | — | 4,624 | — | 4,624 |
| Loss for the year | — | — | — | — | — | (32,909) | (32,909) |
| At 31 December 2006 and 1 January 2007 | 272 | 20,773 | 4,755 | 226 | 7,758 | (228,486) | (194,702) |
| Exchange differences arising on translation of foreign operations | — | — | — | — | 4,938 | — | 4,938 |
| Equity reserve of Convertible bond was transferred to liabilities as the convertible bond was extended | — | — | — | (226) | — | — | (226) |
| Profit for the year | — | — | — | — | — | 231,720 | 231,720 |
| Preferred share dividends declared | — | — | — | — | — | (94,600) | (94,600) |
| At 31 December 2007 | 272 | 20,773 | 4,755 | — | 12,696 | (91,366) | (52,870) |

Year ended 31 December 2007

| | Note | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | |
| Profit/(loss) before taxation | | **372,946** | (32,909) |
| Adjustment for: | | | |
| Depreciation | | **668** | 764 |
| Reversal of impairment loss recognised in respect of other receivables | | **(140)** | (1,495) |
| Gain on revaluation of investment properties | | **(260,132)** | — |
| Finance costs | | **75,488** | 10,473 |
| Interest received | | **(2)** | (2) |
| Operating profit/(loss) before working capital changes | | **188,828** | (23,169) |
| Decrease/(increase) in property for sale — under development | | **1,720,280** | (11,259) |
| Decrease in prepayments, deposits and other receivables | | **178,123** | 7,046 |
| Increase in accounts receivable | | **(70,387)** | — |
| Decrease in trade payables | | **(51,240)** | (116,566) |
| Decrease in accruals and other payables | | **(34,075)** | (948) |
| (Decrease)/increase in advances from a customer | | **(1,512,166)** | 175,976 |
| Cash inflow from operations | | **419,363** | 31,080 |
| Tax paid | | **(3,596)** | — |
| Net cash inflow from operating activities | | **415,767** | 31,080 |
| **CASH FLOWS FROM INVESTMENT ACTIVITIES** | | | |
| Acquisition of investment properties | | **(469,035)** | — |
| Purchase of fixed assets | | **(1,230)** | (116) |
| Net cash outflow from investing activities | | **(470,265)** | (116) |

# Consolidated Cash Flow Statement

Year ended 31 December 2007

| | Note | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Interest received | | **2** | 2 |
| Interest paid | | **—** | (19,031) |
| Repayments of bank borrowings | | **—** | (80,000) |
| Proceeds from other borrowings | | **1,000** | 30,000 |
| Repayments of other borrowings | | **(30,000)** | (30,000) |
| Drawdown/(repayments) of obligations under finance lease | | **310** | (47) |
| Drawdown of convertible bond | | **57,060** | — |
| Net cash inflow/(outflow) from financing activities | | **28,372** | (99,076) |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | | **(26,126)** | (68,112) |
| Cash and cash equivalents at the beginning of year | | **64,084** | 125,904 |
| Effect of foreign exchange rate changes, net | | **4,781** | 6,292 |
| **CASH AND CASH EQUIVALENTS AT THE END OF YEAR** | | **42,739** | 64,084 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | | |
| Cash and bank balances | 22 | **42,739** | 64,084 |

## 1 GENERAL INFORMATION

New City (China) Development Limited (the "Company") was incorporated in the Cayman Islands on 10 August 1998 with limited liability. The Company's shares are listed in The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is located at Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman, Cayman Islands and the principal place of business in Hong Kong is located at Units 2804-06, 28th Floor, Cosco Tower, Grand Millennium Plaza, 183 Queens' Road Central, Hong Kong.

The Company was engaged in investment holding. The principal activities of its subsidiaries are property development in the People's Republic of China (the "PRC").

## 2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised Hong Kong Financial Reporting Standards ("HKFRS") for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

| | |
|---|---|
| HKAS 1 Amendment | Capital Disclosures |
| HKFRS 7 | Financial Instruments: Disclosures |
| HK(IFRIC) — Int 8 | Scope of HKFRS 2 |
| HK(IFRIC) — Int 9 | Reassessment of Embedded Derivatives |
| HK(IFRIC) — Int 10 | Interim Financial Reporting and Impairment |

The adoption of these new or amended HKFRSs did not result in significant changes to the Group's accounting policies but gave rise to additional disclosures.

### a. HKAS 1 Amendment Capital Disclosures

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 7(f) to the financial statements.

## 2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

### b. HKFRS 7 Financial Instruments: Disclosures

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included.

### c. HK(IFRIC)-Int 8 Scope of HKFRS 2

This interpretation requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Group has not issued equity instruments to its employees, the interpretation has had no effect on these financial statements.

### d. HK(IFRIC)-Int 9 Reassessment of Embedded Derivatives

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group's existing policy of accounting for derivatives complies with the requirements of the interpretation, the interpretation has had no effect on these financial statements.

### e. HK(IFRIC)-Int 10 Interim Financial Reporting and Impairment

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

## 3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

| | |
|---|---|
| HKAS 1 (Revised) | Presentation of Financial Statements [1] |
| HKAS 23 (Revised) | Borrowing Costs [1] |
| HKFRS 8 | Operating Segments [1] |
| HK(IFRIC) — Int 11 | HKFRS 2 — Group and Treasury Share Transactions [2] |
| HK(IFRIC) — Int 12 | Service Concession Arrangements [4] |
| HK(IFRIC) — Int 13 | Customer Loyalty Programmes [3] |
| HK(IFRIC) — Int 14 | HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding and their Interaction [4] |

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

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### a. Statement of compliance

These financial statements have been prepared in accordance with all applicable HKFRS, which collective term includes all applicable Hong Kong Accounting Standards and Interpretations, issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong. and the disclosure requirements of the Hong Kong Companies Ordinance.

### b. Basic of preparation

The consolidated financial statements have been prepared in conformity with the principles applicable to a going concern, notwithstanding that the Group had net deficiencies as at 31 December 2007.

The consolidated financial statements have been prepared under the historical cost convention except for certain financial assets and investment property which are stated at fair values. The functional currencies of the Company and its subsidiaries in the PRC are Hong Kong dollars and Renminbi respectively. For the purposes of presenting the consolidated financial statements, the Group adopted Hong Kong dollars as its presentation currency.

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### c. Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2007. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses attributable 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.

### d. Property, plant and equipment and depreciation

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

Surpluses arising on revaluations are credited to the revaluation reserve. Deficits arising on revaluations are first set off against any previous revaluation surpluses and thereafter charged to the income statement. The surplus on revaluation is recognised as income to the extent that it exceeds the revaluation deficit of the same asset previously recognised as an expense.

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### d. Property, plant and equipment and depreciation *(continued)*

The carrying amount of property, plant and equipment is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recognised as an expense in the income statement. In determining the recoverable amount, expected future cash flows generated from the asset are not discounted to their present values.

Depreciation is calculated on the straight-line method to write off the cost of each asset, less its estimated residual value, over its estimated useful economic life. The principal annual rate used for this purpose are as follows:

| | |
|---|---|
| Furniture, fixtures and equipment | 20% – 35% |
| Motor vehicle | 15% – 25% |

Residual value, useful lives and depreciation methods are received, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal.

Any gains or losses on disposal or retirement of an item of property, plant and equipment are recognised in the income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset.

### e. Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the Group, is classified as investment property.

Investment property comprises land held under operating leases and buildings held under finance leases. Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs. After initial recognition, investment property is carried at fair value. Fair value is determined by professional valuation conducted as at the balance sheet date. Changes in fair values are recognised in the income statement.

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### f. Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/ amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the income statement in the period in which it arises.

### g. Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Company, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in the fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Company is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### h. Accounts and other receivables

Accounts and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts, 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.

Impairment losses are reversed in subsequent periods and recognised in the income statement when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

### i. Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired. For the purposes of the cash flow statement, cash equivalents would also include advances from banks repayable within three months from the date of the advance.

### j. Financial liabilities

The Group's financial liabilities include trade payables, other payables and accrued charges, bank and other borrowings, and convertible bonds.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised as an expense in finance costs in the income statement.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in the income statement.

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### j. Financial liabilities *(continued)*

**i) Trade and other payables**

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

**ii) Bank and other borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Interest-bearing borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

**iii) Convertible bonds**

Convertible bonds that can be converted to equity share capital at the option of the holders, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component. The derivative component embedded in the convertible notes is accounted for as derivative financial instruments.

At initial recognition the liability component of the convertible bonds is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. The derivative component is initially measured at fair value. Any excess of proceeds over the amount initially recognised as the liability component and derivative component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability, derivative and equity components in proportion to the allocation of proceeds. The portion relating to the derivative component is recognised immediately to profit or loss.

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### j. Financial liabilities *(continued)*

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The derivative component is remeasured to fair value at each balance sheet date. The gain or loss on remeasurement to fair value is charged immediately to profit or loss. The equity component is recognised in the capital reserve until either the note is converted or redeemed.

If the bond is converted, the capital reserve, together with the carrying amounts of the liability and derivative components at the time of conversion, are transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, the capital reserve is released directly to retained profits and any difference between the amount paid and the carrying amounts of liability and derivative components is recognised in profit or loss.

### k. Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

### l. Revenue recognition

Revenue comprises the fair values of the consideration received or receivable for the sales of properties in the ordinary course of the Group's activities, revenue is shown net of discount. Revenue is recognised as follows:

(i) Revenue from sales of properties is recognised when the significant risks and rewards of properties have been transferred to the purchasers, which is when the construction of relevant properties has been completed and the properties have been delivered to the purchasers and collectibility of related receivables is reasonably assured. Deposits and installments received on properties sold prior to the date of revenue recognition are included in the condensed consolidated balance sheet as advanced proceeds received from customers under current liabilities.

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### l. Revenue recognition *(continued)*

(ii) Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

### m. Employee benefits

The obligations for contributions to defined contribution retirement scheme are recognised as an expenses in the income statement as incurred. The assets of the scheme are held separately from those of the Company in an independently administered fund.

### n. Borrowing costs

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

### o. Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Income tax is recognised in the income statement except to the extent that they related 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 period, 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 is provided, using the liability method, on all temporary difference arising between the tax bases of assets and liabilities and their carrying value in the financial statements.

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### o. Income tax *(continued)*

Deferred tax liabilities are recognised for all taxable temporary difference while deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the assets is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that is probable that sufficient taxable profit will be available to allow all or parts of the deferred tax asset to be utilised.

### p. Provisions and contingencies

Provisions are recognised for liabilities of uncertain timing or amount when the Company has a present 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 expenditures 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 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 is remote.

### q. Foreign currency translation

The financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Foreign currency transactions are recorded at the applicable exchange rates at the transaction dates. Monetary assets are liabilities denominated in foreign currencies at the balance sheets date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the income statement.

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### r. Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

## 5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements used in preparing the accounts are evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that may have a significant effect on the carry amounts of assets and liabilities mainly include those related to property development activities.

### a. Current taxation and deferred taxation

The main business activities of the Group is subject to income taxes in the PRC. Significant judgement is required in determining the amount of the provision for taxation and the timing of payment of the related taxations. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

### b. Land appreciation taxes

PRC land appreciation tax is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being proceeds of sales of properties less deductible expenditures including amortisation of land use rights, borrowing costs and all property development expenditures.

## 5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

### b. Land appreciation taxes *(continued)*

The subsidiary of the Group engaging in property development business in the PRC are subject to land appreciation taxes, which have been included in the cost of sales. However, the implementation of these taxes varies amongst various PRC cities and the Group has not finalised its land appreciation tax returns with various tax authorities. According, significant judgement is required in determining the amount of land appreciation and its related taxes. The ultimate tax determination is uncertain during the ordinary course of business. The Group recognises these liabilities based on management's best estimates. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the cost of sales and provisions of land appreciation taxes in the period in which such determination is made.

### c. Valuation of investment properties

The fair value of each investment property is individually determined at each balance sheet by independent valuers based on a market value assessment, on an existing use basis. The valuers have relied on the discounted cash flow analysis and the capitalisation of income approach as their primary methods, supported by the direct comparison method. These methodologies are based upon estimates of future results and a set of assumptions specific to each property to reflect its tenancy and cashflow profile. The fair value of each investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property.

## 6 SEGMENT INFORMATION

Segment information is required by HKAS 14 "Segment Reporting" to be presented by way of two segment formats: (i) on a primary segment reporting basis, which the Group has determined to be by business segment; and (ii) on a secondary segment reporting basis, which the Group has determined to be by geographical segment.

The Group's revenue and profit for the year ended 31 December 2007 were mainly derived from the property development in the PRC. Therefore, the Group has only one business segment.

The Group's revenue is substantially derived from its end customers in the PRC and the Group's operating assets are substantially located in the PRC.

Accordingly, no segment analysis by business and geographical segments is provided for the year ended 31 December 2007.

## 7 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise trade payables, other payables and accrued charges, bank and other borrowings, and convertible bonds. The main purpose of these financial instruments is to raise finance for the Group's operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

### a. Interest rate risk

The Group has no significant interest bearing assets apart from cash and bank deposits. The Group currently have bank and other borrowings with fixed and floating interest rates as disclosed in notes 25 and 26.

The Group does not use derivative financial instruments to hedge its cash flow interest rate risk.

## 7 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### b. Foreign currency risk

The Group's foreign currency risk relates primarily to certain accounts receivable, trade payables, other payables and certain cash and cash equivalents in currencies other than the functional currency of RMB.

The Company does not have any significant investment out of Mainland China. Although the RMB has appreciated during the year, the Group did not issue any financial instruments for hedging purposes.

| | Increase/ (decrease) in RMB rate | Increase/ (decrease) in net profit |
|---|---|---|
| | % | HK$'000 |
| **2007** | | |
| If Hong Kong dollar weakens against RMB | 5 | 25,758 |
| If Hong Kong dollar strengthens against RMB | 5 | (19,953) |
| **2006** | | |
| If Hong Kong dollar weakens against RMB | 5 | N/A |
| If Hong Kong dollar strengthens against RMB | 5 | N/A |

### c. Credit risk

The Group's credit risk is primarily attributable to accounts receivables and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. The allowance for impairment has been made to reduce the exposure to the credit risk in relation to the receivables. Other than this there are no significant concentrations of credit risk within the Group in relation to other financial assets.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from accounts and other receivables are set out in note 20 and 21.

## 7 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### d. Liquidity risk

The Group exercised liquidity risk management policy by maintaining sufficient cash level and the availability of adequate amount of committed credit facilities.

The Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the balance sheet date of the Group's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to pay:

| | 2007 | | | | |
|---|---|---|---|---|---|
| | **Carrying amount** | **Total contractual undiscounted cash flow** | **Within one year or on demand** | **In second year** | **In the third year to the fifth year** |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Trade payables | 137,233 | 137,233 | 103,818 | 33,415 | — |
| Accruals and other payables | 138,728 | 138,728 | 138,728 | — | — |
| Bank borrowings | 93,750 | 93,750 | 93,750 | — | — |
| Other borrowings | 181,000 | 181,000 | 71,000 | 110,000 | — |
| Convertible bonds | 69,263 | 69,263 | — | 69,263 | — |
| Provision | 16,129 | 16,129 | 16,129 | — | — |
| | 636,103 | 636,103 | 423,425 | 212,678 | — |

## 7 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### d. Liquidity risk *(continued)*

| | 2006 | | | | |
|---|---|---|---|---|---|
| | Carrying amount | Total contractual undiscounted cash flow | Within one year or on demand | In second year | In the third year to the fifth year |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Trade payables | 183,866 | 183,866 | 183,866 | — | — |
| Accruals and other payables | 142,971 | 142,971 | 142,971 | — | — |
| Bank borrowings | 90,000 | 90,000 | 90,000 | — | — |
| Other borrowings | 210,000 | 210,000 | 210,000 | — | — |
| Convertile bonds | 11,977 | 11,977 | — | 11,977 | — |
| Provision | 15,484 | 15,484 | 15,484 | — | — |
| | 654,298 | 654,298 | 642,321 | 11,977 | — |

### e. Fair value

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2007 and 2006.

### f. Capital Management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The Company manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 2006.

## 7 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### f. Capital Management *(continued)*

The Group monitors capital using a gearing ratio, which represented the percentage of total debts over the total assets of the Group. The Group's policy is to maintain a stable gearing ratio. Total debts include bank borrowings and other borrowings. The gearing ratios as at the balance sheet dates were as follows:

| | **2007**<br>**HK$'000** | 2006<br>HK$'000 |
|---|---|---|
| Bank borrowings | **93,750** | 90,000 |
| Other borrowings | **181,000** | 210,000 |
| Total debts | **274,750** | 300,000 |
| Total assets | **864,380** | 1,971,762 |
| Gearing ratio | **32%** | 15% |

## 8 TURNOVER

Turnover represents the total sales proceed of properties received and receivable from customer.

An analysis of turnover is as follows:

| | **2007**<br>**HK$'000** | 2006<br>HK$'000 |
|---|---|---|
| **Turnover:** | | |
| Sales of properties | **2,160,427** | — |

## 9 OTHER REVENUE

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Interest income | **2** | 2 |
| Exchange gain | **14** | — |
| Reversal of impairment loss recognised in respect of other receivables | **140** | 1,495 |
| Refund of expenses deducted in previous year | **1,530** | — |
| Gain on disposal of assets | **90** | — |
| Gain on revaluation of investment properties | **260,132** | — |
| | **261,908** | 1,497 |

## 10 PROFIT/(LOSS) FROM OPERATIONS

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Profit from operations has been arrived at after charging: | | |
| Costs of properties sold | **1,870,713** | — |
| Auditors' remuneration | **530** | 400 |
| Bad debts written off | **78,849** | — |
| Depreciation of property, plant and equipment | **668** | 764 |
| Exchange loss | **5,405** | 6,353 |
| Operating lease rentals for land and buildings | **1,918** | — |
| Professional fee | **5,250** | — |
| Legal fee | **734** | — |
| Listing & Announcement fee | **895** | — |
| Staff cost | | |
| Salaries and other staff costs | **4,933** | 4,834 |
| Retirement benefits | **60** | 64 |

## 11 DIRECTORS' REMUNERATION

The remuneration of the directors of the Company for the year, disclosed pursuant to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Section 161 of the Hong Kong Companies Ordinance, is analysed as follows:

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Fees: | **1,184** | 1,184 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | **2,166** | 2,166 |
| Pension scheme contributions | **12** | 12 |
| Total emoluments | **3,362** | 3,362 |

An analysis of directors' and supervisors' remuneration by each individual is as follows:

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| **Executive directors** | | |
| Mr. Han Junran | **1,950** | 1,950 |
| Mr. Fu Yiu Kwong | **1,052** | 1,052 |
| | **3,002** | 3,002 |
| **Independent non-executive directors** | | |
| Mr. Chan Yiu Tung, Anthony | **120** | 120 |
| Mr. Wong Shing Kay, Oliver | **120** | 120 |
| Mr. Zheng Qing | **120** | 120 |
| | **360** | 360 |

## 11 DIRECTORS' REMUNERATION *(Continued)*

There were no other emoluments payable to the independent non-executive directors during the year (2006: Nil). There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2006: Nil).

During the year, no performance related bonuses paid to or receivable by the directors (2006: Nil). In addition, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as a compensation for loss of office (2006: Nil).

During the year, no directors were granted share options, in respect of their services to the Group, under the share option schemes of the Company. No share options were granted to the directors in 2006.

## 12 FINANCE COSTS

| | **2007**<br>**HK$'000** | 2006<br>HK$'000 |
|---|---|---|
| Interest on: | | |
| Bank loans and overdrafts wholly repayable within five years | **12,685** | 8,558 |
| Other loans wholly repayable within five years | **72,505** | 10,000 |
| Convertible bonds | **2,968** | 471 |
| Finance leases | **15** | 2 |
| Arrangement fee of convertible bond | **3,105** | — |
| Total borrowing costs | **91,278** | 19,031 |
| Less: Amounts capitalised | **(12,685)** | (8,558) |
| | **78,593** | 10,473 |

## 13 TAXATION

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Income tax expenses | | |
| Hong Kong profits tax | — | — |
| PRC enterprise income tax | 33,204 | — |
| PRC business tax | 108,022 | — |
| | 141,226 | — |

The Company's subsidiaries operating in Hong Kong are subjected to Hong Kong profits tax at the rate of 17.5% (2006: 17.5%) of the estimated assessable profit for the year. No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong for the year ended 31 December 2007 (2006: Nil).

The Group is subject to PRC enterprise income tax at the rate of 33% (2006: 33%) on its taxable income according to the PRC Enterprise Income Tax Law. Pursuant to the document (京國稅函[2002]659號) dated 22 November 2002 issued by Beijing Municipal Office, State Administration Taxation, PRC (北京市國家稅務局), Beijing Zhong Zheng Real Estate Development Co., Ltd. (the "BJCSB") is obligated to make a partial payment of PRC enterprise income tax of which is levied at the statutory tax rate 33% on 10% of the sales proceed received in advance from the customer which is subjected to final clearance upon the finalisation work of construction account to be performed by third party.

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") was approved, and it became effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Therefore, the applicable income tax rate of the Company becomes 25% according to the New Corporate Income Tax Law starting from 1 January 2008.

## 13 TAXATION *(Continued)*

Taxation in balance sheet represents:

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| — PRC enterprise income tax | 33,204 | — |
| Less: Payment in previous year | (7) | — |
| — PRC business tax | 108,022 | — |
| Less: Payment in previous year | (35,828) | — |
| — PRC land appreciation tax | 80,253 | — |
| — PRC salary tax | 593 | — |
| | 186,237 | — |
| Taxation to be paid within 1 year classified as current liabilities | | |
| — PRC enterprise income tax | 33,197 | — |
| — PRC business tax | 43,179 | — |
| — PRC land appreciation tax | 15,723 | — |
| — PRC salary tax | 593 | — |
| | 92,692 | — |
| Taxation to be paid after 1 year classified as non-current liabilities | 93,545 | — |

The Group had no significant unprovided deferred taxation as at 31 December 2007 and 2006.

## 14 DIVIDENDS

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Ordinary shares | — | — |
| Preference shares | 94,600 | — |
| | 94,600 | — |

Pursuant to the supplemental subscription agreement dated 8 May 2003, Starry Joy Properties Investment Limited holding 49% of the equity interest of Tong Sun Limited ("Tong Sun") is entitled to a preferred dividend from Tong Sun in the sum of up to HK$94,600,000 together with repayment in full of its loan and loan from Poly (Hong Kong) Investments Limited ("Poly HK") and interest accrued thereon in priority over the preferred dividend payments to the Group by Tong Sun.

No interim and final dividend for the year ended 31 December 2007 was declared (2006: Nil).

## 15 EARNING/(LOSS) PER SHARE

The calculation of the basic earning per share for the year ended 31 December 2007 is based on the net profit after deducted preference shares dividend attributable to equity shareholders of the Company of approximately HK$137,120,000 (2006: Loss: approximately HK$32,909,000) and the weighted average number of 271,758,000 ordinary shares in issue during the year ended 31 December 2007 (2006: 271,758,000 ordinary shares).

The calculation of the diluted earning per share for the year ended 31 December 2007 is based on the net profit before bond interest (net of tax) and after deducting preference shares dividend attributable to equity shareholders of the Company of approximately HK$140,088,000 and the weighted average number of 550,216,000 ordinary shares after considering the effects of converting all convertible bonds to ordinary shares upon maturity.

In last year, no diluted loss per share has been presented for the year ended 31 December 2006 as there were no diluting events existed during the year.

## 16 MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT

| | Furniture, fixtures and equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|
| **Cost:** | | | |
| At 1 January 2006 | 2,882 | 6,188 | 9,070 |
| Exchange adjustments | 55 | 108 | 163 |
| Additions | 116 | — | 116 |
| At 31 December 2006 and 1 January 2007 | 3,053 | 6,296 | 9,349 |
| Exchange adjustments | 63 | 118 | 181 |
| Additions | 832 | 398 | 1,230 |
| Disposal | (845) | — | (845) |
| At 31 December 2007 | 3,103 | 6,812 | 9,915 |
| **Aggregate depreciation:** | | | |
| At 1 January 2006 | 2,016 | 4,504 | 6,520 |
| Exchange adjustments | 30 | 43 | 73 |
| Charge for the year | 387 | 377 | 764 |
| At 31 December 2006 and 1 January 2007 | 2,433 | 4,924 | 7,357 |
| Exchange adjustments | 39 | 62 | 101 |
| Disposal | (845) | — | (845) |
| Charge for the year | 236 | 432 | 668 |
| At 31 December 2007 | 1,863 | 5,418 | 7,281 |
| **Net book value:** | | | |
| At 31 December 2007 | 1,240 | 1,394 | 2,634 |
| At 31 December 2006 | 620 | 1,372 | 1,992 |

The net book value of motor vehicles includes an amount of approximately HK$315,000 (2006: HK$26,000) in respect of assets held under finance leases.

## 17 INVESTMENT PROPERTIES

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Acquired as consideration property | **450,273** | — |
| Fair value gain | **260,132** | — |
| Exchange adjustments | **18,762** | — |
| Transferred to property for sale — completed property | **(729,167)** | — |
| At 31 December 2007 | **—** | — |

Investment properties represents the property locates at Xicheng District, Beijing, the PRC (the "consideration property") transferred from the buyer of China Securities Plaza as part of the proceeds. Significant risks and rewards have been transferred although legal title has not been passed.

The review of the carrying amounts of the consideration property is performed by management with reference to the valuation performed by an independent firm of surveyors. As at 30 June 2007, the consideration property were revalued by Asset Appraisal Limited, an independent and professionally qualified valuer, using discounted cash flow projections. Based on their review, the fair value of the the consideration property was amounting to RMB750,000,000 (approximately amounting to HK$750,000,000).

At 31 December 2007, the valuer review the carrying amount of the consideration property and the fair value was amounting to RMB700,000,000 (approximately amounting to HK$729,167,000). As the transferral of legal title is under proceed and will be expected to complete in a short period, the management of the Group considered that the consideration property should be reclassified to property for sale in current assets. The net amount of fair value gain to HK$260,132,000 and exchange adjustment of HK$18,762,000 at 31 December 2007 had been credited to consolidated income statement accordingly.

## 18 PROPERTY FOR SALE — COMPLETED PROPERTY

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Transferred from investment properties and at 31 December 2007 | **729,167** | — |

The property was reclassified from investment properties, details of which are set out in note 17.

## 19 PROPERTY FOR SALE — UNDER DEVELOPMENT

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| At 1 January | **1,720,280** | 1,720,280 |
| Additional cost incurred | **—** | — |
| Less: Disposal | **(1,720,280)** | — |
| At 31 December | **—** | 1,720,280 |

The property represented development of China Securities Plaza, a project in Beijing, the PRC. The Group pledged the property to secure bank loan granted for the development of project.

The Group had entered into a conditional agreement with China Network Communications Group Corporation ("CNC"), an independent third party, that subject to satisfaction of certain conditions precedent, to dispose to CNC the property. The consideration is comprised of cash consideration payable by instalments and the consideration property.

The construction of the property had completed. CNC had already occupied the property and waiting for the completion of satisfactory examinations of certain quality standards required by CNC. The project is currently under the preparation stage of registration which including the transferral of legal title to CNC.

As the significant risks and rewards of property have been substantively transferred to CNC, the project had been recorded as completed in books of accounts and the remaining cash instalments are recorded as receivables. The cost of the property had also transferred to income statement in the year 2007.

## 20 ACCOUNTS RECEIVABLE

Accounts receivable represents proceeds receivable from sales of China Securities Plaza. Customer will repay according to the Sales and Purchase Agreement signed on 23 December 2003. The amount was past due but not impaired and expected to be recovered within one year.

## 21 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Interest-free loan | — | 35,254 |
| Amount due from a minority equity owner of a subsidiary of the Group | — | 107,000 |
| Advance due from a minority equity owner of a subsidiary of the Group | — | 12,617 |
| Amount due from a former director | — | 2,460 |
| Temporary advances | 11 | 25,505 |
| Prepaid expenses and deposits | 3,692 | 2,570 |
| Amount due from a bond holder for unpaid Convertible bond | 15,750 | — |
| | 19,453 | 185,406 |

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

## 22 BANK BALANCES AND CASH

Breakdown of bank balances and cash are as follows:

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Bank balances and cash in balance sheet and cash flow statement | **42,739** | 64,084 |

Bank balances of HK$42,152,000 (2006: HK$63,862,000) are denominated in RMB. RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with credit worthy banks with no recent history of default. The carrying amounts of the bank balances and cash approximate their fair values.

## 23 TRADE PAYABLES

The aged analysis of trade payables as at balance sheet date is as follows:

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Within 3 months | **103,818** | 73,297 |
| 4 — 6 months | **—** | — |
| 7 — 9 months | **—** | — |
| 10 — 12 months | **—** | 110,569 |
| Over 1 year | **33,415** | — |
| | **137,233** | 183,866 |

## 24 OBLIGATIONS UNDER FINANCE LEASES

At 31 December 2007, the obligations under finance leases were repayable as follows:

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Amount payable: | | | | |
| Within one year | **93** | — | **73** | — |
| In the second to fifth years, inclusive | **302** | — | **237** | — |
| | **395** | — | **310** | — |
| Future finance charges | **(85)** | — | **—** | — |
| Present value of lease obligations | **310** | — | **310** | — |
| Less: Amount due within one year shown under current liabilities | | | **(73)** | — |
| Amount due after one year | | | **237** | — |

The lease term is ranging to 5 years. For the year ended 31 December 2007, the average effective borrowing rate was 5.5% (2006: 3%). Interest rates are fixed at the contract date. The leases is on a fixed repayment basis and no arrangement has been entered into for contingent lease payments.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets. The directors of the Company consider that the carrying amounts of the obligations under finance leases at the balance sheet date approximated to their fair values.

## 25 BANK BORROWINGS

The secured bank borrowings as at 31 December 2007 is as following:

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Within 1 year | **93,750** | 90,000 |
| Over 1 year | **—** | — |
| | **93,750** | 90,000 |

The bank borrowings are denominated in RMB and is bound by an agreement signed among the Company, the bank and CNC. It bears floating rates ranging from 9.876% to 11.723% (2006: 5.28% to 9.504%) per annum and was agreed that the total amount is repayable in two portions:

(i) RMB30,000,000 become repayable after the receipt of the eighth installment payment from CNC under the completion of transfer of legal title of China Securities Plaza;

(ii) The repayment of the remaining RMB60,000,000 will be negotiated after completion of exchange of properties between the Company and CNC.

Report on Finalization of the project cost of China Securities Plaza done by appointed professional have expected to be completed in September 2009 and this will affect the timing of (i) transfer of property's legal title and (ii) repayment of the eighth installment payment from CNC. Coupled with the reason stated above, bank borrowings are not repayable on demand and be classified as current liabilities as the management estimated that the loan will be settled in the coming year. In accordance with the opinion issued by the 北京市京元律師事務所 (the "Beijing Law Firm"), the Company currently does not have any risk of litigation from China Construction Bank regarding the loan for the reason that the Company's rights are protected by the agreements signed between the Company and China Construction Bank.

## 26 OTHER BORROWINGS

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Overdue interest bearing loan | **70,000** | 70,000 |
| Short term loan | **1,000** | — |
| Interest bearing loan from the then subscriber of the convertible bond | **—** | 30,000 |
| Secured interest-free loan | **110,000** | 110,000 |
| | **181,000** | 210,000 |
| Less: Amount due within one year shown under current liabilities | **71,000** | 210,000 |
| Amount due after one year | **110,000** | — |

An amount of HK$55,000,000 is secured on the shares in the Company held by a director and a former director. It was originally interest-free and for a term of 2 years from June 2003 repayable on maturity and was to be applied exclusively to finance the working capital requirements of the property under development for sale. On 25 October 2005, a second supplemental agreement was signed which extended the repayment date up to 31 December 2005 and the Group is under negotiation to further extend the repayment date. Due to the extension of the repayment, the amount became interest bearing at an interest rate of 10% per annum as from 1 July 2005. The loan was overdue and the management of the Group is negotiating with the creditor for the rescheduling or extension of the amounts due to the creditor.

An amount of HK$15,000,000 is unsecured originally for a term of 2 years from June 2003 and borne interest at the rate of 6% per annum. It was repayable in one lump sum upon maturity and was to be applied to finance the general working capital and settlement of trade payable of the Group. On 25 October 2005, a supplemental facility letter was signed to extend the repayment date up to 31 December 2005 and the interest rate was revised to 10% per annum with effect from 1 July 2005. The said loan was overdue and the management of the Group is negotiating with the creditor for the rescheduling or extension of the amounts due to the creditor.

## 26 OTHER BORROWINGS *(Continued)*

An amount of HK$1,000,000 is unsecured and borne interest at the prime lending rate from time to time quoted by the Hongkong and Shanghai Banking Corporation Limited for Hong Kong dollar deposits (the "Prime Rate") plus 2% per annum.

An amount of HK$110,000,000 is secured on the shares in the Company held by a director and a former director. It was interest-free and for a term of 2 years from June 2003 repayable on maturity and was to be applied exclusively to finance the working capital requirements of the property under development for sale. On 25 October 2005, a second supplemental agreement was signed which extended the repayment date. Pursuant to the Second Supplemental Agreement, the loan will be repaid by a portion of the consideration property, which will be transferred from CNC to BJCSB. As the legal title of the Property had not yet passed, the loan was not yet overdue and repaid.

## 27 PROVISIONS

The amount represents the provision for the claim from 北京太陽紅投資諮詢有限公司 (the "Beijing Tai Yang Hong") an independent third party. On 19 January 2006, the Beijing Arbitration Committee made an arbitration award in favor of Beijing Tai Yang Hong that the agreement dated 6 June 2003 for the purchase of the entire 12th Floor of the China Securities Plaza entered into between Beijing Tai Yang Hong and BJCSB be cancelled and that the sum of approximately RMB14,000,000 being refund of the purchase price paid and RMB800,000 being damages be paid by BJCSB to Beijing Tai Yang Hong. The management has considered that the amount provided in the financial statements is sufficient.

To the knowledge of the directors of the Company, the ultimate outcome of the litigations is not yet determinable and the management is handling the legal action with the intention to defend the case vigorously.

## 28 CONVERTIBLE BONDS

The convertible bonds recognised in the balance sheet are calculated as follows:

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Carrying amount at 1 January | **11,977** | 11,866 |
| Interest expenses | **2,968** | 471 |
| Interest paid | **(3,079)** | (360) |
| Transfer from equity component | **226** | — |
| Convertible bonds issue | **62,390** | — |
| Transfer to the loan | **(5,219)** | — |
| Liability component at 31 December | **69,263** | 11,977 |

On 1 March 2005, the Company issued a convertible bond bearing interest at 3% per annum with a principal amount of HK$12,000,000 (the "2005 Convertible Bond"), which can be convertible into the Company's ordinary shares, at a conversion price of HK$0.30 per share. The convertible bond matures two years from the issue date. On 1 March 2007, such convertible bond was extended in the amount of HK$7,500,520, which can be convertible into the Company's ordinary shares at a conversion price of HK$0.138 per share and bearing interest of the Prime Rate. The convertible bond had been matured at 31 August 2007.

As at 31 December 2006, an amount of HK$30,000,000 were unsecured, bearing interest of the Prime Rate plus 4% per annum and represented the consideration of the convertible bond received in advance. Such balance has been transferred to convertible bond together with the arrangement fee and interest accrued on 14 June 2007 at the amount of HK$33,403,150. The convertible bond can be convertible into the Company's ordinary shares at a conversion price of HK$0.138 per share and will mature two months from the date of issuance. The convertible bond had been matured at 14 August 2007.

On 28 June 2007, issuance of another convertible bond at the amount of HK$23,055,000 was completed. The convertible bond is convertible into the Company's ordinary shares, at a conversion price of HK$0.138 per share and will mature two months from the date of issuance. It will bear interest of the Prime Rate plus 4% per annum. The convertible bond had been matured at 28 August 2007. (The two convertible bonds issued on 14 June 2007 and 28 June 2007 are collectively referred to as the "2007 Convertible Bonds").

## 28 CONVERTIBLE BONDS *(Continued)*

On 21 August 2007, the Company had entered into a subscription agreement with the owner of 2005 Convertible Bond. Pursuant to the agreement, the Company would issue a new convertible bond in amount of HK$5,304,297 in order to settle the remaining amount of the principal of 2005 Convertible Bond together with its accrued interest. The new convertible bond will be matured at 28 February 2009. The new convertible bond can be convertible into the Company's ordinary shares, at a conversion price of HK$0.138 per share and bearing interest of the Prime Rate plus 2% per annum, which will payable on the maturity date.

On 28 February 2008, the maturity date of 2005 Convertible Bond and 2007 Convertible Bonds had been extended to 28 February 2009. Other terms of the 2005 and 2007 Convertible Bonds were remained unchanged.

## 29 SHARE CAPITAL

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Authorised: | | |
| 500,000,000 ordinary shares of HK$0.001 each | **500** | 500 |
| Issued and fully paid: | | |
| 271,758,000 ordinary shares (2006: 271,758,000 ordinary shares) of HK$0.001 each (2006: HK$0.001) | **272** | 272 |

## 30 RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the financial statements. Nature and purpose of the share premium, contributed surplus, convertible bond equity reserve and translation reserve are explained in notes (a) to (d) below.

### a. Share premium

Share premium is the excess of the proceeds received over the nominal value of the shares of the Company issued at a premium, less the amount of expenses incurred in connection with the issue of the shares.

## 30 RESERVES *(Continued)*

### b. Contributed surplus

Contributed surplus represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset value of subsidiaries acquired through an exchange of shares pursuant to the reorganisation.

### c. Convertible bond equity

With effect from 1 January 2005 and in accordance with HKAS 32, convertible bonds issued are required to split into their respective liability and equity components at initial recognition by recognising the liability component at its fair value and attributing to the equity component, which is arisen from the difference between the proceeds from convertible bonds at its issue date and the fair value of the liability component. The liability component is subsequently carried at amortised cost using the effective interest method. The equity component will remain in equity until conversion or redemption of the bond. When the bond is converted, the convertible bond equity reserve and the carrying value of the liability component at the time of conversion are transferred to the share capital account and the share premium account as consideration for the shares issued. If the bond is redeemed, the convertible bond equity reserve is released directly to the accumulated losses account.

### d. Translation reserve

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Hong Kong dollars using exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and recognised in the Group's foreign currency translation reserve. Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

## 31 SHARE OPTION SCHEME

A share option scheme was approved and adopted on 14 June 2002 (the "Share Option Scheme"). The Share Option Scheme is valid and effective for a period of 10 years after the date of adoption. The purpose of the scheme is attracting, retaining and motivating any full-time employees and directors (including non-executive directors and independent non-executive directors) of the Group, part time employees working with weekly working hours of 10 hours and above of the Group and the Group's advisors, consultants, providers of goods and/or services and other persons who have contributed to the Group or their trustee (the "Participants") to perform their best in achieving the goals of the Group and at the same time allow them to enjoy the results of the Group attained through their effort and contributions. Under the Share Option Scheme, the board of directors of the Company may grant options to the Participants to subscribe for shares of the Company.

Subject to the terms of the Share Option Scheme, the total number of shares which may be issued upon exercise of all options to be granted under the scheme should not in aggregate exceed 10% of the total number of shares in issue as at the date of approval of such limit. Notwithstanding the above, the maximum number of shares in respect of which option may be granted under the scheme and of the Company must not exceed 30% (or such higher percentage as may be allowed under the Listing Rules) of the total number of shares in issue from time to time. The number of shares in respect of which option may be granted to each participant in aggregate in any 12-month period shall not exceed 1% of the total number of shares in issue, any further grant to that particular participant shall be subject to approval of shareholders of the Company in general meeting with such participant and his or her associates abstaining from voting.

Options granted pursuant to the Share Option Scheme must be accepted within 28 days of the date of option offered, upon payment of HK$1 by way of consideration. Options may be exercised at any time from the date of acceptance of the share option to such date as determined by the board of directors of the Company but in any event not exceeding 10 years. The exercise price per share will be determined by the board of directors of the Company, but in any event shall not be less than the highest of (i) the average closing price of the shares as quoted in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the option offered, (ii) the closing price of the shares as quoted in the Stock Exchange's daily quotations sheet on the date of the option offered, and (iii) the nominal value of the shares.

No option has been granted to any directors or employees under the Share Option Scheme since its adoption.

## 32 EMPLOYEE RETIREMENT BENEFITS

Pursuant to the relevant labour rules and regulations in the PRC, the Group participates in defined contribution retirement benefit schemes (the "Schemes") organised by the relevant local government authorities in Beijing, the PRC, whereby the Group is required to make contributions to the Schemes at the rate of ranging from 10% to 20% of the eligible employees' salaries. The local government authorities are responsible for the entire pension obligations payable to retired employees.

The Group also operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. 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.

The Group has no other material obligation for the payment of pension benefits associated with these schemes beyond the annual contributions described above.

## 33 CONTINGENT LIABILITIES

(a) The Group has given guarantees to banks in respect of the loans of the amounts US$2,500,000 and RMB14,000,000 granted to Beijing New Rank Real Estate Development Co., Limited, a former subsidiary of the Group.

(b) On 23 December 2003, the Group had entered into an agreement with CNC for the construction of China Securities Plaza. Pursuant to the agreement, the construction should be completed on 30 June 2005 and its ownership should be delivered to CNC before 30 December 2005. Relevant penalties will be required upon the late delivery of ownership as 0.03% interest per day based on money received by the Group upon the late delivery within 12 months from the day of risk and reward of property which have been transferred on 25 December 2006.

(c) On 19 January 2006, the Beijing Arbitration Committee made an arbitration award in favor of 北京太陽紅投資諮詢有限公司 (the "Beijing Tai Yang Hong") that the agreement dated 6 June 2003 for the purchase of the entire 12th Floor of China Securities Plaza entered into between Beijing Tai Yang Hong and BJCSB, the 51% indirect owned subsidiary of the Group be cancelled and that the sum of approximately RMB14,000,000 being refund of the purchase price paid and RMB800,000 being damages be paid by BJCSB to Beijing Tai Yang Hong. BJCSB has applied to the People's Court in Beijing for stay of enforcement of such award, details of which are set out in note 27.

## 34 OPERATING LEASE COMMITMENTS

As at 31 December 2007, the Group had commitments for future minimum lease payments in respect of land and buildings under non-cancellable operating leases which fall due as follows:

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within one year | **1,482** | 1,961 |
| In second to fifth years, inclusive | **2,346** | 81 |
| | **3,828** | 2,042 |

The lease payments are fixed and no arrangements have been entered into for contingent rental payments.

## 35 POST BALANCE SHEET EVENT

### Acquisition of a subsidiary

Pursuant to an acquisition agreement dated 15 August 2007 entered into with Qin Huang Dao City Ocean Realty Company Limited (the "Vendor"), the Company undertook to acquire the 51% equity interest in Qin Huang Dao Ocean West Hill Real Property Development Company Limited by total consideration of RMB10,924,000 (equivalent to approximately HK$11,379,000) which in sum of cash consideration amounted to HK$1,000,000 and a tenancy agreement by which BJCSB shall let and China Yin Di City Investment Company Limited, a subsidiary of the Vendor, shall rent the property and there will be arrangements for setting off all the outstanding amount of the remaining consideration other than the cash consideration under the tenancy agreement.

The Company had paid the cash consideration as a deposit of the acquisition on 12 September 2007 subsequent to the Memorandum of Cooperation entered into between the Company and the Vendor.

On 18 March 2008, an extraordinary general meeting was held and approved the acquisition.

## 36 PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries as at 31 December 2007 are as follows:

| Name of subsidiaries | Class of share held | Place of Incorporation/ establishment | Place of operation | Particular of issued share capital/paid up registered capital | Attributable equity interest of the Group | Principal activity |
|---|---|---|---|---|---|---|
| **Direct subsidiary** | | | | | | |
| NR (BVI) Holdings Limited | Ordinary | British Virgin Islands | Hong Kong | US$47,001 | 100% | Investment holding |
| Polywell Finance Corporation | Ordinary | British Virgin Islands | Hong Kong | US$1 | 100% | Inactive |
| **Indirect subsidiary** | | | | | | |
| New Rank Services Limited | Ordinary | Hong Kong | Hong Kong | HK$2 | 100% | General management |
| New Rank (BVI 2) Limited | Ordinary | British Virgin Islands | Hong Kong | US$36,000 | 100% | Invesment holding |
| Precise Assets Limited | Ordinary | British Virgin Islands | Hong Kong | US$1 | 100% | Inactive |
| Team Success Management Limited | Ordinary | British Virgin Islands | Hong Kong | US$1 | 100% | Invesment holding |
| Tong Sun Limited | Ordinary | Samoa | Hong Kong | US$49 Class A Ordinary US$51 Class B Ordinary | 51% | Investment holding |
| Very Best Investments Limited | Ordinary | British Virgin Islands | Hong Kong | US$1 | 100% | Inactive |
| BJCSB | Contributed capital | PRC | PRC | US$25,000,000 | 100% | Property development |

Other than BJCSB is a Sino-Foreign Cooperative joint venture, all other subsidiaries are limited liability company.

## 37 COMPARATIVE FIGURES

Certain comparative figures of last year have been reclassified to conform with current year's presentation.

| Location | Approximate total saleable total site/gross floor area attributable to the Group (Square Metres) | Interest attributable to the Group % | Lease term |
|---|---|---|---|
| Block C and Carparking Space Nos. 201 to 226 and 241 to 264, No. 156 Fuxingmen Nei Da Street, Xicheng District, Beijing, the PRC | | | |
| Completed property for sale | 25,730 | 100 | 50 years commencing on 28th June 1996 |
| The property comprises a 14-storey office building and a total of 50 carparking spaces on basement level underneath the subject building. The building was completed in 1999. | | | |

# Summary of Financial Information

## RESULTS

| | 2007 HK$'000 | 2006 HK$'000 | 2005 HK$'000 | 2004 HK$'000 | 2003 HK$'000 |
|---|---|---|---|---|---|
| Turnover | **2,160,427** | — | — | 2,651 | 2,609 |
| Profit/(Loss) before taxation | **372,946** | (32,909) | (21,026) | 133,082 | (65,150) |
| Taxation | **(141,226)** | — | — | 3,911 | (407) |
| Profit/(loss) for the year | **231,720** | (32,909) | (21,026) | 136,993 | (65,557) |
| Attributable to: | | | | | |
| Equity holders of the Company | **231,720** | (32,909) | (21,026) | 136,993 | (65,494) |
| Minority interests | **—** | — | — | — | (63) |
| | **231,720** | (32,909) | (21,026) | 136,993 | (65,557) |
| Dividends | **94,600** | — | — | — | — |
| **Earnings/(loss) per share** | | | | | |
| Basic (HK cents) | **50.46** | (12.11) | (7.7) | 50.4 | (24.1) |
| Diluted (HK cents) | **25.46** | N/A | N/A | N/A | N/A |

## ASSETS AND LIABILITIES

| | 2007 HK$'000 | 2006 HK$'000 | 2005 HK$'000 | 2004 HK$'000 | 2003 HK$'000 |
|---|---|---|---|---|---|
| Total assets | **864,380** | 1,971,762 | 1,878,344 | 1,225,082 | 1,144,871 |
| Total liabilities | **(917,250)** | (2,166,464) | (2,044,761) | (1,373,941) | (1,426,716) |
| Net liabilities | **(52,870)** | (194,702) | (166,417) | (148,859) | (281,845) |
| Deficiency of Shareholders' funds | **(52,870)** | (194,702) | (166,417) | (148,859) | (281,845) |
| Minority interests | **—** | — | — | — | — |
| | **(52,870)** | (194,702) | (166,417) | (148,859) | (281,845) |