

Notes to the Financial Statements

For the year ended 31st December, 2004

1. GROUP RESTRUCTURING AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 8th August, 2002 and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 15th July, 2004. In the opinion of the directors, the ultimate holding company of the Company is Fu's Family Limited, incorporated in the British Virgin Islands.

Pursuant to a group reorganisation scheme to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Stock Exchange (the "Group Reorganisation"), the Company became the holding company of the Group on 24th June, 2004. Details of the Group Reorganisation were set out in the prospectus issued by the Company dated 30th June, 2004.

The group comprising the Company and its subsidiaries (the "Group") resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the financial statements of the Group for the year ended 31st December, 2003 and 31st December, 2004 have been prepared on the basis as if the Company had always been the holding company of the Group using the principles of merger accounting in accordance with the Statement of Standard Accounting Practice 27 "Accounting for Group Reconstructions" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The Company acts as an investment holding company. The principal activities of the Company's subsidiaries are set out in note 31.

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the HKICPA issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards ("HKFRSs") (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st December, 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

Notes to the Financial Statements

For the year ended 31st December, 2004

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

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

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Goodwill

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

Goodwill arising on acquisition of the jointly controlled entities is included within the carrying amount of the relevant jointly controlled entities.

Revenue recognition

Agency commission and conveyancing services income from property brokering is recognised when a buyer and seller execute a legally binding sale agreement and when the relevant agreement becomes unconditional and irrevocable.

Development, marketing and planning consultancy services income is recognised when the services are rendered.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rates applicable.

Rental income, including rental invoiced in advance from properties let under operating leases, is recognised on a straight line basis over the period of the relevant leases.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

Notes to the Financial Statements

For the year ended 31st December, 2004

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Investment properties**

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

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment properties revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation surplus subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

On disposal of an investment property, the balance of the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

Property, plant and equipment

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

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

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

Leasehold land and buildings	Over the shorter of the term of land use rights or 40 years
Office equipments, furniture and fixtures	20%
Motor vehicles	20%

Investments in subsidiaries

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

Notes to the Financial Statements

For the year ended 31st December, 2004

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Impairment**

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

Jointly controlled entities

Joint venture agreements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of net assets of the jointly controlled entities plus the goodwill in so far as it has not already been amortised, less any identified impairment loss. The Group's share of the post-acquisition results of its jointly controlled entities is included in the consolidated income statement.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the period.

On consolidation, the assets and liabilities of the Group's operations which are denominated in currencies other than Hong Kong dollars are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or expense in the period in which the operation is disposed of.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using the tax rates that have been enacted or substantively enacted by the balance sheet date.

Notes to the Financial Statements

For the year ended 31st December, 2004

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Taxation** *(Continued)*

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

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

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

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

Deferred tax assets and liabilities are offset which they related to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Operating leases

Rentals payable/receivable under operating leases are charged/credited to the income statement on a straight-line basis over the relevant lease terms.

Retirement benefit costs

The retirement benefit costs charged to the income statement represent the contribution payable in respect of the Group's defined contribution scheme.

Payments to the Mandatory Provident Fund Scheme are charged as expenses as they fall due.

Notes to the Financial Statements

For the year ended 31st December, 2004

4. TURNOVER

Turnover represents commission received and receivable from outsider customers for the sales of properties in the People's Republic of China (the "PRC") less business tax and surcharges and is analysed as follows:

	2004 HK\$'000	2003 HK\$'000
Agency commission and service income	170,540	103,530
Less: Business tax and surcharges	(8,297)	(5,013)
	162,243	98,517

5. SEGMENT INFORMATION

No analysis of the Group's segmental information by business or geographical segments is presented as less than 10% of the Group's activities and operations are contributable by activities other than property brokering services or from markets outside the PRC.

6. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging:

Directors' remuneration, including retirement benefits
scheme contribution (note 8)

Other staff costs

Other retirement benefits scheme contributions

Total staff costs

Auditors' remuneration

Depreciation and amortisation

Allowance for bad and doubtful debts

Loss on disposal of property, plant and equipment

and after crediting:

Bank interest income

Interest income from a related company

Net rental income in respect of premises, net of outgoings of HK\$20,000
(2003: HK\$1,000)

	2004 HK\$'000	2003 HK\$'000
	3,978	1,278
	47,020	29,889
	1,308	1,017
	52,306	32,184
	880	550
	8,198	4,830
	86	–
	61	119
	52	40
	–	351
	305	341

Notes to the Financial Statements

For the year ended 31st December, 2004

7. FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Interest on bank borrowing wholly repayable within five years	500	403
Interest on convertible notes	285	360
	785	763

8. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to the directors were as follows:

	2004 HK\$'000	2003 HK\$'000
Fee		
– Executive directors	–	–
– Independent non-executive directors	500	–
	500	–
Other emoluments to executive directors		
– salaries and other benefits	3,437	1,234
– contributions to retirement benefits scheme	41	44
	3,978	1,278

In addition to the directors' remuneration disclosed above, the Group also provided rent-free accommodation to the executive directors for the year ended 31st December, 2004. The annual rateable value of the properties involved, which are owed by the Group, are HK\$678,000 (2003: HK\$679,000).

The emoluments of the directors were within the following bands:

	2004 No. of directors	2003 No. of directors
Nil to HK\$1,000,000	5	6
HK\$1,000,001 to HK\$1,500,000	2	–
	7	6

Notes to the Financial Statements

For the year ended 31st December, 2004

8. DIRECTORS' EMOLUMENTS *(Continued)*

For both years, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments for both years.

9. EMPLOYEES' EMOLUMENTS

The five highest paid individuals included four directors for the year ended 31st December, 2004 (2003: two), whose emoluments are included in the above. The emoluments of the remaining individuals were as follows:

	2004 HK\$'000	2003 HK\$'000
Salaries and allowances	609	357
Retirement benefits scheme contributions	2	34
	611	391

10. INCOME TAX (CHARGE) CREDIT

The (charge) credit comprises:

	2004 HK\$'000	2003 HK\$'000
PRC income tax	(10,524)	(2,736)
Deferred taxation (note 24):		
Current year	(3,316)	(7,065)
Adjustment to deferred taxation resulting from change in tax status of a subsidiary (Note)	–	12,923
	(3,316)	5,858
Share of taxation attributable to a jointly controlled entity	(125)	–
	(13,965)	3,122

Enterprises Income Tax ("EIT") is provided on the estimated assessable profits of the Group's subsidiaries in the PRC in accordance with the laws and regulations in the PRC at 33%.

Subject to the approval by the relevant tax authority, certain of the Group's subsidiaries in the PRC are only required to pay the PRC income tax on predetermined tax rate at 2% to 4% on turnover during the year (2003: 3% to 4%). The predetermined tax rate is agreed and determined between such enterprises and the PRC tax bureau of local government and is subject to annual review and renewal.

Notes to the Financial Statements

For the year ended 31st December, 2004

10. INCOME TAX (CHARGE) CREDIT *(Continued)*

No provision for Hong Kong Profits Tax has been made in the financial statements as the subsidiaries have no assessable profits for both years.

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

	2004 HK\$'000	2003 HK\$'000
Profit before taxation	70,030	42,272
Tax at the applicable rate of 33%	23,110	13,950
Effect of tax charged at predetermined tax rate on turnover entitled by certain subsidiaries operating in the PRC	(11,556)	(6,572)
Tax effect of loss not recognised	1,641	1,284
Effect of adjustment to deferred tax resulting from change in tax status of a subsidiary (Note)	–	(12,923)
Tax effect of share of result of a jointly controlled entity	(77)	–
Others	847	1,139
Income tax charge (credit)	13,965	(3,122)

Note: For the year ended 31st December, 2002, the subsidiary was subject to EIT levied at a rate of 33% on the estimated assessable profits in accordance with the laws and regulations in the PRC. For the year ended 31st December, 2003, that subsidiary was subject to PRC income tax of predetermined tax rate of 3.5% on turnover. Accordingly, temporary differences of the subsidiary, which represent revenue recognised for accounting purpose but not for tax purpose, prior to 1st January, 2003 were set up at 33% would now be taxed at 3.5%. The adjustment to deferred taxation resulting from the change in tax status of that subsidiary is a taxation credit of HK\$12,923,000 for the year ended 31st December, 2003.

For the year ended 31st December, 2004, that subsidiary continued to enjoy a predetermined tax rate of 4% on turnover.

Details of deferred taxation are set out in note 24.

Notes to the Financial Statements

For the year ended 31st December, 2004

11. DIVIDENDS

For the year ended 31st December, 2003, dividends were paid by a subsidiary to its then shareholders prior to the Group Reorganisation. The rates of dividend and the number of shares ranking for dividend are not presented as such information is not meaningful having regard to the purpose of this report.

	2004 HK\$'000	2003 HK\$'000
Interim dividend paid of HK\$0.03 per ordinary share	5,400	8,000
Final dividend, proposed of HK\$0.05 per ordinary share	9,700	–
	15,100	8,000

On 19th April, 2005, the Directors have resolved to recommend to shareholders to declare a final dividend of HK5 cents per share for the year ended 31st December, 2004. The final dividend will be payable on or about 15th June, 2005 to shareholders whose names appear on the register of members of the Company on 25th May, 2005.

Notes to the Financial Statements

For the year ended 31st December, 2004

12. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share for the year is based on the following data:

	2004 HK\$'000	2003 HK\$'000
Earnings:		
Net profit for the year and earnings for the purpose of basic earnings per share	48,594	42,086
Effect of dilutive potential ordinary shares:		
Interest on convertible notes	285	360
	48,879	42,446
Number of shares:		
Weighted average number of shares for the purpose of basic earnings per share (Note)	146,508,197	117,000,000
Effect of dilutive potential ordinary shares:		
Convertible notes	9,590,164	18,000,000
Weighted average number of shares for the purposes of diluted earnings per share	156,098,361	135,000,000

Note: The weighted average number of shares are computed assuming that the Group Reorganisation was effective on 1st January, 2003.

13. INVESTMENT PROPERTIES

HK\$'000

AT VALUATION

At 1st January, 2004 and at 31st December, 2004

1,564

Investment properties were valued at their open market value at 31st December, 2004 by BMI Appraisals Limited, an independent valuer. No valuation surplus/deficit arises from the valuation as at 31st December, 2004.

The Group's investment properties are held for rental under operating leases and are situated in the PRC under medium term land use rights.

Notes to the Financial Statements

For the year ended 31st December, 2004

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Office equipment, furniture and fixtures	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP				
COST				
At 1 January 2004	33,710	19,660	2,737	56,107
Additions	–	27,146	6,552	33,698
Disposals	–	(3)	(238)	(241)
Disposal of a subsidiary	–	(1,597)	(198)	(1,795)
At 31 December, 2004	33,710	45,206	8,853	87,769
DEPRECIATION AND AMORTISATION				
At 1 January 2004	3,175	6,079	951	10,205
Provided for the year	758	6,468	972	8,198
Eliminated on disposals	–	(2)	(104)	(106)
Disposal of a subsidiary	–	(1,263)	(161)	(1,424)
At 31 December, 2004	3,933	11,282	1,658	16,873
NET BOOK VALUES				
At 31 December, 2004	29,777	33,924	7,195	70,896
At 31 December, 2003	30,535	13,581	1,786	45,902

All of the Group's leasehold land and buildings are held under medium term land use rights in the PRC.

Notes to the Financial Statements

For the year ended 31st December, 2004

15. INTERESTS IN SUBSIDIARIES

Unlisted shares, at cost
Amounts due from subsidiaries

THE COMPANY

2004
HK\$'000

67,385

52,598

119,983

The carrying value of the unlisted shares is based on the net book values of the underlying net assets of the subsidiary attributable to the Group as at the date on which the Company became the holding company of the Group under the Group Reorganisation in 2004.

Details of the principal subsidiaries are set out in note 31.

The amounts due from subsidiaries are unsecured, interest free and have no fixed repayment terms. These amounts are not repayable within one year from the balance sheet date and the amounts are therefore shown in the balance sheet as non-current.

16. INTEREST IN A JOINTLY CONTROLLED ENTITY**THE GROUP**

2004
HK\$'000

2003
HK\$'000

Share of net assets

2,612

—

Goodwill on acquisition

1,875

—

Amortisation of goodwill

(172)

—

4,315

—

Goodwill is amortised over its estimated useful life, on a straight line basis. The amortisation period for goodwill is 10 years.

During the year, the Group acquired a 40% equity interest in Asia Asset Property Services Limited, which is incorporated in Hong Kong. It is an investment holding company of two wholly-owned subsidiaries which are engaged in the provision of property management, consultancy, agency and other related services in the PRC.

Notes to the Financial Statements

For the year ended 31st December, 2004

17. PAYMENT FOR ACQUISITION OF A JOINTLY CONTROLLED ENTITY

During the year ended 31st December, 2003, the Group made a deposit payment to an independent third party for the acquisition of a 40% equity interest in Asia Asset Property Services Limited. This transaction was completed on 1st February, 2004. Since then, the Group is able to exercise influence on Asia Asset Property Services Limited. Thereafter, it became a jointly controlled entity of the Group, as disclosed in note 16.

18. TRADE RECEIVABLES

The Group allows its trade customers with credit period normally ranging from 30 to 120 days.

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

	2004 HK\$'000	2003 HK\$'000
Trade receivables		
0 – 30 days	26,024	24,587
31 – 60 days	6,893	6,689
61 – 90 days	7,381	2,130
Over 90 days	5,066	228
	45,364	33,634

19. AMOUNT DUE FROM A DIRECTOR

Name of director	2004 HK\$'000	2003 HK\$'000	Maximum amount outstanding during the year HK\$'000
Mr. Fu Wai Chung	–	96	96

The amount due from Mr. Fu Wai Chung was unsecured, interest-free and was fully settled before 15th July, 2004.

Notes to the Financial Statements

For the year ended 31st December, 2004

20. AMOUNTS DUE TO RELATED COMPANIES

Name of the company	2004 HK\$'000	2003 HK\$'000
Fair International Limited	–	420
Guangzhou Public Motors Limited	–	557
	–	977

Mr. Fu Wai Chung, a director of the Company, has beneficial interests in the above companies. The amounts were unsecured, interest-free and were fully repaid during the year.

21. SECURED BANK BORROWINGS

The secured bank borrowings are interest-bearing at prevailing market rates and are repayable in instalments over a period of 5 years.

	2004 HK\$'000	2003 HK\$'000
Repayable within one year	7,385	781
Repayable within one to two years	781	781
Repayable within two to five years	1,171	1,952
	9,337	3,514
Less: Amounts repayable within one year and included in current liabilities	(7,385)	(781)
Amounts repayable after one year	1,952	2,733

22. CONVERTIBLE NOTES

New Ideas Holdings Limited ("New Ideas"), a wholly-owned subsidiary of the Company issued convertible notes in February 2002. The convertible notes were unsecured and interest bearing at 3% per annum payable quarterly in arrears. The convertible notes were automatically converted into 18,000,000 ordinary shares of the Company upon listing of the Company on the Stock Exchange on 15th July, 2004.

Notes to the Financial Statements

For the year ended 31st December, 2004

23. SHARE CAPITAL

	Number of shares	Amounts HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1st January, 2003 and 31st December, 2003	38,000,000	380
Increase on 24th June, 2004	7,962,000,000	79,620
At 31st December, 2004	8,000,000,000	80,000
Issued and fully paid:		
Allotted and issued and issued nil paid on date of incorporation and at 1st January, 2003 and 31st December, 2003	10,000	–
Credited as fully paid for share premium under the Group Reorganisation	–	–
Issue of shares by capitalisation of share premium account	116,990,000	1,170
Issue of shares for placing and public offer	45,000,000	450
Issue of shares upon conversion of convertible notes	18,000,000	180
At 31st December, 2004	180,000,000	1,800

The Company was incorporated in the Cayman Island on 8th August, 2002 with an authorised capital of HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each. On 16th October, 2002 and 25th October, 2002, the Company issued and allotted, nil paid, 1 and 9,999 shares respectively.

Pursuant to the written resolutions passed by all the shareholders of the Company on 24th June, 2004 to effect the Group Reorganisation in preparation for the listing of the Company's shares on the Stock Exchange, the following movements in the authorised and issued share capital of the Company took place:

- (a) the authorised share capital of the Company was increased from HK\$380,000 to HK\$80,000,000 by the creation of an additional 7,962,000,000 new shares to rank pari passu with the then existing shares in issue in all respects;
- (b) Conditional on the share premium account being credited as a result of the placing and public offer on 13th July, 2004, an amount of HK\$100 standing to the credit to the share premium account was capitalised and applied to pay up in full at par 10,000 shares of HK\$0.01 each which were allotted and issued at nil paid in October 2002.

Notes to the Financial Statements

For the year ended 31st December, 2004

23. SHARE CAPITAL *(Continued)*

- (c) Conditional on the share premium account being credited as a result of the placing and public offer on 13th July, 2004, an amount of HK\$1,169,900 was capitalised and applied to pay up in full at par 116,990,000 shares of HK\$0.01 each for allotment and issue to the then shareholders of New Ideas on 24th June, 2004. Since then, the Company became the holding company of New Ideas.

On 13th July, 2004, by means of placing and public offer, the Company issued a total of 45,000,000 new shares of HK\$0.01 each at the price of HK\$1.50 per share. The proceeds are to be used to expand primary and secondary real estate services in the PRC and to provide additional working capital for the Group.

On 15th July, 2004, 18,000,000 shares of HK\$0.01 each were issued and allotted as a result of the conversion of convertible notes.

On 17th January, 2005, 14,000,000 shares of HK\$0.01 each were issued and allotted at a price of HK\$1.38 per share to provide additional working capital to the Group.

The share capital of the Group at 1st July, 2003 and 31st December, 2004 represented the share capital amounts after the capitalisation of share premium account on the basis that the Group Reorganisation had been effected on 1st January, 2003

All the shares issued during the year rank pari passu with the then existing shares in all respects.

Notes to the Financial Statements

For the year ended 31st December, 2004

24. DEFERRED TAXATION

	Revenue recognised for accounting purpose but not for tax purpose HK\$'000	Accelerated tax depreciation HK\$'000	Others HK\$'000	Total HK\$'000
THE GROUP				
At 1st January 2003	12,816	–	1,376	14,192
Charge (credit) for the year (note 10)				
– for the year	5,867	2,574	(1,376)	7,065
– adjustment to deferred taxation resulting from change in tax status of the subsidiary	(12,923)	–	–	(12,923)
At 1st January, 2004	5,760	2,574	–	8,334
Charge (credit) for the year (note 10)	664	2,652	–	3,316
At 31st December, 2004	6,424	5,226	–	11,650

At the balance sheet date, the Group has unused tax losses of HK\$2,925,000 (2003: HK\$1,284,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such tax losses due to unpredictability of future profit streams.

Notes to the Financial Statements

For the year ended 31st December, 2004

25. DISPOSAL OF A SUBSIDIARY

During the year ended 31st December, 2004, the Group disposed of its entire equity interest in Guangzhou Bailai Properties Agency Limited. The net assets of the subsidiary at the date of the disposal are as follows:

	2004 HK\$'000	2003 HK\$'000
Property, plant and equipment	371	—
Trade and other receivables	8,677	—
Bank balances and cash	92	—
Other payables and accruals	(7,696)	—
Income tax payable	(1,269)	—
Minority interest	(258)	—
	(83)	—
Gain on disposal	1,025	—
Total consideration	942	—

The total consideration is satisfied by the consideration receivable which was included in other receivables and prepayments in the balance sheet as at 31st December, 2004. The receivables had been fully settled subsequent to the balance sheet date.

	2004 HK\$'000	2003 HK\$'000
Net cash inflow arising on disposal:		
Bank balance and cash disposed of	(92)	—

The subsidiary disposed of during the year contributed approximately HK\$1,874,000 in the Group's turnover and approximately HK\$3,720,000 to the Group's loss from operations for the year ended 31st December, 2004.

Notes to the Financial Statements

For the year ended 31st December, 2004

26. PLEDGE OF ASSETS

The Group had pledged the following assets for bank facilities granted to the Group:

	2004 HK\$'000	2003 HK\$'000
Investment properties	1,564	–
Leasehold land and buildings	17,858	18,304
	19,422	18,304

The Company had no assets pledged at the balance sheet dates.

27. OPERATING LEASE ARRANGEMENTS**The Group as lessee**

The Group made minimum lease payments under operating leases in respect of office premises of approximately HK\$6,642,000 (2003: HK\$4,727,000).

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2004 HK\$'000	2003 HK\$'000
Within one year	10,652	4,882
In the second to fifth year inclusive	16,152	7,446
	26,804	12,328

Operating lease payments represent rentals payable by the Group for certain of its office premises and shops. Leases are negotiated for an average term of three years and rentals are fixed for an average of three years.

Notes to the Financial Statements

For the year ended 31st December, 2004

27. OPERATING LEASE ARRANGEMENTS *(Continued)***The Group as lessor**

Property rental income earned during the year was approximately HK\$325,000 (2003: HK\$341,000). All of the investment properties held have committed tenants for the next two years.

At the balance sheet dates, the Group had contracted with tenants for the following future minimum lease payments:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Within one year	337	271
In the second to fifth years inclusive	306	63
	643	334

The Company had no operating lease arrangement at the balance sheet dates.

28. SHARE OPTIONS SCHEME

The Company's share option scheme ("the Scheme"), was adopted on 24th June, 2004 for the primary purpose of providing incentives or rewards to directors, eligible employees and advisors and consultants of the Group for their contributions to the Group. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. The Scheme became effective upon the listing of the Company's shares on the Stock Exchange on 15th July, 2004 and, unless otherwise cancelled or amended, will remain in force for 10 years from the date of its adoption on 24th June, 2004.

The offer of the grant of share options may be accepted within 28 days from the date of the offer, at a consideration of HK\$1, payable by the grantee upon the acceptance of the offer. The options may be exercised at any time within the period commencing from the date of grant of the option and expiring on the date following 10 years from the date of acceptance of the grant of the options. Unless otherwise determined by the Directors, the Scheme does not require a minimum period for which the options must be held or a performance target which must be achieved before the options can be exercised.

The subscription price of the share options was determinable by the directors, but shall be the highest of (i) the closing price of the shares as stated in the Exchange's daily quotations sheet on the date of grant, which must be a business day; and (ii) the average closing price of the shares as stated in the Exchange's daily quotation sheet for the five business days immediately preceding the date of grant and (iii) the nominal value of a share of the Company.

Notes to the Financial Statements

For the year ended 31st December, 2004

28. SHARE OPTIONS SCHEME *(Continued)*

Pursuant to the Scheme, the maximum number of shares in the Company in respect of which options may be granted when aggregated with any other share option scheme of the Company is 18,000,000, which is not permitted to exceed 10% of the issued share capital of the Company as at the date of adoption of the Scheme and representing approximately 9.28% of the total number of issued shares of Company as at the date of this annual report. Subject to the issue of a circular and the approval of the shareholders of the Company in general meeting and/or such other requirements prescribed under the Rules Governing the Listing of Securities of the Stock Exchange (the "Listing Rules") from time to time, the Board may refresh the limit at any time to 10% of the total number of shares in issue as at the date of approval by the shareholders of the Company in general meeting. Notwithstanding the foregoing, the shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company at any time shall not exceed 30% of the shares in issue from time to time.

No option may be granted to any person if the total number of shares of the Company already issued and issuable to him under all the options granted to him in any 12 month period up to and including the date of grant exceeding 1% of total number of shares in issue as at the date of grant. Any further grant of options in excess of this 1% limit shall be subject to the issue of a circular by the Company and the approval of the shareholders in general meeting. Such participant and his associates (as defined in the Listing Rules) abstaining from voting and/or other requirements prescribed under the Listing Rules from time to time. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's shares in issue and with a value in excess of HK\$5 million within any 12-month period must be approved in advance by the Company's shareholders.

No options were outstanding at 31st December 2004 under the Scheme. No option were granted, exercised, cancelled or lapsed during the year.

29. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by the employees.

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefits scheme operated by the government of the country. The subsidiaries are required to contribute a specified percentage of their payroll costs to the retirement benefits scheme. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions.

Notes to the Financial Statements

For the year ended 31st December, 2004

30. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with related parties:

Name of related party	Nature of transactions	2004 HK\$'000	2003 HK\$'000
Guangzhou Public Motors Limited	Interest income received by the Group (notes a and d)	–	351
Fair International Limited	Rental expenses paid by the Group (notes b and c)	240	240

Notes:

- (a) Mr. Fu Wai Chung, Ms. Ng Wan and Ms. Fu Man, directors of the Company, have beneficial interests in these companies.
- (b) Mr. Fu Wai Chung has beneficial interests in this company.
- (c) The rentals are charged in accordance with the relevant tenancy agreements.
- (d) The interest was charged at the prevailing market rates.

31. PARTICULARS OF SUBSIDIARIES

Name of subsidiary	Date and place of incorporation/ registration	Class of share held	Issued and paid up share capital	Attributable equity interest (note)	Principal activities
Guangdong Hope Real Properties Limited	13th February, 1996 The PRC	Registered	RMB2,000,000	95.23%	Provision of real estate agency services in the PRC
Guangzhou New Profits Properties Agency Limited	12th May, 1998 The PRC	Registered	RMB1,000,000	95.23%	Provision of real estate agency services in the PRC
Hopefluent (BVI) Limited	8th August, 2002 British Virgin Islands ("BVI")	N/A	US\$100	100%	Investment holding

Notes to the Financial Statements

For the year ended 31st December, 2004

31. PARTICULARS OF SUBSIDIARIES *(Continued)*

Name of subsidiary	Date and place of incorporation/ registration	Class of share held	Issued and paid up share capital	Attributable equity interest (note)	Principal activities
Sino Estate Holdings Limited	6th November, 2003 BVI	N/A	US\$100	100%	Investment holding
Guangzhou Hope Profits Properties Agency Limited	16th March, 1998 The PRC	Registered	RMB1,000,000	95.23%	Provision of real estate agency services in the PRC
Guangzhou Hopefluent Real Properties Consultancy Limited	31st July, 2001 The PRC	Registered	RMB7,800,000	92.05%	Provision of real estate agency services in the PRC
Tianjin Hopefluent Real Properties Sales and Marketing Limited	14th March, 2002 The PRC	Registered	RMB1,000,000	64.44%	Provision of real estate agency services in the PRC
Hopefluent Properties Limited	7th September, 2001 Hong Kong	Ordinary	HK\$100	100%	Provision of real estate agency services in the PRC
Hopefluent Promotion Limited	5th October, 2001 Hong Kong	Ordinary	HK\$100	100%	Provision of advertising and marketing services in the PRC
New Ideas Holdings Limited	11th May, 2001 Hong Kong	Ordinary	HK\$100,000	100%	Investment holding
Sinonews Network Limited	5th October, 2001 Hong Kong	Ordinary	HK\$10,000	100%	Investment holding
Guangzhou Chun Wui Investment Consultancy Limited	31st May, 2002 The PRC	Registered	HK\$4,800,000	100%	Investment holding

Notes to the Financial Statements

For the year ended 31st December, 2004

31. PARTICULARS OF SUBSIDIARIES *(Continued)*

Name of subsidiary	Date and place of incorporation/ registration	Class of share held	Issued and paid up share capital	Attributable equity interest (note)	Principal activities
Sino Melody Investment Limited	2nd August, 2002 BVI	N/A	US\$100	100%	Trademarks applications holding
Foshan Hopefluent Real Properties Consultancy Limited	1st September, 2003 The PRC	Registered	RMB1,000,000	80.08%	Provision of real estate agency services in the PRC
Dongguan Hopefluent Real Properties Consultancy Limited	4th November, 2003 The PRC	Registered	RMB1,000,000	79.16%	Provision of real estate agency services in the PRC
Hubei Hopefluent Real Properties Consultancy Limited	1st April, 2004 The PRC	Registered	RMB1,000,000	46.95%	Provision of real estate agency services in the PRC
Shanghai Hope Realty Consultancy Limited	29th October, 2004 The PRC	Registered	RMB1,000,000	55.23%	Provision of real estate agency services in the PRC
Shanghai Hopefluent Real Properties Consultancy Limited	19th October, 2004 The PRC	Registered	RMB1,000,000	73.64%	Provision of real estate agency services in the PRC

Note: The Company directly holds the equity interest in Hopefluent (BVI) Limited. All other interests shown above are indirectly held by the Company. All the companies are limited liabilities companies.

None of the subsidiaries had issued any debt securities at the end of the year.