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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 0456)

Annual Report 2010

CONTENTS

	PAGES
CORPORATE INFORMATION	2
FINANCIAL HIGHLIGHTS	3
CHAIRMAN'S STATEMENT	4
MANAGEMENT DISCUSSION AND ANALYSIS	8
CORPORATE GOVERNANCE REPORT	12
DIRECTORS' PROFILE	17
REPORT OF THE DIRECTORS	19
INDEPENDENT AUDITORS' REPORT	26
AUDITED FINANCIAL STATEMENTS	
Consolidated:	
Income statement	30
Statement of comprehensive income	31
Statement of financial position	32
Statement of changes in equity	34
Statement of cash flows	35
Company:	
Statement of financial position	37
NOTES TO FINANCIAL STATEMENTS	38
FIVE YEAR FINANCIAL SUMMARY	102

CORPORATE INFORMATION

BOARD OF DIRECTORS

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

Non-Executive Director
Mr. Luo Min

Independent Non-Executive Directors
Mr. Chan Yiu Tung, Anthony
Mr. Seto Man Fai
Mr. Zheng Qing

COMPANY SECRETARY
Ms. Cheng Yin Ling

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG
11/F, Effectual Building,
16 Hennessy Road,
Wan Chai, Hong Kong

AUDITOR
Ascenda Cachet CPA Limited
13F, Neich Tower
128 Gloucester Road, Wanchai,
Hong Kong

PRINCIPAL BANKERS
The Hongkong and Shanghai Banking Corporation Limited

PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE IN THE CAYMAN ISLANDS
Butterfield Fund Services (Cayman) Limited
Butterfield House, 68 Fort Street
P. O. Box 705
Grand Cayman KY1-1107
Cayman Islands

SHARE REGISTRARS AND TRANSFER OFFICE IN HONG KONG
Union Registrars Limited
18/F Fook Lee Commercial Centre
Town Place, 33 Lockhart Road,
Wanchai, Hong Kong

AUTHORISED REPRESENTATIVES
Mr. Han Junran
Mr. Fu Yiu Kwong

	2010	2009	
	HK$'000	*HK$'000*	Change
Turnover	–	–	N/A
Profit/(Loss) from operations	**69,374**	(4,915)	(1,511%)
Profit/(Loss) for the year	**41,305**	(30,103)	(237%)
Deficiency in assets	**(99,158)**	(118,148)	(16%)
Total assets	**467**	855,506	(99%)
Total liabilities	**(99,625)**	(973,654)	(90%)
Basic earning/(loss) per share (HK cents)	**15.20**	(11.08)	(237%)

I am pleased to present this annual report of New City (China) Development Limited (the "Company") and its subsidiaries (the "Group") for the financial year 2010.

BUSINESS AND OPERATION REVIEW

BUSINESS REVIEW

The Group has no turnover and recorded a profit after tax of about HK$41,305,000 for the year.

Major business arrangements

(a) Disposal of a subsidiary

A settlement agreement (the "Settlement Agreement") with Poly (Hong Kong) Investments Limited ("Poly (HK)"), Starry Joy Properties Investment Limited ("Starry Joy"), New Rank (BVI 2) Limited ("New Rank (BVI)") Tong Sun Limited ("Tong Sun") and the Company was reached on 26 November 2009 that the total indebtedness owed by the Group to Starry Joy would confirmed to be in the amount of RMB305,000,000 (the "Settlement Sum") repayment should be made on or before 31 December 2009.

On 28 June 2010, Sure Yield Investments Limited ("Sure Yield") made a payment of RMB309,235,800 to Sky Fortune Development Overseas Corporation (a 100% subsidiary of Poly (HK) and the holding company of Starry Joy) for purchasing its 100% interest in Starry Joy and thus, Sure Yield become the 49% shareholder of Tong Sun Limited ("Tong Sun"). On 16 December 2010, Sure Yield issue a 7 days demand letter on the Settlement Sum and since the Company do not have the liquidity to repay in full the Settlement Sum, the remaining 51% interest held by the Company in Tong Sun as loan securities became immediately enforceable by 29 December 2010.

As a result of the loan security enforcement on 29 December 2010, the non-performing subsidiary of Tong Sun (entitling to the ownership of the Consideration Property through its subsidiary BJZZ) ceased to be a subsidiary of the Company.

(b) *Termination of acquisition transaction*

Subsequent to the end of the reporting period on 13 January 2011, the Company entered into a termination agreement in which the Very Substantial Acquisition and Connection Transaction concerning the Acquisition of Oriental Paris Property Development (Beijing) Company Limited ("Oriental Paris") was terminated and neither parties to the original Sale and Purchase Agreement shall have any claims against each other.

(c) *Proposed acquisition*

Subsequent to the end of the reporting period on 24 January 2011, the Company entered into a sale and purchase agreement with two independent third parties (the "Vendors"), whereby the Vendors agreed to sell and a wholly-owned subsidiary of the Company agreed to purchase (the "Acquisition") effectively the entire equity interest of a company which, is principally engaged in property development and property investment in mainland China.

The Acquisition constitutes a very substantial acquisition of the Company and forms part of the Company's resumption proposal. At the date of this report, the Acquisition is still subject to, inter alias, the approval of the shareholders of the Company.

(d) *Management agreement*

On 30 November 2010, Tong Sun Limited has entered into a Management Agreement with the Company (as amended by the Supplemental Agreement dated 23 March, 2011), pursuant to which, the Company will receive an annual management fee of HK$8 million. Tong Sun Limited will pay the management fee on a quarterly basis and the management income will be calculated from 1 January 2011.

ARRANGEMENTS FOR THE RESUMPTION OF TRADING OF SHARES

Trading in the shares has been suspended on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 30 December 2003 at the request of the Company pending release of an announcement in relation to a major transaction of the Company involving China Securities Plaza. The Company was placed into the second stage of the delisting procedures on 12 January 2005 as the Stock Exchange is concerned about whether the Company meets the sufficient assets and operations requirements under Rule 13.24 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). On 13 August 2010, the Stock Exchange determined that the Company had not satisfactorily demonstrated sufficiency of operation or assets as required under Rule 13.24 and decided to place the Company in the third delisting stage under Practice Note 17 to the Listing Rules. The Stock Exchange intends to cancel the listing of the Company after the six-month period (i.e. 24 February 2011) if the Company does not provide a viable resumption proposal. In addition to the submission of the resumption proposal, the Company needs to publish all outstanding financial results and to address all audit qualifications that may exist. Lastly, the Company also needs to demonstrate to the Stock Exchange that adequate and effective internal control system complying with the Listing Rules were in place.

OUTLOOK

Despite the imposition of both fiscal and monetary policies in fighting the rising property prices by the Chinese central and local government in previous months, both market sentiment has weaken and transaction volume in property dealings has been reduced. The property prices of major cities are relatively stable but rises are still experienced in non-major cities. It could be expected that more investment in public housing will be spent by the governments in providing housing for the common mass and more stringent measurements would be taken to reduce liquidity available for property investment from financial institutions. However, in view of the lack of good investment options for the growing Chinese families looking for higher returns from their bank deposits, the property market is still, a more preferable form of investment to counter-fight the adversary effect from economic inflation. Accordingly, the management believes that the investment strategy of focusing in the property market of China is still a promising maneuver for the shareholders of the Company.

APPRECIATION

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

Han Junran
Chairman

FINANCIAL REVIEW

Result

For the year under review, the Group has not reported any turnover (2009: Nil). The Group's net profit for the year was about HK$41,305,000 (2009: loss of about HK$30,103,000). The basic earnings per share for the year was about 15.20 HK cents (2009: loss of about 11.08 HK cents). Administrative expenses was approximately HK$17,274,000 (2009: HK$16,724,000). Financial costs was about HK$28,069,000 (2009: HK$22,818,000).

Liquidity, Financial Resources and Funding Requirements

As at 31 December 2010, the Group had obligations under hire purchase contracts of approximately HK$91,000 (2009: HK$164,000).

As at 31 December 2010, the Group and the Company had the following other borrowings:

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
New City China Loan (note (a) and (c))	–	3,873	–	3,873
New Rank Loan (note (b) and (c))	–	165,000	–	–
Short term loan (note (d))	–	166	–	–
	–	169,039	–	3,873
Less: Amount due within one year shown under current liabilities	–	(169,039)	–	(3,873)
Amount due after one year	–	–	–	–

Notes:

(a) The amount represented the balance of a loan (the "New City China Loan") granted by Starry Joy, a minority shareholder of Tong Sun, a subsidiary of the Company, in the principal amount of HK$45,000,000 on 23 June 2003, which bore interest at the rate of 6% per annum, secured by 20% and 5% of the Company's shares held by New Rank Group Limited and Mr. Han (collectively, the "New City China Share Charge") and was originally repayable in June 2005. On 25 October 2005, a supplemental facility letter was entered into between the Company and Starry Joy to extend the repayment date of the New City China Loan to 31 December 2005 and the interest rate was revised to 10% per annum with effect from 1 July 2005.

On 15 May 2008, Starry Joy initiated legal proceedings against the Company to claim for the repayment of the New City China Loan and interest thereon.

(b) The amount represented a loan (the "New Rank Loan") granted by Starry Joy to BJZZ on 23 June 2003 for the development of the China Securities Plaza which was secured by 51% of the shares in Tong Sun held by New Rank (BVI 2) Limited ("New Rank (BVI)"), a subsidiary of the Company (the "New Rank Share Charge"). The New Rank Loan is interest-free and was originally repayable in June 2003. On 25 October 2005, a supplemental agreement was entered into between Tong Sun and Starry Joy, pursuant to which:

(i) the repayment date for part of the New Rank Loan in the amount of HK$55,000,000 was extended to 31 December 2005 and became interest bearing at an interest rate of 10% per annum as from 1 July 2005; and

(ii) the balance of the New Rank Loan in the amount of HK$110,000,000 remained interest-free and was repayable by the transfer to Starry Joy a portion of the Consideration Property with an appraisal value of HK$110,000,000, subject to the transfer of the Consideration Property from CUNCG to BJZZ. The legal title of the Consideration Property has not yet been passed to BJZZ.

(c) On 26 November 2009, the Company further entered into a new settlement agreement (the "Settlement Agreement") with Poly (Hong Kong) Investments Limited ("Poly (HK)"), the ultimate holding company of Starry Joy, Starry Joy, New Rank (BVI) and Tong Sun, pursuant to which, the New City China Loan and the New Rank Loan together with the accrued interest of HK$99,822,000 and the Preferred Dividend Payable of HK$94,600,000 would be settled in a lump sum of RMB 305,000,000 (equivalent to approximately HK$338,889,000) on or before 31 December 2009.

On 28 June 2010, Poly HK entered into the Share Sale and Purchase Agreement, pursuant to which it has sold all its shareholding in Starry Joy to Sure Yield Investments Limited ("Sure Yield"). By virtue of its shareholding in Starry Joy, Sure Yield becomes the ultimate holding company of Starry Joy.

On 16 December 2010, the Company and BJZZ received demand letters from Starry Joy for settlement of the New City China Loan and the New Rank Loan, respectively.

(d) The amount represented a loan of RMB150,000 (equivalent to approximately HK$166,000) obtained by BJZZ from an independent third party, which bear interest at a rate of 10% per annum and is repayable on demand.

(e) As mentioned in (b), (c) and (d), these loans were obtained by BJZZ. On 29 December 2010, the Company surrendered its 51% equity interest in Tong Sun to Starry Joy for settlement of the loans and other payable indebted by the Group. As further detailed in note 32 to the financial statements, upon the completion of disposal on 29 December 2010, Tong Sun Group ceased to be a subsidiary of the Company and Starry Joy and Sure Yield Investment waives all its claims whatsoever against the Company, New Rank (BVI) and Tong Sun Group in relation to (i) the New City China Loan and the New Rank Loan, (ii) intercompany indebtedness between the Group and Tong Sun Group. Accordingly, the Group did not have any other borrowing as at 31 December 2010.

As at 31 December 2010, the Group's total assets was approximately HK$467,000 (2009: approximately HK$855,506,000) and total liabilities were of approximately HK$99,625,000 (2009: approximately HK$973,654,000) whereas interest-bearing bank borrowing secured, other borrowings and the convertible bonds amounted to approximately HK$68,505,000 as at 31 December 2010 (2009: approximately HK$325,982,000). As at 31 December 2010, the cash and bank balances was approximately HK$58,000 (2009: approximately HK$150,000) and the current ratio (current assets/ current liabilities) was 0.01 as at 31 December 2010 (2009: 0.93).

Litigation

Details of the litigations are set-out in notes 28 and 35 to the financial statements.

Gearing Ratio

The gearing ratio (total borrowing/total assets of the Group) was 146.69 as at 31 December 2010 (2009: 0.38).

Exchange Risks

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

Prospect

The Company had announced earlier about the possible acquisition of a property project in Guangzhou, a strategic move towards strengthening the financial health of the Company. The city of Guangzhou has a population exceeding 14 million, total import and export value exceeding US$100 billion in 2010, has the highest minimum wage for workers among other first-tier cities, and a preferred city ranking just after Beijing and Shanghai for attracting talents all over from China. Besides the various successful trade fairs that is famous world-wide particularly in the garment and textile trade, the city become even more popular and famous to the world through hosting of the 2010 Asian Games.

A business resumption plan is currently under review by the regulators and among satisfaction of other conditions and requirements, this project could also contribute to the successful relisting of the Company's shares. Further announcement will be made when material developments take place.

Employees

As at 31 December 2010, the Group has employed about 10 employees in Hong Kong. The Group adopts a competitive remuneration package for its employees. Remuneration packages are reviewed annually with reference to the then prevailing market employment practices and legislation.

Commitments

Details of the commitments are set-out in note 34 to the financial statements.

Significant Investments and Material Acquisitions

Except for note 34 to the financial statements, the Company did not have any significant investments or material acquisitions for the year ended 31 December 2010.

CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company (the "Board") has from time to time review the corporate governance practices as to commit the maintenance of high standards of corporate governance practices and to comply with the increasingly stringent regulatory requirements. Except for the deviations disclosed in this report, during the year ended 31 December 2010, the Company has complied with the mandatory code provisions set out in the Code on Corporate Governance Practices (the "Code") in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

THE BOARD OF DIRECTORS

Composition and role of the Board

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

Executive Directors	:	Mr. Han Junran (Chairman) Mr. Fu Yiu Kwong
Non-Executive Director	:	Mr. Luo Min
Independent Non-Executive Directors	:	Mr. Chan Yiu Tung, Anthony Mr. Seto Man Fai Mr. Zheng Qing

Biographical details of the Board members are set out in page 17 of this annual report.

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

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

During the year ended 31 December 2010, four full Board meetings were held by the Company and complies with the Code provision A.1.1. The Company has already established profound regime to ensure effective communication among the directors.

The attendance of each director is as follows:

Name of director	Number of meetings attended
Mr. Han Junran	4/4
Mr. Fu Yiu Kwong	4/4
Mr. Luo Min	4/4
Mr. Chan Yiu Tung, Anthony	4/4
Mr. Seto Man Fai	4/4
Mr. Zheng Qing	4/4

Chairman and Chief Executive Officer

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

Appointment, re-election and removal of the directors

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

Accountability and audit

The directors are responsible for preparation of accounts for the year ended 31 December 2010, which give a true and fair view of the state of affairs of the Group and of the financial results for the year. In preparing the accounts for the year ended 31 December 2010, the Directors have:

1. selected suitable accounting policies and applied them consistently;

2. adopted appropriate Hong Kong Financial Reporting Standards; and

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

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

SECURITIES TRANSACTIONS BY DIRECTOR

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) as set out in Appendix 10 of the Listing Rules for securities transactions by directors of the Company. All the members of the Board have confirmed, following the specific enquiry by the Company, that they have complied with the required standards as set out in the Model Code throughout the year ended 31 December 2010. The Model Code also applies to other specified senior management of the Group.

REMUNERATION COMMITTEE

The Company has not established the Remuneration Committee for the year ended 31 December 2010, which deviates from Code provision B.1 as the Company has set up policy for fixing the remuneration packages for all directors and the senior management depending on the individual's performance and responsibility, market trend and company performance. The Board will review from time to time the necessity to establish the Remuneration Committee.

AUDIT COMMITTEE

Members of the Audit Committee comprises:
Mr. Seto Man Fai (Chairman of the Audit Committee)
Mr. Chan Yiu Tung Anthony
Mr. Zheng Qing

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

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the accounts for the year ended 31 December 2010.

During the year ended 31 December 2010, two Audit Committee meetings were held and all the members have attended the meetings. The Board has reviewed the internal control system of the Group and confirmed that its opinion on the appointment of the auditors conforms with that of the Audit Committee.

EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The statement of the external auditors of the Company on their reporting responsibilities for the Company's financial statements for the year ended 31 December 2010 is set out in the section headed "Independent Auditors' Report" in this annual report.

The fees paid/payable to the Company's external auditors in respect of audit and non-audit services for the year ended 31 December 2010 are as follows:

Nature of services	Amount (HK$'000)
Audit services	250
Other assurance services	300
Non-assurance services	380

COMMUNICATION WITH THE SHAREHOLDERS

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

EXECUTIVE DIRECTORS

Mr. Han Junran, aged 54, holds a bachelor of law degree from China Politics and Laws University in 1998 and a master degree in banking from China Institute of Social Science. Previously, Mr. Han has worked for the Beijing Municipal Government since 1988 and was responsible for city planning and property development. Mr. Han has also worked for Beijing City Development Company since 1983 as an assistant general manager and has participated in various district development projects such as the Western station, Wangfujing Shopping District and Asia Olympic Village. Mr. Han joined the Group in December 1999 as the Group's general manager. Mr. Han is currently the Chairman of the Company and is responsible for the Group's project development and management.

Mr. Fu Yiu Kwong, MBA, aged 53, has over 25 years of experience in the accounting profession. Mr. Fu has worked for various local listed companies. He has extensive experience in auditing, merger and acquisition, business re-engineering and company re-structuring. Mr. Fu joined the Group in March 2003 as the Group's Finance Director and is responsible for all financial matters relating to the Group.

NON-EXECUTIVE DIRECTOR

Mr. Luo Min, aged 42, is an engineer and has extensive experience in property development, investments and management. Mr. Luo was appointed as non-executive director of the Company in May 2008.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Yiu Tung, Anthony, aged 52, graduated from University of Toronto in 1982. Mr. Chan has over 20 years experience in the construction and property investment field and is currently the managing director of two construction companies in Hong Kong. Mr. Chan is currently the Supervisor of KYT Excel Foundation Primary School and Manager of Building Contractor's Association School and member of various organizations including Lions Club of Hong Kong West (President during the years 1996/97 and 2001/02), The Hong Kong Construction Association Ltd (Hon. Secretary), H.K. General Building Contractors Association Ltd (Vice President), Kwong Yuet Tong Hong Kong (Vice Chairman), Association of Hong Kong Nanjing Fellows Ltd (Director), The Chinese General Chamber of Commerce (Shamshuipo) (Council Member), Levy Committee of Construction Industry Training Authority (Council Member), Land Sub-committee of Land and Building Advisory Committee (Council Member), Provisional Construction

Industry Co-ordination Board (Environment) (Council Member), Commercial & Industrial Committee of DAB (Council Member), Guangzhou Overseas Friendship-Liaison Association (Council Member), Yan Oi Tong (Directors for the years 2005/06, 2006/07, 2007/08 and 2008/09), The Hong Kong Chan Clan General Association (Life Hon. Chairman and Vice Chairman). Mr. Chan was appointed as Independent Non-Executive Director of the Company in August 2002.

Mr. Seto Man Fai, aged 43, graduated from the Chinese University of Hong Kong with a bachelor's degree in accounting. He is a member of American Institute of Certified Public Accountants, a practicing accountant in New York State of the United States of America, a fellow of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. He is also an associate of the Institute of Chartered Accountants in England and Wales. Mr. Seto has extensive experiences in accounting, auditing and corporate finance. Mr. Seto is currently the partner of an accounting firm in New York in the USA and an accounting firm in Hong Kong. Mr. Seto was appointed as a director of China Packaging Group Company Limited from September 2009 to October 2009.

Mr. Zheng Qing, aged 45, has extensive experience in property development and management. Mr. Zheng is a director of various companies in the fields of property development management and securities investment in PRC.

The Directors present their annual report and the audited financial statements of the Company and the Group for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group's principal activities have not changed during the year and is engaged in property development and investment in the PRC. Details of the principal activities of its subsidiaries are set out in note 15 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2010 and the state of affairs of the Company and the Group at that date are set out in the financial statements on page 30 to 101.

The Directors do not recommend the payment of any dividend for the year ended 31 December 2010.

RESERVES

Movements in the reserves of the Company and the Group during the year are set out in note 31 to the financial statements and the consolidated statement of changes in equity respectively.

DISTRIBUTABLE RESERVES

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

The Company had no reserves available for distribution to shareholders as at 31 December 2010.

PROPERTY, PLANT AND EQUIPMENT

Movements during the year in the property, plant and equipment of the Group are set out in note 14 to the financial statements.

DIRECTORS

The directors of the Company during the year were:

Executive directors

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

Non-executive directors

Mr. Luo Min

Independent non-executive directors

Mr. Chan Yiu Tung, Anthony
Mr. Seto Man Fai
Mr. Zheng Qing

In accordance with the Articles of Association, Messrs. Fu Yiu Kwong and Messrs. Luo Min shall retire from office and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

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

DIRECTORS' SERVICE CONTRACTS

Mr. Han Junrun, the Chairman and executive Director, has entered into a service agreement with the Company commencing 16 December 2002 for a period of three years and continuing thereafter until his directorship terminated. As detailed in the circular of the Company dated 26 June 2007, Mr. Han also has entered into a management agreement dated 25 October 2005 with the Company for a term of 3 years commencing from 1 April 2005. The management agreement has been expired on 31 March 2008, the renewed management agreement is pending for independent shareholders approval.

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

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

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

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2010, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "SEHK") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executive of the Company were deemed or taken to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

Long positions in the underlying shares of the Company

Name of Director	Capacity	Nature of interests	Number of underlying shares held	Approximate % of shareholding
Han Junran	Beneficial owner	Personal interest	1,895,526,233[1]	88.00[2]

Note:

(1) These are the shares of the Company which may be issued upon full exercise of the conversion rights attaching to the convertible bonds held by Mr. Han Junran.

(2) The percentage is calculated based on the total number of shares of the Company which will be in issue after the underlying shares have been issued.

Save as disclosed above, as at 31 December 2010, none of the Directors or chief executive of the Company and their respective associates had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had to be notified to the Company and the SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO) or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to the Model Code, to be notified to the Company and the SEHK.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

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

SHARE OPTION SCHEME

The Company adopted a share option scheme on 14 June 2002 which will remain in force for a period of 10 years from the date of adoption. As at 31 December 2010, no option has been granted since the adoption of the share option scheme.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

MANAGEMENT CONTRACTS

On 30 November 2010, Tong Sun Limited entered into a management agreement with the Company (as amended by a supplemental agreement dated 23 March, 2011), pursuant to which the Company will provide property management services for Tong Sun Limited and in return receive a management fee of HK$8 million per annum for three years commencing from 1 January 2011. Tong Sun Limited will pay the management fee quarterly.

Save as disclosed above, no contract of significance had been entered into between the Company or any of the Subsidiaries and the controlling shareholder (as defined in the Listing Rules) of the Company or any of its Subsidiaries.

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

So far as is known to any Directors or chief executive of the Company, as at 31 December 2010, other than the interests and short positions of the Directors or chief executive of the Company as disclosed above, the following persons had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the SEHK:

Long position in the shares of the Company

Name	Capacity	Number of shares held	Approximate % of shareholding
An Jing	Interest of controlled corporations	67,939,500[(1)]	25.00
Sure Yield Investments Limited	Interest of controlled corporation	67,939,500[(1)]	25.00
Starry Joy Properties Investment Ltd.	Beneficial owner	67,939,500[(1)]	25.00

Note :

(1) The three references to 67,939,500 shares of the Company relate to the same block of shares of the Company directly held by Starry Joy Properties Investment Ltd., a company wholly-owned by Sure Yield Investments Limited. An Jing held 40% of the issued share capital of Sure Yield Investments Limited. By virtue of the SFO, both Sure Yield Investments Limited and An Jing were deemed to be interested in the same 67,939,500 shares of the Company held by Starry Joy Properties Investment Ltd.

Save as disclosed above, as at 31 December 2010, there was no other person (other than the Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the SEHK.

SUFFICIENCY OF PUBLIC FLOAT

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

PRE-EMPTIVE RIGHTS

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

MAJOR SUPPLIERS

The completed property was sold as at the year ended 31 December 2007 and there is no other property development project in this year. Therefore, no purchase payment was paid or payable to suppliers by the Group as at the year ended 31 December 2010.

AUDITORS

The financial statements for the years ended 31 December 2007 and 2008 were audited by Parker Randall CF (H.K.) CPA Limited.

The financial statements for the years ended 31 December 2009 and 2010 have been audited by Ascenda Cachet CPA Limited, who retire and a resolution will be submitted to the annual general meeting of the Company to re-appoint the auditors, Ascenda Cachet CPA Limited

On behalf of the Board

Han Junran
Chairman

30 March 2011, Hong Kong

Ascenda CACHET
天健德揚

13F Neich Tower
128 Gloucester Road
Wanchai Hong Kong

To the shareholders of
New City (China) Development Limited
(Incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of New City (China) Development Limited (the "Company", and its subsidiaries together, the "Group") set out on pages 30 to 101, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Except for the limitation in the scope of our work as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. However, because of the matter described in the basis for disclaimer of opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

BASIS OF DISCLAIMER OPINION: FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

In forming our opinion, we have considered the adequacy of the disclosures made in note 2.1 to the financial statements concerning the liquidity position of the Group and the Company and the adoption of the going concern basis in the preparation of the financial statements. The financial statements have been prepared on the going concern basis, the validity of which depends on the results of the Group's future funding being available and the success of the Group's future operations.

The Group had net current liabilities and deficiency in assets of approximately HK$30,673,000 and HK$99,158,000 respectively, as at 31 December 2010 which indicates the existence of a material uncertainty which may cast significant doubt on the Group and the Company's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business. After our deliberated considerations on the financial position of the Group and the Company, the capability for repaying its liabilities depends on the results of the Group's debt rescheduling, future funding being available and the success of the acquisition and operation of a profitable project. We consider that appropriate disclosures have been made. However, we consider this fundamental uncertainty is significant and pervasive to the financial statements and therefore we have disclaimed our opinion in respect of the appropriateness of adopting the going concern basis for the preparation of the financial statements.

BASIS OF DISCLAIMER OPINION: PRIOR YEAR'S AUDIT SCOPE LIMITATION AFFECTING OPENING BALANCE OF TRADE PAYABLES, PROPERTY CONSTRUCTION COST AND GAIN ON DISPOSAL OF SUBSIDIARIES AND WAIVER OF LOANS

As detailed in the note 35 to the financial statements, we noted during the course of the audit for the year ended 31 December 2009 that Beijing Zhong Zheng Real Estate Development Company Limited ("BJZZ", a company which ceased to be a subsidiary of the Company since 29 December 2010) was a defendant in a litigation in respect of a dishonour cheque (the "Cheque") in the amount of RMB19,000,000 (the "Amount") payable to 北京城建四有限公司 ("Beijing Cheng Jian Si"), a contractor of the China Securities Plaza, a property developed by BJZZ, which was further endorsed by Beijing Cheng Jian Si to a third party during the year ended 31 December 2008. Except for an amount of approximately RMB6,708,000 (equivalent to approximately HK$7,453,000) included in the trade payables as at 31 December 2009, the Group did not provide for the Amount in the financial statements. We were advised that the Cheque was issued by BJZZ as a proof of its ability to settle the construction cost of the China Securities Plaza which has to be agreed between the Group and Beijing Cheng Jian Si upon the finalisation of the project cost calculation which has yet to be completed. We have not been provided with sufficient and appropriate explanation and evidences for our verification of the possible outcome and implication of the litigation as at 31 December 2009, the accuracy, completeness and valuation of the construction cost of the China Securities Plaza, which has been disposed of during the year ended 31 December 2007 and the accuracy, completeness and valuation of the trade payables relating to the construction cost of the China Securities Plaza, as at 31 December 2009 and 29 December 2010, being the date whereas BJZZ ceased to be a subsidiary of the Company. We were unable to carry out alternative audit procedures we considered necessary to satisfy ourselves as to whether the trade payables and the related construction cost of the China Securities Plaza were free from material misstatement and were fairly stated as at 31 December 2009 and 29 December 2010. We had disclaimed our opinion in our previous auditors' report dated 19 January 2011 on the trade payables and the construction cost as at 31 December 2009. Any adjustments found to be necessary would affect the net liabilities of the Group as at 31 December 2009 and the loss for the year then ended and have a consequential effect on the gain on disposal of subsidiaries and waiver of loans of approximately HK$86,648,000 for the year ended 31 December 2010 and the related disclosure thereof in the financial statements.

DISCLAIMER OF OPINION: DISCLAIMER ON VIEW GIVEN BY FINANCIAL STATEMENTS

Because of the significance of the matters described in the basis for disclaimer of opinion paragraph, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of the Group's and Company's affairs as at 31 December 2010 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in their opinion, the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

REPORT ON MATTERS UNDER SECTION 141(6) OF THE HONG KONG COMPANIES ORDINANCE

In respect alone of the limitation on their work relating to the opening balance of the trade payables and the related construction cost of the China Securities Plaza above, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

Ascenda Cachet CPA Limited
Certified Public Accountants

Chan Chi Yuen
Practising Certificate Number P02671

Hong Kong
30 March 2011

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
REVENUE	5	–	–
Other income and gains	5	**86,648**	9,439
Administrative and other operating expenses		**(17,274)**	(16,724)
Finance costs	7	**(28,069)**	(22,818)
PROFIT/(LOSS) BEFORE TAX	6	**41,305**	(30,103)
Income tax expenses	10	–	–
PROFIT/(LOSS) FOR THE YEAR		**41,305**	(30,103)
Attributable to:			
Owners of the Company	11	**41,305**	(30,103)
Non-controlling interest		–	–
		41,305	(30,103)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	12		
Basic		**15.20 cents**	(11.08) cents
Diluted		**1.79 cents**	(11.08) cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2010

	2010	2009
	HK$'000	*HK$'000*
PROFIT/(LOSS) FOR THE YEAR	**41,305**	(30,103)
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	**–**	–
Less: Income tax effect	**–**	–
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**–**	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**41,305**	(30,103)
Attributable to:		
Owners of the Company	**41,305**	(30,103)
Non-controlling interest	**–**	–
	41,305	(30,103)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*14*	**38**	887
CURRENT ASSETS			
Trade receivable	*17*	**–**	75,079
Prepayments, deposits and other receivables	*18*	**371**	1,612
Cash and bank balances	*19*	**58**	150
		429	76,841
Investment properties classified as non-current assets held for sales	*16*	**–**	777,778
Total current assets		**429**	854,619
CURRENT LIABILITIES			
Trade payables	*20*	**–**	147,487
Other payables and accruals	*21*	**6,024**	172,680
Due to a related company	*22*	**–**	5,581
Finance lease payable	*23*	**73**	73
Interest-bearing bank borrowings, secured	*24*	**–**	99,989
Other borrowings	*25*	**–**	169,039
Due to directors	*26*	**25,005**	17,959
Tax payable		**–**	189,687
Preferred dividend payable	*15(c)*	**–**	94,600
Provisions	*28*	**–**	19,514
Total current liabilities		**31,102**	916,609
NET CURRENT LIABILITIES		**(30,673)**	(61,990)

	Notes	**2010** **HK$'000**	2009 *HK$'000*
TOTAL ASSETS LESS CURRENT LIABILITIES		**(30,635)**	(61,103)
NON-CURRENT LIABILITIES			
Finance lease payable	*23*	**18**	91
Other borrowings	*25*	**–**	–
Liability component of convertible bonds	*27*	**68,505**	56,954
Total non-current liabilities		**68,523**	57,045
Net liabilities		**(99,158)**	(118,148)
DEFICIENCY IN ASSETS			
Equity attributable to owners of the Company			
Issued capital	*29*	**272**	272
Reserves	*31*	**(99,430)**	(118,420)
		(99,158)	(118,148)
Non-controlling interest		**–**	–
Deficiency in assets		**(99,158)**	(118,148)

Han Junran
Director

Fu Yiu Kwong
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2010

	Attributable to owners of the Company								
	Issued capital	Share premium account	Contributed surplus	Translation reserve	Equity component of convertible bonds	Accumulated losses	Total	Non-controlling interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2009	272	20,773	4,755	22,315	–	(161,187)	(113,072)	–	(113,072)
Issue of convertible bonds *(note 27)*	–	–	–	–	25,027	–	25,027	–	25,027
Total comprehensive income for the year	–	–	–	–	–	(30,103)	(30,103)	–	(30,103)
At 31 December 2009 and at 1 January 2010	272	20,773	4,755	22,315	25,027	(191,290)	(118,148)	–	(118,148)
Total comprehensive income for the year	–	–	–	–	–	41,305	41,305	–	41,305
Exchange fluctuation reserve realised upon disposal of subsidiary (note 32)	–	–	–	(22,315)	–	–	(22,315)	–	(22,315)
At 31 December 2010	272	20,773	4,755	–	25,027	(149,985)	(99,158)	–	(99,158)

	Notes	2010 HK$'000	2009 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**41,305**	(30,103)
Adjustments for:			
Reversal of impairment of prepayments, deposits and other receivables		–	(1,155)
Finance costs		**28,069**	22,818
Interest income		–	(35)
Depreciation of property, plant and equipment		**313**	702
Write off of property, plant and equipment		–	284
Write-back of other payables and accruals		–	(8,225)
Gain on disposal of subsidiaries	*5, 32*	**(86,648)**	–
		(16,961)	(15,714)
Decrease in prepayments, deposits and other receivables		**492**	1,563
Increase in trade payables		**3,118**	3,628
Increase in other payables and accruals		**9,765**	3,307
Increase in amounts due to directors		–	5,687
Decrease in provisions		**(5,136)**	(15,642)
Cash used in operations		**(8,722)**	(17,171)
Interest received		–	35
PRC tax paid		–	–
Net cash flows used in operating activities		**(8,722)**	(17,136)
CASH FLOWS FROM INVESTING ACTIVITIES			
New outflow of cash and cash equivalents in respect disposal of a subsidiary	*32*	**(57)**	–
Purchases of items of property, plant and equipment		–	(23)
Net cash flows used in investing activities		**(57)**	(23)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2010

	2010	2009
	HK$'000	*HK$'000*
CASH FLOWS FROM FINANCING ACTIVITIES		
New other borrowings obtained	**3,367**	166
Advance from a related company	**5,413**	5,581
Interest paid	**(20)**	(20)
Capital element of finance lease rental payments	**(73)**	(73)
Net cash flows from financing activities	**8,687**	5,654
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(92)**	(11,505)
Cash and cash equivalents at beginning of year	**150**	11,655
Effect of foreign exchange rate changes, net	**–**	–
CASH AND CASH EQUIVALENTS AT END OF YEAR	**58**	150
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**58**	150

STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
NON CURRENT ASSETS			
Investment in subsidiaries	15	**49,093**	23,695
CURRENT ASSETS			
Prepayments, deposits and other receivables	18	**231**	230
Due from subsidiaries	15	**19,289**	78,900
Cash and bank balances	19	**4**	4
Total current assets		**19,524**	79,134
CURRENT LIABILITIES			
Other payables and accruals	21	**5,259**	2,622
Due to subsidiaries	15	**120,296**	122,091
Due to directors	26	**8,491**	8,491
Other borrowings	25	**–**	3,873
Total current liabilities		**134,046**	137,077
NET CURRENT LIABILITIES		**(114,522)**	(57,943)
TOTAL ASSETS LESS CURRENT LIABILITIES		**(65,429)**	(34,248)
NON-CURRENT LIABILITIES			
Liability component of convertible bonds	27	**(68,505)**	(56,954)
Total non-current liabilities		**(68,505)**	(56,954)
Net liabilities		**(133,934)**	(91,202)
DEFICIENCY IN ASSETS			
Issued capital	29	**272**	272
Reserves	31(b)	**(134,206)**	(91,474)
Deficiency in assets		**(133,934)**	(91,202)

Han Junran
Director

Fu Yiu Kwong
Director

1. CORPORATE INFORMATION

New City (China) Development Limited (the "Company") is a limited liability company incorporated in Cayman Islands on 10 August 1998. The registered office of the Company is located at Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman, Cayman Islands and its principal place of business in Hong Kong is situated at 11th Floor, Effectual Building, 16 Hennessy Road, Wan Chai, Hong Kong.

The Company is an investment holding company. The Group's principal activity has not changed during the year and is engaged in property development and investment in the PRC.

The shares of the Company have been listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 24 May 2000 and its shares have been suspensed for trading since 30 December 2003.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and accounting principles generally accepted in Hong Kong. In addition, the consolidated financial statements include applicable disclosure required by the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties classified as non-current assets held for sale, which are stated in the consolidated statement of financial position at fair value.

These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except otherwise indicated.

Despite the fact that the Group had net current liabilities and deficiency in assets of approximately HK$30,673,000 and HK$99,158,000 respectively, as at 31 December 2010, these financial statements have been prepared on the basis that the Group and the Company will continue to operate as a going concern.

The directors are of the opinion that the Group and the Company would be able to continue as a going concern and to meet in full their financial obligations. In view of the liquidity problems faced by the Group, the directors of the Company have adopted the following measures with a view to improve the Group's overall financial and cash flow position and to maintain the Group's existence on a going concern basis:

2.1 BASIS OF PREPARATION (Continued)

(a) Attainment of profitable and positive cash flow operations

(i) The Company has entered into an agreement with certain independent third parties for the acquisition of a company which is engaged in property development and investment with profitable operation and positive cash flows; and

(ii) The Company has entered into a management contract with Tong Sun Limited ("Tong Sun") for a term of 3 years whereby the Company will manage and operate a property for Tong Sun for an annual management fee of HK$8,000,000 with effect from January 2011.

(b) Proposed additional external funding

The directors of the Company are considering various alternatives to strengthen the capital base of the Group through various fund raising exercises, including but not limited to the fact that Mr. Han Juran, the chairman and a director of the Company, has entered into an agreement with the Company to provide a loan facility of up to HK$30,000,000 on 12 January 2011 as the working capital loan to the Group to enable it to meet the working capital requirements.

(c) Rescheduling of the repayment terms of indebtedness

The Group is actively negotiating with its creditors with a view to reschedule the repayment terms of its indebtedness. Apart from that, the Company is in negotiation with the convertible bonds holders for the possible conversion of the outstanding convertible bonds.

In the opinion of the directors, in light of all the measures adopted and arrangements implemented, the Group and the Company will have sufficient cash resources to satisfy its future working capital and other financial requirements and it is reasonable to expect the Group and the Company to remain a commercially viable concern. Accordingly, the directors of the Company are satisfied that it is appropriate to prepare the financial statements on a going concern basis, notwithstanding the Group and the Company's financial and liquidity position as at 31 December 2010.

Should the Group and the Company be unable to continue as a going concern, adjustments would have to be made to restate the value of assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these potential adjustments have not been reflected in these financial statements.

2.1 BASIS OF PREPARATION (Continued)

Basis of consolidation

Basis of consolidation from 1 January 2010

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisition of non-controlling interests (formerly known as minority interests), prior to 1 January 2010, were accounted for using the parent entity extension method, whereby the difference between the consideration and the book value of the share of the net assets acquired were is recognised in as goodwill.

- Losses incurred by the Group were attributed to the non-controlling interests until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interests and the parent shareholders.

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 1 Amendments	Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters
HKFRS 2 Amendments	Amendments to HKFRS 2 – Share-based Payment – Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 Amendment	Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners
HKFRS 5 Amendments included in improvements to HKFRSs issued in October 2008	Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary
Improvements to HKFRSs 2009	Amendments to a number of HKFRSs issued in May 2009
HK Interpretation 4 Amendment	Amendment to HK Interpretation 4 Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases
HK Interpretation 5	Presentation of Financial Statements – Classification by the borrower of Term Loan that Contains a Repayment on Demand Clause

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (Continued)

Other than as further explained below regarding the impact of HKAS 3 (Revised), HKAS 27 (Revised) and amendments to HKAS 7 included in Improvements to HKFRSs 2009 (include other standards as appropriate), the adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 3 (Revised) Business Combinations and HKAS 27 (Revised) Consolidated and Separate Financial Statements

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Consequential amendments were made to various standards, including, but not limited to HKAS 7 Statement of Cash Flows, HKAS 12 Income Taxes, HKAS 21 The Effects of Changes in Foreign Exchange Rates, HKAS 28 Investments in Associates and HKAS 31 Interest in Joint Ventures.

The changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after 1 January 2010.

(b) Improvements to HKFRSs 2009 issued in May 2009 set out amendments to a number of HKFRSs

HKAS 7 Statement of Cash Flows Requires that only expenditures that result in a recognised asset in the statement of financial position and can be classified as a cash flow from investing activities.

Other than as further explained below regarding the impact of HKAS 1 (Revised), HKFRS 7 Amendment, and HKFRS 8, the adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 1 Amendments	Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters [2]
HKFRS 7 Amendments	Amendments to HKFRS 7 Financial Instruments: Disclosures – Transfers of Financial Assets [4]
HKFRS 9	Financial Instruments [5]
HKAS 24 (Revised)	Related Party Disclosures [3]
HKAS 32 Amendment	Amendment to HKAS 32 Financial Instruments: Presentation – Classification of Rights Issues [1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 Prepayments of a Minimum Funding Requirement [3]
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments [2]

Apart from the above, the HKICPA has issued Improvements to HKFRSs 2010 which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 February 2010
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 July 2011
5 Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than investment properties and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of impaired asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of comprehensive income in the period in which it arises.

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, an individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Furniture and fixtures and equipments	20%-35%
Motor vehicles	15%-25%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at lease at each financial year end.

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable.

Non-current assets and disposal groups classified as held for sale (other than investment properties, which are measured at its fair value) are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

Leases

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, trade receivables and deposit and other receivables.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in finance income or finance costs in the income statement. These net fair value changes do not include any dividends on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

Investments and other financial assets (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in finance costs.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment valuation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in the income statement in other operating expenses and removed from the available-for-sale investment valuation reserve. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as other income in accordance with the policies set out for “Revenue recognition” below.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

The Group evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management’s intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. The reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

Investments and other financial assets (Continued)

Available-for-sale financial investments (Continued)

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement;
- and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the income statement.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

Financial assets carried at amortised cost (Continued)

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is “significant” or ‘’prolonged” requires judgement. “Significant” is evaluated against the original cost of the investment and “prolonged” against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the income statement, if the increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group’s financial liabilities include trade and other payables, an amount due to a director and a related company.

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

Financial liabilities (Continued)

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

Financial liabilities (Continued)

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

(Where the convertible bonds contain only liability and derivative components) If the conversion option of convertible bonds exhibits characteristics of an embedded derivative, it is separated from its liability component. On initial recognition, the derivative component of the convertible bonds is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs are apportioned between the liability and derivative components of the convertible bonds based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in the income statement.

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial positions, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of comprehensive income.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

Income tax (Continued)

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

Employee benefits

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a Black-Scholes Option Pricing Model, further details of which are given in note 30 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the year in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of the reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of comprehensive income for a year represents the movement in the cumulative expense recognised as at the beginning and end of that year.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification, that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

Employee benefits (Continued)

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of comprehensive income as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund.

The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the income statement. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. 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.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Going concern basis

As mentioned in note 2.1 to the financial statements, the directors of the Company are of the opinion that the Group would be able to continue as a going concern. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

If the going concern basis is not appropriate, adjustments would have to be made to reclassify non-current assets and liabilities as current assets and liabilities respectively, to reduce the values of assets to their immediate recoverable amounts and to provide for any further liabilities which might arise. Such adjustments may have a significant consequential effect on the loss for the year and net liabilities of the Group.

Contingent liabilities in respect of litigations and claims

The Group has been engaged in certain litigations and claims during the year. Contingent liabilities arising from these litigations and claims have been assessed by management with reference to legal advice. Provisions on the possible obligation, if appropriate, are made based on management's best estimates and judgements.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Assessment of impairment of non-current assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Useful lives of property, plant and equipment

The management of the Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of the property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovation. Management will change the depreciation charge where useful lives are different from the previously estimated lives. It will also write-off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

Provision for impairment of receivables

The policy for the provision for impairment of receivables of the Group is based on the evaluation of collectibles and ageing analysis of accounts and on the management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including these current creditworthiness and the past collection history of each customer.

Estimated fair value of financial assets

The estimation of fair value of financial assets required the Group to estimate the future market value expected to be recovered from the disposal of the financial assets and a suitable discount rate in order to calculate the present value.

Estimated fair value of investment properties

The estimation of fair value of investment properties required the Group to estimate the future market value expected to be recovered from the disposal of the investment properties and a suitable discount rate in order to calculate the present value.

Fair value of convertible bonds

The fair values of the convertible bonds were calculated using the closing price of the Company and the Trinomial Tree Pricing Model. The models involve assumptions on the Company's stock price, expiration, risk-free rate and volatility. Should these assumptions change, there would be material changes to the valuation.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group's primary operating segment is property development and investment in the PRC. Since this is the only operating segment of the Group, no further analysis thereof is presented.

Geographical information

The Group operates principally in the PRC. Over 90% of the Group's assets are located in the PRC. Accordingly, no further geographical information of non-current asset was disclosed.

Information about a major customer

During the years ended 31 December 2009 and 2010, the Group did not generate any revenue from its principal activity.

5. REVENUE, OTHER INCOME AND GAINS

During the years ended 31 December 2009 and 2010, the Group did not generate any revenue from its principal activity.

An analysis of revenue, other income and gains is as follows:

	2010	2009
	HK$'000	*HK$'000*
Revenue		
Sales of properties	**–**	–
Other income and gains		
Bank interest income	**–**	35
Exchange gains, net	**–**	24
Reversal of impairment of prepayments, deposits and other receivables	**–**	1,155
Write-back of other payables and accruals	**–**	8,225
Gain on disposal of subsidiaries and wavier of loans *(note 32)*	**86,648**	–
	86,648	9,439
Total revenue, other income and gains	**86,648**	9,439

6. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

	2010	2009
	HK$'000	*HK$'000*
Cost of sales	**–**	–
Auditors' remuneration	**250**	300
Depreciation		
– owned assets	**213**	602
– leased assets	**100**	100
	313	702
Write-off of property, plant and equipment	**–**	284
Employee benefits expenses (including directors' remuneration (note 8)):		
Wages and salaries	**6,785**	8,409
Pension scheme contributions	**41**	79
	6,826	8,488
Minimum lease payments under operating leases on land and buildings	**632**	958
Bank interest income	**–**	(35)
Reversal of impairment of prepayments, deposits and other receivables	**–**	(1,155)
Exchange gains, net	**–**	(24)
Write-back of other payables and accruals	**–**	(8,225)
Gain on disposal of subsidiaries and wavier of loans	**(86,648)**	–

7. FINANCE COSTS

	2010	2009
	HK$'000	*HK$'000*
Interest on:		
Bank borrowings wholly repayable within five years	**16,470**	15,019
Convertible bonds	**11,551**	7,758
Finance leases	**20**	20
Other payables	**28**	21
	28,069	22,818

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

	2010	2009
	HK$'000	*HK$'000*
Fees	**360**	360
Other emoluments:		
Salaries, allowances and benefits in kind	**2,990**	3,439
Pension scheme contributions	**12**	12
	3,002	3,451
	3,362	3,811

	Fees	**Salaries, allowances and benefits in kind**	**Pension scheme contributions**	**Total remuneration**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
2010				
Executive directors				
Mr. Han Junran	–	**1,950**	–	**1,950**
Mr. Fu Yiu Kwong	–	**1,040**	**12**	**1,052**
	–	**2,990**	**12**	**3,002**
Non-executive directors				
Mr. Luo Min	–	–	–	–
	–	–	–	–
Independent non-executive directors				
Mr. Chan Yiu Tung, Anthony	**120**	–	–	**120**
Mr. Zheng Qing	**120**	–	–	**120**
Mr. Seto Man Fai *(note (a))*	**120**	–	–	**120**
	360	–	–	**360**
	360	**2,990**	**12**	**3,362**

8. DIRECTORS' REMUNERATION (continued)

	Fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Pension scheme contributions *HK$'000*	Total remuneration *HK$'000*
2009				
Executive directors				
Mr. Han Junran	–	2,399	–	2,399
Mr. Fu Yiu Kwong	–	1,040	12	1,052
	–	3,439	12	3,451
Non-executive directors				
Mr. Luo Min	–	–	–	–
	–	–	–	–
Independent non-executive directors				
Mr. Chan Yiu Tung, Anthony	120	–	–	120
Mr. Zheng Qing	120	–	–	120
Mr. Seto Man Fai *(note (a))*	30	–	–	30
Mr. Wong Shing Kay, Oliver *(note (b))*	90	–	–	90
	360	–	–	360
	360	3,439	12	3,811

Notes:

(a) Appointed on 21 October 2009

(b) Resigned on 30 September 2009

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2009: Nil).

During the year, no emoluments have been paid to the directors as an inducement to join or upon joining the Group; or as compensation for loss of office (2009: Nil).

8. DIRECTORS' REMUNERATION (continued)

The number of directors, whose remuneration fell within the following bands is as follows:

	Number of directors	
	2010	2009
Nil to HK$1,000,000	**4**	5
HK$1,000,001 to HK$2,000,000	**2**	1
HK$2,000,001 to HK$3,000,000	**–**	1
	6	7

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2009: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2009: three) non-directors, highest paid employees for the year are as follows:

	2010	2009
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**629**	1,089
Pension scheme contributions	**12**	5
	641	1,094

The number of non-directors, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2010	2009
	HK$'000	*HK$'000*
Nil to HK$1,000,000	**3**	3

10. INCOME TAX EXPENSES

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the year (2009: Nil).

Taxes on profits in respect of the Group companies operating elsewhere have been calculated at the rates of tax prevailing in the respective tax countries/jurisdictions in which they operate based on existing legislation, interpretations and practices in respect thereof.

	2010	2009
	HK$'000	*HK$'000*
Current tax:		
Hong Kong	**–**	–
Elsewhere	**–**	–
	–	–
Deferred tax	**–**	–
Total tax charge for the year	**–**	–

A reconciliation of the tax expense applicable to profit/(loss) before tax at the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	2010		2009	
	HK$'000	***%***	*HK$'000*	*%*
Profit/(Loss) before tax	**41,305**		(30,103)	
Tax at the statutory tax rate	**4,414**	**10.7**	(8,738)	29.0
Income not subject to tax	**(14,296)**	**(26.8)**	(1,309)	4.4
Expenses not deductible for tax	**9,572**	**15.3**	9,520	(31.6)
Tax benefit not recognised	**310**	**0.8**	527	(1.8)
Tax charge at effective tax rate	**–**	**–**	–	–

The Group had no significant unprovided deferred taxation as at 31 December 2009 and 2010.

11. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated loss attributable to owners of the Company for the year ended 31 December 2010 includes a loss of HK$42,732,000 (2009: HK$49,319,000) which has been dealt with in the financial statements of the Company (note 31(b)).

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

The calculation of basic earnings/(loss) per share amounts is based on the profit/(loss) for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the year.

The calculations of basic earnings/(loss) per share are based on:

	2010	2009
	HK$'000	*HK$'000*
Profit/(Loss)		
Profit/(Loss) for the year attributable to ordinary equity holders of the Company, used in the basic earnings/(loss) per share calculation	**41,305**	(30,103)

	Number of shares	
	2010	2009
Shares		
Weighted average number of ordinary shares in issue during the year used in basic earnings/(loss) per share calculation	**271,758,000**	271,758,000

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue for the year ended 31 December 2010, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

12. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY (Continued)

The calculation of diluted earnings per share for the year ended 31 December 2010 is based on:

	2010
	HK$'000
Earnings	
Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation	**41,305**
Interest on convertible bonds	**11,551**
Less: Tax effect (16.5%)	**(1,906)**
Profit attributable to ordinary equity holders of the parent before interest on convertible bonds	**50,950**

	Number of shares
	2010
Shares	
Weighted average number of ordinary shares in Issue during the year used in basic earnings per share calculation	**271,758,000**
Effect on dilution – weighted average number of ordinary shares: – Convertible bonds	**2,581,124,166**
	2,852,882,166

Diluted earnings/(loss) per share for the year ended 31 December 2009 have not been prepared, as the convertible bonds outstanding during the year had an anti-dilutive effect on the basic loss per share.

13. DIVIDENDS

The Directors did not recommend any dividend for the year ended 31 December 2010 (2009: Nil).

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Furniture, fixtures and equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
31 December 2010			
1 January 2010:			
Cost	**2,604**	**7,008**	**9,612**
Accumulated depreciation	**(2,274)**	**(6,451)**	**(8,725)**
Net carrying amount	**330**	**557**	**887**
At 1 January 2010, net of accumulated depreciation	**330**	**557**	**887**
Disposal of a subsidiary (note 32)	**(211)**	**(325)**	**(536)**
Write-off	**–**	**–**	**–**
Depreciation provided during the year	**(98)**	**(215)**	**(313)**
At 31 December 2010, net of accumulated depreciation	**21**	**17**	**38**
At 31 December 2010:			
Cost	**284**	**478**	**762**
Accumulated depreciation	**(263)**	**(461)**	**(724)**
Net carrying amount	**21**	**17**	**38**

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group

	Furniture, fixtures and equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
31 December 2009			
1 January 2009:			
Cost	3,223	7,008	10,231
Accumulated depreciation	(2,381)	(6,000)	(8,381)
Net carrying amount	842	1,008	1,850
At 1 January 2009, net of accumulated depreciation	842	1,008	1,850
Additions	23	–	23
Write-off	(284)	–	(284)
Depreciation provided during the year	(251)	(451)	(702)
At 31 December 2009, net of accumulated depreciation	330	557	887
At 31 December 2009:			
Cost	2,604	7,008	9,612
Accumulated depreciation	(2,274)	(6,451)	(8,725)
Net carrying amount	330	557	887

The carrying amount of the Group's motor vehicles held under finance leases (note 23) included in the total amount of motor vehicles at 31 December 2010 amounted to HK$16,595 (2009: HK$116,156).

15. INTERESTS IN SUBSIDIARIES

	Company 2010 HK$'000	Company 2009 HK$'000
Unlisted shares, at cost	**306,695**	306,695
Less: Impairment	**(257,602)**	(283,000)
	49,093	23,695
Due from subsidiaries	**44,639**	125,342
Less: Impairment	**(25,350)**	(46,442)
	19,289	78,900
Due to subsidiaries	**(120,296)**	(122,091)

The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

In the opinion of the directors of the Company, the carrying amounts of these amounts due from/(to) subsidiaries approximate to their fair values.

Particulars of the principal of subsidiaries are as follows:

Name	Class of share held	Place of incorporation/ registration	Place of operation	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Direct Subsidiary							
NR (BVI) Holdings Limited*	Ordinary	British Virgin Islands ("BVI")	Hong Kong	US$47,001	100	–	Investment holding
Polywell Finance Corporation*	Ordinary	BVI	Hong Kong	US$1	100	–	Inactive
Indirect Subsidiary							
New Rank Services Limited	Ordinary	Hong Kong	Hong Kong	HK$2	–	100	General management
New Rank (BVI 2) Limited*	Ordinary	BVI	Hong Kong	US$36,000	–	100	Investment holding
Precise Assets Limited*	Ordinary	BVI	Hong Kong	US$1	–	100	Inactive
Team Success Management Limited*	Ordinary	BVI	Hong Kong	US$1	–	100	Investment holding
Tong Sun Limited* (note b and c)	Ordinary	Samoa	Hong Kong	US$49 Class A Ordinary US$51 Class B Ordinary	–	51	Investment holding
Very Best Investment Limited*	Ordinary	BVI	Hong Kong	US$1	–	100	Inactive
Beijing Zhong Zheng Real Estate Development Company Limited (note a and b)*	Contributed capital	PRC	PRC	US$25,000,000	–	100	Property development

15. INTERESTS IN SUBSIDIARIES (Continued)

Notes:

(a) This subsidiary is registered as a sino-foreign investment enterprise under the PRC laws.

(b) As detailed in note 32, these subsidiaries have ceased to be subsidiaries of the Company on 29 December 2010.

(c) Pursuant to the subscription agreement dated 8 May 2003, Starry Joy Properties Investment Limited ("Starry Joy"), holding of 49% equity interest ("Class A Ordinary Share") in Tong Sun, is entitled to a preferred dividend in the sum of up to HK$94,600,000 (the "Preferred Dividend Payable") which had been declared by Tong Sun during the year ended 31 December 2007. Subject to the settlement of the Preferred Dividend Payable and the repayment in full of loans from Starry Joy (notes 25(a), (b) and (c)) and interest accrued thereon, the Group is entitled to a preferred dividend payment from Tong Sun in the sum of up to HK$136 million.

* *Not audited by Ascenda Cachet CPA Limited*

16. INVESTMENT PROPERTIES CLASSIFIED AS NON-CURRENT ASSETS HELD FOR SALES

	Group	
	2010	2009
	HK$'000	*HK$'000*
Fair value as at 31 December	–	777,778

On 23 December 2003, the Group entered into a sales and purchase agreement (the "China Securities Plaza S&P") with China Network Communication Group Corporation (now known as "China United Network Communication Group Co., Limited ") ("CUNCG"), pursuant to which, the Group disposed of the China Securities Plaza, a property developed by Beijing Zhong Zheng Real Estate Development Company Limited ("BJZZ"), a subsidiary of Tong Sun, to CUNCG at a consideration of approximately RMB2,007,125,000, to be satisfied by (i) an indebtedness to BJZZ in the amount of approximately RMB1,556,852,000 repayable by 8 instalments; and (ii) the remaining balance of approximately RMB450,273,000 by a consideration property, which was located in Xi Cheng District, Beijing (the "Consideration Property"). The construction of the China Securities Plaza was completed during the year ended 31 December 2007 and has been occupied by CUNCG since then. As the significant risks and rewards of the China Securities Plaza have been transferred to CUNCG while the risks and rewards of the Consideration Property have been transferred to the Group despite the legal titles of both of the properties have not been transferred, the sales of the China Securities Plaza and the acquisition of the Consideration Property had been recorded by the Group during the year ended 31 December 2007. The investment properties represented the Consideration Property mentioned above.

As at 31 December 2009, the fair value of the Consideration Property was assessed by Asset Appraisal Limited, an independent valuer, to be RMB700,000,000 which is equivalent to approximately HK$777,778,000.

16. INVESTMENT PROPERTIES CLASSIFIED AS NON-CURRENT ASSETS HELD FOR SALES (Continued)

As detailed in note 32 to the financial statements, on 29 December 2010, Starry Joy enforced the security constituted by the New City China Share Charge and the New Rank Share Charge for settlement of the loans and other payables indebted by the Group. Following the enforcement, Tong Sun and its subsidiary, BJZZ, ceased to be the subsidiaries of the Company and the Group ceased to own the Consideration Property as at 31 December 2010.

17. TRADE RECEIVABLE

	Group	
	2010	2009
	HK$'000	*HK$'000*
Trade receivable	**–**	75,079
Impairment	**–**	–
	–	75,079

Trade receivable represented the final instalment of the consideration receivable from CUNCG for the China Securities Plaza (note 16). Pursuant to the China Securities Plaza S&P, the final instalment of the consideration is due for settlement upon the transfer of the legal title of the China Securities Plaza from BJZZ to CUNCG. As the transfer of the legal title has not been completed as at 31 December 2009, the receivable has not been overdue and the directors are of the opinion that no impairment is required.

As detailed in note 32 to the financial statements, on 29 December 2010, Starry Joy enforced the security constituted by the New City China Share Charge and the New Rank Share Charge for settlement of the loans and other payables indebted by the Group. Following the enforcement, Tong Sun and its subsidiary, BJZZ, ceased to be the subsidiaries of the Company and the Group ceased to have the trade receivable as at 31 December 2010.

An aged analysis of the trade receivable as at the end of the reporting period, based on the date of the agreement, is as follows:

	Group	
	2010	2009
	HK$'000	*HK$'000*
Within 1 month	**–**	–
1 to 2 months	**–**	–
2 to 3 months	**–**	–
Over 3 months	**–**	75,079
	–	75,079

The movements in provision for impairment of trade receivable is as follows:

	Group	
	2010	2009
	HK$'000	*HK$'000*
At 1 January	**–**	–
Impairment loss recognised during the year	**–**	–
At 31 December	**–**	–

17. TRADE RECEIVABLE (Continued)

The aged analysis of the trade receivable that are not considered to be impaired is as follows:

	Group	
	2010	2009
	HK$'000	*HK$'000*
Neither past due nor impaired	**–**	75,079
Less than 1 month past due	**–**	–
1 to 3 months past due	**–**	–
Over 3 months	**–**	–
	–	75,079

Trade receivable represented an amount due from a single customer and the Group has a high concentration of credit risk accordingly. The trade receivable is non-interest bearing.

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Prepayments	**189**	447	**183**	86
Deposits	**167**	165	**48**	47
Other receivables	**15**	1,000	**–**	97
	371	1,612	**231**	230

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables of which no recent history of default was noted.

19. CASH AND CASH EQUIVALENTS

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**58**	150	**4**	4
Time deposits	**–**	–	**–**	–
	58	150	**4**	4

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") of approximately HK$Nil (2009: approximately HK$38,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

20. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period based on the invoice date, is as follows:

	Group	
	2010	2009
	HK$'000	*HK$'000*
Within 1 month	–	–
1 to 2 months	–	–
2 to 3 months	–	–
Over 3 months	–	147,487
	–	147,487

The trade payables are non-interest-bearing and are normally settled on 60-days terms.

As detailed in note 32 to the financial statements, on 29 December 2010, Starry Joy enforced the security constituted by the New City China Share Charge and the New Rank Share Charge for settlement of the loans and other payables indebted by the Group. Following the enforcement, Tong Sun and its subsidiary, BJZZ, ceased to be the subsidiaries of the Company and the Group ceased to have any trade payables as at 31 December 2010.

21. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Accrued interest on:				
-Bank borrowings (note 24)	**–**	42,440	**–**	–
-Loan from Starry Joy (note 25(a), (b) and (c))	**–**	99,822	**–**	–
Accrued expenses	**6,024**	25,310	**5,259**	2,622
Deposit received in advance	**–**	778	**–**	–
Other payables	**–**	4,330	**–**	–
	6,024	172,680	**5,259**	2,622

22. DUE TO A RELATED COMPANY

Particulars of amount due to a related company, disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, are as follows:

Group

Name	**31 December 2010**	**Maximum amount outstanding during the year**	31 December 2009
	HK$'000	***HK$'000***	*HK$'000*
北京東方天成房地產開發有限公司	**–**	**10,692**	5,581

22. DUE TO A RELATED COMPANY (Continued)

The amount due to a related company was unsecured, interest-free and had no fixed terms of repayment.

北京東方天成房地產開發有限公司 is a limited liability company established in the PRC, of which, a brother of a director of the Company is a director.

23. FINANCE LEASE PAYABLE

The Group leases a motor vehicle (note 14) for its business operation. The lease is classified as finance lease and has remaining lease terms of 15 months as at 31 December 2010.

At 31 December 2010, the total future minimum lease payments under finance lease and their present values were as follows:

Group	**Minimum lease payments 2010** *HK$'000*	Minimum lease payments 2009 *HK$'000*	**Present value of minimum lease payments 2010** *HK$'000*	Present value of minimum lease payments 2009 *HK$'000*
Amounts payable:				
Within one year	**93**	93	**73**	73
In the second year	**23**	93	**18**	73
In the third to fifth years, inclusive	**–**	23	**–**	18
Total minimum finance lease payments	**116**	209	**91**	164
Future finance charges	**(25)**	(45)		
Total net finance lease payable	**91**	164		
Portion classified as current liabilities	**(73)**	(73)		
Non-current portion	**18**	91		

The finance lease payable bears an effective interest rate of 5.5% per annum and is secured by the leased motor vehicle with a carrying value of HK$16,595 (2009: HK$116,156) (note 14) as at 31 December 2010. The directors consider that the carrying amount of the finance lease payable approximates to its fair value as at the end of the reporting period.

24. INTEREST-BEARING BANK BORROWING, SECURED

	Effective interest rate (%)	Maturity	Group 2010 HK$'000	Group 2009 HK$'000
Bank loan – secured	SHIBOR (10.53%-11.06%)	10 November 2005	–	99,989
Analyse into:				
Repayable:				
On demand			–	99,989
In the second to fifth years, inclusive			–	–
After five years			–	–
Total			–	99,989
Current portion			–	(99,989)
Non-current portion			–	–

BJZZ entered into a loan agreement (the "2003 Loan Agreement") with China Construction Bank Corporation ("CCB") on 11 December 2003 and obtained a loan (the "CCB Loan") in the amount of RMB300,000,000 (equivalent to approximately HK$333,297,000) which was due for repayment on 10 November 2005.

On 20 September 2005, BJZZ further entered into an agreement (the "2005 Agreement") with CCB and CUNCG, pursuant to which, the CCB Loan was secured by a legal charge on the China Securities Plaza and bore interest at the Shanghai Interbank Offered Rate (the "SHIBOR") from time to time. During the year ended 31 December 2010, the SHIBOR was in the range of 10.53% to 11.06% (2009: 10.53% to 11.06%) per annum.

As at 31 December 2009, the outstanding amount of the CCB Loan of RMB90,000,000 (equivalent to approximately HK$99,989,000) is repayable as follows:

(i) RMB30,000,000 repayable upon the receipt of the final instalment of the consideration receivable from CUNCG for disposal of the China Securities Plaza (note 17); and

(ii) The repayment of the remaining RMB60,000,000 has to be negotiated between the Company and CCB after the completion of the sales and purchase of the China Securities Plaza and the Consideration Property between the Group and CUNCG (note 16).

As detailed in note 32 to the financial statements, on 29 December 2010, Starry Joy enforced the security constituted by the New City China Share Charge and the New Rank Share Charge for settlement of the loans and other payables indebted by the Group. Following the enforcement, Tong Sun and its subsidiary, BJZZ, ceased to be the subsidiaries of the Company and the Group ceased to have any interest bearing bank borrowing, secured as at 31 December 2010.

25. OTHER BORROWINGS

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
New City China Loan *(note (a) and (c))*	–	3,873	–	3,873
New Rank Loan *(note (b) and (c))*	–	165,000	–	–
Short term loan *(note (d))*	–	166	–	–
	–	169,039	–	3,873
Less: Amount due within one year shown under current liabilities	–	(169,039)	–	(3,873)
Amount due after one year	–	–	–	–

Note:

(a) The amount represented balance of a loan (the "New City China Loan") granted by Starry Joy, a minority shareholder of Tong Sun, a subsidiary of the Company, in the principal amount of HK$45,000,000 on 23 June 2003, which bore interest at the rate of 6% per annum, secured by 20% and 5% of the Company's shares held by New Rank Group Limited and Mr. Han (collectively, the "New City China Share Charge") and was originally repayable in June 2005. On 25 October 2005, a supplemental facility letter was entered into between the Company and Starry Joy to extend the repayment date of the New City China Loan to 31 December 2005 and the interest rate was revised to 10% per annum with effect from 1 July 2005.

On 15 May 2008, Starry Joy initiated legal proceedings against the Company to claim for the repayment of the New City China Loan and interest thereon, details of which has been set out in note 35(a) to the financial statements.

(b) The amount represented a loan (the "New Rank Loan") granted by Starry Joy to BJZZ on 23 June 2003 for the development of the China Securities Plaza which was secured by 51% of the shares in Tong Sun held by New Rank (BVI 2) Limited ("New Rank (BVI)"), a subsidiary of the Company (the "New Rank Share Charge"). The New Rank Loan is interest-free and was originally repayable in June 2003. On 25 October 2005, a supplemental agreement was entered into between Tong Sun and Starry Joy, pursuant to which:

(i) the repayment date for part of the New Rank Loan in the amount of HK$55,000,000 was extended to 31 December 2005 and became interest bearing at an interest rate of 10% per annum as from 1 July 2005; and

(ii) the balance of the New Rank Loan in the amount of HK$110,000,000 remained interest-free and is repayable by the transfer to Starry Joy a portion of the Consideration Property with an appraisal value of HK$110,000,000, subject to the transfer of the Consideration Property from CUNCG to BJZZ.

25. OTHER BORROWINGS (Continued)

Note: (Continued)

(c) On 26 November 2009, the Company further entered into a new settlement agreement (the "Settlement Agreement") with Poly (Hong Kong) Investments Limited ("Poly (HK)"), the ultimate holding company of Starry Joy, Starry Joy, New Rank (BVI) and Tong Sun, pursuant to which, the New City China Loan and the New Rank Loan together with the accrued interest of HK$99,822,000 and the Preferred Dividend Payable of HK$94,600,000 would be settled in a lump sum of RMB305,000,000 (equivalent to approximately HK$338,889,000) on or before 31 December 2009.

On 28 June 2010, Poly HK entered into a sale and purchase agreement with Sure Yield Investments Limited ("Sure Yield"), pursuant to which Poly HK sold all its shareholdings in Starry Joy to Sure Yield which became the ultimate holding company of Starry Joy.

On 16 December 2010, the Company and BJZZ received demand letters from Starry Joy for settlement of the New City China Loan and the New Rank Loan, respectively.

(d) The amount represented a loan of RMB150,000 (equivalent to approximately HK$166,000) obtained by BJZZ from an independent third party, which bears interest at a rate of 10% per annum and is repayable on demand.

As detailed in note 32 to the financial statements, on 29 December 2010, Starry Joy enforced the security constituted by the New City China Share Charge and the New Rank Share Charge for settlement of the loans and other payable indebted by the Group. Following the enforcement, Tong Sun and its subsidiary, BJZZ, (collectively the "Tong Sun Group") ceased to be the subsidiaries of the Company and Starry Joy and Sure Yield waived all their claims whatsoever against the Company, New Rank (BVI) and Tong Sun in relation to (i) the New City China Loan and the New Rank Loan, and (ii) intercompany indebtedness between the Group and the Tong Sun Group. Consequentially, the Group ceased to have any liabilities as stated in (a) to (d) above nor any amount due to Starry Joy and the Tong Sun Group as at 31 December 2010.

26. DUE TO DIRECTORS

The amounts due to directors are unsecured, interest-free and have no fixed terms of repayment.

27. CONVERTIBLE BONDS

The Group had the following convertible bonds as at the end of the reporting period:

	Group	
	2010	2009
	HK$'000	*HK$'000*
Convertible Bond A (note (i))	**14,185**	14,185
Convertible Bond B (note (ii))	**63,249**	63,249
	77,434	77,434

Note:

(i) On 28 February 2009, the Company and a convertible bond holder entered into an agreement for the issuance of a new convertible bond in a principal amount of HK$14,185,129 (the "Convertible Bond A") for the settlement of certain outstanding bonds in an aggregate principal amount of HK$12,804,817 together with accrued interest of HK$1,380,312. The Convertible Bond A bears interest at Prime Rate plus 2% per annum, maturity on 28 February 2012 and is convertible into the ordinary shares of the Company at a conversion price of HK$0.03 per share. The Convertible Bond A was approved by the shareholders on 5 May 2009.

(ii) On 18 March 2009, the Company entered into a deed of novation (the "Deed of Novation") with another convertible bond holder (the "Bond Holder") and Mr. Han. Pursuant to the Deed of Novation, the parties agreed that the total outstanding principal amount together with all interest thereon owing by the Company to the Bond Holder be novated from the Company to Mr. Han and the Company be fully released and discharged from all liabilities and obligations, past or future, and any security created.

On the same day, the Company entered into a new loan agreement and subscription agreement (the "New Agreement") with Mr. Han, pursuant to which, the Company is deemed to have drawn down a debt amounting to HK$63,248,596, being the principal amount owed by the Company to the Bond Holder of HK$56,458,150 plus accrued interest of HK$6,790,446 up to the date of execution of the Deed of Novation and the Company has issued a new convertible bond (the "Convertible Bond B") therefrom. The Convertible Bond B bears interest at Prime Rate, maturity on 17 March 2012 and is convertible into the ordinary shares of the Company at a conversion price of HK$0.03 per share. The Convertible Bond B was approved by the shareholders on 10 August 2009.

27. CONVERTIBLE BONDS (Continued)

The convertible bonds recognised in the statement of financial position are calculated as follows:

	Group and Company	
	2010	2009
	HK$'000	*HK$'000*
Liability component at 1 January	**56,954**	74,223
Interest expenses	**–**	3,211
Interest paid	**–**	–
Redemption of convertible bonds	**–**	(77,434)
	56,954	–
Issue of convertible bonds	**–**	77,434
Less: Equity component	**–**	(25,027)
Interest expenses	**11,551**	4,547
Interest paid	**–**	–
Liability component at 31 December	**68,505**	56,954

27. CONVERTIBLE BONDS (Continued)

The convertible bonds issued during the year have been split as to the liability and equity components, as follows:

	Convertible Bond A *HK$'000*	**Convertible Bond B** *HK$'000*	**Total** *HK$'000*
2010			
Liability component at 1 January	9,919	47,035	56,954
Interest expense	2,864	8,687	11,551
Interest paid	–	–	–
Liability component at 31 December	12,783	55,722	68,505
2009			
Nominal value of convertible bonds issued during the year	14,185	63,249	77,434
Equity component	(5,791)	(19,236)	(25,027)
Liability component at the issuance date	8,394	44,013	52,407
Interest expense	1,525	3,022	4,547
Interest paid	–	–	–
Liability component at 31 December	9,919	47,035	56,954

The fair value of the convertible bonds was estimated at the issuance date by using the closing share price of the Company and the Trinomial Tree Pricing Model by Asset Appraisal Limited, an independent valuer. The inputs into the model were as follows:

	Convertible Bond A 5 May 2009 (issuance date)	**Convertible Bond B 10 August 2009 (issuance date)**
Stock price	HK$0.03	HK$0.03
Expiration	2 years 10 months	3 years
Risk-free-rate	0.920%	1.264%
Volatility	68.285%	69.077%

The fair value of the liability component at the issuance date was approximately HK$52,407,000 and was classified as "Liability component of convertible bonds" in the non-current liabilities. Accordingly the remaining balance of approximately HK$25,027,000 was classified as "Equity component of convertible bonds" in the consolidated statement of change in equity.

28. PROVISIONS

	2010	2009
	HK$'000	*HK$'000*
Beijing Tai Yang Hong arbitration (note (a))	–	5,136
Beijing Tai He Li arbitration (note (b))	–	14,378
	–	19,514

Notes:

(a) The amount represented a provision for a claim from 北京太陽紅投資諮詢有限公司 ("Beijing Tai Yang Hong"), an independent third party, in respect of an acquisition (the "TYH Acquisition") of the entire 12th floor of China Securities Plaza developed by the Group. On 19 January 2006, Beijing Arbitration Committee made an arbitration award in favour of Beijing Tai Yang Hong and concluded that the sales and purchase agreement dated 6 June 2003 for the TYH Acquisition entered into with BJZZ be cancelled and that BJZZ has to refund the purchase price of approximately RMB14,000,000 together with a damage compensation of RMB800,000 to Beijing Tai Yang Hong. A deposit of RMB5,000,000 (equivalent to approximately HK$5,581,000) was placed by北京東方天成房地產開發有限公司, a related company of the Company, on 4 September 2008, to the court on behalf of BJZZ for settlement of the claim. On 7 January 2009, a cash deposit of the Group maintained with the China Construction Bank in the amount of RMB 9,118,000 was further withdrawn and held by Beijing Arbitration Committee. On 4 March 2009, a repayment agreement were entered into between the Group and Beijing Tai Yang Hong, pursuant to which, Beijing Tai Yang Hong acknowledged the receipt of a partial settlement of approximately RMB14,118,000 (equivalent to approximately HK$15,642,000) with the remaining balance of RMB4,622,000 (equivalent to approximately HK$5,136,000) be repayable by BJZZ on or before 31 October 2009. The outstanding amount payable to Beijing Tai Yang Hong has been overdue for settlement as at 31 December 2009.

(b) The amount represented a provision for a claim from 北京泰和利鑽孔加固工程有限公司 ("Beijing Tai Hei Li") in respect of the reinforcement work of the building structure of the China Securities Plaza. On 6 February 2009, Beijing Arbitration Committee made an arbitration award in favour of Beijing Tai He Li and concluded that the reinforcement work pursuant to an agreement dated 23 June 2003 entered into between Beijing Tai He Li and BJZZ had been completed on 27 January 2007 and BJZZ has to settle to Beijing Tai Hei Li the outstanding balance together with accrued interest in the sum of approximately RMB12,940,000 (approximately HK$14,378,000).

On 29 December 2010, Starry Joy enforced the security constituted by the New City China Share Charge and the New Rank Share Charge for settlement of the loans and other payables indebted by the Group. Following the enforcement, Tong Sun and its subsidiary, BJZZ, ceased to be the subsidiaries of the Company and the Group ceased to have any provisions as at 31 December 2010.

29. SHARE CAPITAL

(a) Shares

	2010	2009
	HK$'000	*HK$'000*
Authorised:		
10,000,000,000 ordinary shares of HK$0.001 each	**10,000**	10,000
Issued and fully paid:		
271,758,000 ordinary shares of HK$0.001 each	**272**	272

A summary of the transactions during the year with reference to the above movements in the Company's issued ordinary share capital is a follows:

	Number of authorised ordinary shares	**Number of shares in issue**	**Issued share capital**	**Share premium account**	**Total**
			HK$'000	*HK$'000*	*HK$'000*
At 1 January 2009	2,000,000,000	271,758,000	272	20,773	21,045
Increase of authorised share capital (note)	8,000,000,000	–	–	–	–
At 31 December 2009 and 31 December 2010	10,000,000,000	271,758,000	272	20,773	21,045

Note:

Pursuant to an ordinary resolution passed by the shareholders of the Company on 10 August 2009, the authorised share capital of the Company was increased from HK$2,000,000 to HK$10,000,000 by the creation of additional 8,000,000,000 shares of HK$0.01 each, ranking pari passu in all respects with the existing share capital of the Company.

(b) Share options

Details of the Company's share option scheme are included in note 30 to the financial statements.

30. SHARE OPTION SCHEME

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

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

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

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

31. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current year are presented in the consolidated statement of changes in equity on page 34 of the financial statements.

(b) Company

	Share premium account	Special reserve	Equity component of convertible bonds	Accumulated losses	Total
	HK$'000	*HK$'000* *(notes)*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2009	20,773	306,450	–	(394,405)	(67,182)
Issue of convertible bonds (note 27)	–	–	25,027	–	25,027
Total comprehensive income for the year	–	–	–	(49,319)	(49,319)
At 31 December 2009 and at 1 January 2010	20,773	306,450	25,027	(443,724)	(91,474)
Total comprehensive income for the year	–	–	–	(42,732)	(42,732)
At 31 December 2010	20,773	306,450	25,027	(486,456)	(134,206)

Notes:

i. The special reserve of the Company represents the difference between the underlying net assets of the subsidiaries acquired by the Company as at the date of the reorganisation, and the nominal amount of the Company's share capital issued as consideration for the acquisition.

ii. Under section 34 of the Companies Law of the Cayman Islands, the special reserve and share premium account is available for distribution to shareholders subject to the provisions of the Articles of Association of the Company and no distribution may be paid to shareholders out of the special reserve and share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the Company shall be able to pay its debts as they fall due in the ordinary course of business.

32. GAIN ON DISPOSAL OF SUBSIDIARIES AND WAIVER OF LOANS

On 16 December 2010, the Company and Tong Sun received demand letters from Starry Joy for settlement of the New City China Loan and the New Rank Loan (note 25(a) and note 25(b)).

On 17 December 2010, the Company, for itself and on behalf of New Rank (BVI) and Tong Sun, irrevocably and unconditionally informed and confirmed that they were unable to repay the New City China Loan and the New Rank Loan.

On 29 December 2010, the security constituted by the New City China Share Charge and the New Rank Share Charge were enforced by Starry Joy. Following the enforcement, Tong Sun and its subsidiary, BJZZ, ceased to be the subsidiaries of the Company.

Upon the foreclosure of the New City China Share Charge and the New Rank Share Charge, pursuant to a reply letter (the "Reply Letter") from Starry Joy dated 31 December 2010, Starry Joy undertook, among others, that (a) Starry Joy permanently withdraws/discontinues the proceedings (note 35(a)) against the Company; and (b) Starry Joy and Sure Yield Investment Limited waives all its claims whatsoever against the Company, New Rank (BVI) and Tong Sun in relation to (i) the New City China Loan and the New Rank Loan; (ii) intercompany indebtedness between the Group and Tong Sun together with its subsidiary (collectively, the "Tong Sun Group"), and (iii) no claims or compensation in any kind for any possible losses, recorded or contingent, would be seek by the Tong Sun Group against the Group.

32. GAIN ON DISPOSAL OF SUBSIDIARIES AND WAIVER OF LOANS (Continued)

The major assets and liabilities of Tong Sun Group included in the consolidated statement of financial position of the Group were as follows:

	29 December 2010	31 December 2009
	HK$'000	*HK$'000*
Property, plant and equipment	**536**	697
Cash and bank balances	**57**	22
Trade receivable	**75,079**	75,079
Prepayments, deposits and other receivables	**749**	1,243
Investment properties classified as non-current assets held for sales	**777,778**	777,778
Due from group companies	**105,506**	105,273
Trade payables	**(150,605)**	(147,487)
Other payables and accruals	**(175,978)**	(157,529)
Due to related companies	**(10,994)**	(5,581)
Interest-bearing bank borrowings, secured	**(99,989)**	(99,989)
Other borrowings	**(168,533)**	(165,166)
Tax payable	**(190,621)**	(189,687)
Preferred dividend payable	**(94,600)**	(94,600)
Provision	**(14,378)**	(19,514)
Due to group companies	**(513)**	(513)
Due to ultimate holding company	**(76,261)**	(76,261)
Net assets/(liabilities) of Tong Sun Group	**(22,767)**	3,765
Less: Due from group companies	**(105,506)**	
Due to group companies	**513**	
Due to ultimate holding company	**76,261**	
Net liabilities disposed	**(51,499)**	
Exchange fluctuation reserve realised upon disposal of subsidiaries	**(22,315)**	
	(73,814)	
Less: Sales proceeds	**–**	
Gain on disposal of Tong Sun Group	**(73,814)**	
Waiver of New City China Loan and accrued interests	**(12,834)**	
Gain on disposal of subsidiaries and wavier of loans (note 5)	**(86,648)**	

32. GAIN ON DISPOSAL OF SUBSIDIARIES AND WAIVER OF LOANS (Continued)

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2010	2009
	HK$'000	*HK$'000*
Cash consideration	**–**	–
Cash and bank balances disposed of	**(57)**	–
Net outflow of cash and cash equivalents in respect of the disposal of a subsidiary	**(57)**	–

33. OPERATING LEASE COMMITMENTS

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 2 years.

At 31 December 2010, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2010	2009
	HK$'000	*HK$'000*
Within one year	**96**	357
In the second to fifth years, inclusive	**–**	96
After five years	**–**	–
	96	453

34. COMMITMENTS

On 4 May 2009, the Company entered into a conditional sale and purchase agreement with the brother of a director (the "Oriental Paris Vendor"), a connected person of the Company, which was supplemented by an agreement dated 30 April 2010, for the acquisition (the "Oriental Paris Acquisition") of 100% equity interest in Oriental Paris Property Development (Beijing) Company Limited (東方巴黎房地產開發(北京)有限公司), a company established in the PRC and is principally engaged in the development of property projects in Beijing, the PRC at a consideration of RMB104,600,000.

Subsequent to the end of the reporting period on 13 January 2011, the Company further entered into a termination agreement with the Oriental Paris Vendor, pursuant to which, the Oriental Paris Acquisition was terminated.

35. LITIGATIONS

Apart from the litigations detailed in note 28 to the financial statements, the Group had the following litigations:

(a) Legal claim from Starry Joy

On 15 May 2008, Starry Joy initiated proceedings (the "Proceedings") against the Company to claim (the "Starry Joy Claim") for an amount of HK$57,940,624.30, being the aggregate balance of a loan of HK$45,000,000 and the accrued interest thereon advanced by Starry Joy to the Company.

On 26 November 2009, a settlement agreement was made, among others, between the Company, Tong Sun and Starry Joy that the Company and Tong Sun shall be liable on a joint and several basis to repay RMB305,000,000 (the "Settlement Amount") to Poly (HK), the holding company of Starry Joy, or its nominee on or before 31 December 2009 for settlement of all loans and payables (including the Starry Joy Claim) indebted by the Group to Starry Joy. The Settlement Amount has been sufficiently provided for in aggregate by the Company and Tong Sun in other borrowings, accrued interests and preferred dividend payable as at 31 December 2009.

As detailed in note 32 to the financial statements, on 29 December 2010, Starry Joy enforced the security constituted by the New City China Share Charge and the New Rank Share Charge for settlement of the loans and other payables indebted by the Group. Following the enforcement, Tong Sun and its subsidiary BJZZ, ceased to be the subsidiaries of the Company and Starry Joy agreed to withdraw and discontinue permanently of the Proceedings against the Company.

(b) Legal claim from Beijing Jia Shi Bao

In February 2008, BJZZ issued a post-dated cheque (the "Post-Dated Cheque") of RMB19,000,000 to 北京城建四有限公司 ("Beijing Cheng Jian Si"), one of the major contractors of the Group in development of the China Securities Plaza, as a proof of its ability to settle the contraction cost of China Securities Plaza which has to be agreed between the Group and Beijing Cheng Jian Si upon the finalisation of the project cost calculation which has yet to be completed as at the end of the reporting period.

The Post-Dated Cheque was subsequently endorsed by Beijing Cheng Jian Si to a third party (the "Plaintiff") and was presented and found to be dishonoured by the Plaintiff on 9 October 2008.

On 22 December 2008, the Plaintiff issued a statement of claim (the "Dishonoured Cheque Claim") on (i) the amount of RMB19,000,000, (ii) accrued interest of RMB247,645 and (iii) the related legal fee to BJZZ.

On 19 December 2009, a judgement "民事裁定書 (2009) 西民初字第1473號" was issued by 北京市西城區人民法院 in favour of BJZZ. An appeal was made by the Plaintiff on the same day and was accepted by the court on 26 February 2010, which ordered that, the judgement as stated in the "民事裁定書 (2009) 西民初字第1473號" was revoked pending by the hearing to be held by the 北京市第一中級人民法院.

35. LITIGATIONS (Continued)

(b) Legal claim from Beijing Jia Shi Bao (Continued)

Except for an amount of approximately HK$7,453,000 (2008: HK$7,453,000) in respect of the construction cost payable to Beijing Cheng Jian Si which was included in the trade payables in the statement of financial position of the Group as at 31 December 2009, no record of the Post-Dated Cheque or the Dishonoured Cheque Claim has yet been made in the financial statements.

The directors of the Company are of the opinion that the amount of the final construction cost with Beijing Cheng Jian Si has yet to be finalised and the amount cannot be accurately assessed as at the date of these financial statements.

As detailed in note 32 to the financial statements, on 29 December 2010, Starry Joy enforced the security constituted by the New City China Share Charge and the New Rank Share Charge for settlement of the loans and other payables indebted by the Group. Following the enforcement, Tong Sun and its subsidiary, BJZZ, ceased to be the subsidiaries of the Company. The directors are of the opinion that upon the cessation of Tong Sun and BJZZ as subsidiaries of the Company, the Posted Cheque and the Dishonoured Cheque Claim have no financial and other impact on the Company and the Group.

36. CONTINGENT LIABILITIES

The Group

Apart from the litigations detailed in notes 28 and 35 to the financial statements, the Group did not have any contingent liabilities at the end of the reporting period.

37 RELATED PARTIES TRANSACTIONS

Save as these disclosed elsewhere in these financial statements, the Group had the following material transactions with related party during the year:

	2010	2009
	HK$'000	*HK$'000*
Convertible bond B interest paid to a director (note 27)	**8,687**	3,022

The related party transactions were conducted on terms negotiated between the Company and the related parties.

Compensation of key management personnel of the Group:

	2010	2009
	HK$'000	*HK$'000*
Short term employee benefits	**3,646**	4,019
Post-employment benefits	**–**	–
Equity-settled share option expenses	**–**	–
Total compensation paid to key management personnel	**3,646**	4,019

Further details of directors' emoluments are included in note 8 to the financial statements.

38. EVENTS AFTER THE REPORTING PERIOD

(a) Proposed acquisition

Subsequent to the end of the reporting period on 24 January 2011, the Company entered into a sale and purchase agreement with two independent third parties (the "Vendors"), whereby the Vendors agreed to sell and a wholly-owned subsidiary of the Company agreed to purchase (the "Resumption Acquisition") the entire equity interest of a company which is principally engaged in property development and property investment in mainland China.

The Resumption Acquisition constitutes a very substantial acquisition of the Company and forms part of the Company's resumption proposal. At the date of these financial statements, the Resumption Acquisition is still subject to, inter alias, the approval of the shareholders of the Company.

b) Management agreement

On 30 November 2010, the Company entered into a management agreement with Tong Sun, which was supplemented by an agreement dated 23 March 2011, pursuant to which, the Group will manage and operate a property for Tong Sun at an annual management fee of HK$8 million payable on a quarterly basis commencing from January 2011.

39. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

31 December 2010

Financial assets

Group

	Financial assets at fair value through profit or loss – designated as such upon initial recognition	– held for trading	Held-to-maturity investments	Loans and receivables	Available-for-sale financial assets	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets included in prepayments, deposits and other receivables	–	–	–	182	–	182
Cash and bank balances	–	–	–	58	–	58
	–	–	–	240	–	240

Financial liabilities

	Financial liabilities at fair value through profit or loss – designated as such upon initial recognition	– held for trading	Financial liabilities at amortised cost	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial liabilities included in other payables and accruals	–	–	6,024	6,024
Due to directors	–	–	25,005	25,005
Finance lease payable	–	–	91	91
Liabilities component of convertible bonds	–	–	68,505	68,505
	–	–	99,625	99,625

39. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (Continued)

31 December 2009

Financial assets

Group

	Financial assets at fair value through profit or loss – designated as such upon initial recognition	Financial assets at fair value through profit or loss – held for trading	Held-to-maturity investments	Loans and receivables	Available-for-sale financial assets	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables	–	–	–	75,079	–	75,079
Financial assets included in prepayments, deposits and other receivables	–	–	–	1,165	–	1,165
Cash and bank balances	–	–	–	150	–	150
	–	–	–	76,394	–	76,394

Financial liabilities

	Financial liabilities at fair value through profit or loss – designated as such upon initial recognition	Financial liabilities at fair value through profit or loss – held for trading	Financial liabilities at amortised cost	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	–	–	147,487	147,487
Financial liabilities included in other payables and accruals	–	–	172,680	172,680
Due to a related company	–	–	5,581	5,581
Finance lease payable	–	–	164	164
Interest-bearing bank borrowings	–	–	99,989	99,989
Other borrowings	–	–	169,039	169,039
Due to a director	–	–	17,959	17,959
Provisions	–	–	19,514	19,514
Liabilities component of convertible bonds	–	–	56,954	56,954
	–	–	689,367	689,367

39. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (Continued)

31 December 2010

Financial assets

Company

	Financial assets at fair value through profit or loss – designated as such upon initial recognition HK$'000	Financial assets at fair value through profit or loss – held for trading HK$'000	Held-to-maturity investments HK$'000	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Financial assets included in prepayments, deposits and other receivables	–	–	–	48	–	48
Due from subsidiaries	–	–	–	19,289	–	19,289
Cash and bank balances	–	–	–	4	–	4
	–	–	–	19,341	–	19,341

Financial liabilities

	Financial liabilities at fair value through profit or loss – designated as such upon initial recognition HK$'000	Financial liabilities at fair value through profit or loss – held for trading HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Financial liabilities included in other payables and accruals	–	–	5,259	5,259
Due to subsidiaries	–	–	120,296	120,296
Due to directors	–	–	8,491	8,491
Liabilities component of convertible bonds	–	–	68,505	68,505
	–	–	202,551	202,551

39. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (Continued)

31 December 2009

Financial assets

Company

	Financial assets at fair value through profit or loss – designated as such upon initial recognition	Financial assets at fair value through profit or loss – held for trading	Held-to-maturity investments	Loans and receivables	Available-for-sale financial assets	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets included in prepayments, deposits and other receivables	–	–	–	144	–	144
Due from subsidiaries	–	–	–	78,900	–	78,900
Cash and bank balances	–	–	–	4	–	4
	–	–	–	79,048	–	79,048

Financial liabilities

	Financial liabilities at fair value through profit or loss – designated as such upon initial recognition	Financial liabilities at fair value through profit or loss – held for trading	Financial liabilities at amortised cost	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial liabilities included in other payables and accruals	–	–	2,622	2,622
Due to subsidiaries	–	–	122,091	122,091
Due to directors	–	–	8,491	8,491
Other borrowings	–	–	3,873	3,873
Liabilities component of convertible bonds	–	–	56,954	56,954
	–	–	194,031	194,031

40. FAIR VALUE HIERARCHY

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

As at 31 December 2010, the Group held the following financial instruments measured at fair value:

Assets measured at fair value as at 31 December 2010:

	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Investment properties classified as non-current assets held for sales	**–**	**–**	**–**	**–**

Liabilities measured at fair value as at 31 December 2010:

	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Liabilities component of convertible bonds	**–**	**–**	**68,505**	**68,505**

As at 31 December 2009, the Group held the following financial instruments measured at fair value:

Assets measured at fair value as at 31 December 2009:

	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Investment properties classified as non-current assets held for sales	–	–	777,778	777,778

Liabilities measured at fair value as at 31 December 2009:

	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Liabilities component of convertible bonds	–	–	56,954	56,954

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise other payables and accruals, the amount due to a related company, interest-bearing bank borrowings, finance lease payable, other borrowings and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates related primarily to the Group's interest-bearing bank borrowings, other borrowings and convertible bonds, with a floating interest rate.

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

	Increase/ (decrease) in basic points	**Increase/ (decrease) in profit before tax** *HK$'000*	**Increase/ (decrease) in equity*** *HK$'000*
31 December 2010			
Hong Kong dollars	1%	(685)	–
	(1%)	685	–
31 December 2009			
Hong Kong dollars	1%	(1,820)	–
	(1%)	1,820	–

*Excluding retained profits/accumulated losses.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk

The Group did not have any sales and purchases during the year. Upon the completion of the disposal (note 32), the Group does not have significant foreign currency risk arising from future commercial transactions and recognised financial assets and liabilities since almost all of them are denominated in Hong Kong Dollar ("HKD").

Credit risk

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

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 17 to the financial statements.

Liquidity risk

The Group had net current liabilities and deficiency in assets of approximately HK$30,673,000 and HK$99,158,000 respectively, as at 31 December 2010.

In view of the liquidity problems faced by the Group, the directors of the Company have adopted various measures with a view to improve the Group's overall financial and cash flow position and to maintain the Group's existence on a going concern basis, details of which have been set out in note 2.1 to the financial statements.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

The maturity of the financial liabilities of the Group at the end of each of the reporting period is as follows:

Group

31 December 2010

	On demand or no fixed terms of repayment *HK$'000*	**Less than 3 months** *HK$'000*	**3 to less than 12 months** *HK$'000*	**1 to 5 years** *HK$'000*	**Over 5 years** *HK$'000*	**Total** *HK$'000*
Financial liabilities included in other payables and accruals	**6,024**	**–**	**–**	**–**	**–**	**6,024**
Finance lease payable	**–**	**18**	**55**	**18**	**–**	**91**
Due to directors	**25,005**	**–**	**–**	**–**	**–**	**25,005**
Convertibles bonds	**–**	**–**	**–**	**68,505**	**–**	**68,505**
	31,029	**18**	**55**	**68,523**	**–**	**99,625**

31 December 2009

	On demand or no fixed terms of repayment *HK$'000*	Less than 3 months *HK$'000*	3 to less than 12 months *HK$'000*	1 to 5 years *HK$'000*	Over 5 years *HK$'000*	Total *HK$'000*
Trade payables	147,487	–	–	–	–	147,487
Financial liabilities included in other payables and accruals	172,680	–	–	–	–	172,680
Due to a related company	5,581	–	–	–	–	5,581
Finance lease payables	–	18	55	91	–	164
Interest-bearing bank borrowings	99,989	–	–	–	–	99,989
Other borrowings	169,039	–	–	–	–	169,039
Due to directors	17,959	–	–	–	–	17,959
Preferred dividend payable	94,600	–	–	–	–	94,600
Provisions	19,514	–	–	–	–	19,514
Convertibles bonds	–	–	–	56,954	–	56,954
	726,849	18	55	57,045	–	783,967

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

	Company					
31 December 2010	**On demand or no fixed terms of repayment**	**Less than 3 months**	**3 to less than 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Financial liabilities included in other payables and accruals	**5,259**	**–**	**–**	**–**	**–**	**5,259**
Due to subsidiaries	**120,296**	**–**	**–**	**–**	**–**	**120,296**
Due to directors	**8,491**	**–**	**–**	**–**	**–**	**8,491**
Convertibles bonds	**–**	**–**	**–**	**68,505**	**–**	**68,505**
	134,046	**–**	**–**	**68,505**	**–**	**202,551**

31 December 2009	On demand or no fixed terms of repayment	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Financial liabilities included in other payables and accruals	2,622	–	–	–	–	2,622
Due to subsidiaries	122,091	–	–	–	–	122,091
Due to directors	8,491	–	–	–	–	8,491
Other borrowings	3,873	–	–	–	–	3,873
Convertibles bonds	–	–	–	56,954	–	56,954
	137,077	–	–	56,954	–	194,031

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the level of equity indices and the value of individual securities. At the end of the reporting period, the Group has not significant equity price risk.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt includes trade payables, other payables and accruals, due to a related company and directors, finance lease payable, interest-bearing bank borrowings, other borrowings and provisions, less cash and bank balances. Capital includes equity attributable to equity holders of the Company. The gearing ratios as at the end of reporting periods were as follows:

	Group	
	2010	2009
	HK$'000	*HK$'000*
Trade payables	**–**	147,487
Other payables and accruals	**6,024**	172,680
Due to a related company	**–**	5,581
Due to directors	**25,005**	17,959
Finance lease payables	**91**	164
Interest-bearing bank borrowings	**–**	99,989
Other borrowings	**–**	169,039
Provisions	**–**	19,514
Liability component of convertible bonds	**68,505**	56,954
Less: Cash and bank balances	**(58)**	(150)
Net debt	**99,567**	689,217
Total capital:		
Equity attributable to equity holders	**(99,158)**	(118,148)
Capital and net debt	**409**	571,069
Gearing ratio	**243.44**	1.21

42. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year's presentation.

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2011.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interest of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below. The financial statements for the years ended 31 December 2008 had been qualified by the auditors of the Company and the financial statements for the year ended 31 December 2006, 2009 and 2010 had been disclaimed by the auditors of the Company. Details of the qualified and disclaimer opinions of the auditors has were set out in the annual reports for the year 2006, 2007, 2008, 2009 and 2010 of the Company, respectively.

	Year ended 31 December				
	2010	2009	2008	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
RESULTS					
REVENUE	**–**	–	–	2,160,427	–
Cost of sales	**–**	–	–	(1,870,713)	–
Gross profit	**–**	–	–	289,714	–
Other income and gains	**86,648**	9,439	16,286	261,908	1,497
Administrative and other operating expenses	**(17,274)**	(16,724)	(46,176)	(100,083)	(23,933)
Finance costs	**(28,069)**	(22,818)	(39,931)	(78,593)	(10,473)
PROFIT/(LOSS) BEFORE TAX	**41,305**	(30,103)	(69,821)	372,946	(32,909)
Tax	**–**	–	–	(141,226)	–
PROFIT/(LOSS) FOR THE YEAR	**41,305**	(30,103)	(69,821)	231,720	(32,909)
Attributable to:					
Owners of the Company	**41,305**	(30,103)	(69,821)	231,720	(32,909)
Non-controlling interest	**–**	–	–	–	–
	41,305	(30,103)	(69,821)	231,720	(32,909)

ASSETS AND LIABILITIES

	2010	2009	2008	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TOTAL ASSETS	**467**	855,506	869,537	864,380	1,971,762
TOTAL LIABILITIES	**(99,625)**	(973,654)	(982,609)	(917,250)	(2,166,464)
NON-CONTROLLING INTEREST	**–**	–	–	–	–
	(99,158)	(118,148)	(113,072)	(52,870)	(194,702)