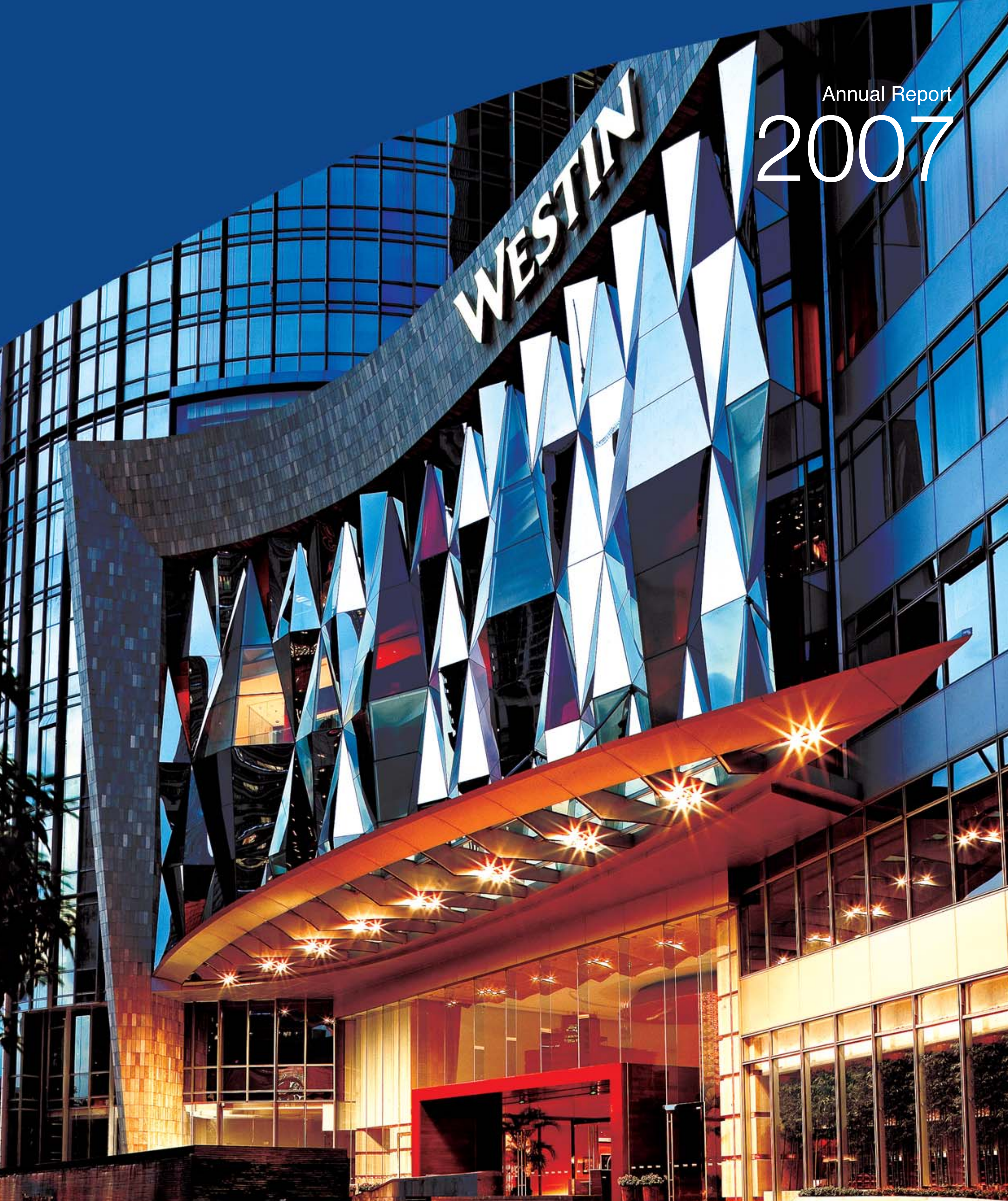
天譽置業（控股）有限公司
SKYFAME REALTY (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)
(Stock Code: 59)

Annual Report 2007



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Corporate Information

DIRECTORS

Executive Directors

Yu Pan *(Chairman)*
Lau Yat Tung, Derrick *(Deputy Chairman)*
Wen Xiao Bing
Wong Lok

Non-executive Director

Jerry Wu

Independent Non-executive Directors

Choy Shu Kwan
Cheng Wing Keung, Raymond
Chung Lai Fong

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Cheung Lin Shun

AUDIT COMMITTEE

Choy Shu Kwan *(Chairman)*
Cheng Wing Keung, Raymond
Chung Lai Fong

REMUNERATION COMMITTEE

Chung Lai Fong *(Chairman)*
Choy Shu Kwan
Cheng Wing Keung, Raymond
Yu Pan

NOMINATION COMMITTEE

Yu Pan *(Chairman)*
Choy Shu Kwan
Lau Yat Tung, Derrick
Wong Lok

SHARE LISTING

Main Board of The Stock Exchange of Hong Kong Limited, Stock Code: 00059

WARRANT LISTING

Main Board of The Stock Exchange of Hong Kong Limited, Stock Code: 00584

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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18 Harcourt Road, Hong Kong
Telephone: (852) 2111 2259
Facsimile: (852) 2890 4459
Website: www.sfr59.com

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE

The Bank of Bermuda Limited
6 Front Street
Hamilton HM 11, Bermuda

BRANCH SHARE REGISTRARS AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

Agricultural Bank of China
Bank of China Limited

AUDITORS

BDO McCabe Lo Limited
Certified Public Accountants

LEGAL ADVISERS

Hong Kong Laws

Vincent T.K. Cheung, Yap & Co.

Bermuda Laws

Conyers Dill & Pearman

Artist impression of the Tianhe North Road development.

Chairman's Statement

On behalf of the Board of Directors (the "Directors"), I am pleased to announce the annual results of Skyfame Realty (Holdings) Limited and its subsidiaries (the "Group") for the year ended 31 December 2007 (the "year").

Spurred by an increase in foreign companies setting up base or investing in China, the demand for premium serviced apartments, luxury residential units, and international 5-star hotel accommodations and international Grade A office has been rising continuously. To ensure our Group has the ability to capture the booming property market, it embarked on major development initiatives and acquisitions in the year. Its objective is to be able to deliver high quality properties in prime districts in Guangzhou and other cities with strong growth potential.

In the year under review, the Group made bold moves in building its strong foundation for supporting its advance to the future. On 2 March 2007, the Group entered into a note purchase agreement with six investors in relation to the issue and subscription of convertible notes in the aggregate principle amount of US$200 million (approximately HK$1,562.4 million). The investors included renowned financial institutions such as Merrill Lynch International, Lehman Brothers Commercial Corporation Asia Limited, and their investment represented their confidence in the strengths and prospects of our business. The move has substantially strengthened the Group's investor base as well as a gradually enhanced liquidity of its shares.

In respect of the consolidated financial position, we completed several major strategic acquisitions during the year. We now own 100% and 72% effective interest respectively in The Westin Guangzhou and the annexed Skyfame Tower (approximately 140,000 sq. m. gross floor area), and a 106,000 sq. m. riverfront site (approximately 210,000 sq. m. above ground gross floor area) in Zhoutouzui at the converging point of three estuaries of the Pearl River in Guangzhou. The Group also owns 100% interests in respectively a 7,217 sq. m. prime site (approximately 84,000 sq. m. above ground gross floor area) on Tianhe North Road in Tianhe District, Guangzhou and a commercial podium (approximately 21,000 sq. m. gross floor area) at Tianyu Garden Phase 2 which is adjacent to the Westin Guangzhou.

In the year 2007, we celebrated the commencement of operation of the Group's representative projects: The Westin Guangzhou, the first five-star international hotel in the city are of Guangzhou, and Skyfame Tower, the 41,000 sq. m. sized grade A office. They are both the Group's trophy properties. The management expects the hotel can bring in stable and recurring revenue. These new stream of income will bolster the Group's financial strength for taking its business forward in strides. The Westin Guangzhou, ever since its grand opening in October 2007, has been an attractive spot of the City, and commanding satisfactory occupancy rates averaging around 70%, which is yet in the rising trend. The Group also started aggressive sale activities in putting Skyfame Tower onto the market with an aim that a high proportion of the gross floor area of the office building can be sold in the coming year. Market response is well received and sale confirmation for around 9,000 sq m has been made and being concluded.

The successful development projects of the Group in Guangzhou have given it a very solid foundation to expand in potential markets in the PRC real estate market. The Group had formed a 55% held-joint venture with another local developer which acquired a piece of land with site area of 156,208 sq. m. in Guiyang City, Guizhou Province, the PRC in January 2008. It will accommodate a luxury high-rise residential project with an above ground gross floor area of approximately 478,000 sq. m.. Construction of the properties is expected to take place by phases with the first phase completed by the end of 2009. The acquisition, the first of the Group in Guizhou, has not only significantly increased the developable gross floor area of its land bank to an approximate total of 1 million sq. m., but has also strengthened its position as a leading developer of premium properties.

In addition to the Guiyang project, the Group will commence construction of the Tianhe project and Zhoutouzui project in 2008. Scheduled to be completed in 2011, the Tianhe project, comprising top-notch serviced apartments, will be a landmark in the central business district of Guangzhou. As for the Zhoutouzui project, it is excellently located in the heart of Guangzhou, it will include six high-rise luxury apartment towers and two serviced apartment blocks and 1,000 parking spaces.

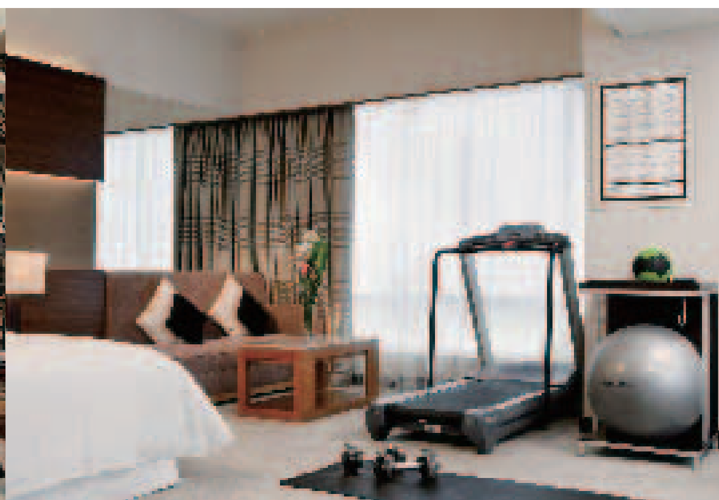
The continued success of the Group in China will be assured by its prudent strategy of developing premium properties in the centre of Guangzhou and timely pursuit of prime sites to enlarge and enrich its land bank in Guangzhou and other Chinese cities with strong growth potential. Our mission is to build on our past successes in developing and managing premium properties in Guangzhou and to become a key developer of properties for an international clientele with the most discerning tastes for living and work space in China.

The coming 2008 is a challenging year. In amidst of the credit crunch spread out in the worldwide financial markets as induced by the sub-prime lending crashes in the United States, the austerity measures taken by the PRC central government has apparently slowed down demand for housing and business activities of the developers in the recent months. To cope with this dynamic environment, the Group is taking positive but conservative business strategies and measures.

On behalf of the Board of Directors, I would like to give my deepest appreciation to the management team and all staff for their effort throughout the year. The Board of Directors will lead the team move ahead to another exciting year of growth and prosperity.

Yu Pan
Chairman

Hong Kong, 18 April 2008



BUSINESS REVIEW

During the year, the Group's revenue reached HK$126 million, representing an increase of 150% when compared with HK$50 million in the corresponding period last year. Net profit for the year increased 393.3% to HK$221 million (2006: HK$45 million). Basic earnings per share were HK17.398 cents (2006: HK4.872 cents). The changes were resulted from the Group's successful completion of a number of acquisitions of development projects during the year and amongst which The Westin Guangzhou, the first five-star hotel operated by the international branded operator, The Westin International in the business district in Guangzhou, and its annexed office building Skyfame Tower (the "Westin Project"), were completed and put into operation in the year.

In 2007, the Group's hotel operation contributes a dominant and recurring income to the Group that generated a total revenue of HK$102 million since its soft opening in May 2007. Taking advantage of the operator's strong experience, The Westin Guangzhou has been in upward trends, both in room rate and occupancy, since its grand opening in October 2007. Earnings before interest, depreciation, amortisation and income tax expense generated from the hotel operation was HK$11 million to the Group for the year. In addition, the Group received rental income of HK$20 million from the leasing of its properties at the commercial podium of Tianyu Garden Phase 2 ("Tianyu Garden Property") and Skyfame Tower.

The result for the year showed a profit attributable to equity holders for the year of HK$209 million despite losses from operations amounting to HK$84 million. The hotel operation contributed cash ever since its starting-off but its operating result was adversely affected by hotel pre-opening costs of HK$10 million and depreciation and amortisation costs of HK$50 million. Finance costs totaling HK$80 million were charged to the profit and loss account for the year, that include interests amortised on convertible notes, issue cost and interests paid to banks and financial institution on borrowings. Revaluation of the investment property at the year-end resulted to a loss of HK$23 million. These negative effects were compensated by non-operating gains, respectively, gain from revaluation amounting to HK$268 million on revaluation of financial derivative liabilities embedded in the Notes at the year-end, deferred tax credit of HK$58 million resulted from a downward adjustment of PRC corporate income tax rate that reduces potential tax liability caused by the appreciated values of land held by project companies at acquisitions, and gain of HK$68 million recognised on acquisition of land and property interests with fair values over their acquisition costs.

Since the Group's completion of the acquisitions in the year, it had put massive resources and manpower in its property development business in Guangzhou. The Group had the following sites for development as at 31 December 2007:

BUSINESS REVIEW *(Continued)*

Tianhe Project

In July 2007, the Group acquired an additional 51% stake interest leading to an entire 100% interest in the project. The 7,217 sq.m. property project is one of the remaining few prime sites in the heart of the central business district of Guangzhou still available for development. The Group plans to build a top-notch service apartment with gross floor area of approximately 84,150 sq.m. on the site which will become a landmark in Guangzhou. The construction is expected to take place in the second half of 2008.

Zhoutouzui Project

During the year, the Group also completed the consolidation of its ownership and now holds 100% equity interest in the site at Zhoutouzui. The project is an approximately 210,000 sq.m. gross floor area development on the site located at Zhoutouzui, Haizhu District, Guangzhou, the PRC. The defining characteristic of the site is its geographical supremacy as it is located opposite to the White Swan Hotel on the converging point of the three estuaries of the Pearl River. Intended to include sky-scraping structures, the Zhoutouzui Project promises a panoramic river view of the Pearl River in the heart of the Guangzhou City. Construction is expected to commence in late 2008.

OUTLOOK

The office spaces at the Skyfame Tower, with gross floor area of approximately 41,000 sq.m. and 350 car parks are available for sale or tenancy in late 2007. It offers good investment opportunities for investors in grade A office in the mature business district at Tianhe, Guangzhou. The property is currently over 40% tenanted with multi-national corporations and consulates. Sales negotiations are in concrete progress. We expect a high percentage of floor areas to be sold in the financial year to come.

Looking ahead, the property market in China will go through gradual consolidation and step into a more regulated but healthier position. The Group will continue its prudent but aggressive land reserve strategy to invest in more property projects with promising potentials in the PRC. In January 2008, the Group partnered with a local developer and acquired a 156,208 sq.m. land in the city area of Guiyang, the provincial state of Guizhou Province, through a 55%-owned joint-venture company. The investment increased significantly the developable gross floor area of the Group's land bank to an approximately total of 1 million sq.m..

FINANCIAL RESOURCES AND LIQUIDITY

Capital structure and liquidity

The aforesaid acquisitions of development projects were financed by the proceeds raised from the Company's issue of convertible notes of US$200 million to a number of renowned institutional investors in May 2007. The notes bear a 4% coupon, maturing in 6 years with an annual yield-to-maturity of 15% and are convertible for ordinary shares of the Company ("Shares") at an initial conversion price of HK$1.35 per Share which is subject to a reset mechanism gearing to share price performance (the "Notes"). The issue of convertible notes has enlarged the base of potential shareholders of the Company and strengthened its capital resources. The principal value of the Notes outstanding at the balance sheet date was approximately HK$1,516 million (US$194 million) as a result of conversions of approximately HK$47 million (US$6 million) into 34,719,555 Shares during the year. The financial derivative liabilities embedded in the Notes were revalued at HK$1,082 million whilst the convertible notes carried at the unamortised cost of HK$212 million at the balance sheet date.

In the acquisition of the other 29% interest in the Westin Project and the 100% interest in Tianyu Garden Property that were beneficially owned by Mr. Yu Pan, the Company's controlling shareholder, convertible preference shares valued totaling HK$709 million ("CPS") were issued to Mr. Yu in consideration. The CPS is non-interest bearing, non-redeemable and subject to similar reset mechanism as the Notes. The CPS was converted in full for Shares. The conversion increased the Group's equity by HK$721 million.

FINANCIAL RESOURCES AND LIQUIDITY *(Continued)*

Capital structure and liquidity *(Continued)*

The acquisition of further 51% interest in Tianhe Project was financed by a short-term loan at principal value of HK$220 million extended from a financial institution. The acquisition of the Westin Project and Tianyu Garden Property led to liabilities for outstanding development costs of HK$155 million and long-term commercial loans of HK$963 million. Except the investment property which was revalued at open market value of HK$492 million at the year-end date, all other property interests are presented at costs or fair values at acquisition. Should the property portfolio was presented at open market values, there shows a total value attributable to the Group of HK$7,822 million at the balance sheet date.

As at 31 December 2007, the Group's total liabilities, mainly consist of the convertible notes, the financial derivates embedded in the Notes, commercial loans, deferred tax liabilities and development costs payable, increased to HK$3,260 million. The Group's gearing ratio (the ratio of total debt to total equity plus debt) at the balance sheet date was increased to 65.9% (2006: 47.4%) whilst the loan to value ratio, measured by total debt to open market values of property interests attributable to the Group, is 41.7% at the balance sheet date. Nonetheless, the management considered the gearing level is maintained at an affordable level.

The issue of the Notes strengthened and increased the Group's post acquisition cash position to HK$422 million at the balance sheet date of which HK$359 million is held in escrow accounts for reserves of interest payable to the convertible noteholders and a financial institution. The current assets and current liabilities of the Group were HK$1,108 million and HK$509 million respectively such that the current ratio rose to 2.2 from that 1.1 of last year-end.

Bank borrowings and pledge of assets

As at 31 December 2007, the Group had borrowings totaling HK$1,183 million from a financial institution and commercial banks. Such borrowings were used to finance the working capital and acquisition costs of the Group. To secure for the banking facilities granted to the Group, the Group pledged interests over its 51% shareholding in the intermediate holding company of the Tianhe Project and mortgages over property and land interests in the Westin Project and the Tianyu Garden Property. In addition, to secure for the convertible notes, cash in accounts totaling HK$359 million and shares of certain intermediary holding companies of project companies were charged in favour of the convertible noteholders and a financial institution.

FOREIGN CURRENCY MANAGEMENT

The Group's property development activities are conducted in the PRC. Its major activities are conducted in the PRC and denominated in Renminbi ("RMB"), the functional currency of the Company's principal subsidiaries. However, certain financing activities of the Group are denominated in other currencies, such as, the Notes are denominated in US dollars and a loan from a financial institution is denominated in HK dollars. Since US dollars is pegged with HK dollars, the expected exposures caused by fluctuations in the exchange rates for these currencies are not material. The Group does not have significant unfavourable exposure to foreign currency fluctuations as the expected rise in exchange rate of RMB against HK dollars and US dollars in the coming periods will favour the Group's financial position. In view of the foreseeable insignificant unfavourable impact of the exchange exposure, the Group does not hedge against its foreign currency risk. However, any permanent changes in the exchanges rates in RMB for HK dollars and US dollars and changes in the peg system of US dollars with HK dollars may have possible impact on the Group's results and financial position.

MATERIAL ACQUISITIONS DURING THE YEAR

During the year, the Group completed the acquisitions of certain subsidiaries, details of which are as follows:

(a) On 2 March 2007, the Group entered into two separate agreements with (i) a subsidiary of Poly (Hong Kong) Investments Limited ("Poly HK") which was a substantial shareholder of a subsidiary of the Company, and an independent third party, and (ii) Wise Gain Investment Limited, a company wholly-owned by Mr. Yu Pan. Both agreements were for the acquisition of the entire equity interest in and shareholders' loans of Yue Tian Development Limited and its wholly-owned subsidiary incorporated in the PRC (the "Yue Tian Group"). The total consideration of the two agreements amounted to approximately HK$887 million. The activity of the Yue Tian Group is the development of a property, comprising a hotel and office tower in Westin Project. The acquisition was completed on 4 May 2007.

    The acquisition of the Westin Project was satisfied by approximately HK$629 million in cash, which was financed by the proceeds of the convertible notes, and the issue of 190,447,209 convertible preference shares of the Company to Mr. Yu's associate at a face value of approximately HK$257 million (fair value of approximately HK$407 million).

(b) On 24 April 2007, the Group entered into an agreement to acquire from the vendor, a subsidiary of Poly HK, an entire interest in Bright Able Developments Limited ("Bright Able") at an aggregate consideration of approximately HK$321 million. Bright Able is an investment company holding 49% equity interest in Zhoutouzui Project. The acquisition was completed on 4 June 2007.

    The acquisition of the Zhoutouzui Project was satisfied by approximately HK$321 million in cash which was financed by the proceeds of the convertible notes.

(c) Pursuant to the agreement dated 28 May 2007 in relation to the acquisition from a company, wholly-owned by Mr. Yu Pan, of a commercial podium of Tianyu Garden Phase 2 at a consideration of approximately HK$196 million. In this connection, 145,537,077 convertible preference shares of the Company were issued to Mr. Yu's associate as settlement of the consideration. The transaction was completed on 19 July 2007.

    The acquisition of a commercial podium of Tianyu Garden Phase 2 was satisfied by the issue of convertible preference shares to Mr. Yu's associate at a face value of approximately HK$196 million (fair value of approximately HK$302 million).

(d) On 21 June 2007, Sky Honest Investments Corp. ("Sky Honest"), a subsidiary of the Company, entered into an agreement to acquire the remaining 51% equity interest in the Group's 49%-held associate, Yaubond Limited, at a cash consideration of approximately HK$204 million. The transaction was completed on 27 July 2007. The acquisition cost was financed entirely by borrowing from an institutional lender, which is secured by mortgages constituted by two deeds entered into respectively by Sky Honest and its holding company, Chain Up Limited.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2007.

EMPLOYEES

To keep pace with the fast growth, the Group continues to recruit and take in staff with capable calibre. As at 31 December 2007, other than the Executive Directors, the Group employed 665 staff of which 531 are in its hotel operation and 134 for property development and central management. During the year, total staff costs rose to HK$ 51.57 million of which HK$4.95 million were capitalised as property development costs. The increase in staff costs was led by the Group's new hotel operation business and its expansion in the development projects engaged. Employees are remunerated according to qualifications and experience, job nature and performance. Remuneration packages are aligned with job markets in the business territories.

EXECUTIVE DIRECTORS

Mr. Yu Pan *(Chairman)*

Aged 43, has over 18 years of experience in the development high-end residential, commercial and hotel projects in the PRC. Mr. Yu is a founder of the prestigious real estate company - Guangzhou Tianyu Real Estate Development Company Limited. He oversees the strategic planning and corporate development of the Group.

Mr. Lau Yat Tung, Derrick *(Deputy Chairman)*

Aged 43, holds a Master degree in Business Administration awarded by The Northeast Louisiana University in the USA. Mr. Lau has over 14 years of working experience in the senior management of corporations engaged in property agency and development in Hong Kong and the PRC.

Mr. Wong Lok

Aged 50, has over 22 years of working experience in senior management of corporations engaged in property and general trading in Hong Kong and the PRC.

Mr. Wen Xiao Bing

Aged 39, holds a Bachelor Degree in History from Beijing University and is a professionally qualified economist specialized in labor economics in the PRC. Mr. Wen has over 17 years of working experience in managerial positions in corporations in the PRC. Mr. Wen is the Managing Director in charge of overall management of the property development and investment business of the Group.

NON-EXECUTIVE DIRECTOR

Mr. Jerry Wu

Aged 39, holds a Master of Business Administration (Finance) from The Wharton School, University of Pennsylvania; Master of Science and Bachelor of Science in Electrical Engineering from Stanford University. Mr. Wu has over 11 years of experience in corporate finance, strategic advisory and equity investments. He is a director of Grand River Investments Limited which is in association with Dalton Investments LLC, based in Shanghai.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Choy Shu Kwan

Aged 53, holds a Master degree in Business Administration and has over 27 years of extensive experience in banking and investment management. Mr. Choy worked for the CITIC group for 20 years in Hong Kong and before his resignation in 2007, he was the managing director of CITIC Capital Markets Limited. He is also an independent non-executive director of Poly (Hong Kong) Investments Limited.

Mr. Cheng Wing Keung, Raymond

Aged 48, is a practising solicitor in Hong Kong. Mr. Cheng holds a honours degree in laws in The University of London and a Master degree of Business Administration awarded by The University of Strathclyde, Scotland. He is an associate member of Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries in both United Kingdom and Hong Kong. Mr. Cheng also holds a Diploma in Chinese Professional Laws in the Chinese University of Political Science and Law, PRC. Mr. Cheng has over 20 years of experience in corporate, company secretarial and listing affairs. At present, Mr. Cheng is an independent non-executive director in three other listed companies in Hong Kong, namely China Investment Fund Company Limited, Emperor Capital Group Limited and Kenfair International (Holdings) Limited.

Ms. Chung Lai Fong

Aged 40, is a practising barrister in Hong Kong. Ms. Chung holds a Bachelor of Laws (Honours) degree, a Bachelor of Arts (Honours) Degree in Accountancy and a Master of Laws in Chinese Law. She is also a fellow member of the Association of Chartered Certified Accountants (UK) and a member of the Hong Kong Institute of Certified Public Accountants, the Institute of Chartered Secretaries and Administrators (UK) and the Hong Kong Institute of Chartered Secretaries. She has over 12 years of professional experience in accounting, taxation, administration, company secretarial and corporate development.

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Ms. Cheung Lin Shun

Aged 45, is a professional qualified accountant in Hong Kong and is in charge of the financial, accounting and company secretarial matters at the corporate level of the Group. Ms. Cheung holds a Master degree in Professional Accountancy awarded by The Hong Kong Polytechnic University. Ms. Cheung is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants in the United Kingdom. She has over 22 years of experience in auditing, corporate secretarial, accounting and corporate finance in an international accounting firm and a number of listed companies in Hong Kong.

SENIOR MANAGEMENT

Mr. Chan Tung Ngok, Tony

Aged 52, is the General Manager in Investment and Corporate Communication for the Group. Mr. Chan holds a Master Degree of Business Administration from Asia International Open University (Macau). He is a fellow member of the Royal Institute of Chartered Surveyors in the United Kingdom and a fellow member of The Hong Kong Institute of Surveyors. Mr. Chan has over 27 years of experience in professional real estate service with extensive experience in the valuation and marketing of property development projects in Hong Kong and the major cities of PRC. An expert in the field, Mr. Chan received training and became an estate surveyor in the Hong Kong Government Lands Department. Mr. Chan had held senior positions in Wayfoong Property Ltd., the property arm of HSBC, Midland Holdings Limited and surveying practices. Mr. Chan oversees the strategic investment and corporate communication affairs for the Group.

Mr. Lin Sheng Jie

Aged 42, is the Assistant Managing Director in charge of all general administration and finance operations in the PRC. Mr. Lin was a graduate in finance and accountancy of Guangdong University of Business Studies and has over 17 years of working experience in the finance and accounting in property development, finance and hotel investment in the PRC, Thailand and Hong Kong.

Mr. Li Le Wei

Aged 51, is the Assistant Managing Director in charge of all property development operations in the PRC. Mr. Li graduated from the Guangdong Radio & TV University and has over 20 years of working experience in hotel and property management in Guangzhou.


WESTIN

CORPORATE GOVERNANCE PRACTICES

The Company is committed to enhance its corporate governance standards by emphasizing transparency, independence, accountability, responsibility and fairness. The Company exercises corporate governance through the Board of Directors ("Board") and various committees with designated functions. The Company has complied with the applicable code provisions in the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the year ended 31 December 2007.

DIRECTORS' SECURITIES TRANSACTIONS

Other than the governance through the board and the committees, the Company has adopted the code of conduct regarding the directors' securities transactions as set out in the Model Code of the Listing Rules. Following specific enquiry by the Company, all directors of the Company ("Directors") confirmed that they have complied with the required standards as set out in the Model Code throughout the year under review.

BOARD OF DIRECTORS

As at 31 December 2007, the Board comprised eight Directors as follows:

Executive Directors

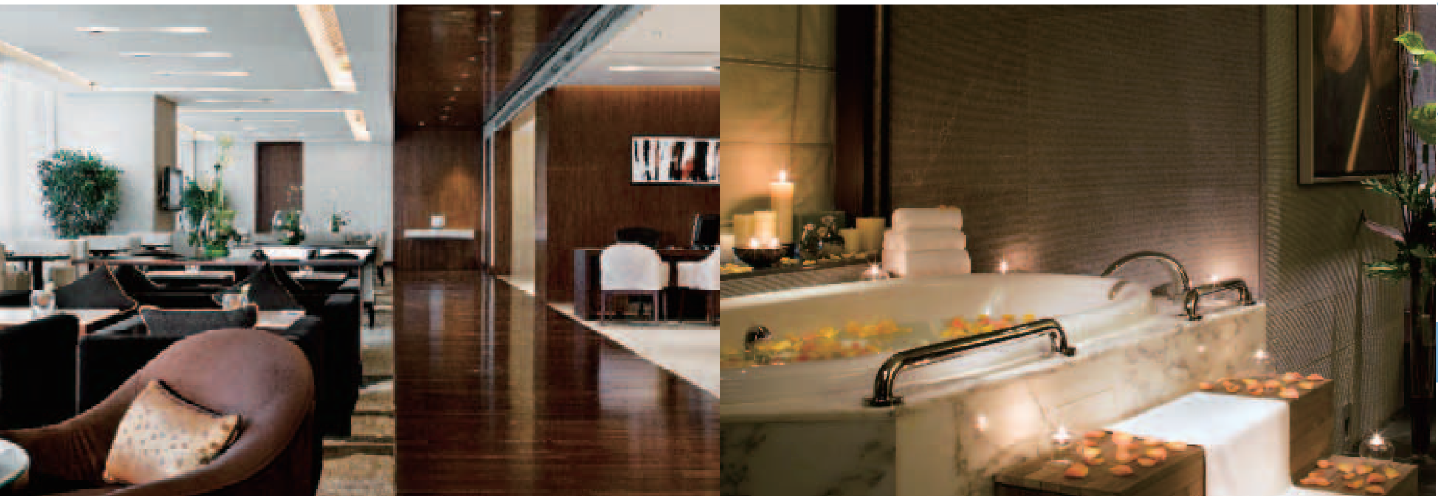
Mr. Yu Pan *(Chairman)*
Mr. Lau Yat Tung, Derrick *(Deputy Chairman)*
Mr. Wong Lok
Mr. Wen Xiao Bing

Non-executive Director

Mr. Jerry Wu (appointed on 6 September 2007)

Independent Non-executive Directors

Mr. Choy Shu Kwan
Mr. Cheng Wing Keung, Raymond
Ms. Chung Lai Fong



BOARD OF DIRECTORS *(Continued)*

The Board held four meetings in 2007. The record of attendance of each Director is as follows:

	Name of Director	Number of Board Meetings Attended
Executive Directors	Mr. Yu Pan *(Chairman)*	4/4
	Mr. Lau Yat Tung, Derrick *(Deputy Chairman)*	4/4
	Mr. Wong Lok	4/4
	Mr. Wen Xiao Bing	4/4
Non-executive Director	Mr. Jerry Wu	3/4*
Independent Non-executive Directors	Mr. Choy Shu Kwan	4/4
	Mr. Cheng Wing Keung, Raymond	4/4
	Ms. Chung Lai Fong	4/4

* *Mr. Jerry Wu was appointed as a Non-executive Director since 6 September 2007 and attended all the board meetings held subsequent to his appointment.*

The Board is responsible for formulating and reviewing of the long-term business directions and strategies, and monitoring the operating and financial performance of the Group. The management is delegated by the Board with the authority to make decisions on daily operations. Both the Directors and management interacted frequently to ensure efficient communications between the parties.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

In pace with the business development and growth of the Group, the Group currently maintains a small but efficient team in the daily operations of the Group. Due to the small size of the team, both the roles of the Chairman and Chief Executive Officer of the Company are currently played by Mr. Yu Pan. The Board considers the currently simple but efficient team serves sufficiently enough the need of the Group. The Board will, nonetheless, continue to review the business growth of the Group and, when considered essential, will set out a clear division of responsibilities at the board level and the day-to-day management team to ensure a proper balance of power and authority within the Company.

REMUNERATION COMMITTEE

The Remuneration Committee comprises four Directors: the Chairman, Mr. Yu Pan and all three Independent Non-executive Directors, namely, Mr. Choy Shu Kwan, Mr. Cheng Wing Keung, Raymond and Ms. Chung Lai Fong (Chairman of the Committee).

REMUNERATION COMMITTEE *(Continued)*

The Remuneration Committee held three meetings in 2007. The record of attendance of its members is as follows:

Name of Director	Number of Remuneration Committee Meetings Attended
Ms. Chung Lai Fong	3/3
Mr. Choy Shu Kwan	3/3
Mr. Cheng Wing Keung, Raymond	3/3
Mr. Yu Pan	3/3

The major roles and functions of the Remuneration Committee are as follows:

1. to make recommendations to the Board on the remuneration policy and structure of the Board, all committees members and senior management;

2. to determine the remuneration packages of the Directors, all committee members and senior management. The remuneration packages include basic salary, annual bonus, retirement and compensation packages;

3. to review and approve the compensation to Executive Directors and senior management on termination or dismissal;

4. to review and approve the performance target, appraisal system, remuneration terms and conditions, amount and distribution basis of the annual bonus; and

5. to review the expenses reimbursement policy.

NOMINATION COMMITTEE

The Nomination Committee comprises three Executive Directors, namely, Mr. Yu Pan (Chairman of the Committee), Mr. Lau Yat Tung, Derrick, Mr. Wong Lok and one Independent Non-executive Director, Mr. Choy Shu Kwan.

The Nomination Committee held two meetings in 2007. The record of attendance of its members is as follows:

Name of Director	Number of Nomination Committee Meetings Attended
Mr. Yu Pan	2/2
Mr. Choy Shu Kwan	2/2
Mr. Lat Yat Tung, Derrick	2/2
Mr. Wong Lok	2/2

NOMINATION COMMITTEE *(Continued)*

The major roles and functions of the Nomination Committee are as follows:

1. to propose the basic requirements and objective entry standard for Directors;

2. to review and approve the selection, nomination and appointment procedures for Directors, all committee members and senior management;

3. to review the structure, size and composition of the Board on a regular basis and make recommendations to the Board in all such aspects;

4. to ensure the fixed employment period for the Directors and fulfillment of the re-election requirements set under the bye-laws of the Company and related regulatory bodies;

5. to assess the independence of Independent Non-executive Directors; and

6. to review and approve the part-time policy for the Directors and senior management; and oversee the establishment of appropriate succession planning for Directors in particular the chairman and the chief executive officer.

AUDIT COMMITTEE

The Audit Committee comprises three Independent Non-executive Directors, Mr. Choy Shu Kwan (Chairman of the Committee), Mr. Cheng Wing Keung, Raymond and Ms. Chung Lai Fong.

The Audit Committee held four meetings in 2007. The record of attendance of its members is as follows:

Name of Director	Number of Audit Committee Meetings Attended
Mr. Choy Shu Kwan	4/4
Mr. Cheng Wing Keung, Raymond	4/4
Ms. Chung Lai Fong	4/4

The major roles and functions of audit committee are as follows:

1. review the integrity of accounts and financial reporting process;

2. review and oversee the effectiveness of internal control systems;

3. appointment of external auditors and assessment of their qualifications, independence and performance; and

4. review periodically the Company's and the Group's accounts to comply with applicable accounting standards, legal and regulatory requirements on financial disclosures.

The Audit Committee has reviewed the audited results for the year ended 31 December 2007 and the interim results for the six months ended 30 June 2007.

AUDITORS' REMUNERATION

Messrs. BDO McCabe Lo Limited was re-appointed by the shareholders as the Company's auditors during 2007. Their engagement of the audit for 2007 has been reviewed and approved by the audit committee.

During the year under review, the remuneration paid to the Company's auditors are set out as follows:

Nature of service	**Fees paid** *(HK$)*
Interim results review service	200,000
Audit services for 2007	1,180,000
Non-audit services	
- Reporting accountant's service on acquisition transactions	1,978,000
- Tax advisory service	10,000
- Disbursements	89,750
TOTAL	3,457,750

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Board recognises the importance of good communications with all shareholders. The Company's general meetings are a valuable forum for the Board to communicate directly with the shareholders. The members of the Board and the committees and the external auditors are present to answer shareholders' questions in each meeting.

A meeting circular is distributed to all shareholders at least 21 days before the annual general meeting and at least 14 days before special general meetings. It sets out the procedures for demanding and conducting a poll at the shareholders' meeting and voting intention of proxies. The results of the poll, if any, will be published in the Stock Exchange's and Company's websites.

A key element of effective communication with shareholders and investors is the prompt and timely dissemination of information in relation to the Group. The Company has announced its annual and interim results in a timely manner well before the time limits as laid down in the Listing Rules.

The 2008 annual general meeting will be held at Luk Kwok Hotel, Basement, Falcon Room I, 72 Gloucester Road, Wanchai, Hong Kong on Friday, 23 May 2008 at 11:00 a.m..

INTERNAL CONTROLS

The Board has overall responsibilities for maintaining sound and effective internal control systems of the Group whilst the internal control department is responsible primarily to ensure the systems are functioning. The Group's system of internal control includes a defined management structure with limits of authority, and is designed to help the Group achieve its business objectives, safeguard its assets against unauthorised use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant laws and regulations. Overall, the systems are designed to provide reasonable, but not absolute, assurance against material misstatement or loss, and to manage failure in material aspects in the Group's operational systems and in the achievement of the Group's business objectives.

The internal auditor reported to the Executive Directors with findings on regular audits and recommendations on the effectiveness of the controls during the year 2007. Annual report issued by the internal auditor was also reviewed by the Audit Committee. While there have been no material issues noted, auditor improvement were identified and remedial actions being taken by the management. The independent audits on the internal control systems covered key financial and operational areas, compliance controls and risk management.

The Directors have pleasure in presenting their annual report together with the audited consolidated financial statements for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Company continues to be investment holding. The principal activities of its subsidiaries during the year are property development, property investment, hotel operation and related ancillary service and provision of property development project management and interior decoration services.

SEGMENT INFORMATION

An analysis of the Group's performance for the year by business and geographical segments is set out in note 7 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2007 are set out in the consolidated income statement on page 37.

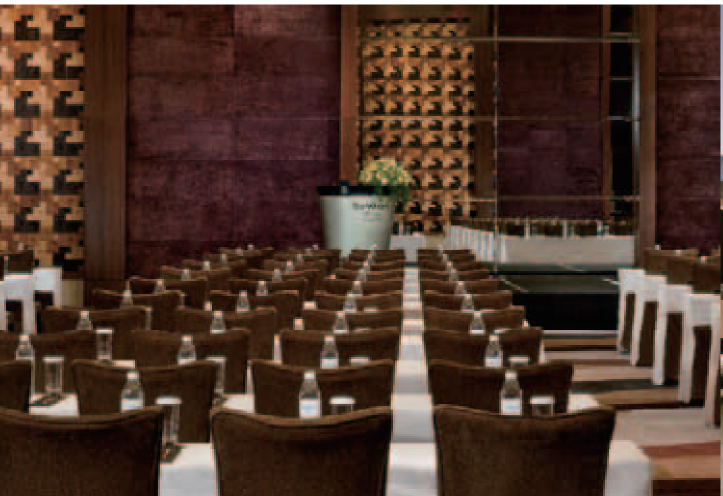
The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2007.

SHARE CAPITAL

During the year ended 31 December 2007, (i) total number of 5,272,108 new Shares were issued as a result of the exercise of subscription right attached to the Warrants; (ii) total number of 34,719,555 new Shares were issued pursuant to the conversions of the US$200 million notes by noteholders; (iii) total number of 335,984,286 New Shares were issued pursuant to the conversion by the holders of convertible preference shares. Details of these transactions are disclosed in note 38 to the financial statement.

All new Shares issued as a result of the conversions of convertible notes and convertible preference shares, and subscriptions by warrant holders rank pari passu with the then existing Shares in all respects.

Details of movements in the Company's share capital during the year are set out in note 38 to the financial statements.



SHARE OPTIONS

The share option scheme was adopted on 4 August 2005 (the "2005 Scheme").

On 22 August 2006, the Company granted 63,850,000 options to subscribe for the Company's Shares under the 2005 Scheme. During the year ended 31 December 2007, there is no share option exercised by the option holders.

Details of the share option scheme are set out in note 40 to the financial statements.

RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out in note 39 to the financial statements.

DISTRIBUTABLE RESERVES

The Company's contributed surplus is distributable to shareholders in accordance with the Companies Act 1981 of Bermuda. At 31 December 2007, the Company's reserves available for cash distribution and/or distribution in specie amounted to approximately HK$282 million (inclusive of the Company's contributed surplus) as computed in accordance with generally accepted accounting principles of Hong Kong. In addition, the Company's share premium account in the amount of approximately HK$1,211 million may be distributed in the form of fully paid bonus shares.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group are set out in note 19 to the financial statements respectively.

INTEREST IN ASSOCIATE

Details of the interest in associate of the Group are set out in note 26 to the financial statements.

CONVERTIBLE NOTES

Details of the convertible notes of the Group are set out in note 35 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's largest customer and five largest customers accounted for approximately 5.93% and 13.30%, respectively, of the Group's total sales for the year.

The aggregate purchases attributable to the Group's largest supplier and five largest suppliers accounted for approximately 7.46% and 29.07%, respectively, of the Group's total purchases for the year.

To the knowledge of the Directors, none of the Directors, their associates, or any shareholders which own more than 5% of the Company's share capital, had any interest in the share capital of any other of the five largest customers or suppliers of the Group.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year.

DIRECTORS AND SERVICE CONTRACTS

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

Executive Directors

Mr. Yu Pan
Mr. Lau Yat Tung, Derrick
Mr. Wong Lok
Mr. Wen Xiao Bing

Non-executive Director

Mr. Jerry Wu (appointed on 6 September 2007)

Independent Non-executive Directors

Mr. Choy Shu Kwan
Mr. Cheng Wing Keung, Raymond
Ms. Chung Lai Fong

In accordance with clause 86(2) of the Company's bye-laws, Mr. Jerry Wu, being appointed by the Board during the year and up to the date of this report, shall retire at the forthcoming annual general meeting ("AGM").

Pursuant to clause 87(1) of the Company's bye-laws and the Code on Corporate Governance Practices, Mr. Yu Pan, Mr. Lau Yat Tung, Derrick and Mr. Wong Lok will retire at the AGM by rotation. All retiring Directors, being eligible, will offer themselves for re-election for the forthcoming AGM.

None of the Directors being proposed for re-election at the forthcoming AGM has any service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Except as those disclosed in the section of "Connected Transactions" of the report hereinafter, no contracts of significance to which the Company, its holding company or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2007, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required, (i) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (ii) pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (iii), pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") of the Listing Rules, to be notified to the Company and the Stock Exchange, are as follows:

(a) Interests in the Shares or underlying Shares

Name of Director	Company/ Associated corporation	Capacity	Number of Shares or underlying Shares (long position)	Approximate shareholding percentage
Mr. Yu Pan	Company	Interest of controlled corporation and/or beneficial owner	1,098,041,271 *(note 1)*	74.90% *(note 2)*

Notes:

1. These Shares comprised (i) 91,530,000 existing Shares and 42,732,000 underlying Shares which would be issued pursuant to the exercise of the subscription rights attaching to 42,732,000 2006 Warrants held directly by Mr. Yu Pan; and (ii) 963,776,271 existing Shares and 3,000 underlying Shares 2006 Warrants held directly by Grand Cosmos Holdings Limited ("Grand Cosmos"). The entire issued share capital of Grand Cosmos was held by Sharp Bright International Limited, the entire issued share capital of which was held by Mr. Yu Pan. Item (ii) above representing 963,776,271 Shares and 3,000 underlying Shares were charged in favour of the security trustee by way of a share charge dated 4 May 2007.

2. For the purposes of this section, the shareholding percentage in the Company was calculated on the basis of 1,465,847,235 Shares in issue as at 31 December 2007.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES

(Continued)

(b) Interests in underlying Shares arising from share options

As at 31 December 2007, the following Directors had interests as beneficial owner in options to subscribe for Shares granted under the share option scheme adopted by the Company on 4 August 2005:

Name of Director	Exercise Price *(HK$)*	Exercise Period	Number of underlying Shares (under share options of the Company)	Approximate shareholding percentage *(note)*
Mr. Wen Xiao Bing	1.31	13 March 2007 to 31 July 2015	5,000,000	0.34%
Mr. Lau Yat Tung, Derrick	1.31	13 March 2007 to 31 July 2015	3,000,000	0.20%
Mr. Choy Shu Kwan	1.31	13 March 2007 to 31 July 2015	600,000	0.04%
Mr. Cheng Wing Keung, Raymond	1.31	13 March 2007 to 31 July 2015	600,000	0.04%
Ms. Chung Lai Fong	1.31	13 March 2007 to 31 July 2015	600,000	0.04%

Note:

For the purpose of this section, the shareholding percentage in the Company is calculated on the basis of 1,465,847,235 Shares in issue as at 31 December 2007.

Save as disclosed above, as at 31 December 2007, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO) which were required, (i) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (ii) pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (iii) pursuant to the Model Code of the Listing Rules to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

During the year, the Company, its holding companies or any of its subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse or minor children to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or in any other body corporate.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at 31 December 2007, Mr. Yu Pan, the Chairman of the Company, is also a director and substantial shareholder of a company listed on the Shenzhen Stock Exchange, namely 綠景地產股份有限公司 (Lvjing Real Estate Co., Ltd.) ("LJR") which is engaged in the residential real estate development business in the mass market in the PRC. Save as the aforesaid, none of the Directors and his/her respective associates had any interests in any business, which competes or is likely to compete, either directly or indirectly, with the Company's business (as would be required to be disclosed under rule 8.10 of the Listing Rules if each of them were a controlling shareholder of the Company).

Mr. Yu has undertaken to the Company that for so long as he remains as a Director or a controlling shareholder of the Company, all enquiries and actual or potential business opportunities received by him (and/or his associates) in relation to property development project management and property investment in the PRC (the "Business Opportunities") shall be referred by Mr. Yu to the Company on a timely basis and the Business Opportunities must be first offered or made available to the Group.

In addition, Mr. Yu has executed a deed of non-competition on 4 May 2007 with the subscribers of the US$200 million Notes that he and his affiliates will not be engaged or interested in any business in the Group which is engaged in property development of luxury hotels and service apartments, luxury residential and/or high grade commercial buildings in the PRC except for the business undertaken by LJR.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2007, so far as known to any Directors or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

SUBSTANTIAL SHAREHOLDERS *(Continued)*

Interests in the Shares or underlying Shares

Name of shareholder	Capacity	Number of Shares and underlying Shares		Approximately percentage *(note 8)*
Sharp Bright International Limited ("Sharp Bright")	Interest of controlled corporation	963,779,271 *(note 1)*	(long)	65.75%
Grand Cosmos Holdings Limited ("Grand Cosmos")	Beneficial owner	963,779,271 *(note 1)*	(long)	65.75%
Merrill Lynch & Co., Inc.	Interests of controlled corporation and/or person having a security interest in shares	1,517,758,271 *(note 2)*	(long)	103.54%
Lehman Brothers Holdings Inc.	Interests of controlled corporation and/or person having a security interest in shares	1,334,531,856 *(note 3)*	(long)	91.04%
	Interests of controlled corporation	5,400,000	(short)	0.37%
DKR Capital Inc.	Interests of controlled corporation and/or person having a security interest in shares and/or parties to an agreement under s.317(1)(b) and s. 318 of the SFO	1,251,452,904 *(note 4)*	(long)	85.37%
DKR Management Co., Inc.	Interests of controlled corporation and/or person having a security interest in shares and/or parties to an agreement under s.317(1)(b) and s. 318 of the SFO	1,251,452,904 *(note 4)*	(long)	85.37%

SUBSTANTIAL SHAREHOLDERS *(Continued)*

Interests in the Shares or underlying Shares *(Continued)*

Name of shareholder	Capacity	Number of Shares and underlying Shares		Approximately percentage *(note 8)*
DKR Capital Partners LP	Interests of controlled corporation and/or person having a security interest in shares and/or parties to an agreement under s.317(1)(b) and s. 318 of the SFO	1,251,452,904 *(note 4)*	(long)	85.37%
DKR Oasis Management Co. LP	Interests of controlled corporation and/or person having a security interest in shares and/or parties to an agreement under s.317(1)(b) and s. 318 of the SFO	1,251,452,904 *(note 4)*	(long)	85.37%
DKR Soundshore Oasis Holding Fund Ltd.	Interests of controlled corporation and/or person having a security interest in shares and/or parties to an agreement under s.317(1)(b) and s. 318 of the SFO	1,251,452,904 *(note 4)*	(long)	85.37%
Oasis Management Holdings LLC	Interests of controlled corporation and/or person having a security interest in shares and/or parties to an agreement under s.317(1)(b) and s. 318 of the SFO	1,251,452,904 *(note 4)*	(long)	85.37%

SUBSTANTIAL SHAREHOLDERS *(Continued)*

Interests in the Shares or underlying Shares *(Continued)*

Name of shareholder	Capacity	Number of Shares and underlying Shares		Approximately percentage *(note 8)*
Deutsche Bank Aktiengesellschaft	Person having a security interest in shares	162,921,606	(long)	11.11%
PMA Capital Management Limited	Investment manager and/or person having a security interest in shares	1,177,912,221 *(note 5)*	(long)	80.36%
PMA Prospect Fund	Beneficial owner and/or person having a security interest in shares	1,061,609,313 *(note 5)*	(long)	72.42%
Diversified Asian Strategies Fund	Beneficial owner	88,180,068 *(note 5)*	(long)	6.02%
PMA Asian Opportunities Fund	Beneficial owner	44,128,000 *(note 5)*	(long)	3.01%
PMA Focus Fund	Beneficial owner and/or person having a security interest in shares	991,902,111 *(note 5)*	(long)	67.67%
Luo Dong Liang	Beneficial owner	88,262,000 *(note 6)*	(long)	6.02%
Dalton Greater China (Master) Fund	Beneficial owner and/or person having a security interest in shares	1,031,654,771 *(note 7)*	(long)	70.38%
Dalton Investments LLC	Investment manager	1,080,254,771 *(note 7)*	(long)	73.69%

SUBSTANTIAL SHAREHOLDERS *(Continued)*

Interests in the Shares or underlying Shares *(Continued)*

Notes:

1. These Shares comprised 963,776,271 existing Shares and 3,000 underlying Shares which would be issued pursuant to the exercise of the subscription rights attaching to 3,000 Warrants held directly by Grand Cosmos. As the entire issued share capital of Grand Cosmos was held by Sharp Bright, Sharp Bright was deemed to be interested in the Shares and underlying Shares in which Grand Cosmos was interested by virtue of the SFO. As the entire issued share capital of Sharp Bright was held by Mr. Yu Pan, Mr. Yu Pan was deemed to be interested in the Shares and underlying Shares in which Sharp Bright was interested by virtue of SFO. The above representing 963,779,271 Shares (which included the underlying interest in 3,000 2006 Warrants) were charged in favour of the security trustee by way of share charge dated 4 May 2007.

2. These Shares comprised (i) 7,146,000 existing Shares; (ii) 963,779,271 Shares and underlying Shares charged in favour of the security trustee (who held the benefit on trust for the noteholders) by Grand Cosmos and Mr. Yu Pan; and (iii) an aggregate of 546,833,000 underlying Shares which would be issued upon exercise of the conversion rights attaching to the Notes at the minimum reset reference price of HK$1.00 held directly or indirectly by Merrill Lynch Group, Inc., Merrill Lynch L.P., Indopark Holdings Ltd., Merrill Lynch International Incorporated, Merrill Lynch International Holdings Inc., Merrill Lynch Europe PLC, Merrill Lynch Europe Intermediate Holdings, Merrill Lynch Holdings Limited, ML UK Capital Holdings and Merrill Lynch International. All of these entitles were controlled by Merrill Lynch & Co., Inc.

3. These Shares comprised (i) 11,405,185 existing Shares; (ii) 963,779,271 Shares and underlying Shares charged in favour of the security trustee (who held the benefit on trust for the noteholders) by Grand Cosmos and Mr. Yu Pan; and 359,347,400 underlying Shares which would be issued upon exercise of the conversion rights attaching to the Notes at the minimum reset reference price of HK$1.00 held directly or indirectly by Lehman Brothers Commercial Corporation Asia Limited, LBCCA Holdings I LLC., LBCCA Holdings II LLC., Lehman Brothers Inc., Lehman Brothers International (Europe) and Lehman Brothers Holdings Plc.All these entities were controlled by Lehman Brothers Holdings Inc.

4. These Shares comprised (i) 9,917,185 existing Shares; (ii) 963,779,271 Shares and underlying Shares charged in favour of the security trustee (who held the benefit on trust for the noteholders) by Grand Cosmos and Mr. Yu Pan; and (iii) 277,756,448 underlying Shares which would be issued upon exercise of the conversion rights attaching to the Notes at the initial conversion price of HK$1.35.

5. These Shares comprised (i) 963,779,271 Shares and underlying Shares charged in favour of the security trustee (who held the benefit on trust for the noteholders) by Grand Cosmos and Mr. Yu Pan; (ii) 77,416,000 existing Shares held by Diversified Asian Strategies Fund; (iii) 19,538,450 underlying Shares which would be issued upon exercise of the subscription rights attaching to 19,538,450 2006 Warrants held by PMA Prospect Fund (as to 8,774,382 underlying Shares) and Diversified Asian Strategies Fund (as to 10,764,068 underlying Shares); and (iv) 117,178,500 underlying Shares which would be issued exercise of the conversion rights attaching to the Notes at the minimum reset reference price of HK$1.00 held by PMA Prospect Fund (as to 89,055,660 underlying Shares) and PMA Focus Fund (as to 28,122,840 underlying Shares). All of these funds were controlled by PMA Capital Management Limited. PMA Asian Opportunities Fund was managed by PMA Capital Management Limited.

6. These Shares comprised 11,990,000 existing Shares and 76,272,000 underlying Shares which would be issued upon exercise of the subscription rights attaching to 76,272,000 2006 Warrants.

7. These Shares comprised (i) 963,779,271 Shares and underlying Shares charged in favour of the security trustee (who held the benefit on trust for the noteholders) by Grand Cosmos and Mr. Yu Pan; (ii) 77,416,000 existing Shares held by Dalton Investments LLC and 28,816,000 existing Shares held by Dalton Greater China (Master) Fund; (iii) 39,059,500 underlying Shares which would be issued upon exercise of the conversion rights attaching to the Notes at the minimum reset reference price of HK$1.00 held directly or indirectly by Dalton Investments LLC and Dalton Greater China (Master) Fund, the latter was managed by Dalton Investments LLC.

8. For the purpose of these section, the shareholdings percentage in the Company was calculated on the basis of 1,465,847,235 Shares in issue as at 31 December 2007.

Save as disclosed above, as at 31 December 2007, the Company had not been notified by any persons or corporations who had any long or short position in the Shares and/or underlying Shares, which were required to be recorded in the register required to be kept by the Company pursuant to section 336 of Part XV of the SFO.

CONNECTED TRANSACTIONS

Save as the transactions stated below, none of the Directors, substantial shareholders or controlling shareholders of the Company and their respective associates was materially interested in any contract or arrangement entered into by any member of the Group subsisting as at 31 December 2007 which was significant in relation to the business of either the Group or has any material personal interest.

Details of the discloseable connected transactions for the year are set out in note 47 to the consolidated financial statements. In the opinion of the Directors who do not have any interest in these transactions, the transactions were carried out on normal commercial terms and in the ordinary and usual course of business of the Group.

CORPORATE GOVERNANCE

None of the Directors is aware of information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by the 2007 financial statements, in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules except for code provision A2.1, where the roles of chairman and chief executive officer of the Company is not separated as required but is currently performed by the same individual.

Due to the relatively small size of the existing management team, both the roles of the chairman and chief executive officer of the Company are currently played by Mr. Yu Pan. The Board will, nonetheless, continue to review the business growth of the Group and, when considered essential, will set out a clear division of responsibilities at the board level and the day-to-day management team to ensure a proper balance of power and authority within the corporation.

COMPLIANCE WITH THE MODEL CODE OF THE LISTING RULES

During the year, the Company has adopted stringent procedures governing Directors' securities transactions in compliance with the Model Code as set out in Appendix 10 of the Listing Rules. Specific confirmation has been obtained from all Directors to confirm compliance with the Model Code throughout the year ended 31 December 2007.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each Independent Non-executive Director an annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the Independent Non-executive Directors are independent.

RETIREMENT BENEFITS SCHEMES

Particulars of the retirement benefits schemes of the Group are set out in note 43 to the financial statements.

PRE-EMPTIVE RIGHTS

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

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 114.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of its Directors, the Directors confirmed that the Company has maintained the amount of public float as required under the Listing Rules during the year and up to the date of this report.

POST BALANCE SHEET EVENTS

(a) A consortium formed between Guangzhou Yu Jun Consulting Service Company Limited ("Yu Jun"), an indirect wholly-owned subsidiary of the Company, and a third party, 貴州協輝房地產開發有限公司 (Guizhou Xiehui Property Development Company Limited) ("Xiehui"), acquired a piece of land located in Guiyang City, Guizhou Province, the PRC (the "Land") through an open tender on 11 January 2008. The total consideration for the acquisition of the Land is approximately HK$589.1 million (RMB549.4 million). Following the successful tender of the Land, Yu Jun and Xiehui entered into a joint venture agreement to establish a project company for the holding and development of the Land, in which 55% equity interest is held by Yu Jun.

(b) On 25 January 2008, the Company entered into a memorandum of understanding with a third party, an institutional investor, in relation to the Company's disposal of a 45% to 49% equity interest of a wholly-owned subsidiary, which holds indirectly the Tianhe Project.

AUDITORS

A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint Messrs. BDO McCabe Lo Limited as auditors of the Company.

On behalf of the Board

Yu Pan
Chairman

Hong Kong, 18 April 2008

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Certified Public Accountants
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Hong Kong
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德豪嘉信會計師事務所有限公司

香港干諾道中一百一十一號
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電話:(八五二)二五四一 五〇四一
傳真:(八五二)二八一五 〇〇〇二

TO THE SHAREHOLDERS OF SKYFAME REALTY (HOLDINGS) LIMITED

(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Skyfame Realty (Holdings) Limited (the "Company") set out on pages 37 to 113, which comprise the consolidated and the Company's balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company 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. This report is made solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, 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 true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial 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 affairs of the Company 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.

BDO McCabe Lo Limited
Certified Public Accountants
Li Yin Fan
Practising Certificate Number P03113

Hong Kong, 18 April 2008

Consolidated Income Statement

For the year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000 (Restated) (Note 2)
Revenue	8	**125,631**	50,329
Cost of sales and services		**(65,804)**	(19,974)
Gross profit		**59,827**	30,355
Other income	9	**493**	349
Sales and marketing expenses		**(9,091)**	(128)
Administrative expenses		**(134,917)**	(43,953)
Loss from operations	10	**(83,688)**	(13,377)
Fair value changes in investment properties		**(22,926)**	95,634
Fair value changes of financial derivative liabilities	35		
– convertible notes		**267,789**	—
– convertible preference shares		**(11,507)**	—
Discount on business combinations	42(b)	**67,965**	—
Share of profit (loss) of associate, net of tax	26	**8,251**	(112)
Finance costs	14	**(79,877)**	(8,214)
Finance income	14	**14,089**	4,090
Profit before income tax expense		**160,096**	78,021
Income tax credit (expense)	15	**61,239**	(33,152)
Profit for the year		**221,335**	44,869
Attributable to:			
– Equity holders of the Company		**209,078**	46,621
– Minority interests		**12,257**	(1,752)
		221,335	44,869
Dividends	17	**Nil**	Nil
Earnings (loss) per share			
– Basic	18	**HK17.398 cents**	HK4.872 cents
– Diluted		**(HK1.750 cents)**	HK4.162 cents

Consolidated Balance Sheet
As at 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000 (Restated) (Note 2)
Non-current assets			
Property, plant and equipment	19	**1,017,087**	1,723
Prepaid lease payments – non-current portion	22	**649,477**	165
Investment properties	20	**492,325**	475,248
Properties held for development	23	**1,529,339**	698,945
Goodwill	24	**118,088**	49,655
Interest in associate	26	**—**	155,203
Deposits paid for acquisition of land use right	27	**32,408**	—
Loan receivable – non-current portion	30	**—**	7,963
		3,838,724	1,388,902
Current assets			
Properties held for sale	28	**603,427**	676
Prepaid lease payments – current portion	22	**19,522**	3
Inventories	29	**31,790**	—
Trade and other receivables	30	**31,016**	19,944
Financial asset at fair value through profit or loss		**—**	630
Restricted cash	31	**358,711**	—
Cash and cash equivalents	32	**63,338**	47,993
		1,107,804	69,246
Current liabilities			
Trade and other payables	33	**241,904**	24,612
Bank and other borrowings – current portion	34	**242,790**	17,991
Income tax payable		**24,161**	20,627
		508,855	63,230
Net current assets		**598,949**	6,016
Total assets less current liabilities		**4,437,673**	1,394,918

	Notes	2007 HK$'000	2006 HK$'000 (Restated) (Note 2)
Non-current liabilities			
Other payable	33	**63,573**	63,573
Bank and other borrowings – non-current portion	34	**940,339**	82,327
Convertible notes	35	**211,946**	—
Financial derivative liabilities	35	**1,081,572**	21,395
Loan from minority shareholder of a subsidiary	36	**—**	244,936
Deferred tax liabilities	37	**453,561**	215,822
		2,750,991	628,053
Net assets		**1,686,682**	766,865
Capital and reserves			
Share capital	38	**14,659**	12,354
Reserves	39	**1,672,023**	709,166
Equity attributable to equity holders of the Company		**1,686,682**	721,520
Minority interests		**—**	45,345
Total equity		**1,686,682**	766,865

On behalf of the Board

Yu Pan
Director

Lau Yat Tung, Derrick
Director

Balance Sheet
As at 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000 (Restated)
Non-current assets			
Interests in subsidiaries	41	2,457,655	753,648
Current assets			
Amounts due from subsidiaries	41	12,803	9,688
Other receivables	30	1,605	1,073
Restricted cash	31	337,528	—
Cash and cash equivalents	32	9,679	34,216
		361,615	44,977
Current liability			
Other payables	33	1,942	2,961
Net current assets		359,673	42,016
Total assets less current liabilities		2,817,328	795,664
Non-current liabilities			
Convertible notes	35	211,946	—
Financial derivative liabilities	35	1,081,572	21,395
		1,293,518	21,395
Net assets		1,523,810	774,269
Capital and reserves			
Share capital	38	14,659	12,354
Reserves	39	1,509,151	761,915
Total equity		1,523,810	774,269

On behalf of the Board

Yu Pan
Director

Lau Yat Tung, Derrick
Director

	Notes	Share capital HK$'000	Share premium HK$'000	Contributed surplus reserve HK$'000	Share-based payment reserve HK$'000	Convertible notes equity reserve HK$'000	Property revaluation reserve HK$'000	Merger reserve HK$'000	Statutory reserves HK$'000	Other reserves HK$'000	Foreign exchange reserve HK$'000	Retained profits HK$'000	Sub-total HK$'000	Minority interests HK$'000	Total HK$'000
		Attributable to equity holders of the Company													
2006															
At 1 January 2006, as previously stated		6,407	156,007	15,497	—	4,207	—	—	—	—	1	10,215	192,334	—	192,334
Effect of combination under common control	2	1,455	277,816	—	—	—	—	(301,652)	6,108	—	4,328	184,821	172,876	—	172,876
As restated		7,862	433,823	15,497	—	4,207	—	(301,652)	6,108	—	4,329	195,036	365,210	—	365,210
Expenses incurred on issue of shares	39	—	(5,531)	—	—	—	—	—	—	—	—	—	(5,531)	—	(5,531)
Exchange differences arising on consolidation of overseas entities	39	—	—	—	—	—	—	—	—	—	14,935	—	14,935	2,856	17,791
Contribution from minority shareholder of a subsidiary	36	—	—	—	—	—	—	—	—	—	—	—	—	25,425	25,425
Net (expenses) income recognised directly in equity		—	(5,531)	—	—	—	—	—	—	—	14,935	—	9,404	28,281	37,685
Profit (loss) for the year		—	—	—	—	—	—	—	—	—	—	46,621	46,621	(1,752)	44,869
Total recognised (expenses) income for the year		—	(5,531)	—	—	—	—	—	—	—	14,935	46,621	56,025	26,529	82,554
Conversion of convertible notes	38, 39	1,818	58,496	—	—	(4,207)	—	—	—	—	—	—	56,107	—	56,107
Issue of shares:–															
– Open offer	38, 39	2,674	237,919	—	—	—	—	—	—	—	—	—	240,593	—	240,593
– Exercise of bonus warrants	38, 39	—	11	—	—	—	—	—	—	—	—	—	11	—	11
Recognition of equity-settled share-based payment expenses	39, 40(c)	—	—	—	3,584	—	—	—	—	—	—	—	3,584	—	3,584
Elimination of share capital of a subsidiary under common control combination		—	—	—	—	—	—	(10)	—	—	—	—	(10)	—	(10)
Acquisition of subsidiaries	42(b)	—	—	—	—	—	—	—	—	—	—	—	—	18,816	18,816
		4,492	296,426	—	3,584	(4,207)	—	(10)	—	—	—	—	300,285	18,816	319,101
At 31 December 2006, as restated		12,354	724,718	15,497	3,584	—	—	(301,662)	6,108	—	19,264	241,657	721,520	45,345	766,865
2007															
At 1 January 2007, as previously stated		**10,899**	**446,902**	**15,497**	**3,584**	**—**	**—**	**—**	**—**	**—**	**7,589**	**14,831**	**499,302**	**45,345**	**544,647**
Effect of combination under common control	2	**1,455**	**277,816**	**—**	**—**	**—**	**—**	**(301,662)**	**6,108**	**—**	**11,675**	**226,826**	**222,218**	**—**	**222,218**
As restated		**12,354**	**724,718**	**15,497**	**3,584**	**—**	**—**	**(301,662)**	**6,108**	**—**	**19,264**	**241,657**	**721,520**	**45,345**	**766,865**
Expenses incurred on issue of shares	39	**—**	**(13)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(13)**	**—**	**(13)**
Exchange differences arising on consolidation of overseas entities	39	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**165,827**	**—**	**165,827**	**8,936**	**174,763**
Share of changes in reserves of associate	39	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**4,274**	**—**	**4,274**	**—**	**4,274**
Surplus arising from revaluation upon acquisition of subsidiaries	42(b)	**—**	**—**	**—**	**—**	**—**	**84,842**	**—**	**—**	**—**	**—**	**—**	**84,842**	**—**	**84,842**
Net (expenses) income recognised directly in equity		**—**	**(13)**	**—**	**—**	**—**	**84,842**	**—**	**—**	**—**	**170,101**	**—**	**254,930**	**8,936**	**263,866**
Profit for the year		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**209,078**	**209,078**	**12,257**	**221,335**
Total recognised (expenses) income for the year		**—**	**(13)**	**—**	**—**	**—**	**84,842**	**—**	**—**	**—**	**170,101**	**209,078**	**464,008**	**21,193**	**485,201**
Conversion of convertible notes	38, 39	**347**	**42,196**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**42,543**	**—**	**42,543**
Conversion of convertible preference shares	38, 39	**—**	**59,757**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**59,757**	**—**	**59,757**
Issue of shares:–															
– Convertible preference shares	38, 39	**1,905**	**378,587**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**380,492**	**—**	**380,492**
– Exercise of bonus warrants	38, 39	**53**	**5,747**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**5,800**	**—**	**5,800**
Transfer of reserve		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**2,049**	**—**	**(2,049)**	**—**	**—**	**—**
Recognition of equity-settled share-based payment expenses	39, 40(c)	**—**	**—**	**—**	**12,562**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**12,562**	**—**	**12,562**
Acquisition of minority interests in subsidiaries	42(b)	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(66,538)**	**(66,538)**
		2,305	**486,287**	**—**	**12,562**	**—**	**—**	**—**	**—**	**2,049**	**—**	**(2,049)**	**501,154**	**(66,538)**	**434,616**
At 31 December 2007		**14,659**	**1,210,992**	**15,497**	**16,146**	**—**	**84,842**	**(301,662)**	**6,108**	**2,049**	**189,365**	**448,686**	**1,686,682**	**—**	**1,686,682**

Consolidated Cash Flow Statement
For the year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000 (Restated)
Net cash used in operating activities	42(a)	**(158,933)**	(5,338)
Investing activities			
Interest received		**2,801**	2,800
Acquisition of subsidiaries	42(b)	**(1,195,082)**	(288,234)
Sale proceeds from disposal (payments for acquisition) of financial asset at fair value through profit or loss		**674**	(495)
Repayment of loan to an associate		**—**	14,652
Capital contributions to an associate		**(2,303)**	—
Additions to properties held for development		**(7,623)**	(1,911)
Additions to hotel properties		**(135,540)**	—
Purchases of property, plant and equipment		**(34,585)**	(1,748)
Net cash used in investing activities		**(1,371,658)**	(274,936)
Financing activities			
Proceeds from issuance of ordinary shares		**—**	240,593
Exercise of bonus warrants		**5,800**	11
Expenses incurred on issue of shares		**(13)**	(5,531)
Proceeds from convertible notes		**1,562,380**	—
Payment of issuing cost for convertible notes		**(13,472)**	—
Repayment of cash advances from a related company		**(33,709)**	—
Restricted cash pledged for convertible notes and other borrowings		**(358,711)**	—
Proceeds from bank and other borrowings		**401,206**	62,745
Repayment of bank and other borrowings		**(21,306)**	(62,627)
Net cash from financing activities		**1,542,175**	235,191
Net increase (decrease) in cash and cash equivalents		**11,584**	(45,083)
Effect of foreign exchange rate changes		**3,761**	966
Cash and cash equivalents at beginning of year		**47,993**	92,110
Cash and cash equivalents at end of year	32	**63,338**	47,993

1. GENERAL

Skyfame Realty (Holdings) Limited (the "Company") is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its registered office and principal place of business are at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and 2502B, Tower 1, Admiralty Centre, 18 Harcourt Road, Hong Kong respectively.

The Company's parent is Grand Cosmos Holdings Limited ("Grand Cosmos") and ultimate holding company is Sharp Bright International Limited ("Sharp Bright"). Grand Cosmos and Sharp Bright are both incorporated in the British Virgin Islands (the "BVI").

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

2. BUSINESS COMBINATION UNDER COMMON CONTROL

On 28 May 2007, a sale and purchase agreement was entered into between Fine Luck Group Limited ("Fine Luck"), which is a subsidiary of the Company, and Full Ocean Development Inc. ("Full Ocean"), which is wholly owned by Mr. Yu Pan. Full Ocean agreed to sell its interest in the entire issued share capital of Long World Trading Limited ("Long World") to Fine Luck at a consideration of approximately HK$303,654,000, including transaction costs of HK$1,992,000. It was settled by way of issuing 145,537,077 convertible preference shares of HK$0.01 each of the Company, with a fair value of approximately HK$301,662,000 at initial recognition. The transfer of controlling interests in Long World was completed on 19 July 2007.

Since the Company and Full Ocean were ultimately controlled by Mr. Yu Pan, the transfer of the controlling interests in Long World as mentioned above is regarded as a common control combination. Accordingly, the consolidated financial statements of the Group have been prepared using the principle of Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as if the transfer of the controlling interests in Long World had been completed as at 1 January 2006. Accordingly, the comparative figures of the consolidated financial statements have been restated.

2. BUSINESS COMBINATION UNDER COMMON CONTROL *(Continued)*

(a) The effects of the combination of Long World on the results of the Group for the year ended 31 December 2006 and the financial position of the Group as at 31 December 2006 are summarised below:

Consolidated income statement	**For the year ended 31 December 2006**	**Combination of Long World**	**Combination adjustments**	**For the year ended 31 December 2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Previously stated)			*(Restated)*
Revenue	23,456	27,356	(483)	50,329
Cost of sales and services	(1,841)	(18,191)	58	(19,974)
Gross profit	21,615	9,165		30,355
Other income	114	1,690	(1,455)	349
Sales and marketing expenses	—	(128)		(128)
Administrative expenses	(17,980)	(26,457)	484	(43,953)
Profit (loss) from operations	3,749	(15,730)		(13,377)
Fair value changes in investment properties	—	95,634		95,634
Share of loss of associate, net of tax	(112)	—		(112)
Finance costs	(2,347)	(5,867)		(8,214)
Finance income	2,636	—	1,454	4,090
Profit before income tax expense	3,926	74,037		78,021
Income tax expense	(1,062)	(32,032)	(58)	(33,152)
Profit for the year	2,864	42,005		44,869
Attributable to:–				
– Equity holders of the Company	4,616	42,005		46,621
– Minority interests	(1,752)	—		(1,752)
	2,864	42,005		44,869

2. BUSINESS COMBINATION UNDER COMMON CONTROL *(Continued)*

Consolidated balance sheet	As at 31 December 2006 HK$'000 (Previously stated)	Combination of Long World HK$'000	Combination adjustments HK$'000	As at 31 December 2006 HK$'000 (Restated)
Non-current assets	905,451	483,451		1,388,902
Current assets				
Properties held for sale	—	676		676
Prepaid lease payments – current portion	—	3		3
Trade and other receivables	8,588	11,457	(101)	19,944
Financial asset at fair value through profit or loss	—	630		630
Cash and cash equivalents	44,774	3,219		47,993
	53,362	15,985		69,246
Current liabilities				
Trade and other payables	5,168	36,144	(16,700)	24,612
Bank borrowings – current portion	—	17,991		17,991
Income tax payable	367	1,669	18,591	20,627
	5,535	55,804		63,230
Net current assets (liabilities)	47,827	(39,819)		6,016
Total assets less current liabilities	953,278	443,632		1,394,918
Non-current liabilities				
Other payable	63,573	—		63,573
Bank borrowings – non-current portion	—	82,327		82,327
Financial derivative liabilities	—	—	21,395	21,395
Loan from minority shareholder of a subsidiary	244,936	—		244,936
Deferred tax liabilities	100,122	115,700		215,822
	408,631	198,027		628,053
Net assets	544,647	245,605		766,865
Capital and reserves				
Ordinary share capital	10,899	—		10,899
Convertible preference share capital	—	—	1,455	1,455
Share premium	446,902	—	277,816	724,718
Contributed surplus reserve	15,497	—		15,497
Share-based payment reserve	3,584	—		3,584
Merger reserve	—	—	(301,662)	(301,662)
Statutory reserves	—	6,108		6,108
Foreign exchange reserve	7,589	11,675		19,264
Retained profits	14,831	227,822	(996)	241,657
Equity attributable to equity holders of the Company	499,302	245,605		721,520
Minority interests	45,345	—		45,345
Total equity	544,647	245,605		766,865

2. BUSINESS COMBINATION UNDER COMMON CONTROL *(Continued)*

(b) The effect of the combination of Long World on the Group's equity at 1 January 2006 are summarised below:

	As at 1 January 2006	Combination of Long World	Combination adjustments	As at 1 January 2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Previously stated)			*(Restated)*
Capital and reserves				
Ordinary share capital	6,407	10	(10)	6,407
Convertible preference share capital	—	—	1,455	1,455
Share premium	156,007	—	277,816	433,823
Contributed surplus reserve	15,497	—		15,497
Convertible notes equity reserve	4,207	—		4,207
Merger reserve	—	—	(301,652)	(301,652)
Statutory reserves	—	6,108		6,108
Foreign exchange reserve	1	4,328		4,329
Retained profits	10,215	185,817	(996)	195,036
Total equity	192,334	196,263		365,210

2. BUSINESS COMBINATION UNDER COMMON CONTROL *(Continued)*

(c) The effects of the combination of Long World on the financial position of the Company at 31 December 2006 are summarised below:

	As at 31 December 2006 HK$'000 (Previously stated)	Combination adjustments HK$'000	As at 31 December 2006 HK$'000 (Restated)
Non-current asset			
Interests in subsidiaries	450,990	302,658	753,648
Current assets	44,977		44,977
Current liability			
Other payables	969	1,992	2,961
Net current assets	44,008		42,016
Total assets less current liabilities	494,998		795,664
Non-current liability			
Financial derivative liabilities	—	21,395	21,395
Net assets	494,998		774,269
Capital and reserves			
Ordinary share capital	10,899		10,899
Convertible preference share capital	—	1,455	1,455
Share premium	446,902	277,816	724,718
Contributed surplus reserve	15,497		15,497
Share-based payment reserve	3,584		3,584
Retained profits	18,116		18,116
Total equity	494,998		774,269

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

(a) Impact of new and revised HKFRSs which are effective during the year

In the current year, the Group has applied all the new and revised standards, amendments and interpretations ("new HKFRSs") issued by the HKICPA that are relevant to its operation and effective for the current accounting period of the Group and of the Company.

The adoption of these new and revised HKFRSs did not affect recognition or measurement of the amounts recognised in the financial statements for the current or prior accounting periods. As a result, no prior period adjustment has been required.

However, the adoption of "HKFRS 7, Financial Instruments: Disclosures" and "Amendment to HKAS 1, Presentation of Financial Statements: Capital Disclosures" required more extensive disclosures in respect of financial instruments and an additional disclosure on capital management policy respectively. Comparative information has been restated to achieve a consistent presentation.

(b) Potential impact arising from the new accounting standards not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective. The directors of the Company anticipated that the application of these new and revised HKFRSs will have no material impact on the financial statements of the Group, except for the adoption of HKFRS 3 (Revised) and HKAS 27 (Revised). The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment on changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKFRS 2 Amendment	Share-based Payments – Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC) – Interpretation 11	HKFRS 2 – Group and Treasury Share Transactions[3]
HK(IFRIC) – Interpretation 12	Service Concession Arrangements[4]
HK(IFRIC) – Interpretation 13	Customer Loyalty Programmes[5]
HK(IFRIC) – Interpretation 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements 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 July 2009*

[3] *Effective for annual periods beginning on or after 1 March 2007*

[4] *Effective for annual periods beginning on or after 1 January 2008*

[5] *Effective for annual periods beginning on or after 1 July 2008*

4. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations (hereinafter collectively referred to as the "HKFRSs") issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance. A summary of the significant accounting policies adopted by the Group is set out in *note 5*.

(b) Basis of measurement

The financial statements have been prepared under the historical cost basis, except that the following assets and liabilities are stated at their revalued amounts or fair values as explained in the accounting policies,

– investment properties;
– derivative financial instruments; and
– financial asset at fair value through profit or loss.

(c) Use of estimates and judgments

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in *note 6*.

(d) Functional and presentation currency

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

5. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of consolidation

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

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

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

5. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(a) Basis of consolidation *(Continued)*

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

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

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

(b) Business combinations under common control

Business combinations under common control are accounted for in accordance with the Accounting Guideline 5 "Merger Accounting for Common Control Combinatiions" issued by the HKICPA. The consolidated financial statements incorporate the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the financial statements are presented as if the entities or businesses had been combined at the previous balance sheet dates or when they first came under common control, whichever is shorter.

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

5. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Subsidiaries

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

(d) Associates

Where the Group has the power to participate in (but not control nor joint control) the financial and operating policy decisions of another entity, that another entity is classified as an associate. Associates are accounted for using the equity method whereby they are initially recognised in the consolidated balance sheet at cost and thereafter, their carrying values are adjusted for the Group's share of the post-acquisition change in the associates' net assets-except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate and subject to impairment in the same way as goodwill arising on a business combination.

(e) Joint ventures

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

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

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

(f) Goodwill

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

5. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) Goodwill *(Continued)*

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

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid ("discount on business combination"), the excess is credited in full to the consolidated income statement.

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

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

(g) Property, plant and equipment

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

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

Hotel properties and leasehold improvements	10 to 30 years
Office building and leasehold improvements	10 to 30 years
Furniture, fixtures and equipment	2 to 5 years
Motor vehicles	4 to 5 years

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

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in the income statement on disposal.

5. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(h) Investment properties

Investment properties are properties held for long-term rental yields or for capital appreciation and not occupied by the Group. Investment properties are measured at cost on initial recognition. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Changes in fair value are recognised in the income statement for the period in which they arise.

(i) Prepaid lease payments

Prepaid lease payments represent up-front payments to acquire long-term interests in lessee-occupied properties. These payments are stated at cost and are amortised over the period of the lease on a straight-line basis to the income statement.

(j) Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Net realisable value is determined by reference to sale proceeds of properties sold in the ordinary course of business less estimated costs to be incurred in selling the properties.

(k) Properties held for development

Properties held for development are stated at cost, less any identified impairment losses. The cost of properties comprises development expenditure, professional fees, prepaid lease payments in respect of land use rights and borrowing costs capitalised. During the construction period, the amortisation of prepaid lease payments is included as part of the cost of properties held for development.

(l) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

The Group as lessor

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

The Group as lessee

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

The land and buildings elements of property leases are considered separately for the purposes of lease classification.

5. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(m) Financial instruments

(i) Financial assets

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

Financial assets at fair value through profit or loss: These assets include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

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

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

An impairment loss is recognised in the income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

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

5. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(m) Financial instruments *(Continued)*

(ii) Financial liabilities

The Group classifies its financial liabilities into the following category, depending on the purpose for which the liability was incurred. The Group's accounting policy for the category is as follows:

Other financial liabilities: Other financial liabilities include the following items:

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

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

(iii) Convertible debts

Convertible notes issued in 2005 that contain liability and equity components

Convertible notes issued by the Group that contain both the liability and conversion option components are classified separately into their respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the convertible notes into equity, is included in equity (convertible notes equity reserve).

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

5. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(m) Financial instruments *(Continued)*

(iii) ***Convertible debts*** *(Continued)*

Convertible notes issued in 2007 that contain liability component and conversion option derivative

Convertible notes issued by the Group that contain both liability and conversion option components are classified separately into their respective items on initial recognition. Conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative. At the date of issue, both the liability and conversion option components are recognised at fair value.

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The conversion option derivative is measured at fair value with changes in fair value recognised in the income statement.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and conversion option components in proportion to the allocation of the proceeds. Transaction costs related to the conversion option derivative is charged to the income statement immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible notes using the effective interest method.

(iv) ***Equity instruments***

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(v) ***Derecognition***

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

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

(n) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

5. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(o) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable from goods sold or services provided as follows:

(i) Revenue from sale of properties is recognised when the risks and rewards of ownership of the properties are transferred to the purchasers, which is when the construction of relevant properties has been completed and the properties have been delivered to the purchasers pursuant to the sales agreement and collectability of related receivables is reasonably assured. Deposits and instalments received on properties sold prior to the date of revenue recognition are included as trade and other payables under current liabilities in the balance sheet.

(ii) Rental income under operating leases is recognised on a straight-line basis over the term of the relevant lease.

(iii) Revenue from hotel operations and related ancillary services is recognised when the relevant services are provided.

(iv) Income from property development project management and interior decoration services are recognised when project management services are provided.

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

(p) Income taxes

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

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

Deferred tax arises from temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes and is accounted for using the balance sheet liability method. Except for temporary differences arising from goodwill or from the initial recognition (other than in a business combination) of recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

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

Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the balance sheet date. Income taxes are recognised in the income statement except when they relate to items directly recognised to equity in which case the taxes are also directly recognised in equity.

5. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(q) Foreign currency

Transactions entered into by a group entity in currencies other than the currency of the primary economic environment in which it operates (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in the income statement in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which case, the exchange differences are also recognised directly in equity.

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

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

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

(r) Employee benefits

(i) Defined contribution pension plan

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

(ii) Termination benefits

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

5. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(s) Share-based payments

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

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

The Group also operates a phantom share option scheme. An option pricing model is used to measure the Group's liability at each balance sheet date, taking into account the terms and conditions on which the bonus is awarded and the extent to which employees have rendered service. Movements in the liability (other than cash payments) are recognised in the income statement.

Where equity instruments are granted to persons other than employees, the income statement is charged with the fair value of goods or services received unless the goods or services qualify for recognition as assets. A corresponding increase in the share-based payment reserve within equity is recognised. For cash-settled share based payments, a liability is recognised at the fair value of the goods or services received.

(t) Impairment of non-financial assets

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

If the recoverable amount (i.e. the greater of the fair value less costs to sell and value in use) of a non-financial asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

(u) Borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised.

All other borrowing costs are recognised in profit of loss in the period in which they are incurred.

5. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(v) Provisions and contingent liabilities

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

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

6. CRITICAL ACCOUNTING ESTIMATES

The preparation of these financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

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

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the CGU to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. As at 31 December 2007, the carrying amounts of goodwill in respect of subsidiaries and the associate are approximately HK$118,088,000 (2006: HK$49,655,000) and HK$nil (2006: HK$3,692,000) respectively and no indication of impairment on goodwill was noted during the impairment test for goodwill. Details of the recoverable amount calculation are disclosed in *notes 24, 26* and *42(b)*.

Estimate of fair value of investment properties

Investment properties are stated at average fair value based on the valuation performed by two independent professional valuers after taking into consideration the net rental income. In determining the fair value, the valuers based on a method of valuation which involves certain estimates including current market rents for similar properties in the same location and condition, appropriate discount rates and expected future market rents, and term and reversion approach. In relying on the valuation reports, the management has exercised their judgement and are satisfied that the method of valuation is reflective of the current market condition.

Impairment of non-financial assets

If a triggering event occurs indicating that the carrying amount of an asset may not be recoverable, an assessment of the carrying amount of that asset will be performed. Triggering events include significant adverse changes in the market value of an asset, changes in the business or regulatory environment, or certain legal events. The interpretation of such events requires judgement from management with respect to whether such an event has occurred.

6. CRITICAL ACCOUNTING ESTIMATES *(Continued)*

Impairment of non-financial assets *(Continued)*

Upon the occurrence of triggering events, the carrying amounts of non-current assets are reviewed to assess whether their recoverable amounts have declined below their carrying amounts. The recoverable amount is the present value of estimated net future cash flows which the Group expects to generate from the future use of the asset, plus residual value of the asset on disposal. Where the recoverable amount of non-financial assets is less than its carrying value, an impairment loss is recognised to write the assets down to its recoverable amount.

The impairment assessment is performed based on the discounted cash flow analysis. This analysis relies on factors such as forecasts of future performance and long-term growth rates and the selection of discount rates. If these forecasts and assumptions prove to be incorrect or circumstances change, write down of the carrying value of the non-financial assets may be required.

Income taxes and deferred taxes

The Group is subject to taxation in the People's Republic of China (the "PRC") and Hong Kong. Significant judgement is required in determining the amount of the provision for taxation and the timing of the related payments. 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 difference will impact the income tax and deferred tax provisions in the period in which such determination are made.

Land appreciation taxes

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

Subsidiaries of the Group engaged in property development business in the PRC is 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. Accordingly, 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 provision for land appreciation taxes in the period in which such determination is made.

6. CRITICAL ACCOUNTING ESTIMATES *(Continued)*

Convertible notes

As described in *note 35* to the financial statements, the Company's convertible notes contain a number of embedded derivatives that are remeasured to fair value through profit or loss at subsequent reporting dates. The Company engaged an independent appraiser to assist it in determining the fair value of these embedded derivatives. The determination of fair value was made after consideration of a number of factors, including:

- the Group's financial and operating results;
- the global economic outlook in general and the specific economic and competitive factors affecting the Group's business;
- the nature and prospects of the PRC property market;
- the Group's business plan and prospects;
- business risks the Group faces; and
- market yields and return volatility of comparable corporate bonds.

This conclusion of value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

7. BUSINESS AND GEOGRAPHICAL SEGMENT INFORMATION

For management purposes, the Group is currently organised into four operating divisions – property development, property investment, hotel operation and related ancillary services, and property project management and interior decoration services. As over 90% of the Group's revenue and results were derived from the PRC, no segment information has been disclosed in respect of the Group's geographical segments. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Property development	–	Property development and sale of properties
Property investment	–	Property leasing
Hotel operation	–	Hotel operation and related ancillary services
Property management	–	Provision of property development project management and interior decoration services

7. BUSINESS AND GEOGRAPHICAL SEGMENT INFORMATION *(Continued)*

Information about these business segments is presented below:

	Property development HK$'000	Property investment HK$'000	Hotel operation HK$'000	Property management HK$'000	Eliminations HK$'000	Unallocated HK$'000	Total HK$'000
Results for the year ended 31 December 2007							
External sales	2,420	18,547	102,190	2,474	—	—	125,631
Inter-segment sales	—	424	—	—	(424)	—	—
Segment revenue	2,420	18,971	102,190	2,474	(424)	—	125,631
Segment results	(13,190)	10,404	(35,533)	(1,813)			(40,132)
Unallocated operating expenses							(43,556)
Loss from operations							(83,688)
Fair value changes in investment properties		(22,926)					(22,926)
Fair value changes of financial derivative liabilities							
– convertible notes							267,789
– convertible preference shares							(11,507)
Discount on business combinations	67,965						67,965
Share of profit of associate, net of tax	8,251						8,251
Finance costs							(79,877)
Finance income							14,089
Profit before income tax expense							160,096
Income tax credit							61,239
Profit for the year							221,335
Assets and liabilities as at 31 December 2007							
Assets							
Segment assets	2,703,455	504,727	1,200,016	277			4,408,475
Other unallocated assets							538,053
Total assets							4,946,528
Liabilities							
Segment liabilities	372,394	16,701	124,886	155			514,136
Other unallocated liabilities							2,745,710
Total liabilities							3,259,846
Other segment information for the year ended 31 December 2007							
Capital expenditure	187,669	—	210,158	45	—	8,964	406,836
Depreciation and amortisation	8,530	25	45,997	23	—	2,010	56,585

7. BUSINESS AND GEOGRAPHICAL SEGMENT INFORMATION *(Continued)*

	Property development HK$'000	Property investment HK$'000	Property management HK$'000	Eliminations HK$'000	Unallocated HK$'000	Total HK$'000
Results for the year ended 31 December 2006 (Restated)						
External sales	11,920	14,953	23,456	—	—	50,329
Inter-segment sales	—	483	—	(483)	—	—
Segment revenue	11,920	15,436	23,456	(483)	—	50,329
Segment results	(2,782)	11,901	12,519			21,638
Unallocated operating expenses						(35,015)
Loss from operations						(13,377)
Fair value changes in investment properties		95,634				95,634
Share of loss of associate, net of tax	(112)					(112)
Finance costs						(8,214)
Finance income						4,090
Profit before income tax expense						78,021
Income tax expense						(33,152)
Profit for the year						44,869
Assets and liabilities as at 31 December 2006 (Restated)						
Assets						
Interest in associate	155,203	—	—			155,203
Other segment assets	753,430	491,794	16,867			1,262,091
Other unallocated assets						40,854
Total assets						1,458,148
Liabilities						
Segment liabilities	335,069	3,067	784			338,920
Other unallocated liabilities						352,363
Total liabilities						691,283
Other segment information for the year ended 31 December 2006 (Restated)						
Capital expenditure	1,916	—	15	—	1,728	3,659
Depreciation and amortisation	4	—	18	—	350	372

8. REVENUE

Revenue represents the net invoiced amounts received and receivable from property development, property investment, hotel operation and ancillary services, and provision of property development project management and interior decoration services. The amounts of each significant category of revenue recognised during the year are as follows:

	2007 HK$'000	2006 HK$'000 (Restated)
Sale of properties	505	11,920
Rental income	20,462	14,953
Hotel operation	102,190	—
Property development project management and interior decoration service fees	2,474	23,456
	125,631	50,329

9. OTHER INCOME

	2007 HK$'000	2006 HK$'000 (Restated)
Gain on disposal of financial asset at fair value through profit or loss	29	132
Others	464	217
	493	349

10. LOSS FROM OPERATIONS

Loss from operations for the year has been arrived at after charging (crediting):–

	Notes	2007 HK$'000	2006 HK$'000 (Restated)
Cost of materials sold		**13,031**	1,841
Cost of properties sold		**695**	10,109
Prepaid lease payments recognised as cost of sales	*22*	**174**	2,776
Staff costs, including directors' emoluments	*11*	**46,622**	11,304
Share-based payment expenses			
– staff and directors (included in staff cost)		**3,768**	1,386
– non-employees		**8,794**	2,198
	40(c)	**12,562**	3,584
Auditors' remuneration			
– Current year		**1,380**	720
– Under-provision for prior years		**—**	80
		1,380	800
Depreciation of property, plant and equipment		**43,821**	369
Less: *Amount capitalised as properties held for development*		**(18)**	(4)
Total depreciation charged to consolidated income statement		**43,803**	365
Amortisation of prepaid lease payments		**12,764**	3
Less: *Amount capitalised as properties held for development*	*22*	**(6,441)**	—
Total amortisation charged to consolidated income statement	*22*	**6,323**	3
Minimum lease payments under operating lease in respect of:			
– subleasing of properties recognised as cost of sales		**2,784**	2,816
– office premises		**1,526**	—
– staff quarters		**2,094**	—
Exchange losses		**524**	4
Impairment losses on trade and other receivables		**—**	188
Waiver of amount due from a director arising from business combination under common control		**12,853**	22,136
Share of loss before tax of associate	*26*	**31**	112
Share of tax credit of associate	*26*	**(8,282)**	—
Write-off of hotel pre-operating expenses		**9,925**	—
Direct operating expenses on investment properties that generated rental income during the year		**3,824**	2,919
Direct operating expenses on investment properties that did not generate rental income during the year		**627**	—

11. STAFF COSTS

	2007 HK$'000	2006 HK$'000 (Restated)
Staff costs (including directors' emoluments) comprise:–		
– Basic salaries and other benefits	**39,273**	8,993
– Bonuses	**7,144**	941
– Pension scheme contributions	**1,388**	505
– Share-based payment expenses	**3,768**	1,386
	51,573	11,825
Less: *Amount capitalised as properties held for development*	**(4,951)**	(521)
Staff costs charged to consolidated income statement *(note 10)*	**46,622**	11,304

12. DIRECTORS' EMOLUMENTS

The aggregate amounts of the directors' emoluments, disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance, are as follows:

	Fees	Salaries and other benefits (note (i))	Bonuses (note (ii))	Share-based payments	Pension scheme contributions	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2007						
Executive Directors						
Yu Pan	—	2,246	580	—	12	2,838
Lau Yat Tung, Derrick	—	780	278	458	12	1,528
Wen Xiao Bing	100	605	443	763	18	1,929
Wong Lok	—	260	—	—	12	272
Non-executive Director						
Jerry Wu (appointed on 6 September 2007)	64	—	—	—	—	64
Independent Non-executive Directors						
Choy Shu Kwan	150	—	—	92	—	242
Cheng Wing Keung, Raymond	150	—	—	92	—	242
Chung Lai Fong	150	—	—	91	—	241
	614	3,891	1,301	1,496	54	7,356
2006 (Restated)						
Executive Directors						
Yu Pan	—	1,718	350	—	37	2,105
Lau Yat Tung, Derrick	—	576	82	168	12	838
Wen Xiao Bing	—	210	179	281	—	670
Wong Lok	—	260	—	—	12	272
Zheng Jian Wei (resigned on 30 June 2006)	—	183	—	—	—	183
Independent Non-executive Directors						
Choy Shu Kwan	100	—	—	34	—	134
Cheng Wing Keung, Raymond	100	—	—	34	—	134
Chung Lai Fong	100	—	—	34	—	134
	300	2,947	611	551	61	4,470

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

Notes:

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

(ii) Bonuses were not contractual but were discretionarily provided based on the directors' performance. The amounts of entitlement were subject to approval by the Remuneration Committee of the Company.

13. FIVE HIGHEST PAID INDIVIDUALS

Of the five individuals with the highest emoluments in the Group, three (2006: three) were directors of the Company whose emoluments are included in the disclosure of *note 12* above. The emoluments of the remaining two (2006: two) individuals are as follows:

	2007	2006
	HK$'000	HK$'000
		(Restated)
Basic salaries and other benefits	2,885	1,625
Bonuses	551	210
Pension scheme contributions	12	337
Share-based payment expenses	610	24
	4,058	2,196

Their emoluments were within the following bands:

	No of employees	
	2007	2006
Nil to HK$1,000,000	—	1
HK$1,000,001 to HK$1,500,000	—	1
HK$1,500,001 to HK$2,000,000	1	—
HK$2,000,001 to HK$2,500,000	1	—

14. FINANCE COSTS AND INCOME

	Notes	2007 HK$'000	2006 HK$'000 (Restated)
Finance costs:–			
Interest on convertible notes			
– wholly repayable within five years	35	—	595
– wholly repayable after five years	35	78,348	—
Imputed interest on loan from minority shareholder of a subsidiary	36	6,020	—
Interest on bank borrowings wholly repayable after five years		47,884	5,867
Interest on other borrowings wholly repayable within five years		12,125	—
		144,377	6,462
Less: Amount capitalised as properties held for development			
Interest on convertible notes wholly repayable after five years		(44,988)	—
Imputed interest on loan from minority shareholder of a subsidiary		(6,020)	—
Interest on bank borrowings wholly repayable after five years		(9,568)	—
Interest on other borrowings wholly repayable within five years		(12,125)	—
		(72,701)	—
		71,676	6,462
Issue cost on financial derivative liabilities in relation to convertible notes		6,905	—
Other borrowing costs		1,296	1,752
Finance costs charged to consolidated income statement		79,877	8,214
Finance income:–			
Bank interest income		12,076	2,736
Other interest income		2,013	1,354
		14,089	4,090

15. INCOME TAX CREDIT (EXPENSE)

	2007 HK$'000	2006 HK$'000 (Restated)
Current tax		
Current tax – Hong Kong profits tax		
– under-provision in respect of prior years	**(620)**	—
Current tax – overseas corporate tax		
– current year	**(5,740)**	(1,639)
– under-provision in respect of prior years	**(43)**	—
PRC land appreciation tax		
– current year	**—**	(58)
– over-provision in respect of prior years	**2,631**	—
	(3,772)	(1,697)
Deferred tax *(note 37)*		
– current year	**6,522**	(31,455)
– attributable to decrease in tax rate	**58,489**	—
	65,011	(31,455)
Total income tax credit (expense)	**61,239**	(33,152)

Hong Kong profits tax is calculated at 17.5% (2006: 17.5%) on the estimated assessable profits for the year.

Enterprise income tax ("EIT") arising from other regions of the PRC is calculated at 25% to 33% (2006: 33%) of the estimated assessable profit. Taxation for the Group's operations outside Hong Kong is provided at the applicable current rates of taxation on the estimated assessable profits in the relevant jurisdiction during the year.

The provision of PRC land appreciation tax ("LAT") is estimated according to the requirements set forth in the relevant PRC tax laws and regulations. LAT has been provided at ranges of progressive rates from 30% to 60% on the appreciation value, with certain allowable deductions including land costs, borrowing costs and the relevant property development expenditure.

The State Administration of Taxation ("SAT") of the PRC announced its intention to strengthen the mechanism for collection of LAT on property developers, by authorising the local tax bureau to issue detailed implementation rules and procedures appropriate to local environment. The Group recognised its exposure to the LAT liabilities, and has provided for LAT in the current year fully according to the requirements of SAT even though detailed implementation rules and procedures have not been announced by the relevant local tax bureau.

On 16 March 2007, the Law of the People's Republic of China on EIT (the "New Law") was passed by the Tenth National People's Congress. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rates from 33% to 25% for certain subsidiaries from 1 January 2008.

15. INCOME TAX CREDIT (EXPENSE) *(Continued)*

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

	2007	2006
	HK$'000	*HK$'000*
		(Restated)
Profit before income tax	**160,096**	78,021
Tax calculated at the applicable income tax rate of 33% (2006: 33%)	**(52,832)**	(25,747)
Effect of different tax rates of entities operating in other jurisdictions	**34,171**	(1,062)
Tax effect of expenses not deductible for tax purposes	**(42,734)**	(8,488)
Tax effect of revenue not subject to tax	**74,127**	2,362
Tax effect of tax losses not recognised	**(16,541)**	(1,331)
Effect of changes in tax rate under the New Law on deferred taxation	**58,489**	—
Over-provision in respect of prior years	**1,968**	—
Tax effect of other temporary differences not recognised	**4,658**	—
Others	**(67)**	1,114
Income tax credit (expense)	**61,239**	(33,152)

16. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$248,400,000 (2006: HK$8,226,000).

17. DIVIDENDS

The directors do not recommend payment of any dividend for the year ended 31 December 2007 (2006: Nil).

18. EARNINGS (LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

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

	Note	2007 HK$'000	2006 HK$'000 (Restated)
Earnings for the purpose of basic earnings per share		**209,078**	46,621
Effect of dilutive potential ordinary shares:			
Fair value changes of financial derivative liabilities in relation to convertible notes	35	**(267,789)**	—
Finance costs on convertible notes (excluding interest capitalised)		**33,360**	—
(Loss) earnings for the purpose of diluted (loss) earnings per share		**(25,351)**	46,621

	Number of shares 2007 '000	 2006 '000 (Restated)
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,201,764**	957,052
Effect of dilutive potential ordinary shares:		
– Bonus warrants	**61,639**	16,558
– Convertible notes	**173,518**	—
– Convertible preference shares (converted into ordinary shares in 2007)	**—**	145,537
– Share options	**12,074**	1,116
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	**1,448,995**	1,120,263

19. PROPERTY, PLANT AND EQUIPMENT

The Group	Notes	Hotel properties and leasehold improvements HK$'000	Office building and leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost						
2006						
At 1 January 2006, as previously stated		—	—	183	—	183
Effect of combination under common control		—	—	354	—	354
As restated		—	—	537	—	537
Additions		—	—	201	1,547	1,748
Acquired through acquistion of subsidiaries	*42(b)*	—	—	76	—	76
Exchange differences		—	—	14	—	14
At 31 December 2006, as restated		—	—	828	1,547	2,375
2007						
At 1 January 2007, as previously stated		—	—	463	1,547	2,010
Effect of combination under common control		—	—	365	—	365
As restated		—	—	828	1,547	2,375
Additions		—	—	33,421	1,164	34,585
Transfer from properties held for development		913,410	42,134	—	—	955,544
Acquired through acquisition of subsidiaries	*42(b)*	—	—	619	1,250	1,869
Exchange differences		66,013	1,342	1,091	132	68,578
At 31 December 2007		979,423	43,476	35,959	4,093	1,062,951
Accumulated depreciation						
2006						
At 1 January 2006, as previously stated		—	—	20	—	20
Effect of combination under common control		—	—	255	—	255
As restated		—	—	275	—	275
Depreciation for the year		—	—	111	258	369
Exchange differences		—	—	8	—	8
At 31 December 2006, as restated		—	—	394	258	652
2007						
At 1 January 2007, as previously stated		—	—	104	258	362
Effect of combination under common control		—	—	290	—	290
As restated		—	—	394	258	652
Depreciation for the year		36,139	305	6,477	900	43,821
Exchange differences		1,078	9	228	76	1,391
At 31 December 2007		37,217	314	7,099	1,234	45,864
Net book value						
At 31 December 2007		942,206	43,162	28,860	2,859	1,017,087
At 31 December 2006		—	—	434	1,289	1,723

20. INVESTMENT PROPERTIES

The Group	2007 HK$'000	2006 HK$'000 (Restated)
At beginning of year	**475,248**	368,663
Exchange differences	**40,003**	10,951
Changes in fair value	**(22,926)**	95,634
At end of year	**492,325**	475,248

21. ANALYSIS OF PROPERTIES

(a) The analysis of the net book value of properties is as follows:

The Group	2007 HK$'000	2006 HK$'000 (Restated)
Medium-term lease land in the PRC		
– Hotel properties, including leasehold improvements	**942,206**	—
– Office building, including leasehold improvements	**43,162**	—
– Investment properties	**492,325**	475,248
	1,477,693	475,248

(b) The investment properties were revalued on an open market value basis by two independent professional valuers, DTZ Debenham Tie Leung Limited and CB Richard Ellis, Chartered Surveyors, as at 31 December 2007.

(c) The Group's hotel properties, office building and investment properties with the carrying amount of HK$1,477,693,000 (2006: HK$475,248,000) are pledged to secure bank borrowings of the Group and banking facilities extended to related companies, as disclosed in *notes 34* and *47* to the financial statements respectively, as at 31 December 2007.

(d) Gross rental income from investment properties amounted to HK$18,547,000 (2006: HK$14,953,000).

22. PREPAID LEASE PAYMENTS

The Group	Notes	2007 HK$'000	2006 HK$'000 (Restated)
At beginning of year		**168**	2,916
Acquired through acquisition of subsidiaries	42(b)	**632,987**	—
Amortisation capitalised to properties held for development	10	**(6,441)**	—
Amortisation charged to consolidated income statement	10	**(6,323)**	(3)
Recognised as cost of sales	10	**(174)**	(2,776)
Exchange differences		**48,782**	31
At end of year		**668,999**	168
The prepaid lease payments are analysed for reporting purposes as follows:			
Non-current assets		**649,477**	165
Current assets		**19,522**	3
		668,999	168
The Group's prepaid lease payments comprise:			
– Long-term lease in the PRC		**—**	168
– Medium-term lease in the PRC		**668,999**	—
		668,999	168

23. PROPERTIES HELD FOR DEVELOPMENT

Properties held for development in PRC are as follows:

The Group	2007 HK$'000	2006 HK$'000
Land use right, premium paid for the acquisition of the interest of the land, demolition and settlement costs	**1,439,143**	688,504
Construction cost	**16,443**	5,967
Others	**73,753**	4,474
	1,529,339	698,945

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

23. PROPERTIES HELD FOR DEVELOPMENT *(Continued)*

The Group is applying for a certificate for land use right in respect of the adjusted area of the site in Zhoutouzui Project, as mentioned in *note 24*, that has been cleared up for development. The application is currently in process. The land use right certificate for the development in Tianhe Project, as mentioned in *note 24*, has been issued.

24. GOODWILL

The Group	Notes	2007 HK$'000	2006 HK$'000
Cost and net book value			
At 1 January		**49,655**	—
Reclassification upon associate becoming a subsidiary	26	**3,692**	—
Acquired through acquisition of subsidiaries	*42(b)*	**64,741**	49,655
At 31 December		**118,088**	49,655

Impairment test for goodwill

The Group operates in two CGUs which are hotel operation and property development. The recoverable amounts of the CGUs are determined using value-in-use calculations. These calculations use cash flow projections based on financial budgets of these CGUs which were approved by management covering a five-year period with key assumptions affecting revenues, direct costs and operating expenses and references to past performance and the management's reasonable expectations on the business outlook of these CGUs discounted at an annual rate of 10.21% which represents the Group's estimated cost of capital. Management believes that any possible changes in these assumptions would not cause the carrying amounts of the CGUs to exceed the expected recoverable amounts.

Despite that certain CGUs had started to generate revenue to the Group during the year, which however, had not became matured and stabilized. The management expects the CGUs will turn around with satisfactory net returns on investment to the Group and therefore did not consider an impairment of goodwill necessary.

Goodwill acquired through business combinations has been allocated to the following CGUs, namely hotel operation and property development, in terms of principal subsidiaries for impairment testing:

The Group	Attributable CGU	2007 HK$'000	2006 HK$'000
Westin Project – hotel *(note (i))*	Hotel operation	**38,845**	—
Westin Project— office sales *(note (i))*	Property development	**25,896**	—
Zhoutouzui Project *(note (ii))*	Property development	**49,655**	49,655
Tianhe Project *(note (iii))*	Property development	**3,692**	—
		118,088	49,655

24. GOODWILL *(Continued)*

Impairment test for goodwill *(Continued)*

Notes:

(i) Westin Project referred to the operation of a hotel tower, The Westin Guangzhou, and property sales of office units in a commercial building, the Skyfame Tower, annexed to The Westin Guangzhou, located at the central business district of Guangzhou, the PRC. The acquisition of the Westin Project was completed on 4 May 2007, the details of which have been disclosed in *note 42* to the financial statements. The carrying amounts of the property costs of The Westin Guangzhou and of the Skyfame Tower have been included in the property, plant and equipment and properties held for sale in *notes 19 and 28*, respectively, to the financial statements.

(ii) Zhoutouzui Project referred to the development of a land piece at Zhoutouzui, Haizhu District, Guangzhou, the PRC. The Group acquired 51% interest in the Zhoutouzui Project in 2006 and further increased its interest to 100% through a step-up acquisition which was completed on 4 June 2007. The details of the acquisitions have been disclosed in *note 42* to the financial statements. The carrying amounts of property development costs in relation to the Zhoutouzui Project have been included in the properties held for development in *note 23* to the financial statements.

(iii) Tianhe Project referred to the development of a land piece at Tianhe North Road, Tianhe District, Guangzhou, the PRC. The Group acquired 49% interest in the Tianhe Project in 2005 and further acquired the remaining 51% interest in the project which was completed on 27 July 2007. The details of the acquisition have been disclosed in *note 42* to the financial statements. The carrying amounts of property development costs in relation to the Tianhe Project have been included in the properties held for development in *note 23* to the financial statements.

25. INTEREST IN A JOINTLY CONTROLLED ENTITY

The Group

The Company held indirectly 100% interest in a jointly controlled entity, 廣州市譽城房地產開發有限公司 (Guangzhou Yucheng Real Estate Development Limited) ("Yucheng"), which is accounted for in the financial statements of the Group by proportionate consolidation as detailed in *note 5(e)* to the financial statements. Details of the Group's interest in the jointly controlled entity are as follows:–

Name of jointly controlled entity	Form of business structure	Place of establishment and operation	Registered capital	Issued and paid-in capital	Attributable equity interest indirectly held by the Company	Principal activity
Yucheng	Incorporated	PRC	US$50,000,000	US$12,000,000	100% (2006:51%) *(Note)*	Property development

Note: Under the terms of the sino-foreign co-operative joint venture agreement entered into by the parties, (i) Guangzhou Zhoutouzui Development Limited ("GZ ZTZ") has paid RMB10 million to Guangzhou Yuexiu Enterprise (Group) Company Limited ("Yuexiu") as cash compensation in 2005, which has been included in properties held for development, and Yuexiu is then no longer entitled to any profit or loss generated by Yucheng; (ii) 廣州港集團有限公司 (Guangzhou Port Group Co., Limited) ("GZ Port") will be entitled to 28% of the total gross floor area of the project upon completion of the proposed development and after which, GZ Port will no longer be entitled to any profit or loss generated by Yucheng; and (iii) GZ ZTZ will be entitled to 72% of the total gross floor area of the project upon completion of the proposed development and the entire profit or loss to be generated by Yucheng.

25. INTEREST IN A JOINTLY CONTROLLED ENTITY *(Continued)*

Financial information of Yucheng is as follows:

	2007 HK$'000	2006 HK$'000
Non-current assets	**764,944**	699,177
Current assets	**659**	281
Current liabilities	**(4,517)**	(299,716)
Non-current liabilities	**(410,479)**	(100,122)
Net assets	**350,607**	299,620

	For the year ended 31 December 2007 HK$'000	13 October 2006 (date of acquisition) to 31 December 2006 HK$'000
Revenue	**—**	—
Profit for the year/period	**25,015**	—

26. INTEREST IN ASSOCIATE

The Group	2007 HK$'000	2006 HK$'000
Share of net assets other than goodwill	**166,135**	151,177
Decrease in PRC corporate tax rates, transfer to deferred tax liabilities *(note 37)*	**4,317**	—
Goodwill	**3,692**	3,692
Loan to associate	**2,636**	334
Reclassification upon becoming a subsidiary *(notes (a) and 24)*	**(3,692)**	—
Transfer upon becoming a subsidiary *(notes (a) and 42(b))*	**(173,088)**	—
	—	155,203

Notes:–

(a) On 16 December 2005, Nicco Limited, an indirect wholly-owned subsidiary of the Company, acquired 49% interest in Yaubond Limited. During the year, the Group further increased its equity stake in the associate to 100%. On 27 July 2007, Yaubond Limited became a wholly-owned subsidiary of the Company.

26. INTEREST IN ASSOCIATE *(Continued)*

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

	2007 HK$'000	2006 HK$'000
Total assets	—	320,150
Total liabilities	—	(72,280)
Net assets	—	247,870
Fair value adjustment at acquisition	—	68,814
Carrying amount of net assets	—	316,684
The Group's share of net assets of associate	—	155,175
Elimination for capitalisation of project management fee paid to the Group	—	(3,998)
	—	151,177

	For the period from 1 January 2007 to 26 July 2007 HK$'000	For the year ended 31 December 2006 HK$'000
Revenue	—	—
Loss before income tax	(63)	(228)
Income tax credit	16,902	—
Profit (loss) for the period/year	16,839	(228)
The Group's share of loss of associate	(31)	(112)
The Group's share of tax of associate	8,282	—
The Group's share of profit (loss) of associate, net of tax	8,251	(112)

27. DEPOSITS PAID FOR ACQUISITION OF LAND USE RIGHT

The Group

As part of the conditions of the acquisition of land use right in the PRC which was completed after 31 December 2007 as disclosed in *note 50*, the deposit was paid in connection with demolition and resettlement cost for property development purpose.

28. PROPERTIES HELD FOR SALE

The Group	2007 HK$'000	2006 HK$'000 (Restated)
Completed properties held for sale	603,427	676

All completed properties held for sale are located in the PRC.

29. INVENTORIES

The Group	2007 HK$'000	2006 HK$'000
Foodstuffs	955	—
Beverages and other food products	1,484	—
Hotel consumables goods and supplies	29,351	—
	31,790	—

30. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2007 HK$'000	2006 HK$'000 (Restated)	2007 HK$'000	2006 HK$'000
Amount due from associate	—	4,080	—	—
Third parties	7,637	2,611	—	—
Trade debtors, net of impairment	7,637	6,691	—	—
Loan receivable *(note a)*				
– within one year	9,192	8,487	—	—
– from one to two years	—	7,963	—	—
Deposits, prepayments and other receivables	14,187	4,766	1,605	1,073
	31,016	27,907	1,605	1,073
Amounts due within one year included in current assets	(31,016)	(19,944)	(1,605)	(1,073)
Amount due after one year	—	7,963	—	—

30. TRADE AND OTHER RECEIVABLES *(Continued)*

The Group has a policy of allowing an average credit period of 30 to 60 days to its trade debtors.

Management has a formal credit policy in place and the exposure to credit risk is monitored through regular reviews of receivables and follow-up enquires on overdue accounts. Credit evaluations are performed on all customers requiring credit over a certain amount.

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

The Group	**2007** *HK$'000*	2006 *HK$'000* *(Restated)*
Current *(note b)*	**3,832**	1,601
Less than 1 month past due	**156**	—
1 to 3 months past due	**1,892**	1,360
More than 3 months but less than 12 months past due	**1,154**	2,769
More than 1 year past due	**603**	961
Amount past due at balance sheet date but not impaired *(note c)*	**3,805**	5,090
	7,637	6,691

Notes:–

(a) The loan receivable is unsecured, charges interest at a rate of 6.58% per annum and is fully repayable by 2008. This loan receivable has been fully repaid in January 2008.

(b) The balances that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

(c) The balances that were past due but not impaired related to a number of customers that have a good track record with the Group. Based on the past experience, the management estimated that the carrying amounts could be fully recovered.

The Group did not make any impairment loss on trade debtors during the year (2006: impairment loss on trade debtors of HK$188,000 *(Restated)*).

Trade receivables, deposits and prepayments and other receivables are expected to be recovered within one year. Their fair values approximate their respective carrying amounts at the balance sheet dates due to their short maturities.

31. RESTRICTED CASH

The Group and the Company

As at 31 December 2007, to secure for the repayment of interests accrued in the convertible notes and the short-term borrowing due to an institutional lender, bank deposits totalling HK$358,711,000 (2006: HK$nil) (as set out in *note 32*), and shares of certain intermediate holding companies of the property development subsidiaries of the Group were charged in favour of the security trustee acting for the convertible noteholders.

32. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
		(Restated)		*(Restated)*
Short-term bank deposits				
– Denominated in Hong Kong dollars	**9,199**	23,604	**9,199**	19,657
– Denominated in United States dollars	**337,528**	—	**337,528**	—
Cash at bank and in hand				
– Denominated in Hong Kong dollars	**22,325**	20,980	**480**	14,559
– Denominated in Renminbi	**52,973**	3,409	**—**	—
– Denominated in United States dollars	**24**	—	**—**	—
	422,049	47,993	**347,207**	34,216
Less: Restricted cash *(note 31)*	**(358,711)**	—	**(337,528)**	—
	63,338	47,993	**9,679**	34,216

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

The fixed interest rates on short-term bank deposits range from 2.75% to 4.01% per annum (2006: 3.1% to 4.5% per annum). These deposits have an maturity ranges from 7 days to 6 months.

33. TRADE AND OTHER PAYABLES

	Notes	The Group 2007 HK$'000	The Group 2006 HK$'000 (Restated)	The Company 2007 HK$'000	The Company 2006 HK$'000 (Restated)
Trade creditors		**18,255**	4,422	**—**	—
Retention money payable for construction costs	(a)	**25,649**	—	**—**	—
Other construction costs payable		**128,944**	—	**—**	—
Balance of consideration payable for acquisition of a subsidiary	(b)	**63,573**	63,573	**—**	—
Accruals and other payables		**69,056**	20,190	**1,942**	2,961
		305,477	88,185	**1,942**	2,961
Amounts due within one year included in current liabilities		**(241,904)**	(24,612)	**(1,942)**	(2,961)
Amount due after one year		**63,573**	63,573	**—**	—

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

The Group	2007 HK$'000	2006 HK$'000 (Restated)
Current or less than 1 month	**8,462**	—
1 to 3 months	**3,467**	3
More than 3 months but less than 12 months	**1,583**	40
More than 12 months	**4,743**	4,379
	18,255	4,422

Notes:–

(a) For retention money payable in respect of construction contracts, the due dates are usually one year after the completion of the construction work.

(b) This represents balance of consideration payable to the vendor for acquisition of a subsidiary. The amount is expected to be settled in the form of a two-year promissory note which will be issued upon obtaining the land use right certificate attributable to the Zhoutouzui Project, bearing an interest rate of 8% per annum from the date of issue.

34. BANK AND OTHER BORROWINGS

The Group	Notes	2007 HK$'000	2006 HK$'000 (Restated)
Interest bearing, secured			
– bank borrowings – denominated in Renminbi	*(a)*	**963,129**	100,318
– other borrowings – denominated in Hong Kong dollars	*(b)*	**220,000**	—
		1,183,129	100,318

Notes:

(a) As at 31 December 2007, the bank borrowings are secured by the properties held for sale, prepaid lease payments, hotel properties, office building and investment properties amounted to HK$2,750,119,000 (2006: HK$475,248,000). The bank loans carried interest at variable market rates ranging from 6.50% to 7.99% per annum (2006: 4.80% to 7.24% per annum). The amounts will be repaid in 2010, 2013 and 2015.

(b) The other borrowings are secured by a time deposit of approximately HK$21 million and shares in a property development subsidiary of the Group and is repayable on 26 April 2008. The other borrowings carry variable interest at HIBOR plus 8.25% per annum.

At the balance sheet date, the bank and other borrowings were repayable as follows:–

The Group	2007 HK$'000	2006 HK$'000 (Restated)
On demand or within one year	**242,790**	17,991
More than one year, but not exceeding two years	**23,643**	18,634
More than two years, but not exceeding five years	**46,441**	45,624
After five years	**870,255**	18,069
	1,183,129	100,318
Amount due within one year included in current liabilities	**(242,790)**	(17,991)
Amounts due after one year	**940,339**	82,327

35. CONVERTIBLE NOTES AND FINANCIAL DERIVATIVE LIABILITIES

The Group and the Company

On 16 December 2005, the Company issued a 3% convertible note with a face value of HK$60 million. The convertible note has a maturity period of 2 years from the issue date at its face value of HK$60 million or at the holder's option can be converted into shares in the Company between 15th day after the issue date and 15th day prior to the maturity date at HK$0.33 per share. The fair value of the liability component was determined at issue of the note to be HK$54.9 million, with the residual value of HK$5.1 million being assigned as the equity component. On 20 February 2006, the convertible note was fully converted into 181,181,181 ordinary shares of the Company.

35. CONVERTIBLE NOTES AND FINANCIAL DERIVATIVE LIABILITIES *(Continued)*

The convertible notes in the aggregate principal amount of US$200 million (equivalent to approximately HK$1,562.4 million) were issued on 4 May 2007. The notes bear a 4% per annum coupon, payable semi-annually in arrear, with a maturity of 6 years and an annual yield-to-maturity of 15%. The notes are convertible for ordinary shares of the Company at an initial conversion price of HK$1.35 per share which is subject to a reset mechanism that is geared to the share price performance to the extent of HK$1.00 per share. Unless previously redeemed, converted or purchased and cancelled, the Company will redeem each note at 201.33% of its principal amount on the maturity date which is due on 3 May 2013.

On issue, part of the proceeds of the convertible notes was recognised as derivative instrument. The remaining amount is recognised as a loan and is carried at amortised cost. The effective interest rate is 60.58% per annum. The fair values of the loan and derivative elements of the convertible notes at initial recognition were approximately HK$175.5 million and HK$1,386.8 million respectively.

In connection with the acquisition of the 29% interest in the Westin Project that was held by the Company's director and controlling shareholder, Mr. Yu Pan, convertible preference shares of approximately HK$257 million ("CPS") were issued to his associate. The CPS is non-interest bearing, non-redeemable and convertible into ordinary shares of the Company subject to the same initial conversion price and reset mechanism as the convertible notes.

The derivative components embedded in the convertible notes are presented as financial derivative liabilities which are revalued on the balance sheet date at fair values.

35. CONVERTIBLE NOTES AND FINANCIAL DERIVATIVE LIABILITIES *(Continued)*

The movements of loan and financial derivative liabilities components of convertible notes and CPS were as follows:

The Group and the Company	*Notes*	**Nominal value** *HK$'000*	**Equity component** *HK$'000*	**Liability component *(Note)*** *HK$'000*	**Financial derivative liabilities components** *HK$'000*	**Total** HK$'000
(A) Convertible notes						
Carrying amount at 1 January 2006		60,000	5,100	55,087	—	60,187
Accrued interest expense	*14*	—	—	595	—	595
Conversion of the convertible notes		(60,000)	(5,100)	(55,352)	—	(60,452)
Interest paid		—	—	(330)	—	(330)
Carrying amount at 31 December 2006 and 1 January 2007		**—**	**—**	**—**	**—**	—
Issue of new convertible notes		**1,562,380**	**—**	**175,545**	**1,386,835**	1,562,380
Issue costs		**—**	**—**	**(6,567)**	**—**	(6,567)
Accrued interest expense	*14*	**—**	**—**	**78,348**	**—**	78,348
Conversion of the convertible notes		**(46,871)**	**—**	**(5,069)**	**(37,474)**	(42,543)
Interest paid		**—**	**—**	**(30,311)**	**—**	(30,311)
Fair value changes of financial derivative liabilities of convertible notes	*18*	**—**	**—**	**—**	**(267,789)**	(267,789)
Carrying amount at 31 December 2007		**1,515,509**	**—**	**211,946**	**1,081,572**	1,293,518

(B) Financial derivative liabilities on CPS

Carrying amount at 1 January 2006 and 2007 *(Restated)*	**21,395**
Arising from issue of CPS	**26,855**
Fair value changes on derivative liability of CPS	**11,507**
Conversion of the CPS	**(59,757)**
Carrying amount at 31 December 2007	**—**
Total carrying amount of financial derivative liabilities at 31 December 2007	**1,081,572**

Note: Interest expense on the convertible notes is calculated using the effective interest method by applying the effective interest rate of 60.58% (2006: 7.75%) to the liability component.

36. LOAN FROM MINORITY SHAREHOLDER OF A SUBSIDIARY

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

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

The Group	Notes	2007 HK$'000	2006 HK$'000
Carrying amount at 1 January		244,936	—
Acquired through acquisition of a subsidiary	42(b)	(250,956)	268,609
Contributions from minority shareholder of a subsidiary		—	(25,425)
Imputed interest expense	14	6,020	—
Others		—	1,752
Carrying amount at 31 December		—	244,936

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

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

37. DEFERRED TAX LIABILITIES

Details of the deferred tax liabilities recognised and movements during the year:

The Group	Notes	Convertible notes HK$'000	Revaluation of properties: (i) Prepaid lease payments HK$'000	Revaluation of properties: (ii) Investment properties HK$'000	Revaluation of properties: (iii) Properties held for development HK$'000	Total HK$'000
At 1 January 2006 *(Restated)*		860	—	81,713	—	82,573
Conversion of the convertible notes		(756)	—	—	—	(756)
Acquired through acquisition of subsidiaries	*42(b)*	—	—	—	99,140	99,140
(Credit) charge to income statement	*15*	(104)	—	31,559	—	31,455
Exchange differences		—	—	2,428	982	3,410
At 31 December 2006 and 1 January 2007 *(Restated)*		—	—	115,700	100,122	215,822
Transfer from interest in associate	*26*	—	—	—	4,317	4,317
Credit to income statement	*15*	—	(1,179)	(34,500)	(29,332)	(65,011)
Acquired through acquisition of subsidiaries	*42(b)*	—	128,618	—	138,064	266,682
Exchange differences		—	9,260	9,917	12,574	31,751
At 31 December 2007		—	136,699	91,117	225,745	453,561

The Company	Arising from convertible notes HK$'000
At 1 January 2006	860
Conversion of the convertible notes	(756)
Credit to income statement	(104)
At 31 December 2006 and 2007	—

At the balance sheet date, the Group and the Company have estimated unutilised tax losses of HK$70,326,000 (2006: HK$32,903,000) and HK$14,216,000 (2006: HK$28,834,000) respectively which are available to offset against future assessable profits. No deferred tax asset has been recognised in respect of these balances due to the unpredictability of future profit streams. The unrecognised tax losses can be carried forward indefinitely.

38. SHARE CAPITAL

(a) Authorised and issued share capital

		Number of shares			Nominal value		
The Group and the Company	*Notes*	**Ordinary share capital of HK$0.01 each** *'000*	**Convertible preference share capital of HK$0.01 each** *'000*	**Total** *'000*	**Ordinary share capital** *HK$'000*	**Convertible preference share capital** *HK$'000*	**Total** *'000*
Authorised:							
At 1 January 2006 and 31 December 2006, as restated		**30,000,000**	**—**	**30,000,000**	**300,000**	**—**	**300,000**
Change in authorised capital	*(i)*	**(1,000,000)**	**1,000,000**	**—**	**(10,000)**	**10,000**	**—**
At 31 December 2007		**29,000,000**	**1,000,000**	**30,000,000**	**290,000**	**10,000**	**300,000**
Issued and fully paid:							
At 1 January 2006 *(As previously stated)*		640,719	—	640,719	6,407	—	6,407
Effect of combination under common control							
– Issue of convertible preference shares	*(v)*	—	145,537	145,537	—	1,455	1,455
At 1 January 2006 *(Restated)*		640,719	145,537	786,256	6,407	1,455	7,862
Issue of shares:							
– Conversion of convertible notes	*(ii)*	181,818	—	181,818	1,818	—	1,818
– Open offer	*(iii)*	267,324	—	267,324	2,674	—	2,674
– Exercise of bonus warrants	*(viii)*	10	—	10	—	—	—
At 31 December 2006 and 1 January 2007 *(Restated)*		**1,089,871**	**145,537**	**1,235,408**	**10,899**	**1,455**	**12,354**
Issue of shares:							
– Convertible preference shares	*(iv)*	**—**	**190,447**	**190,447**	**—**	**1,905**	**1,905**
– Conversion of convertible preference shares	*(vi)*	**335,984**	**(335,984)**	**—**	**3,360**	**(3,360)**	**—**
– Conversion of convertible notes	*(vii)*	**34,720**	**—**	**34,720**	**347**	**—**	**347**
– Exercise of bonus warrants	*(viii)*	**5,272**	**—**	**5,272**	**53**	**—**	**53**
At 31 December 2007		**1,465,847**	**—**	**1,465,847**	**14,659**	**—**	**14,659**

38. SHARE CAPITAL *(Continued)*

(a) Authorised and issued share capital *(Continued)*

Notes:

(i) Pursuant to a special resolution on 26 April 2007, it was resolved to reduce the authorised share capital of the Company by 1,000,000,000 ordinary shares of HK$0.01 each and create 1,000,000,000 preference shares of HK$0.01 each in the authorised share capital of the Company in relation to the acquisition of the entire interest in the Tianyu Garden Phase 2 Project[1] to be mentioned in *note (iv)* below. In accordance with *note 2* to the financial statements, this acquisition is regarded as a common control combination and accounted for in accordance with the Accounting Guideline 5 "Merger Accounting for Common Control Combinations". Accordingly, the reduction and creation of respective authorised share capital is accounted for as if it had been effected at the beginning of prior year as at 1 January 2006.

(ii) On 20 February 2006, Grand Cosmos, a company wholly owned by the Group's chairman, Mr. Yu Pan, converted in full the convertible notes with the face value of HK$60 million, which was carried forward from 2005, into 181,181,181 ordinary shares of HK$0.01 each in the Company at the conversion price of HK$0.33 per share.

(iii) On 3 August 2006, the Company completed an open offer of 267,324,486 ordinary shares of HK$0.01 each in the Company at HK$0.90 per share in the proportion of 13 offer shares for every 40 existing shares held with 10 bonus warrants for every 13 offer shares taken up ("Open Offer") and raised a net proceed of approximately HK$235 million, which was mainly used for the acquisition of a 51% equity interest in a subsidiary of the Company.

(iv) On 4 May 2007, the Company issued 190,447,209 CPS to Grand Cosmos, as part of the purchase consideration for the acquisition of the entire interest in the Westin Project as mentioned in *note 24(i)*. The total purchase consideration of this project comprised HK$630 million in cash and the issue of 190,447,209 CPS at a fair value of HK$407 million.

(v) On 19 July 2007, the Company issued 145,537,077 CPS to Grand Cosmos as the purchase consideration at a fair value of approximately HK$302 million for the acquisition of the entire interest in the Tianyu Garden Phase 2 Project. In accordance with *note 2*, this acquisition is regarded as a common control combination and accounted for in accordance with the Accounting Guideline 5 "Merger Accounting for Common Control Combinations". Accordingly, the issue of the aforesaid CPS is accounted for as if it had been issued at the beginning of prior year as at 1 January 2006.

(vi) During the year ended 31 December 2007, all the CPS issued in relation to *notes (iv) and (v)* above were converted into 335,984,286 ordinary shares of HK$0.01 each at a conversion price of HK$1.00 per share.

(vii) During the year, a total of convertible notes in the principal value of US$6,000,000 were converted into ordinary shares of the Company at a conversion price of HK$1.35 per share, resulting in a total number of 34,719,555 ordinary shares of the Company issued. Convertible notes in the principal value amounted to US$194,000,000 was outstanding at 31 December 2007.

(viii) In connection with the Open Offer on 3 August 2006, a bonus issue of 205,634,220 warrants were issued which are exercisable at an initial subscription price of HK$1.10 per share at any time during a two-year period ending 2 August 2008. The Company will receive net proceeds of approximately HK$226 million upon the warrants being exercised in full.

During the year ended 31 December 2007, some bonus warrant holders exercised the subscription rights to subscribe for 5,272,108 (2006: 9,901) ordinary shares of HK$0.01 each in the Company at the initial subscription price of HK$1.10 per share.

[1] Tianyu Garden Phase 2 Project referred to the business of leasing properties comprising commercial units located at Lin He Zhong Road, Tianhe District, Guangzhou, the PRC. The Group acquired 100% interest in the Tianyu Garden Phase 2 Project in 2007 and it was completed on 19 July 2007. The details of the acquisitions have been disclosed in *notes 2 and 42*. The carrying amounts of the properties for leasing in relation to the Tianyu Garden Phase 2 Project have been included in the investment properties in *note 20*.

All new shares issued as a result of conversions of convertible preference shares, convertible notes, and bonus warrants rank pari passu with the existing shares in the Company in all respects.

38. SHARE CAPITAL *(Continued)*

(b) Capital management policy

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Company manages its capital structure and makes adjustments to it by adjusting applicable policies on dividend pay-out, return to shareholders and debt and equity raising or redemption, in the light of changes in economic conditions. There have been no material changes in these objectives and policies or processes during the years.

The Company monitors capital using gearing ratio, which is calculated on net debt to total capital plus net debt. Net debt includes interest-bearing bank and other borrowings, bank and other borrowings, convertible notes and financial derivative liabilities, and loan from minority shareholder of a subsidiary less cash and bank balances. Capital represents equity attributable to equity holders.

The gearing ratio as at the balance sheet date is as follows:

The Group	**2007** ***HK$'000***	2006 *HK$'000* *(Restated)*
Total debt	**2,540,220**	430,222
Less: Cash and cash equivalents	**(63,338)**	(47,993)
Net debt	**2,476,882**	382,229
Equity attributable to equity holders	**1,686,682**	766,865
Capital plus net debt	**4,163,564**	1,149,094
Gearing ratio (Net debt/capital plus net debt)	**59%**	33%

39. RESERVES

The Group	Notes	Share premium HK$'000	Contributed surplus reserve HK$'000	Share-based payment reserve HK$'000	Convertible notes equity reserve HK$'000	Property revaluation reserve HK$'000	Merger reserve HK$'000	Statutory reserves HK$'000	Other reserves HK$'000	Foreign exchange reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2006, as previously stated		156,007	15,497	—	4,207	—	—	—	—	1	10,215	185,927
Effect of combination under common control	38(a)(v)	277,816	—	—	—	—	(301,652)	6,108	—	4,328	184,821	171,421
As restated		433,823	15,497	—	4,207	—	(301,652)	6,108	—	4,329	195,036	357,348
Conversion of convertible notes	38(a)(ii)	58,496	—	—	(4,207)	—	—	—	—	—	—	54,289
Issue of shares:												
– Open offer	38(a)(iii)	237,919	—	—	—	—	—	—	—	—	—	237,919
– Exercise of bonus warrants	38(a)(viii)	11	—	—	—	—	—	—	—	—	—	11
Recognition of equity-settled share-based payment expenses	40	—	—	3,584	—	—	—	—	—	—	—	3,584
Elimination of share capital of a subsidiary under common control combination		—	—	—	—	—	(10)	—	—	—	—	(10)
Expenses incurred on issue of shares		(5,531)	—	—	—	—	—	—	—	—	—	(5,531)
Exchange differences arising on consolidation of overseas entities		—	—	—	—	—	—	—	—	14,935	—	14,935
Profit for the year		—	—	—	—	—	—	—	—	—	46,621	46,621
At 31 December 2006, as restated		724,718	15,497	3,584	—	—	(301,662)	6,108	—	19,264	241,657	709,166
At 1 January 2007, as previously stated		**446,902**	**15,497**	**3,584**	**—**	**—**	**—**	**—**	**—**	**7,589**	**14,831**	**488,403**
Effect of combination under common control	38(a)(v)	**277,816**	**—**	**—**	**—**	**—**	**(301,662)**	**6,108**	**—**	**11,675**	**226,826**	**220,763**
As restated		**724,718**	**15,497**	**3,584**	**—**	**—**	**(301,662)**	**6,108**	**—**	**19,264**	**241,657**	**709,166**
Conversion of convertible notes	38(a)(vii)	**42,196**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**42,196**
Conversion of convertible preference shares	38(a)(vi)	**59,757**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**59,757**
Issue of shares:												
– Convertible preference shares	38(a)(iv)	**378,587**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**378,587**
– Exercise of bonus warrants	38(a)(viii)	**5,747**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**5,747**
Transfer of reserve		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**2,049**	**—**	**(2,049)**	**—**
Recognition of equity-settled share-based payment expenses	40	**—**	**—**	**12,562**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**12,562**
Expenses incurred on issue of shares		**(13)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(13)**
Exchange differences arising on consolidation of overseas entities		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**165,827**	**—**	**165,827**
Share of changes in reserves of associate		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**4,274**	**—**	**4,274**
Surplus arising from revaluation upon acquisition of subsidiaries	42(b)	**—**	**—**	**—**	**—**	**84,842**	**—**	**—**	**—**	**—**	**—**	**84,842**
Profit for the year		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**209,078**	**209,078**
At 31 December 2007		**1,210,992**	**15,497**	**16,146**	**—**	**84,842**	**(301,662)**	**6,108**	**2,049**	**189,365**	**448,686**	**1,672,023**

39. RESERVES *(Continued)*

The Company	*Notes*	Share premium *HK$'000*	Contributed surplus reserve *HK$'000*	Share-based payment reserve *HK$'000*	Convertible notes equity reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
At 1 January 2006, as previously stated		156,007	15,497	—	4,207	9,890	185,601
Effect of combination under common control	*38(a)(v)*	277,816	—	—	—	—	277,816
As restated		433,823	15,497	—	4,207	9,890	463,417
Conversion of convertible notes	*38(a)(ii)*	58,496	—	—	(4,207)	—	54,289
Issue of shares:	*38(a)*						
– Open offer		237,919	—	—	—	—	237,919
– Exercise of bonus warrants		11	—	—	—	—	11
Recognition of equity-settled share-based payment expenses		—	—	3,584	—	—	3,584
Expenses incurred on issue of shares		(5,531)	—	—	—	—	(5,531)
Profit for the year		—	—	—	—	8,226	8,226
At 31 December 2006, as restated		724,718	15,497	3,584	—	18,116	761,915
At 1 January 2007, as previously stated		**446,902**	**15,497**	**3,584**	**—**	**18,116**	**484,099**
Effect of combination under common control	*38(a)(v)*	**277,816**	**—**	**—**	**—**	**—**	**277,816**
As restated		**724,718**	**15,497**	**3,584**	**—**	**18,116**	**761,915**
Conversion of convertible notes	*38(a)(vii)*	**42,196**	**—**	**—**	**—**	**—**	**42,196**
Conversion of convertible preference shares	*38(a)(vi)*	**59,757**	**—**	**—**	**—**	**—**	**59,757**
Issue of shares:	*38(a)*						
– Convertible preference shares		**378,587**	**—**	**—**	**—**	**—**	**378,587**
– Exercise of bonus warrants		**5,747**	**—**	**—**	**—**	**—**	**5,747**
Recognition of equity-settled share-based payment expenses	*40*	**—**	**—**	**12,562**	**—**	**—**	**12,562**
Expenses incurred on issue of shares		**(13)**	**—**	**—**	**—**	**—**	**(13)**
Profit for the year		**—**	**—**	**—**	**—**	**248,400**	**248,400**
At 31 December 2007		**1,210,992**	**15,497**	**16,146**	**—**	**266,516**	**1,509,151**

39. RESERVES *(Continued)*

(a) The following describes the nature and purpose of each reserve within owners' equity:

Share premium	The amount relates to subscription for share capital in excess of nominal value. The application of the share premium account is governed by clause 150 of the Company's bye-laws and the Companies Act 1981 of Bermuda.
Contributed surplus reserve	The amount arose from the capital reduction, cancellation of share premium and part of which has been set-off against the accumulated losses of the Company as at 31 December 2004 pursuant to the capital re-organisation. Under the Companies Act 1981 of Bermuda, the Company may make distributions to its equity holders out of the contributed surplus reserve under certain circumstances.
Share-based payment reserve	The capital reserve comprises the fair value of the actual or estimated number of unexercised share options granted to employees and non-employees of the Group recognised in accordance with the accounting policy adopted for share based payments in *note 5(s)*.
Convertible notes equity reserve	The amount represents the value of the unexercised equity component of the convertible notes issued by the Company recognised in accordance with the accounting policy adopted in *note 5(m)(iii)*.
Property revaluation reserve	Gains/losses arising on revaluing the identifiable assets and liabilities of existing subsidiaries when the Group further acquired the equity interest in the subsidiaries from minority shareholders.
Merger reserve	The amount represents the difference between the fair value of combined capital of the Company and the carrying value of the assets and liabilities of the subsidiaries transferred to the Group pursuant to the acquisition of 100% interests in Long World.
Statutory reserves	In accordance with relevant rules and regulations concerning foreign investment enterprise established in the PRC and the articles of association, PRC subsidiaries of the Group were required to make appropriations from net profit to the reserve fund, staff and workers' bonus and welfare fund and enterprise expansion fund, after offsetting accumulated losses from prior years, and before profit distributions are made to investors. The percentage of profits to be appropriated to the above three funds are solely determined by the board of directors, except that being a wholly foreign-owned enterprise, transfer of 10% of the net profit for each year to the statutory reserves is mandatory until the accumulated total of the fund reaches 50% of its registered capital. During the current and prior years, the Group has not made any appropriations to the staff and workers' bonus and welfare fund and enterprise expansion fund.
Other reserves	The amount represents the capital reserve fund contribution.
Foreign exchange reserve	The amount represents gains/losses arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in *note 5(q)*.

(b) Distributable reserves

At 31 December 2007, the distributable reserves available for distribution to equity holders of the Company were HK$282,013,000 (2006: HK$33,613,000 *(Restated)*).

40. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

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

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

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

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

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

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

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

40. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

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

As at 31 December 2006 and 31 December 2007, there were 63,850,000 share options outstanding. No option under the 2005 Scheme has been exercised, cancelled or lapsed during the year (2006: nil).

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

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

				Category			
				Directors *(Note)*	Employees	Non-employees	Total Category
Date of grant	Exercisable period	Vesting conditions	Exercise price	Number of options granted	Number of options granted	Number of options granted	Outstanding at 31.12.2006 & 31.12.2007
12.9.2006	13 March 2007 to 31 July 2015	Six months from the date of grant	HK$1.31	3,266,000	4,958,000	13,044,000	**21,268,000**
12.9.2006	13 March 2008 to 31 July 2015	One and a half years from the date of grant	HK$1.31	3,266,000	4,958,000	13,044,000	**21,268,000**
12.9.2006	13 March 2009 to 31 July 2015	Two and a half years from the date of grant	HK$1.31	3,268,000	4,984,000	13,062,000	**21,314,000**
				9,800,000	14,900,000	39,150,000	**63,850,000**

Note:

Mr. WEN Xiao Bing	5,000,000
Mr. LAU Yat Tung, Derrick	3,000,000
Mr. CHOY Shu Kwan	600,000
Mr. CHENG Wing Keung, Raymond	600,000
Ms. CHUNG Lai Fong	600,000
	9,800,000

40. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

(b) Fair value of share options and assumption

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

Fair value of share options and assumptions

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

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

(c) The Group recognised HK$12,562,000 as share-based payment expenses *(notes 10, 11 and 39)* for the year ended 31 December 2007 (2006: HK$3,584,000) in relation to share options granted by the Company.

41. INTERESTS IN SUBSIDIARIES

The Company	Notes	**2007** *HK$'000*	2006 *HK$'000* *(Restated)*
Unlisted investments, at cost	*(a)*	**49,208**	49,206
Amounts due from subsidiaries – non-current portion	*(b)*	**2,408,447**	704,442
Interests in subsidiaries		**2,457,655**	753,648
Amounts due from subsidiaries – current portion	*(c)*	**12,803**	9,688

41. INTERESTS IN SUBSIDIARIES *(Continued)*

Notes:

(a) Details of the Company's principal subsidiaries as at 31 December 2007 are as follows:

Name of subsidiaries	Place of incorporation/ establishment	Particulars of issued ordinary share/registered and paid-up capital	Percentage of interest held by the Company Directly	Percentage of interest held by the Company Indirectly	Principal activities
Chain Up Limited	BVI	US$1	100%	—	Investment holding
Fine Luck Group Limited	BVI	US$1	100%	—	Investment holding
Guangzhou Cheng Jian Tianyu Real Estate Development Company Limited ("CJTY") (廣州市城建天譽房地產開發有限公司)	PRC	US$45,000,000	—	100%	Property investment and development in the PRC
Guangzhou Chuangyu Property Development Company Limited ("Chuangyu") (廣州市創譽房地產開發有限公司)	PRC	US$6,000,000	—	100%	Property investment in the PRC
Guangzhou Huan Cheng Real Estate Development Company Limited ("HC") (廣州寰城實業發展有限公司)	PRC	RMB220,000,000	—	100%	Property development in the PRC
Guangzhou Yu Jun Consulting Service Company Limited ("Yu Jun") (廣州譽浚咨詢服務有限公司)	PRC	HK$5,000,000	—	100%	Provision of property development project management services and acting as the project manager to supervise the construction of properties in the PRC
Guangzhou Zhoutouzui Development Limited	Hong Kong	HK$100	—	100%	Investment holding
Great Elegant Investment Limited	BVI	US$100	—	100%	Investment holding
Long World Trading Limited	BVI	US$1	—	100%	Investment holding
Nicco Limited	BVI	US$100	—	100%	Investment holding
Skyfame Management Services Limited	Hong Kong	HK$1	100%	—	Provision of management services to the Group
Smartford Limited	BVI	US$100	—	100%	Investment holding
Sky Honest Investments Corp. ("Sky Honest")	BVI	US$1	—	100%	Investment holding
Yaubond Limited ("Yaubond")	BVI	US$18,813,500	—	100%	Investment holding
Yue Tian Development Limited ("Yue Tian")	Hong Kong	HK$72,000	—	100%	Investment holding

41. INTERESTS IN SUBSIDIARIES *(Continued)*

Notes: (Continued)

(a) The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affects the results or assets of the Group.

CJTY, HC, Chuangyu and Yu Jun are wholly foreign-owned enterprises with limited liability established in the PRC.

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

(b) Amounts due from subsidiaries are unsecured, interest-free and are expected not to be recovered within twelve months from the balance sheet date.

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

42. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2007 HK$'000	2006 HK$'000 (Restated)
Profit before income tax expense	160,096	78,021
Adjustments for:		
Interest expense on convertible notes, bank and other borrowings	71,676	6,462
Other borrowing and issuing costs	8,201	1,752
Finance income	(14,089)	(4,090)
Equity-settled share-based payment expenses	12,562	3,584
Depreciation	43,803	365
Amortisation of prepaid lease payments	6,323	3
Prepaid lease payments recognised as cost of sales	174	2,776
Impairment losses on trade and other receivables	—	188
Increase in fair value of financial asset at fair value through profit or loss	(29)	(132)
Fair value changes of financial derivative liabilities		
– convertible notes	(267,789)	—
– convertible preference shares	11,507	—
Share of (profit) loss of associate, net of tax	(8,251)	112
Discount on business combinations	(67,965)	—
Fair value changes in investment properties	22,926	(95,634)
Waiver of amount due from a director arising from business combinations under common control	12,853	22,136
Operating (loss) profit before working capital change	(8,002)	15,543
(Increase) decrease in properties held for sale	(77,510)	11,008
Increase in inventories	(30,863)	—
(Increase) decrease in trade and other receivables	(9,090)	95,780
Increase (decrease) in trade and other payables	61,318	(119,467)
Cash (used in) generated from operations	(64,147)	2,864
Income tax paid	(252)	(2,004)
Other borrowing costs paid	(1,296)	—
Interest paid	(93,238)	(6,198)
Net cash used in operating activities	(158,933)	(5,338)

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

(b) Acquisition of subsidiaries

During the year, the Group completed the acquisitions of certain subsidiaries, details of which are as follows:

(i) On 4 May 2007, the Group entered into two separate agreements with (a) a subsidiary of Poly (Hong Kong) Investments Limited ("Poly HK") and an independent third party, and (b) Wise Gain Investment Limited, a company wholly-owned by Mr. Yu Pan, who is the chairman of the Company. Both agreements were for the acquisition of the entire equity interest in and shareholders' loans of Yue Tian and its wholly-owned subsidiary incorporated in the PRC (the "Yue Tian Group"). The total consideration of the two agreements amounted to approximately HK$887 million. The activity of the Yue Tian Group is the development of a property, comprising a hotel and office tower, that situates at the Tianhe District, Guangzhou (the "Westin Project"). The acquisition was completed on 4 May 2007.

The acquisition of the Westin Project was satisfied by approximately HK$629 million in cash, which was financed by the proceeds of the convertible notes, and the issue of 190,447,209 convertible preference shares of the Company to Mr. Yu's assoicate at a fair value of approximately HK$407 million.

(ii) On 24 April 2007, the Group entered into an agreement to acquire from the vendor, a subsidiary of Poly HK, an entire interest in Bright Able Developments Limited ("Bright Able") at an aggregate consideration of approximately HK$321 million. Bright Able is an investment company holding 49% equity interest in Zhoutouzui Project.

The acquisition was completed on 4 June 2007. The acquisition of the Zhoutouzui Project was satisfied by approximately HK$321 million in cash which was financed by the proceeds of the convertible notes.

(iii) On 21 June 2007, Sky Honest, a subsidiary of the Company, entered into an agreement to acquire the remaining 51% equity interest in the Group's 49%-held associate, Yaubond, at a cash consideration of approximately HK$204 million. The transaction was completed on 27 July 2007. The acquisition cost was financed entirely by borrowing from an institutional lender, which is secured by mortgages constituted by two deeds entered into respectively by Sky Honest and its holding company, Chain Up Limited.

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

(b) Acquisition of subsidiaries *(Continued)*

Details of the fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill are as follows:

		Carrying amount before acquisition						
	Notes	100% equity interest in Westin project *HK$'000*	Remaining 49% equity interest in Zhoutouzui project *HK$'000*	Remaining 51% equity interest in Tian He North Project *HK$'000*	Total carrying amount *HK$'000*	Fair value adjustments *HK$'000*	**2007 Fair value** ***HK$'000***	2006 Fair value *HK$'000*
Net assets acquired:								
Property, plant and equipment	19	1,869	—	—	1,869	—	**1,869**	76
Prepaid lease payments	22	118,515	—	—	118,515	514,472	**632,987**	—
Properties held for development		1,247,013	—	327,143	1,574,156	340,982	**1,915,138**	690,196
Interest in associate	26	—	—	(173,088)	(173,088)	—	**(173,088)**	—
Trade and other receivables		24,558	—	94	24,652	—	**24,652**	146
Cash and cash equivalents		10,190	—	482	10,672	—	**10,672**	2,467
Trade and other payables		(93,683)	—	(327)	(94,010)	—	**(94,010)**	(4,168)
Amount due to related company		(31,437)	—	—	(31,437)	—	**(31,437)**	—
Deferred tax liabilities	37	—	—	(52,818)	(52,818)	(213,864)	**(266,682)**	(99,140)
Bank borrowings		(647,100)	—	—	(647,100)	—	**(647,100)**	—
Amounts due to the then shareholders		(610,022)	(268,654)	(2,505)	(881,181)	—	**(881,181)**	(282,568)
Loan from minority shareholder of a subsidiary	36	—	250,956	—	250,956	—	**250,956**	(268,609)
Net assets		19,903	(17,698)	98,981	101,186	641,590	**742,776**	38,400
Fair value adjustments		385,854	—	255,736	641,590	(641,590)	**—**	—
Minority interests		—	66,538	—	66,538	—	**66,538**	(18,816)
Revaluation reserve	39	—	—	(84,842)	(84,842)	—	**(84,842)**	—
Attributable to the Group		405,757	48,840	269,875	724,472	—	**724,472**	19,584
Goodwill arising on acquisition	24	46,530	18,211	—	64,741		**64,741**	49,655
Discount on business combinations		—	—	(67,965)	(67,965)		**(67,965)**	—
		452,287	67,051	201,910	721,248		**721,248**	69,239
Satisfied by:								
Face value of CPS issued		257,104	—	—			**257,104**	—
Fair value of CPS issued								
– Share consideration		123,388	—	—			**123,388**	—
– Financial derviative liabilities		26,855	—	—			**26,855**	—
Share consideration paid		407,347	—	—			**407,347**	—
Cash consideration paid		654,962	335,705	204,415			**1,195,082**	288,234
Consideration payable		—	—	—			**—**	63,573
Total consideration		1,062,309	335,705	204,415			**1,602,429**	351,807
Shareholder's loan acquired		(610,022)	(268,654)	(2,505)			**(881,181)**	(282,568)
		452,287	67,051	201,910			**721,248**	69,239
Net outflow arising from the acquisition of subsidiaries:								
Cash consideration paid		629,449	321,251	204,116			**1,154,816**	286,995
Direct costs relating to the acquisition		25,513	14,454	299			**40,266**	1,239
		654,962	335,705	204,415			**1,195,082**	288,234
Cash and cash equivalents acquired		(10,190)	—	(482)			**(10,672)**	(2,467)
		644,772	335,705	203,933			**1,184,410**	285,767

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

(b) Acquisition of subsidiaries *(Continued)*

These subsidiaries acquired contributed to the Group's revenue of HK$104 million and contributed to the Group's loss to the year of HK$50 million. If these acquisitions had been completed on 1 January 2007, the contribution of these subsidiaries acquired to the Group's revenue and profit would be same as those for the year.

Goodwill arose in the business combination because the cost of the combination included a control premium paid to acquire these subsidiaries. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth and future market development of these subsidiaries. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

(c) Major non-cash transactions

On 4 May 2007 and 19 July 2007, the Company issued 190,447,209 and 145,537,077 convertible preference shares of HK$0.01 each to Grand Cosmos, as part of the purchase consideration for the acquisition of subsidiaries at fair value of approximately HK$407 million and HK$302 million respectively.

During the year ended 31 December 2007, the outstanding balance of an amount due from director, which amounted to HK$12,853,000 (2006: HK$22,136,000 *(Restated)*), was waived settlement by the Group.

43. EMPLOYEE RETIREMENT BENEFITS

Defined contribution pension plans

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

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

44. OPERATING LEASE COMMITMENTS

Operating leases – lessee

At the balance sheet dates, the Group had commitments for future minimum lease payments under non-cancellable operating lease in respect of sub-leasing and self-occupied of properties which fall due as follows:

The Group	2007 HK$'000	2006 HK$'000 (Restated)
Not later than one year	5,336	3,375
Later than one year and not later than five years	10,532	12,358
	15,868	15,733

Operating leases – lessor

At the balance sheet dates, the Group had commitments for future minimum rental receivable under non-cancellable operating lease in respect of investment properties and properties held for sale which fall due as follows:

The Group	2007 HK$'000	2006 HK$'000 (Restated)
Not later than one year	30,759	16,960
Later than one year and not later than five years	87,788	39,048
Later than five years	11,705	7,261
	130,252	63,269

45. CAPITAL COMMITMENTS

The Group	2007 HK$'000	2006 HK$'000 (Restated)
Capital expenditure contracted for but not provided for in the consolidated financial statements in respect of		
– property construction and development costs	915,973	833,365
– acquisition of a land use right and demolition costs	286,296	–
	1,202,269	833,365

46. PLEDGE OF ASSETS

At the balance sheet date, the carrying values of the Group assets which were pledged to secure credit facilities granted to the Group are as follows:

The Group	2007 HK$'000	2006 HK$'000 (Restated)
Investment properties	**492,325**	475,248
Property, plant and equipment	**985,368**	—
Prepaid lease payments	**668,999**	—
Properties held for sale	**603,427**	—
Restricted cash	**358,711**	—
	3,108,830	475,248

At the balance sheet date, shares in certain subsidiaries were also charged in favour of the security trustee acting for the convertible noteholders and borrowing from an institutional lender.

47. RELATED PARTY TRANSACTIONS

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

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

Related party relationship	Type of transaction	Notes	Transaction amount 2007 HK$'000	Transaction amount 2006 HK$'000 (Restated)	Balance owed/(owing) 2007 HK$'000	Balance owed/(owing) 2006 HK$'000 (Restated)
Mr. Yu Pan, a director of the Company	Waiver of amount receivable arising from business combination under common control		**12,853**	22,136	**—**	—
Grand Cosmos, the immediate holding company of the Company	(a) Fair value of consideration paid for acquisition of 29% equity interest in Westin Project	*42(b)*	**407,347**	—	**—**	—
	(b) Fair value of consideration paid for acquisition of 100% equity interest in a commercial podium of Tianyu Garden Phase 2	*2*	**301,662**	—	**—**	—

47. RELATED PARTY TRANSACTIONS *(Continued)*

(a) *(Continued)*

Related party relationship		Type of transaction	Notes	Transaction amount 2007 HK$'000	Transaction amount 2006 HK$'000 (Restated)	Balance owed/(owing) 2007 HK$'000	Balance owed/(owing) 2006 HK$'000 (Restated)
Companies beneficially owned by Mr. Yu Pan	(a)	Building management and air-conditioning fees paid to a related company		**728**	484	**—**	—
	(b)	Free rental of principal place in Hong Kong provided to the Group by a related company		**—**	Free (1.1.2006 to 31.12.2006)	**—**	—
	(c)	Free rental of principal place in the PRC provided to the Group by a related company		**Free (1.1.2007 to 3.5.2007)**	Free (1.1.2006 to 31.12.2006)	**—**	—
	(d)	Entertainment expenses paid to a related company		**834**	220	**—**	—
	(e)	Rental income received from related companies		**1,588**	—	**—**	—
	(f)	Rental deposits received from a related company (included in "Trade and other payable")		**—**	—	**262**	—
	(g)	Hotel operation income from related companies		**246**	—	**—**	—
	(h)	Guarantee given to bank in respect of credit facilities granted to certain related companies		**32,714**	61,614	**—**	—
	(i)	Due from related companies and maximum balance during the year:	*(i)*				
		– 廣州市豐嘉企業發展有限公司 (Guangzhou Feng Jia Enterprise Development Company Limited)		**28,936**	73,863	**—**	—
		– 廣州市天譽物業管理有限公司 (Guangzhou Tianyu Property Management Company Limited)		**3,051**	595	**—**	—
		– 廣州市天譽房地產開發有限公司 (Guangzhou Tianyu Real Estate Development Co. Limited)		**17,255**	—	**—**	—
		– 廣州市越秀山體育俱樂部有限公司 (Guangzhou Yuexiu Mountain Club Co. Ltd.)		**—**	3,314	**—**	—
		– CJTY (Pre-acquisition transaction)		**—**	17,960	**—**	—
Employees and consultants of companies beneficially owned by Mr. Yu Pan		Granted 39,150,000 share options pursuant to the 2005 Scheme to a number of non-employees	*(ii)*	**8,794**	2,198	**—**	—

47. RELATED PARTY TRANSACTIONS *(Continued)*

(a) *(Continued)*

Related party relationship		Type of transaction	Notes	Transaction amount 2007 HK$'000	Transaction amount 2006 HK$'000 (Restated)	Balance owed/(owing) 2007 HK$'000	Balance owed/(owing) 2006 HK$'000 (Restated)
歐陽嘉女士 (Ms. Au Yeung Ka), spouse of the director of the Company, Mr. Yu Pan		Sale of properties		—	877	—	—
鄭健偉先生 (Mr. Zheng Jian Wei), formerly director of the Company		Sale of properties		—	910	—	—
Yaubond Limited and its subsidiary, which is an assoicate of the Group (Before acquisition of a subsidiary)	(a)	Services income for project development project management	*(ii)*	—	4,162	—	—
	(b)	Amount due from associate	*26*	—	—	—	334
	(c)	Amount due from associate (included in "Trade and other receivable")	*30*	—	—	—	4,080
Poly (Hong Kong) Investments Limited and its subsidiaries, which are other shareholder of subsidiaries/an associate	(a)	Acquisition of 51% equity interest in Westin Project		**452,148**	—	—	—
	(b)	Acquisition of 49% equity interest in Zhoutouzui Project	*42(b)*	**321,251**	—	—	—
	(c)	Acquisition of 51% equity interest in Tianhe North Project	*42(b)*	**204,116**	—	—	—
	(d)	Imputed interest on loan from minority shareholder of a subsidiary	*14*	**6,020**	1,752	—	—
	(f)	Rental expenses for office premises paid		**446**	—	—	—
	(g)	Loan from minority shareholder of a subsidiary	*36*	—	—	—	(244,936)

47. RELATED PARTY TRANSACTIONS *(Continued)*

(a) *(Continued)*

Notes:

(i) The amounts represent balances with companies of which Mr. Yu Pan, the controlling shareholder of the Group, is one of the directors and beneficial owners. The amounts are unsecured, interest-free and repayable on demand.

(ii) The Company had granted 39,150,000 share options pursuant to the 2005 Scheme to a number of non-employees who are employees and consultants employed or engaged by companies beneficially owned by Mr. Yu Pan. Such personnel have rendered services to the Group during the year with no other service fee charged against the Group except for the grant of share options. The Group recognised expenses amounting to HK$3,649,000 (2006: HK$2,198,000) for the year ended 31 December 2007 in relation to the grant.

The Group has not made any provision for bad or doubtful debts in respect of related party debtors nor has any guarantee been given or received during 2007 or 2006 regarding related party transactions.

(b) Pledge of shares by controlling shareholder

To secure for the convertible notes of a principal value of US$200 million issued by the Company, Grand Cosmos, a company wholly owned by Mr. Yu Pan, pledged the following assets held by it in favour of the trustee of the noteholders:

(i) 963,776,271 ordinary shares of the Company;

(ii) 3,000 underlying shares of 2006 warrants of the Company; and

(iii) first fixed charge and first floating charge over the assets of the Grand Cosmos.

(c) Compensation of key management personnel

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

	2007	2006
	HK$'000	*HK$'000*
		(Restated)
Short-term benefits	**14,938**	5,418
Other long-term benefits	**141**	60
Share-based payments	**2,382**	786
	17,461	6,264

Key management is those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors and executive officers.

48. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

The carrying amounts of each of the categories of financial assets and liabilities as at the balance sheet date. Financial assets of the Group mainly include cash and cash equivalents, restricted cash, trade and other receivables. Financial liabilities of the Group include convertible notes, financial derivative liabilities, trade and other payables, bank and other borrowings and loan from minority shareholder of a subsidiary. The Company has not issued and does not hold any financial instruments for trading purposes at the balance sheet date.

The main financial risks faced by the Group are foreign currency risk, interest rate risk, equity price risk, credit risk and liquidity risk.

The Group's financial risk management policy seeks to ensure that adequate resources are available to manage the above risks and to create value for its shareholders.

(1) Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from financing and operating activities of a group entity conducted in currencies other than its functional currency which is Renminbi.

The following table demonstrates the sensitivity to a reasonably possible change in the United States dollars exchange rate, with all other variables held constant, of the Group's profit before income tax (due to changes in the carrying amounts of monetary assets and liabilities) to be recovered or discharged at the balance sheet date:

The Group	2007 Increase (decrease) Rate %	2007 Increase (decrease) in profit before income tax HK$'000	2006 Increase (decrease) Rate %	2006 Increase (decrease) in profit before income tax HK$'000
If United States dollar weakens against Renminbi	3%	26,873	—	—
If United States dollar strengthens against Renminbi	3%	(26,873)	—	—
If Hong Kong dollar weakens against Renminbi	3%	5,302	3%	(1,314)
If Hong Kong dollar strengthens against Renminbi	3%	(5,302)	3%	1,314

(2) Interest rate risk

The Group's exposure to interest rate risk for changes in interest rates relates primarily to the Group's bank deposits, loan receivable, interest-bearing convertible notes, financial derivative liabilities and bank and other borrowings. The Group does not use derivative financial instruments to hedge its cash flow interest rate risk.

48. FINANCIAL INSTRUMENTS – RISK MANAGEMENT *(Continued)*

(2) Interest rate risk *(Continued)*

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before income tax.

	2007		2006	
The Group	**Increase (decrease) in basis points** **%**	**Increase (decrease) in profit before income tax** ***HK$'000***	Increase (decrease) in basis points %	Increase (decrease) in profit before income tax *HK$'000*
Floating rate financial assets (including cash and cash equivalents)				
– which interest income is taxable either in the same period of future period				
Increase in 100 basis points	**100**	**3,482**	100	363,849
Decrease in 100 basis points	**(100)**	**(3,482)**	(100)	(363,849)
Floating rate financial liabilities				
– which interest expense is deductible either in the same period or future period				
Increase in 100 basis points	**100**	**(9,761)**	—	—
Decrease in 100 basis points	**(100)**	**9,761**	—	—

48. FINANCIAL INSTRUMENTS – RISK MANAGEMENT *(Continued)*

(3) Equity price risk

Financial derivative liabilities are stated at fair value with reference to professional valuations and estimations that take into account of assumptions and estimations on factors affecting the value of these financial instruments. Change of these assumptions will expose the Group to equity price risk on the financial liabilities which are presented at fair value through profit or loss. The Directors believe that the exposure to equity price risk from this volatility is acceptable in the Group's circumstances.

Sensitivity analysis

The sensitivity analysis on equity price risk includes the Group's financial instruments, which fair value will fluctuate because of changes in the derivative's underlying equity price. The below analysis is estimated based on a reasonable possible change in the market price of the underlying equity at each balance sheet date assuming all other variables remain constant.

	2007		2006	
	Effect on profit after tax	**Effect on other component of equity**	Effect on profit after tax	Effect on other component of equity
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Volatility of marketing price of the underlying equity				
Increase by 5%	**(30,868)**	**—**	N/A	—
Decrease by 5%	**15,963**	**—**	N/A	—

(4) Credit risk

The Group's exposure to credit risk arises through their trade and loan receivables. Management has a formal credit policy in place and the exposure to credit risk is monitored through regular reviews of receivables and follow-up enquires on overdue accounts. Credit evaluations are performed on all customers requiring credit over a certain amount. At the balance sheet date, there is no significant concentration of credit risk in receivables. The maximum exposure to credit risk of the Group is represented by the carrying amount of trade receivables presented in the consolidated balance sheet. Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables and loan receivable is disclosed in *note 30* to the financial statements.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and pledged bank deposits, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. At the balance sheet date, the Group does not have significant concentration of credit risk that may arise from the exposure to a small number of banks.

48. FINANCIAL INSTRUMENTS – RISK MANAGEMENT *(Continued)*

(5) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other borrowings.

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, is as follows:

	On demand *HK$'000*	Less than 3 months *HK$'000*	3 to less than 12 months *HK$'000*	1 to 6 years *HK$'000*	Total *HK$'000*
2007					
Trade and other payables	**47,490**	**16,084**	**178,330**	**63,573**	**305,477**
Interest-bearing bank and other borrowings	**—**	**2,498**	**249,825**	**1,123,705**	**1,376,028**
Convertible notes	**—**	**—**	**62,495**	**3,426,768**	**3,489,263**
	47,490	**18,582**	**490,650**	**4,614,046**	**5,170,768**
2006 *(Restated)*					
Trade and other payables	9,314	—	15,298	63,573	88,185
Interest-bearing bank borrowings	—	2,081	11,339	102,540	115,960
Loan from minortiy shareholder of a subsidiary	—	—	—	244,936	244,936
	9,314	2,081	26,637	411,049	449,081

48. FINANCIAL INSTRUMENTS – RISK MANAGEMENT *(Continued)*

(6) Fair values

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and
- the fair value of derivative instruments are calculated using quoted prices. Where such prices are not available, the fair value is determined using option pricing models for optional derivatives.

The estimates are subjective in nature, involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The fair values of the Group's financial instruments are not materially different from their carrying amounts.

49. CONTINGENT LIABILITIES

At 31 December 2006, the Group has given guarantees to certain banks in respect of credit facilities granted to certain related companies. The aggregate amount of guarantees was HK$31,911,000 *(Restated)*. These guarantees have been released during the year 2007.

As at 31 December 2007, the Group had no material contingent liabilities.

50. POST BALANCE SHEET EVENTS

(a) A consortium formed between Yu Jun, an indirect wholly-owned subsidiary of the Company, and a third party, 貴州協輝房地產開發有限公司 (Guizhou Xiehui Property Development Company Limited) ("Xiehui"), acquired a piece of land located in Guiyang City, Guizhou Province, the PRC (the "Land") through an open tender on 11 January 2008. The total consideration for the acquisition of the Land is approximately HK$589.1 million (RMB549.4 million). Following the successful tender of the Land, Yu Jun and Xiehui entered into a joint venture agreement to establish a project company for the holding and development of the Land, in which 55% equity interest is held by Yu Jun.

(b) On 25 January 2008, the Company entered into a memorandum of understanding with a third party, an institutional investor, in relation to the Company's disposal of a 45% to 49% equity interest of a wholly owned subsidiary, which holds indirectly the Tianhe Project.

51. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 18 April 2008.

Five Year Financial Summary

The following table summarises the results, assets and liabilities of the Group:

	2007	2006	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Restated)			
RESULTS					
For the year ended 31 December					
Revenue					
– Continuing operations	**125,631**	50,329	4,757	—	—
– Discontinued operations	**—**	—	457	9,709	672
	125,631	50,329	5,214	9,709	672
Profit (loss) before income tax expense					
– Continuing operations	**160,096**	78,021	(2,580)	(7,425)	—
– Discontinued operations	**—**	—	(2,234)	(38,704)	(100,777)
	160,096	78,021	(4,814)	(46,129)	(100,777)
Income tax credit (expense)					
– Continuing operations	**61,239**	(33,152)	(33)	—	—
– Discontinued operations	**—**	—	—	(1,359)	(8)
	61,239	(33,152)	(33)	(1,359)	(8)
Profit (loss) for the year					
– Continuing operations	**221,335**	44,869	(2,613)	(7,425)	—
– Discontinued operations	**—**	—	(2,234)	(40,063)	(100,785)
	221,335	44,869	(4,847)	(47,488)	(100,785)
Attributable to					
– Equity holders of the Company	**209,078**	46,621	(4,847)	(47,487)	(100,785)
– Minority interests	**12,257**	(1,752)	—	(1)	—
	221,335	44,869	(4,847)	(47,488)	(100,785)
FINANCIAL POSITION					
At 31 December					
Total assets	**4,946,528**	1,458,148	250,120	13,836	16,041
Total liabilities	**(3,259,846)**	(691,283)	(57,786)	(5,802)	(14,241)
Net assets	**1,686,682**	766,865	192,334	8,034	1,800
Minority interests	**—**	(45,345)	—	—	—
Total equity attributable to equity holders of the Company	**1,686,682**	721,520	192,334	8,034	1,800

(A) Properties held for development

	Location	Lease period	Development type	Site area *(sq.m.)*	Gross floor area (above the ground) *(sq.m. approx.)*	Effective equity interest % held	Stage of completion	Anticipated completion	Market value attributable to the Group *HK$'000*	Open market value *HK$'000*
1.	Land at the junction of Tianhe North Road and Linhe Dong Road, Tianhe District, Guangzhou, Guangdong Province, the PRC.	2005 to 2045	Commercial	6,057	84,150	100%	Under clearance and demolition work	The second quarter of 2011	1,036,725	1,036,725
2.	Waterfront land at the north of Mayong, the east and south of Zhujiang and the west of Hongde Road, Zhoutouzui Haizhu District, Guangzhou, Guangdong Province, the PRC.	2004 to 2044/ 2054/ 2074	Commercial, recreational and residential, and composite	106,273	212,546	72%	Under clearance and demolition work	The fourth quarter of 2011	2,973,725	4,130,174
									4,010,450	5,166,899

(B) Investment properties

Location	Lease period	Development type	Class	Gross floor area (above the ground) *(sq.m.)*	Effective equity interest % held	Market value attributable to the Group *HK$'000*	Open market value *HK$'000*
All the shops on 2/F and 5/F, Units 402-403 of 4/F and Units 140-142, 6/F of Commercial podium, Tianyu Garden Phase 2, Nos. 136-146 Linhe Zhong Road, Tianhe District, Guangzhou, Guangdong Province, the PRC	2000 to 2040	Commercial	Office/retail	19,790	100%	492,325	492,325
						492,325	492,325

(C) Properties held for sale

Location	Lease period	Use type	Class	Gross floor area (sq.m.)	Effective equity interest % held	Market value attributable to the Group HK$'000	Open market value HK$'000
Whole office block of Skyfame Tower (excluding 32nd to 33rd Floors), retail podium and carparks, 6 Lin He Zhong Road, Tianhe District, Guangzhou, Guangdong Province, the PRC	2001 to 2041	Commercial	(i) Office Space	36,691*	100%	1,056,715	1,056,715
			(ii) Retail podium	5,554	100%	213,979	213,979
			(iii) Carparks	20,432	100%	125,541	125,541
			(iv) Refuge floor and public facilities (including hotel block)	5,851	100%	—	—
						1,396,235	1,396,235

(D) Properties held for self-use

Location	Lease period	Use type	Class	Gross floor area (sq.m.)	Effective equity interest % held	Market value attributable to the Group HK$'000	Open market value HK$'000
1. The Westin Guangzhou, 6 Lin He Zhong Road, Tianhe District, Guangzhou, Guangdong Province, the PRC	2001 to 2041	Commercial	Guest room and ancillary area	69,319	100%	1,800,879	1,800,879
2. 32nd to 33rd Floors of Skyfame Tower, 6 Lin He Zhong Road, Tianhe District, Guangzhou, Guangdong Province, the PRC	2000 to 2040	Commercial	—	4,126*	100%	121,709	121,709
						1,922,588	1,922,588
Total						**7,821,598**	**8,978,047**

* Total Gross floor area of the office block is 40,817 sq.m.