

*The following is the text of a report, prepared for the purpose of inclusion in this prospectus, received from the reporting accountants of the Company, Grant Thornton, Certified Public Accountants, Hong Kong.*

Certified Public Accountants  
Member of Grant Thornton International

Grant Thornton   
均富會計師行

22 November 2005

The Directors  
New Heritage Holdings Ltd.  
Tanrich Capital Limited  
Altus Capital Limited

Dear Sirs

We set out below our report on the financial information of New Heritage Holdings Ltd. (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for the years ended 31 December 2002, 2003, 2004 and the six months ended 30 June 2005 (the “Relevant Periods”) for inclusion in the prospectus of the Company dated 22 November 2005 (the “Prospectus”) in connection with the listing of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company was incorporated in the Cayman Islands on 23 December 2004 as an exempted company with limited liability under the Companies Law of the Cayman Islands. Pursuant to a Group reorganisation (the “Reorganisation”) as detailed in the subsection headed “Corporate Reorganisation” in Appendix VII of the Prospectus, which was completed on 23 June 2005, the Company became the holding company of the subsidiaries now comprising the Group.

Details of the Company’s interests in subsidiaries and associate, which are all unlisted, at the date of this report are set out in note 1 of Section II below. All companies now comprising the Group have adopted 31 December as their financial year end date.

No audited accounts have been prepared for the Company, New Heritage Corporation Limited (“NH Corporation”), Accordcity Limited (“Accordcity”), New Heritage Group Limited (“NH Group”), New Heritage (IP) Limited (“NHIP”), New Heritage Land Limited (“NH Land”), New Heritage Management Limited (“NH Management”) and New Heritage Properties Limited (“NH Properties”) since their respective dates of incorporation or acquisition as they are newly incorporated and have not been involved in any significant business transactions except for the Reorganisation and the acquisitions as set out in note 1 of Section II below. No audited accounts have been prepared for World Margin Limited (“WML”) since the date of acquisition as it has not been involved in any significant business transactions. We have, however, reviewed all relevant transactions undertaken by these companies from the respective dates of their incorporation or acquisition and carried out such procedures as we considered necessary for inclusion of the financial information relating to these companies in this report.

The statutory accounts of the subsidiaries established in the People’s Republic of China (the “PRC”) were prepared in accordance with the accounting principles and relevant accounting rules and regulations applicable to enterprises established in the PRC and were audited by Suzhou Chung Hwei Certified Public Accountants (“蘇州中惠會計師事務所”), a firm of certified public accountants in the PRC. For the purpose of this report, the directors of the Company have prepared management accounts of the subsidiaries established in the PRC for the Relevant Periods in accordance with the Hong Kong Financial Reporting Standards (the

“HKFRS accounts”). We have carried out independent audit procedures as we considered necessary on the HKFRS accounts for each of the Relevant Periods in accordance with the Statements of Auditing Standards (“SAS”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The statutory accounts of New Heritage Development Limited (“NH Development”) were prepared in accordance with and comply with all applicable Hong Kong Financial Reporting Standards (“HKFRS”) issued by the HKICPA and audited by Glass Radcliffe Chan, Baker Tilly Hong Kong Limited and Grant Thornton for the years ended 31 December 2002, 2003 and 2004 respectively. For the purpose of this report, the directors of the Company have prepared management accounts of NH Development for the six months ended 30 June 2005 in accordance with HKFRS issued by the HKICPA.

We have examined the audited accounts or unaudited management accounts, where applicable, of all companies comprising the Group in the Relevant Periods or since their respective dates of incorporation or acquisition where this is a shorter period and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA.

The financial information as set out in Section I to IV below (“Financial Information”) has been prepared based on the audited accounts or, where appropriate, unaudited management accounts of all companies now comprising the Group on the basis as set out in Note 1 under Section II below, after making such adjustments as are appropriate. The directors of the respective companies within the Group at the Relevant Periods are responsible for preparing these accounts which give a true and fair view. In preparing these accounts, it is fundamental that appropriate accounting policies are selected and applied consistently.

The directors of the Company are responsible for the preparation of the Financial Information. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion.

In our opinion, the Financial Information, for the purpose of this report, prepared on the basis set out in Note 1 under Section II below, give a true and fair view of the consolidated state of affairs of the Group as at 31 December 2002, 2003, 2004 and 30 June 2005, the state of affairs of the Company as at 31 December 2004 and 30 June 2005 and of the consolidated results and cash flows of the Group for the Relevant Periods.

The unaudited comparative financial information of the Group for the six months ended 30 June 2004 has been prepared solely for the purpose of this report. The directors of the Company are responsible for preparing this comparative financial information. It is our responsibility to form an independent conclusion, based on our review, on this comparative financial information and to report our conclusion to you. For the purpose of this report, we have performed a review of the financial information for the six months ended 30 June 2004 in accordance with SAS 700 “Engagements to review interim financial reports” issued by the HKICPA. Our review consists principally of making enquiries of group management and applying analytical procedures to the financial information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information for the six months ended 30 June 2004. On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the financial information for the six months ended 30 June 2004.

## I. FINANCIAL INFORMATION

## 1. Consolidated income statements

	Notes	Year ended 31 December			Six months ended 30 June	
		2002 HK\$'000	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000 (unaudited)
<b>Revenue</b>	4	144,638	68,121	197,710	46,617	22,514
Cost of sales		(113,815)	(49,161)	(146,481)	(25,638)	(18,971)
<b>Gross profit</b>		30,823	18,960	51,229	20,979	3,543
Other income	4	739	621	1,172	3,668	383
Fair value adjustments on investment properties	13	9,966	10,141	7,725	17,876	3,871
Write back of provision for net realisable value for properties held for sale		51	44	–	–	–
Write off of an investment property upon re-development		–	–	–	(3,774)	–
Selling expenses		(2,381)	(1,106)	(3,852)	(747)	(942)
Administrative expenses		(13,043)	(6,692)	(7,004)	(588)	(560)
Finance costs	7	(8,278)	(2,565)	–	(747)	–
<b>Profit before taxation</b>	6	17,877	19,403	49,270	36,667	6,295
Taxation	8	–	(46)	(16,195)	(10,964)	(2,254)
<b>Profit for the year/period</b>		<u>17,877</u>	<u>19,357</u>	<u>33,075</u>	<u>25,703</u>	<u>4,041</u>
<b>Attributable to:</b>						
Equity holders of the Company		16,811	18,470	31,389	24,530	3,845
Minority interests		1,066	887	1,686	1,173	196
		<u>17,877</u>	<u>19,357</u>	<u>33,075</u>	<u>25,703</u>	<u>4,041</u>
<b>Dividends</b>	9	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

## 2. Consolidated balance sheets of the Group

		At 31 December			At
		2002	2003	2004	30 June
	Notes	HK\$'000	HK\$'000	HK\$'000	2005
					HK\$'000
<b>ASSETS AND LIABILITIES</b>					
<b>Non-current assets</b>					
Goodwill	11	–	–	–	3,376
Property, plant and equipment	12	15,988	13,303	11,848	13,654
Investment properties	13	120,609	87,198	78,722	105,165
Investment	14(a)	–	156	156	–
		<u>136,597</u>	<u>100,657</u>	<u>90,726</u>	<u>122,195</u>
<b>Current assets</b>					
Properties held under development	15	31,120	107,141	60,943	49,577
Properties held for sale	16	520	565	14,321	23,070
Inventories	17	461	890	402	409
Deposits paid, prepayments and other receivables	18	3,317	15,115	12,799	17,892
Amounts due from related parties	19	4,480	2,678	3,250	4,364
Pledged bank deposits	26	5,306	9,552	2,272	581
Cash at banks and in hand	27	16,026	26,637	21,909	30,852
		<u>61,230</u>	<u>162,578</u>	<u>115,896</u>	<u>126,745</u>
<b>Current liabilities</b>					
Accounts payable	20	11,517	15,263	44,720	17,204
Accruals, deposits received and other payables	21	25,358	184,071	57,056	26,844
Amounts due to related parties	19	50,474	5,479	8,350	4,655
Provision for tax		–	46	5,346	1,986
Borrowings	22	71,189	–	–	36,246
		<u>158,538</u>	<u>204,859</u>	<u>115,472</u>	<u>86,935</u>
<b>Net current (liabilities)/assets</b>		<u>(97,308)</u>	<u>(42,281)</u>	<u>424</u>	<u>39,810</u>
<b>Total assets less current liabilities</b>		<u>39,289</u>	<u>58,376</u>	<u>91,150</u>	<u>162,005</u>
<b>Non-current liabilities</b>					
Borrowings	22	89,251	89,251	89,251	39,259
Deferred tax liabilities	28	–	–	–	5,069
		<u>89,251</u>	<u>89,251</u>	<u>89,251</u>	<u>44,328</u>
<b>Net (liabilities)/assets</b>		<u>(49,962)</u>	<u>(30,875)</u>	<u>1,899</u>	<u>117,677</u>
<b>EQUITY</b>					
<b>Capital and reserves attributable to the equity holders of the Company</b>					
Share capital	23	–	–	–	24
Reserves	24(a)	(52,415)	(34,201)	(3,099)	111,482
		<u>(52,415)</u>	<u>(34,201)</u>	<u>(3,099)</u>	<u>111,506</u>
<b>Minority interests</b>		<u>2,453</u>	<u>3,326</u>	<u>4,998</u>	<u>6,171</u>
<b>Total equity</b>		<u>(49,962)</u>	<u>(30,875)</u>	<u>1,899</u>	<u>117,677</u>

## 3. Balance sheets of the Company

		At 31 December 2004 <i>HK\$'000</i>	At 30 June 2005 <i>HK\$'000</i>
	<i>Notes</i>		
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Investment in a subsidiary	14(b)	—	2
<b>Current liabilities</b>			
Amount due to a subsidiary		—	133
<b>Net liabilities</b>		<u>—</u>	<u>(131)</u>
<b>EQUITY</b>			
<b>Capital and reserves attributable to the equity holders of the Company</b>			
Share capital	23	—	24
Reserves	24(b)	—	(155)
		<u>—</u>	<u>(131)</u>

## 4. Consolidated cash flow statements

	Year ended 31 December			Six months ended 30 June	
	2002	2003	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
					(unaudited)
<b>Cash flows from operating activities</b>					
Profit before taxation	17,877	19,403	49,270	36,667	6,295
Adjustments for:					
Depreciation	3,220	1,093	885	205	724
Loss on disposal of property, plant and equipment	2,997	1,364	654	69	301
Gain on disposal of investment properties	(25,695)	(8,851)	(2,270)	–	(2,283)
Gain on fair value adjustments	(9,966)	(10,141)	(7,725)	(17,876)	(3,871)
Write back of provision for net realisable value	(51)	(44)	–	–	–
Write off of an investment property upon re-development	–	–	–	3,774	–
Write back of accounts payable	–	–	–	(3,170)	–
Interest income	(69)	(305)	(224)	(193)	(175)
Interest expenses	8,278	2,565	–	747	–
Operating (loss)/profit before working capital changes	(3,409)	5,084	40,590	20,223	991
Increase in properties held under development	(27,928)	(74,444)	(83,217)	(30,324)	(29,015)
(Increase)/decrease in properties held for sale	–	–	115,913	20,823	(4)
(Increase)/decrease in inventories	169	(429)	488	(7)	436
(Increase)/decrease in deposits paid, prepayments and other receivables	1,380	(11,798)	2,316	2,918	(5,618)
(Increase)/decrease in amounts due from related parties	6,365	1,802	(572)	24,269	(1,776)
Increase/(decrease) in accounts payable, accruals, deposits received and other payables	(10,752)	162,459	(97,558)	(55,062)	23,586
(Increase)/decrease in amounts due to related parties	3,184	(44,995)	2,871	(3,934)	2,605
(Increase)/decrease in pledged bank deposits	(4,984)	(4,246)	7,280	1,691	(1,297)
Cash generated from/(used in) operations	(35,975)	33,433	(11,889)	(19,403)	(10,092)
Interest paid	(8,278)	(2,565)	–	(747)	–
Income taxes paid	(1,035)	–	(10,895)	(9,255)	–
Net cash generated from/(used in) operating activities	(45,288)	30,868	(22,784)	(29,405)	(10,092)

**APPENDIX I**
**ACCOUNTANTS' REPORT ON THE GROUP**

	<i>Notes</i>	Year ended 31 December			Six months ended 30 June	
		2002	2003	2004	2005	2006
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
						(unaudited)
<b>Cash flows from investing activities</b>						
Purchase of property, plant and equipment		(1,658)	(1,460)	(375)	(1,399)	(167)
Proceeds from sale of investment properties		120,024	52,403	18,471	–	17,546
Proceeds from sale of property, plant and equipment		75	110	37	1	51
Purchase of investment		–	(156)	–	–	–
Proceeds from disposal of investment		–	–	–	156	–
Acquisition of subsidiaries, net of cash acquired	30(b)	–	–	–	(20,658)	–
Interest received		69	305	224	193	175
Net cash generated from/(used in) investing activities		118,510	51,202	18,357	(21,707)	17,605
<b>Cash flows from financing activities</b>						
Long-term borrowings raised/(repaid)		(62,629)	(71,189)	–	33,019	–
Net cash generated from/(used in) financing activities		(62,629)	(71,189)	–	33,019	–
<b>Net increase/(decrease) in cash and cash equivalents</b>		10,593	10,881	(4,427)	(18,093)	7,513
<b>Effect of foreign exchange difference</b>		–	(270)	(301)	115	(291)
<b>Cash and cash equivalents at the beginning of the year/period</b>		5,433	16,026	26,637	21,909	26,637
<b>Cash and cash equivalents at the end of the year/period</b>	27	16,026	26,637	21,909	3,931	33,859

## 5. Consolidated statements of changes in equity

	Year ended 31 December			Six months ended 30 June	
	2002	2003	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
					(unaudited)
<b>ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>					
<b>Share capital</b>					
Balance at 1 January	—	—	—	—	—
Issued shares during the year/period	—	—	—	24	—
Balance at the end of the year/period	—	—	—	24	—
<b>Exchange reserve</b>					
Balance at 1 January	(21,007)	(21,007)	(21,263)	(21,550)	(21,263)
Translation attributable to equity holders of the Company	—	(256)	(287)	115	(277)
Balance at the end of the year/period	(21,007)	(21,263)	(21,550)	(21,435)	(21,540)
<b>(Accumulated losses)/retained profits</b>					
Balance at 1 January	(48,219)	(31,408)	(12,938)	18,451	(12,938)
Profit attributable to equity holders of the Company	16,811	18,470	31,389	24,530	3,845
Balance at the end of the year/period	(31,408)	(12,938)	18,451	42,981	(9,093)
<b>Merger reserve</b>					
Balance at 1 January	—	—	—	—	—
Arising from Reorganisation	—	—	—	89,936	—
Balance at the end of the year/period	—	—	—	89,936	—
<b>MINORITY INTERESTS</b>					
Balance at 1 January	1,387	2,453	3,326	4,998	3,326
Profit attributable to the minority interests	1,066	887	1,686	1,173	196
Translation attributable to the minority interests	—	(14)	(14)	—	(14)
Balance at the end of the year/period	2,453	3,326	4,998	6,171	3,508
<b>TOTAL EQUITY AT THE END OF THE YEAR/PERIOD</b>					
	<u>(49,962)</u>	<u>(30,875)</u>	<u>1,899</u>	<u>117,677</u>	<u>(27,125)</u>



## II. NOTES TO FINANCIAL INFORMATION

## 1. REORGANISATION AND BASIS OF PREPARATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liabilities on 23 December 2004. Pursuant to the Reorganisation completed on 23 June 2005 to rationalise the Group's structure in the preparation of the listing of the Company's shares on the Main Board of the Stock Exchange, the Company became the holding company of NH Corporation, NH Development and Suzhou Garden Villa Development & Management Co., Ltd. (蘇州錦華苑建設發展管理有限公司) ("SGVDM").

The Group is regarded as a continuing entity resulting from the Reorganisation since all of the entities which took part in the Reorganisation were owned by the same ultimate shareholders before and immediately after the Reorganisation. Accordcity, NH Group, NHIP, NH Land, NH Management, NH Properties and WML (collectively known as "Acquired Subsidiaries") were acquired by the Group subsequent to the Reorganisation on 28 June 2005. Consequently, immediately after the Reorganisation there was a continuation of the risks and benefits to the ultimate shareholders that existed prior to the Reorganisation. The Reorganisation has been accounted for as a reorganisation under common control in a manner similar to pooling of interests except for the Acquired Subsidiaries which have been accounted for using the purchase method from the respective dates of acquisition. Accordingly, the Financial Information has been prepared on the basis of merger accounting, under which the Company was the holding company of the Group with the exception of the Acquired Subsidiaries during the Relevant Periods or since their respective dates of incorporation whichever is shorter, rather than from 23 June 2005. Furthermore, the results of the Group for the Relevant Periods include the results of the Company and its subsidiaries with effect from 1 January 2002 as if the current group structure had been in existence throughout the Relevant Periods except for the results of the Acquired Subsidiaries which are included from the respective dates of acquisition. The consolidated balance sheet as at respective balance sheet dates of the Relevant Periods is a combination of the balance sheets of the Company and its subsidiaries at each balance sheet date.

As at the date of this report, the Company has direct and indirect interests in the following subsidiaries and associate, each of which is a limited liability company.

Company name	Date and place of incorporation	Issued and fully paid ordinary share capital, registered capital	Attributable equitable interest		Principal activities (Place of operation)
			Directly	Indirectly	
<i>Subsidiaries</i>					
NH Corporation	11 February 2005 British Virgin Islands (“BVI”)	347 shares of US\$1 each	100%	–	Investment holding
Accordcity	3 November 2004 BVI	102 shares of US\$1 each	–	100%	Investment holding
NH Development	4 April 1991 Hong Kong	156 shares of HK\$1 each	–	100%	Investment holding (Hong Kong)
NH Group	8 July 2004 BVI	2 shares of US\$1 each	–	100%	Investment holding
New Heritage Investments Limited (“NH Investments”)*	20 July 1984 Hong Kong	1,000,000 shares of HK\$10 each	–	100%	Investment holding (Hong Kong)

Company name	Date and place of incorporation	Issued and fully paid ordinary share capital, registered capital	Attributable equitable interest		Principal activities (Place of operation)
			Directly	Indirectly	
Subsidiaries (continued)					
NHIP	21 January 2005 BVI	1 share of US\$1 each	–	100%	Holding of trademark of the Company
NH Land	24 November 2004 Hong Kong	1 share of HK\$1 each	–	100%	Investment holding (Hong Kong)
NH Management	27 October 2004 Hong Kong	1 share of HK\$1 each	–	100%	Administration vehicle of the Group (Hong Kong)
NH Properties	22 February 2005 Hong Kong	1 share of HK\$1 each	–	100%	Investment holding (Hong Kong)
SGVDM	19 September 1991 PRC	US\$12,150,000	–	95%	Properties development and investment (PRC)
蘇州新繼規劃設計諮詢顧問有限公司	29 March 2004 PRC	US\$100,000	–	100%	Property development and consultative service (PRC)
WML	6 March 1987 Hong Kong	2 shares of HK\$1 each	–	100%	Treasury vehicle of the Group (Hong Kong)
Associate					
Beijing Landmark Towers Co., Ltd. (“BLTCL”)* 北京亮馬河大廈有限公司	31 January 1986 PRC	US\$28,000,000	–	30.05%	Operation of the Beijing Landmark Towers (PRC)

\* These companies became the subsidiary or associate of the Company after 30 June 2005 and before the date of this report. Details of the change in group structure are set out under section III “Subsequent Events” below.

NH Development held 95% interest of Suzhou Sing Sing Catering Amenities Company Limited (“SSSCA”), a company registered in the PRC, during the year ended 31 December 2002 and the period from 1 January 2003 to 22 December 2003 (collectively known as the “Period”). During the Period, SSSCA was a subsidiary and its results were included in the Group’s consolidation as set out in note 2(a). Pursuant to a merger agreement dated 20 June 2003, the

minority shareholder of SSSCA, being the minority shareholder of SGVDM, and NH Development lodged a merger application to the relevant authorities in the PRC to combine SSSCA and SGVDM into SGVDM. The approval was obtained on 22 December 2003 and SSSCA was dissolved thereafter. Since there was a continuation of the risks and benefits to the ultimate owners that existed prior to the combination of SGVDM and SSSCA, the financial statements of SGVDM have been prepared by adopting the merger accounting. Accordingly, the consolidated results of the Group for the years ended 31 December 2003 and 2004 and period ended 30 June 2005 continued to include the results of the SSSCA, with effect from 23 December 2003.

All material intercompany transactions and balances within the Group are eliminated on consolidation.

## 2. PRINCIPAL ACCOUNTING POLICIES

### Statement of compliance

The Financial Information has been prepared in accordance with the Standards and Interpretations of the Hong Kong Financial Reporting Standards (herein collectively referred to as "HKFRS") issued by the HKICPA and accounting principles generally accepted in Hong Kong, and have been consistently applied throughout the Relevant Periods. The Financial Information also complies with all applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange as applicable to Accountants' Report included in the Prospectus.

### Basis of preparation of Financial Information

The Group has early adopted HKFRS which are effective for accounting periods beginning on or after 1 January 2005, issued by the HKICPA for the preparation of this Financial Information of the Group throughout the Relevant Periods. The following is the list of HKFRS which are relevant to its operation as at the beginning of the Relevant Periods:

HKFRS 1	First-Time Adoption of Hong Kong Financial Reporting Standards
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segmental Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings Per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39	Transition and Initial Recognition of Financial Assets and Financial Liabilities
Amendment	
HKAS 40	Investment Property
HK(SIC)Int-3	Revenue – Pre-completion Contracts for the Sale of Development Properties
HK(SIC)Int-12	Income Taxes – Recovery of Revalued Non-Depreciated Assets

All the standards have been applied retrospectively except where specific transitional provisions require a different treatment.

The Financial Information has been prepared in accordance with the significant accounting policies set out below and these accounting policies are in accordance with the HKFRS. The Financial Information has been prepared under the historical cost convention, as modified by the revaluation of investment properties and investment at fair value. The preparation of Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in note 3. The principal accounting policies adopted are as follows:

**(a) Subsidiaries**

Subsidiaries are all enterprises over which the Group has power to control the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

In addition, acquired subsidiaries are subject to application of the purchase method. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their revalued amounts, which are also used as the bases for subsequent measurement in accordance with the Group accounting policies. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiary have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, subsidiaries are carried at cost less impairment losses. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

**(b) Property, plant and equipment**

*(i) Depreciation*

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Buildings	2%
Leasehold improvements	20%
Motor vehicles	20%
Operating and office equipment	5% – 20%
Furniture and fixtures	20%

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at each balance sheet date.

*(ii) Measurement bases*

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the consolidated income statement during the period in which they are incurred.

When assets are sold or retired, any gain or loss resulting from their disposal, being the difference between the net disposal proceeds and the carrying amount of the assets, is included in the consolidated income statement.

**(c) Investment properties**

Property that is held for long-term rental yields or for capital appreciation or both is classified as investment property. Investment properties comprise land held under operating lease and building held under finance lease. Land held under operating lease is classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it was a finance lease.

Investment properties are measured initially at its cost, including related transaction cost. After initial recognition, investment properties are carried at fair value. Fair value is determined annually by external professional valuers, with sufficient experience with respect to both the location and the nature of the investment properties. The carrying amounts recognised in the consolidated balance sheet reflect the prevailing market conditions at the balance sheet date.

Any gain or loss resulting from either a change in fair value or the sale of investment properties is immediately recognised in the consolidated income statement.

**(d) Properties held under development**

Properties held under development are included in current assets and are stated at the lower of cost and net realisable value. Properties held under development comprise land held under operating lease (note(2)(f)(ii)) and aggregate cost of development, materials and supplies, wages and other expenses, less any impairment losses. Other expenses included (a) those costs that are incurred in bringing the properties held under development to their present location and condition and (b) a systematic allocation of fixed overheads that had incurred on development of properties. Fixed overheads are indirect costs which remain relatively constant regardless of the size or volume of the development.

Net realisable value is the estimated selling price in the ordinary course of business less estimated selling expenses.

No depreciation is provided on properties held under development.

On completion, the properties are transferred to completed properties held for sale or investment properties.

**(e) Properties held for sale**

Properties held for sale are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less estimated selling expenses.

**(f) Leases***Operating leases*

- (i) Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Annual rentals applicable to such operating leases are charged to the consolidated income statement on a straight line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the consolidated income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the consolidated income statements in the accounting period in which they are incurred.
- (ii) Leasehold interest in land are up-front payments to acquire the land use right. The payments are stated at cost less accumulated amortisation and any impairment losses. Amortisation is calculated on the straight-line basis to write off the up-front payments over the lease terms.

Leasehold interest in land is included in properties held under development and properties held for sale, of which the amortisation of prepaid land lease is capitalised as part of the building costs during the development period but charged to the consolidated income statement for completed properties.

- (iii) Properties leased out under operating leases are included in investment properties in the consolidated balance sheet. The recognition of rental income is set out in note 2(s).

**(g) Inventories**

Inventories comprise consumable stores for own consumption which are stated at the weighted average method.

**(h) Investment**

Investment classified as available-for-sale financial assets are non-derivatives. Investment is included in non-current assets unless management intends to dispose the investment within twelve months from the balance sheet date.

Purchase and sales of investments are recognised on trade-date which is the date on which the Group commits to purchase or sell the asset. Investment is initially recognised at fair value plus transaction costs. Investment is derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Unrealised gains or losses arising from changes in fair value are recognised in equity. When available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments are included in the consolidated income statement as gains and losses from investment.

**(i) Other receivables and amounts due from related parties**

Other receivables and amounts due from related companies are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment. A provision for impairment of receivables is established when there is an objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the present value of expected cash flows, discounted at the effective rate of interest rate.

**(j) Foreign currencies***(i) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

*(ii) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

*(iii) Group companies*

The results and financial positions of all the group entities (none of which has the currency of a hyperinflationary economy) that have functional currencies different from the presentation currency are translated into the presentation currency as follows:

- (1) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (2) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (3) all resulting exchange differences are recognised as a separate component of equity.

**(k) Income tax**

Income tax for the year comprises current and deferred tax.

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

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 the temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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 profits will be available to allow all or part of the asset to be recovered. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Deferred tax assets and liabilities are not discounted. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Most changes in deferred tax is charged or credited to the consolidated income statement. Only changes in deferred tax assets and liabilities that relate to a change in value of assets and liabilities that is charged directly to equity are charged or credited directly to equity.



**(l) Cash and cash equivalents**

Cash and cash equivalents include cash at bank and in hand as well as short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities of consolidated balance sheet.

**(m) Impairment testing of goodwill and property, plant and equipment**

The Group's goodwill and property, plant and equipment are subject to impairment testing.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management controls the related cash flows.

Individual assets or cash generating units that include goodwill with an indefinite useful life of those not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal discounted cash flow evaluation. Impairment losses recognised for cash-generation units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

**(n) Provisions**

A provision is recognised in the consolidated balance sheet when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

**(o) Account and other payables and amounts due to related parties**

Liabilities for trade and other payables and amounts due to related parties are initially carried at fair value, whether or not billed to the Group, and subsequently measured at amortised cost using the effective interest method less settlement payments.

**(p) Borrowings**

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

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.



**(q) Employee benefits***(i) Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Non-accumulating compensated absences are not recognised until the time of leave.

*(ii) Pension obligations*

The Group contributes to a defined contribution retirement benefit scheme ("MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance which are available to its employees in Hong Kong. Contributions to the MPF Scheme by the Group and employees are calculated as percentages of employees' basic salaries. The retirement benefit scheme cost charged to the consolidated income statement represents contributions payable by the Group to the MPF Scheme.

Pursuant to the relevant regulations in the PRC, the Group has participated in a local municipal government retirement benefit scheme (the "Scheme"), whereby the Group is required to contribute a certain percentage of basic salaries of its employees to the Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of a subsidiary in the PRC. The only obligation of the Group with respect to the Scheme is to pay the ongoing required contributions under the Scheme mentioned above.

The Group's contributions to the retirement benefit schemes are expensed as incurred.

The assets of the MPF Scheme and the Scheme are held separately from those of the Group in independently administered funds.

**(r) Equity**

Share capital is determined using the nominal value shares that have been issued.

Accumulated losses or retained profits include all current and prior period results as determined in the consolidated income statement.

**(s) Revenue recognition**

Revenue arising from sale of properties held for sale are recognised when the significant risks and rewards of ownership of these properties held for sale have been transferred to the purchasers and the Group retains neither continuing involvement to the degree usually associated with ownership nor effective control over properties held for sale. The transfer of risks and rewards of ownership is evidenced by the passing of possession of properties to the buyer when the property hand-over confirmation is executed by the Group and the buyer. Deposits and instalments received from purchasers prior to this stage and pre-sale are included in current liabilities and are not recognised as revenue.

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

Management fee income and handling fee income are recognised as revenue when the agreed services are provided.

Interest income from bank deposits is recognised on a time proportion basis by reference to the principal outstanding and the rate applicable.

**(t) Borrowing costs**

All borrowing costs are accounted for under the benchmark treatment of HKAS 23 which are expensed as incurred.

**3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

Estimates and judgements are continually evaluated and are based on historical experience as adjusted for current market conditions and other factors.

**(a) Critical accounting estimates and assumptions**

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that 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:

*(i) Investment properties*

The investment properties of the Group were stated at fair value in accordance with the accounting policy stated in note 2(c). The fair value of the investment properties are determined by DTZ Debenham, Tie Leung Limited, a firm of independently qualified professional surveyors and the fair value of investment properties as at respective year/period end were set out in note 13. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

In making the judgement, consideration has been given to assumptions that are mainly based on market conditions existing at the balance sheet dates and appropriate capitalisation rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group.

*(ii) Income taxes*

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provision in the period in which such determination is made.

**(b) Critical judgements in applying the entity's accounting policies**

*(i) Revenue recognition*

The Group has recognised revenue from sale of properties held for sale and investment properties during the Relevant Periods as disclosed in note 4. The assessment of when an entity has transferred the significant risks and rewards of ownership to buyer requires examination of the circumstances of the transaction. In most cases, the transfer of risks and rewards of ownership coincides with the transfer of the legal title or the passing of possession to the buyer. The Group believes that its recognition basis of sales as set out in note 2(s) is appropriate and is the current practice in the PRC.

## 4. REVENUE AND OTHER INCOME

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in note 1. Turnover, other revenue and other income recognised during the Relevant Periods are as follows:

	Year ended 31 December			Six months ended 30 June	
	2002	2003	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
					(unaudited)
<b>Revenue</b>					
<u>Turnover</u>					
Proceeds from sale of					
– properties held for sale	–	–	170,211	42,957	–
– investment properties	120,024	52,403	18,471	–	17,546
Rental income	17,825	7,906	2,241	790	1,391
Management fee income	5,666	6,147	5,483	2,665	3,048
	<u>143,515</u>	<u>66,456</u>	<u>196,406</u>	<u>46,412</u>	<u>21,985</u>
 <u>Other Revenue</u>					
Club house income	988	1,534	1,150	99	448
Laundry service income	135	131	154	106	81
	<u>1,123</u>	<u>1,665</u>	<u>1,304</u>	<u>205</u>	<u>529</u>
	<u>144,638</u>	<u>68,121</u>	<u>197,710</u>	<u>46,617</u>	<u>22,514</u>
 <b>Other income</b>					
Handling fee income	–	–	318	–	–
Interest income	69	305	224	193	175
Write back of accounts payable	–	–	–	3,170	–
Others	670	316	630	305	208
	<u>739</u>	<u>621</u>	<u>1,172</u>	<u>3,668</u>	<u>383</u>
 <b>Total revenue</b>	<u>145,377</u>	<u>68,742</u>	<u>198,882</u>	<u>50,285</u>	<u>22,897</u>

## 5. SEGMENT INFORMATION

Properties development and investment is the only business segment of the Group throughout the Relevant Periods. No geographical segment analysis is presented as less than 10% of the Group's revenue and contribution to operating profit is attributable to customers located outside the PRC for the Relevant Periods. Accordingly, no separate business and geographical segment information is prepared.

## 6. PROFIT BEFORE TAXATION

	Year ended 31 December			Six months ended 30 June	
	2002	2003	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
					(unaudited)
Profit before taxation is arrived at after charging:					
Cost of properties held for sale recognised as expense	–	–	115,909	20,609	–
Depreciation of property, plant and equipment	3,220	2,670	1,139	428	1,068
Less: amount capitalised in properties held under development	–	(1,577)	(254)	(223)	(344)
	3,220	1,093	885	205	724
Outgoings in respect of investment properties	4,923	1,378	387	259	279
Operating lease charges in respect of land and buildings	–	332	309	155	155
Loss on disposal of property, plant and equipment	2,997	1,364	654	69	301
Auditors' remuneration	76	134	65	45	65
Staff costs, including directors' emoluments ( <i>note 25(a)</i> ) and retirement benefits cost	2,290	2,839	4,128	1,516	1,756
Less: amount capitalised in properties held under development	–	(554)	(430)	(500)	(384)
	2,290	2,285	3,698	1,016	1,372
Amount recognised as expense for retirement benefits cost	234	353	554	213	194
Write off of amount due from a related company	4,039	–	–	–	–
and crediting:					
Rental income less outgoings	12,902	6,528	1,854	531	1,112
Exchange gain	310	186	270	31	60
Write back of amount due from a related company written off	–	137	–	–	–
Gain on disposal of investment properties included in gross profit	25,695	8,851	2,270	–	2,283

## 7. FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2002	2003	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
					(unaudited)
Interest charges on:					
Bank loans wholly repayable within five years	2,495	1,122	–	545	–
Loans from related companies	5,783	1,443	–	202	–
	8,278	2,565	–	747	–

## 8. TAXATION

	Year ended 31 December			Six months ended 30 June	
	2002	2003	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
<b>Current tax</b>					
– Hong Kong	–	46	–	–	–
– PRC	–	–	16,195	5,895	2,254
	–	46	16,195	5,895	2,254
<b>Deferred tax (note 28)</b>					
– Hong Kong	–	–	–	–	–
– PRC	–	–	–	5,069	–
	–	–	–	5,069	–
Total income tax expenses	–	46	16,195	10,964	2,254

The Group's profits derived in Hong Kong are subject to Hong Kong profits tax which was 16% for the year ended 31 December 2002. In March 2003, the Hong Kong government announced an increase in the profits tax rate applicable to the Group's operations in Hong Kong from 16% to 17.5%. This increase is taken into account in the preparation of the Group's consolidated income statement beginning 1 January 2003.

The PRC income tax is computed according to the relevant laws and regulations in the PRC. The applicable income tax rate was 33% throughout the Relevant Periods. Reconciliation between tax expense and accounting profit at applicable tax rates:

	Year ended 31 December			Six months ended 30 June	
	2002	2003	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Profit before taxation	17,877	19,403	49,270	36,667	6,295
Tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	6,486	6,145	16,360	12,083	2,059
Tax effect of non-deductible expenses	1,102	10	66	83	475
Tax effect of non-taxable revenue	(12)	(50)	(14)	(45)	(19)
Tax effect of prior year's tax losses utilised this year	(4,402)	(7,136)	–	–	–
Tax effect of temporary differences not recognised	(3,174)	1,165	(299)	(1,105)	(261)
Under/(over) provision in prior years	–	(88)	82	(52)	–
Total taxation	–	46	16,195	10,964	2,254

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group had unrecognised tax losses arising from SGVDM of approximately HK\$34,964,000 and HK\$21,624,000 which represented deferred tax assets of approximately HK\$11,538,000 and HK\$7,136,000 as at 31 December 2001 and 2002 respectively for offset against future taxable income.

At 31 December 2002, 2003 and 2004 and 30 June 2005, there was no significant unrecognised deferred tax liability for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted.

During the three years ended 31 December 2004, no deferred tax has been provided as there was no material temporary difference. The amounts of the deferred tax charge/(credit) not recognised during the Relevant Periods are as follows:

	Year ended 31 December			Six months ended 30 June	
	2002	2003	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
					(unaudited)
Tax effect of temporary differences attributable to fair value adjustments net of tax losses not recognised	800	1,000	400	1,000	(100)

## 9. DIVIDENDS

No dividend has been paid or declared by the Company since the date of its incorporation.

## 10. EARNINGS PER SHARE

No earnings per share information is presented as its inclusion, for the purpose of this report, is not meaningful in the opinion of the directors.

## 11. GOODWILL

	At 31 December			At 30 June
	2002	2003	2004	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Cost</b>				
Balance at the beginning of the year/period	—	—	—	—
Goodwill arise on acquisition of certain subsidiaries	—	—	—	3,376
Balance at the end of the year/period	—	—	—	3,376

## 12. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK\$'000	Leasehold improve- ments HK\$'000	Motor vehicles HK\$'000	Operating and office equipment HK\$'000	Furniture and fixtures HK\$'000	Total HK\$'000
<b>At 1 January 2002</b>						
Cost	12,116	339	1,486	24,191	9,125	47,257
Accumulated depreciation	(1,513)	(271)	(1,486)	(18,370)	(4,995)	(26,635)
Net book amount	<u>10,603</u>	<u>68</u>	<u>—</u>	<u>5,821</u>	<u>4,130</u>	<u>20,622</u>
<b>Net book value</b>						
At 1 January 2002	10,603	68	—	5,821	4,130	20,622
Additions	—	—	—	384	1,274	1,658
Disposals	—	—	—	(98)	(2,974)	(3,072)
Depreciation	(242)	(34)	—	(2,006)	(938)	(3,220)
At 31 December 2002	<u>10,361</u>	<u>34</u>	<u>—</u>	<u>4,101</u>	<u>1,492</u>	<u>15,988</u>
<b>At 31 December 2002</b>						
Cost	12,116	339	1,486	24,262	2,629	40,832
Accumulated depreciation	(1,755)	(305)	(1,486)	(20,161)	(1,137)	(24,844)
Net book amount	<u>10,361</u>	<u>34</u>	<u>—</u>	<u>4,101</u>	<u>1,492</u>	<u>15,988</u>
<b>Net book value</b>						
At 1 January 2003	10,361	34	—	4,101	1,492	15,988
Additions	—	240	—	748	472	1,460
Disposals	—	—	—	(318)	(1,157)	(1,475)
Depreciation	(242)	(82)	—	(2,066)	(280)	(2,670)
At 31 December 2003	<u>10,119</u>	<u>192</u>	<u>—</u>	<u>2,465</u>	<u>527</u>	<u>13,303</u>
<b>At 31 December 2003</b>						
Cost	12,116	579	1,486	23,850	1,164	39,195
Accumulated depreciation	(1,997)	(387)	(1,486)	(21,385)	(637)	(25,892)
Net book amount	<u>10,119</u>	<u>192</u>	<u>—</u>	<u>2,465</u>	<u>527</u>	<u>13,303</u>
<b>Net book value</b>						
At 1 January 2004	10,119	192	—	2,465	527	13,303
Additions	—	—	166	203	6	375
Disposals	—	—	—	(372)	(319)	(691)
Depreciation	(242)	(48)	—	(780)	(69)	(1,139)
At 31 December 2004	<u>9,877</u>	<u>144</u>	<u>166</u>	<u>1,516</u>	<u>145</u>	<u>11,848</u>
<b>At 31 December 2004</b>						
Cost	12,116	579	1,517	20,740	463	35,415
Accumulated depreciation	(2,239)	(435)	(1,351)	(19,224)	(318)	(23,567)
Net book amount	<u>9,877</u>	<u>144</u>	<u>166</u>	<u>1,516</u>	<u>145</u>	<u>11,848</u>
<b>Net book value</b>						
At 1 January 2005	9,877	144	166	1,516	145	11,848
Additions	—	—	529	1,337	437	2,303
Disposals	—	—	—	(11)	(58)	(69)
Depreciation	(121)	(24)	(18)	(236)	(29)	(428)
At 30 June 2005	<u>9,756</u>	<u>120</u>	<u>677</u>	<u>2,606</u>	<u>495</u>	<u>13,654</u>
<b>At 30 June 2005</b>						
Cost	12,116	579	2,046	22,065	669	37,475
Accumulated depreciation	(2,360)	(459)	(1,369)	(19,459)	(174)	(23,821)
Net book amount	<u>9,756</u>	<u>120</u>	<u>677</u>	<u>2,606</u>	<u>495</u>	<u>13,654</u>

Depreciation expenses have been included in:

	Year ended 31 December			Six months ended 30 June
	2002	2003	2004	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Consolidated balance sheets				
– capitalised in properties under development	–	1,577	254	223
Consolidated income statements				
– cost of sales	1,500	417	113	25
– administrative expense	1,720	676	471	95
– selling expense	–	–	301	85
	<u>3,220</u>	<u>2,670</u>	<u>1,139</u>	<u>428</u>

### 13. INVESTMENT PROPERTIES

	At 31 December			At 30 June
	2002	2003	2004	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Carrying amount at 1 January	204,972	120,609	87,198	78,722
Additions	–	–	–	17,058
Fair value adjustments	9,966	10,141	7,725	17,876
Disposals	(94,329)	(43,552)	(16,201)	–
Written off	–	–	–	(3,774)
Transfer to properties held under development	–	–	–	(4,717)
Carrying amount at the end of the year/period	<u>120,609</u>	<u>87,198</u>	<u>78,722</u>	<u>105,165</u>

At 31 December 2002 and 30 June 2005, certain investment properties of approximately HK\$44,340,000 and HK\$56,605,000 respectively were pledged to secure certain bank loans granted to the Group (note 22).

Investment properties included leasehold interest in land located in the PRC with lease terms expiring from 2061 to 2065.

The investment properties were revalued at respective year/period end dates by DTZ Debenham Tie Leung Limited, a firm of independent qualified professional surveyors. Valuations were based on the properties' open market value on the respective reporting dates. The properties have been valued by direct comparison method by making reference to comparable sales evidences as available in the relevant market and where appropriate, by capitalising the net rental income derived from the existing tenancies with due allowance for the reversionary potential of the respective properties as at the reporting dates.

The directors intended to re-develop a leasehold interest in land associated with an investment property located in the PRC for sale and such development work was commenced in February 2005. The underlying buildings of approximately HK\$3,774,000 was written off to the consolidated income statement for the six months ended 30 June 2005. The leasehold interest in land of approximately HK\$4,717,000 was reclassified to properties held under development as prepaid operating lease payment under current assets in the consolidated balance sheet as at 30 June 2005.



## 14. INVESTMENT

## (a) Investment in securities

*The Group*

	At 31 December			At
	2002	2003	2004	30 June
	HK\$'000	HK\$'000	HK\$'000	2005
				HK\$'000
Unlisted, in the PRC, at fair value	—	156	156	—

## (b) Investment in a subsidiary

*The Company*

	At	At
	31 December	30 June
	2004	2005
	HK\$'000	HK\$'000
Unlisted, at cost	—	2

For details of the Company's subsidiaries, please refer to Note 1.

## 15. PROPERTIES HELD UNDER DEVELOPMENT

	At 31 December			At
	2002	2003	2004	30 June
	HK\$'000	HK\$'000	HK\$'000	2005
				HK\$'000
Carrying amount at 1 January	21,937	31,120	107,141	60,943
Additions	9,183	76,021	83,471	35,264
Transfer to properties held for sale	—	—	(129,669)	(46,630)
Carrying amount at the end of the year/period	31,120	107,141	60,943	49,577

The Group made up-front payments for operating leases to a minority shareholder, 蘇州新區經濟發展集團總公司 (Suzhou New District Development Company), to acquire the right to use certain leasehold interests in land located in the PRC with lease terms expiring from 2061 to 2075.

As at 31 December 2002, 2003 and 2004 and 30 June 2005, carrying value of the operating lease up-front payment were amounting to HK\$21,870,000, HK\$21,870,000, HK\$5,807,000 and HK\$12,621,000 respectively.

At 31 December 2002 and 30 June 2005, certain leasehold interests in land of HK\$18,798,000 and HK\$12,621,000 respectively were pledged against certain bank loans granted to the Group (note 22).

## 16. PROPERTIES HELD FOR SALE

As at 31 December 2002, 2003 and 2004 and 30 June 2005, carrying values of the operating lease up-front payment were amounting to HK\$45,000, HK\$45,000, HK\$1,186,000 and HK\$2,308,000 respectively.

Properties held for sale included leasehold interest in land located in the PRC with lease terms expiring from 2061 to 2065.

**17. INVENTORIES**

Inventories represented low value consumables carried at cost as at respective year/period end dates.

**18. DEPOSITS PAID, PREPAYMENTS AND OTHER RECEIVABLES**

	At 31 December			At 30 June
	2002	2003	2004	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Deposits and prepayments	467	10,977	9,708	12,302
Other receivables	2,850	4,138	3,091	5,590
	<u>3,317</u>	<u>15,115</u>	<u>12,799</u>	<u>17,892</u>

**19. AMOUNTS DUE FROM/TO RELATED PARTIES**

		At 31 December			At 30 June
		2002	2003	2004	2005
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amount due from a director	(a)	3,995	2,282	2,782	2,725
Amounts due from related companies	(b)	485	359	368	1,639
Amount due from a close family member of the directors	(c)	—	37	100	—
		<u>4,480</u>	<u>2,678</u>	<u>3,250</u>	<u>4,364</u>
Amount due to a director		109	303	232	287
Amounts due to related companies	(d)	50,155	5,153	7,516	3,458
Amounts due to close family members of the directors	(e)	210	23	602	910
		<u>50,474</u>	<u>5,479</u>	<u>8,350</u>	<u>4,655</u>

The amounts due were unsecured and interest free, except for the amount due to Chong Lai (Panama) S.A. ("CL Panama") (included in amounts due to related companies (note (d) below)) which was interest bearing at a rate of 5% per annum. The amounts due have no fixed terms of repayment and have been fully settled subsequent to 30 June 2005.

**(a) Amount due from a director**

Further details of amount due from a director, Mr. Taochaifu Choofuang ("Mr. CF Tao"), disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

	Year ended 31 December			Six months ended 30 June
	2002	2003	2004	2005
	HK'000	HK'000	HK'000	HK'000
Balance at beginning of the year/period	4,372	3,995	2,282	2,782
Maximum amount outstanding during the year/period	<u>4,372</u>	<u>3,995</u>	<u>2,782</u>	<u>2,782</u>

**(b) Amounts due from related companies**

		At 31 December			At 30 June
		2002	2003	2004	2005
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Albany Interiors Limited	(i)	23	—	—	—
NH Investments	(ii)	428	—	—	1,639
New Heritage Real Estate Limited	(iii)	28	—	—	—
Clark Hatch Fitness Centres (Shanghai) Limited ("Clark")	(iv)	—	359	359	—
Lanick Group Limited ("Lanick")	(v)	6	—	—	—
Eastside Properties Limited ("Eastside")	(vi)	—	—	9	—
		<u>485</u>	<u>359</u>	<u>368</u>	<u>1,639</u>

- (i) Mr. Taochaifu Porn ("Mr. Paul Tao") has beneficial interest in this company.
- (ii) Mr. CF Tao, Mr. Tao Richard ("Mr. Richard Tao") and Mr. Paul Tao have beneficial interests in this company.
- (iii) Mr. Paul Tao has beneficial interest in this company.
- (iv) Mr. Paul Tao and Mr. CF Tao have beneficial interest in this company.
- (v) Mr. Paul Tao is a director of this company.
- (vi) Mr. CF Tao's wife is a director of this company.

**(c) Amount due from a close family member of the directors**

		At 31 December			At 30 June
		2002	2003	2004	2005
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hon Hing Tong, Patricia (note 31(a) & (b))		<u>—</u>	<u>37</u>	<u>100</u>	<u>—</u>

Ms. Hon Hing Tong, Patricia is the wife of Mr. Paul Tao.

**(d) Amounts due to related companies**

		At 31 December			At 30 June
		2002	2003	2004	2005
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
B.T. Shipping & Enterprises Limited ("BT Shipping")	(i)	—	1,900	—	—
CL Panama	(i)	46,798	716	—	—
WML	(ii)	854	—	7,445	—
Choice Win International Corporation ("Choice Win")	(iii)	2,446	2,446	—	—
Nanjing Xin Nan Decorative Industrial Co. Ltd.		8	8	—	—
Eastside	(iv)	38	25	—	1,662
Cosmopolitan Group Limited	(v)	9	9	20	80
Lakeside Consultants Limited ("Lakeside")	(vi)	2	16	18	576
Lanick		<u>—</u>	<u>33</u>	<u>33</u>	<u>1,140</u>
		<u>50,155</u>	<u>5,153</u>	<u>7,516</u>	<u>3,458</u>

- (i) Mr. CF Tao, Mr. Richard Tao and Mr. Paul Tao have beneficial interests in these companies.
- (ii) Mr. CF Tao has beneficial interest in this company.
- (iii) Mr. CF Tao is a director of this company.
- (iv) Mr. CF Tao's wife is a director of this company.
- (v) Ms. Miriam Tao, the daughter of Mr. CF Tao, is a director of this company.
- (vi) Mr. Richard Tao is a director of this company.

**(e) Amounts due to close family members of the directors**

	At 31 December			At
	2002	2003	2004	30 June
	HK\$'000	HK\$'000	HK\$'000	2005
Ms. Miriam Tao ( <i>note 31(a) &amp; (b)</i> )	84	23	602	894
Hon Hing Tong Patricia ( <i>note 31(a) &amp; (b)</i> )	126	—	—	16
	<u>210</u>	<u>23</u>	<u>602</u>	<u>910</u>

**20. ACCOUNTS PAYABLE**

The aging analysis of the accounts payable are as follows:

		At 31 December			At
		2002	2003	2004	30 June
	Notes	HK\$'000	HK\$'000	HK\$'000	2005
Below 30 days		1,216	1,516	8,124	1,017
30 – 60 days		85	797	221	239
61 – 90 days		39	—	81	68
91 – 365 days		114	87	235	443
Over 365 days		<u>4,605</u>	<u>4,623</u>	<u>4,639</u>	<u>1,420</u>
Construction payables	(a)	6,059	7,023	13,300	3,187
Accrued construction cost and other project-related expenses	(b)	<u>5,458</u>	<u>8,240</u>	<u>31,420</u>	<u>14,017</u>
		<u>11,517</u>	<u>15,263</u>	<u>44,720</u>	<u>17,204</u>

- (a) Construction payables comprise constructions and other project-related expenses payable which are billed by the constructors according to the terms of the relevant agreements and project progress.
- (b) Included in the above amounts are construction cost and other project-related expenses payable amounted to approximately HK\$8,240,000, HK\$31,420,000 and HK\$12,130,000 at 31 December 2003, 2004 and 30 June 2005 respectively which were accrued based on the terms of the relevant agreements and project progress and were not due for payment as at respective year/period end dates.

## 21. ACCRUALS, DEPOSITS RECEIVED AND OTHER PAYABLES

		At 31 December			At
		2002	2003	2004	30 June
	Notes	HK\$'000	HK\$'000	HK\$'000	2005
Receipt in advance	(a)	1,037	167,659	43,803	13,245
Accruals and other payables		24,321	16,412	13,253	13,599
		<u>25,358</u>	<u>184,071</u>	<u>57,056</u>	<u>26,844</u>

- (a) Included in receipt in advance, amounts of HK\$4,773,000, HK\$2,894,000 and HK\$4,003,000 were paid by Eastside, Lakeside and Lanick on 17 November 2004 respectively, related companies (notes 19(a) and 19(c)), for acquisitions of certain properties held for sale.

## 22. BORROWINGS

Borrowings wholly repayable within five years:

	At 31 December			At
	2002	2003	2004	30 June
	HK\$'000	HK\$'000	HK\$'000	2005
Bank overdrafts, secured	—	—	—	26,921
Bank loan, secured	7,547	—	—	48,584
Loan from shareholders	2,496	2,496	2,496	—
Loan from related companies	89,956	26,314	26,314	—
Other loans	60,441	60,441	60,441	—
	<u>160,440</u>	<u>89,251</u>	<u>89,251</u>	<u>75,505</u>
Less: Current portion due within one year included under current liabilities	<u>(71,189)</u>	<u>—</u>	<u>—</u>	<u>(36,246)</u>
Non-current portion included under non-current liabilities	<u>89,251</u>	<u>89,251</u>	<u>89,251</u>	<u>39,259</u>

Borrowings were repayable as follows:

		At 31 December			At
		2002	2003	2004	30 June
	Notes	HK\$'000	HK\$'000	HK\$'000	2005
Within one year					
Bank overdrafts, secured	(a)	—	—	—	26,921
Bank loan, secured	(b)	7,547	—	—	9,325
Loans from related companies	(c)				
— Miripa (BVI) Limited		16,789	—	—	—
("Miripa")		46,853	—	—	—
— WML					
		63,642	—	—	—
From two to five years					
Bank loan, secured	(b)	—	—	—	39,259
Loans from shareholders	(d)	2,496	2,496	2,496	—
Loan from a related company	(d)	26,314	26,314	26,314	—
Other loans	(d)	60,441	60,441	60,441	—
		<u>160,440</u>	<u>89,251</u>	<u>89,251</u>	<u>75,505</u>

- (a) The bank overdrafts were secured by corporate guarantee executed by the Company and certain properties and pledge of fixed deposit held by related companies. Interest was charged on the outstanding balances at rates of 0.75% over the deposit rate of the pledged fixed deposit and 1% below the Hong Kong Dollars best lending rate per annum.
- (b) The bank loan was secured by pledge of certain investment properties (note 13) and leasehold interest in land held for development (note 15) held by a subsidiary of the Group, corporate guarantee executed by the Company and pledge of certain properties and fixed deposits held by related companies. Interest was charged on the outstanding balances at rates of 5.841% per annum for the year ended 31 December 2002 and at rates of 0.5% over the deposit rate of the pledged fixed deposits, 2.25% below the Hong Kong Dollars best lending rate and 5.184% per annum.
- (c) Loans from related companies were unsecured and interest bearing at rates ranged from 4% to 5% per annum for the year ended 31 December 2002 and 5% per annum for the six months ended 30 June 2005. Mr. CF Tao and Mr. Paul Tao, directors of the Company, have beneficial interest in Miripa.
- (d) These loans were unsecured, interest free and have no fixed terms of repayment.

On 24 June 2005, a deed of assignment was entered into by Mr. CF Tao, Mrs. Nancy Tao, Mr. Tao Shing Pee ("Mr. SP Tao"), Le Chateau Inc. ("LCI"), Peanma Investments (Singapore) Pte Ltd ("Peanma"), Ocean Shipping & Enterprises Private Limited ("OSE"), Stockwatch Holdings Ltd ("Stockwatch"), Hallam Investment Limited ("Hallam"), NH Development and NH Corporation and Choice Win, pursuant to which 240 shares of US\$1.00 each of NH Corporation were allotted and issued to Mr. CF Tao, Mrs. Nancy Tao, Mr. SP Tao, LCI, Peanma, OSE, Stockwatch and Hallam or to the party(ies) as directed by them, credited as fully paid, in consideration of the assignment to NH Corporation of the respective rights and interests in those outstanding moneys and/or loans due from NH Development.

## 23. SHARE CAPITAL

Movement of share capital of the Company since the date of incorporation is summarised below:

		From 23 December 2004 (date of incorporation) to 31 December 2004		Six months ended 30 June 2005	
		<i>Number of shares</i>	<i>HK\$ '000</i>	<i>Number of shares</i>	<i>HK\$ '000</i>
	<i>Notes</i>				
Authorised					
Ordinary shares of HK\$0.01 each					
At the beginning of the period		–	–	30,000,000,000	300,000
Increase in authorised share capital on incorporation	(a)	30,000,000,000	300,000	–	–
At the end of the period		<u>30,000,000,000</u>	<u>300,000</u>	<u>30,000,000,000</u>	<u>300,000</u>
Issued and fully paid					
Ordinary shares of HK\$0.01 each					
At the beginning of the period		–	–	1	–
Issue of shares at the date of incorporation	(a)	1	–	–	–
Issue of shares on Reorganisation	(b)	–	–	4	–
Issue of shares on loan capitalisation	(c)	–	–	2,410,010	24
At the end of the period		<u>1</u>	<u>–</u>	<u>2,410,015</u>	<u>24</u>

- (a) The Company was incorporated in the Cayman Islands on 23 December 2004 as an exempted company with limited liability under the Companies Law of the Cayman Islands. At the date of incorporation, the authorised share capital of the Company was HK\$300,000,000 divided into 30,000,000,000 shares of HK\$0.01 each. One subscriber's share of HK\$0.01 in the Company was allotted and issued in cash to the initial subscriber.
- (b) On 23 June 2005, the Company entered into a share swap agreement with Mr. CF Tao and Mrs. Nancy Tao to acquire the entire interest of NH Corporation. The consideration was satisfied by the allotment and issue of 4 shares of the Company of HK\$0.01 each, credited as fully paid, to Mr. CF Tao and Mrs. Nancy Tao on the same day.
- (c) On 24 June 2005, the Company issued and allotted, credited as fully paid, 2,410,010 shares of HK\$0.01 each for the purpose of satisfying the total consideration of HK\$24,100.10 for the acquisition of 240 shares of NH Corporation from the parties as set out in note 22(d).

## 24. RESERVES

## (a) Group

<i>Notes</i>	<b>At 31 December</b>			<b>At</b>
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>30 June</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2005</i>
				<i>HK\$'000</i>
(Accumulated losses)/				
retained profits	(31,408)	(12,938)	18,451	42,981
Exchange reserves	(21,007)	(21,263)	(21,550)	(21,435)
Merger reserves	(i) –	–	–	89,936
	<u>(52,415)</u>	<u>(34,201)</u>	<u>(3,099)</u>	<u>111,482</u>

- (i) The merger reserve of the Group arose as a result of the Reorganisation completed on 23 June 2005 and represents the difference between the nominal value of the Company's shares issued under the Reorganisation and the nominal value of the aggregate share capital of the subsidiaries then acquired.
- (ii) Of the consolidated profit attributable to equity holders of the Company of HK\$31,389,000 and HK\$26,228,000 for the year ended 31 December 2004 and six-months ended 30 June 2005, HK\$nil and loss of HK\$133,000 has been dealt with in the financial statements of the Company for the period from 23 December 2004 (date of incorporation of the Company) to 31 December 2004 and the six-months ended 30 June 2005.

## (b) Company

	<b>Accumulated losses</b>	<b>Contributed surplus</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 23 December 2004 (date of incorporation)	–	–	–
Loss for the period	–	–	–
At 31 December 2004 and 1 January 2005	–	–	–
Loss for the period	133	–	133
Arise from Reorganisation	–	22	22
At 30 June 2005	<u>133</u>	<u>22</u>	<u>155</u>

The contributed surplus of the Company arose as a result of the Reorganisation referred to in note 24(a) and represents the excess of the nominal value of the Company's shares issued in exchange therefor over the nominal value of the shares of the subsidiaries then acquired.



## 25. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

## (a) Directors' emoluments

	Year ended 31 December			Six months ended 30 June	
	2002	2003	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
					(unaudited)
Directors' remuneration					
Salaries and allowances					
Mr. CF Tao	57	57	57	29	29
Mr. Richard Tao	—	—	—	—	—
Mr. Paul Tao	57	57	57	29	29
KONG Mui Sum, Lawrence	—	—	—	—	—
YIM Chun Leung	—	—	—	—	—
	<u>114</u>	<u>114</u>	<u>114</u>	<u>58</u>	<u>58</u>
Fees	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>114</u>	<u>114</u>	<u>114</u>	<u>58</u>	<u>58</u>

There were no emoluments paid or payable to the independent non-executive directors during the Relevant Periods.

There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Periods.

No share options were granted to the directors of the Company during the Relevant Periods.

## (b) Senior management emoluments

Details of the remuneration paid to the five highest paid individuals of which none of them are directors, during the Relevant Periods, are as follows:

	Year ended 31 December			Six months ended 30 June	
	2002	2003	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
					(unaudited)
Salaries and allowances	1,043	1,019	1,860	768	955
Discretionary bonuses	99	207	385	101	179
Retirement benefit costs	51	68	44	10	14
Medical benefits	—	—	—	—	—
	<u>1,193</u>	<u>1,294</u>	<u>2,289</u>	<u>879</u>	<u>1,148</u>

The emoluments fell within the following bands:

	Year ended 31 December			Six months ended 30 June	
	2002	2003	2004	2005	2004
				(unaudited)	
Emolument bands					
Nil – HK\$1,000,000	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>

No share options were granted to the above five highest paid individuals in respect of their services to the Group during the Relevant Periods.

During the Relevant Periods, no emoluments were paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office.

## 26. PLEDGED BANK DEPOSITS

The Group provides guarantee to the mortgagee banks and financial institutions in respect of mortgage loans advanced to the property purchasers from the date of draw-down of mortgage loans to the date when the certificates for housing ownership and certificates of others' interest for housing ownership (collectively known as "Certificates") are granted to the property purchasers.

The bank deposits were pledged as security in favour of banks and financial institutions in the PRC who provided mortgage loan to purchasers of properties. Such charges would be released upon the Certificates are granted to the property purchasers.

## 27. CASH AND CASH EQUIVALENTS

Analysis of cash and cash equivalents is as follows:

	Year ended 31 December			Six months ended 30 June	
	2002	2003	2004	2005	2004
	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000
				(unaudited)	
Cash at banks and in hand	16,026	26,637	21,909	30,852	33,859
Bank overdrafts	<u>—</u>	<u>—</u>	<u>—</u>	<u>(26,921)</u>	<u>—</u>
	<u>16,026</u>	<u>26,637</u>	<u>21,909</u>	<u>3,931</u>	<u>33,859</u>

As at 31 December 2002, 2003 and 2004 and 30 June 2005, cash and cash equivalents of HK\$5,306,000, HK\$9,552,000, HK\$2,272,000 and HK\$581,000 respectively were originally denominated in Renminbi and deposited with banks in the PRC, the conversion of these Renminbi denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

**28. DEFERRED TAXATION**

Deferred taxation are calculated in full on temporary differences under the liability method using the applicable tax rates at balance sheet date.

The movement in deferred tax liabilities account is as follows:

	Year ended 31 December			Six months ended 30 June
	2002	2003	2004	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At beginning of year/period	—	—	—	—
Deferred taxation charged to income statement	—	—	—	5,069
At end of year/period	—	—	—	5,069
Provided in respect of:				
Temporary differences on fair value adjustments	—	—	—	4,023
Other taxable temporary differences	—	—	—	1,046
	—	—	—	5,069

**29. COMMITMENTS AND OPERATING LEASE ARRANGEMENTS****(a) Capital commitments in respect of properties under development**

	At 31 December			At 30 June
	2002	2003	2004	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contracted but not provided for	77,109	38,684	887	62,902
Authorised but not contracted for	—	—	64,906	—
	77,109	38,684	65,793	62,902

**(b) Future operating lease arrangements**

- (i) The Group had future aggregate minimum lease receipts under non-cancellable operating leases as follows:

	At 31 December			At 30 June
	2002	2003	2004	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Not later than one year	5,507	1,636	922	1,329
Later than one year and not later than five years	1,133	135	2,057	1,769
Later than five years	52	30	11	—
	6,692	1,801	2,990	3,098

The Group leases out its investment properties (note 13) under operating lease arrangements which run for initial periods of less than one year to five years, without an option to renew the lease terms at the expiry date or at dates as mutually agreed between the Group and the respective tenants. The terms of the leases generally also require the tenants to pay security deposits.

- (ii) The Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	At 31 December			At 30 June
	2002	2003	2004	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Not later than one year	—	—	309	728
Later than one year and not later than five years	—	—	284	129
Later than five years	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>—</u>	<u>—</u>	<u>593</u>	<u>857</u>

The Group leases a number of properties under operating lease arrangements which run for initial periods of two years, without an option to renew the lease terms at the expiry date or at dates as mutually agreed between the Group and the respective landlords. At 30 June 2005, the Group leased a number of properties from related parties, the future aggregate minimum lease payments not later than one year is amounting to HK\$392,000.

During the Relevant Periods, the Group had not recognised any contingent rentals receivable and payable.

### 30. NOTES TO CONSOLIDATED CASH FLOW STATEMENTS

#### (a) Acquisition of subsidiaries

On 28 June 2005, the Group acquired 100% interest of certain subsidiaries through NH Corporation.

	Six months ended 30 June 2005 HK\$'000
Net assets acquired	
Property, plant and equipment	905
Amount due from related companies	25,383
Trade and other receivables	8,022
Cash at bank and in hand	6,263
Bank overdrafts and loans	(42,486)
Amount due to related companies	(239)
Accruals and other payables	(504)
	<u>(2,656)</u>
Goodwill	<u>3,376</u>
	<u>720</u>
Satisfied by	
Issue of shares	<u>720</u>
	<u>720</u>

The above amounts represent the carrying values/fair values of the identifiable assets and liabilities acquired. Goodwill is attributable to the synergies expected to arise after the Group's acquisition of these subsidiaries.

**(b) Analysis of net cash outflow in respect of acquisition of subsidiaries**

	<b>Six months ended 30 June 2005 HK\$'000</b>
Cash consideration	—
Cash at banks and in hand acquired	6,263
Bank overdrafts acquired	(26,921)
	<u>          </u>
Net cash outflow in respect of acquisition of subsidiaries	<u><u>(20,658)</u></u>

**31. RELATED PARTY TRANSACTIONS**

Apart from those disclosed in notes 19, 21(a) and 22, the following transactions were carried out with related parties:

		<b>Year ended 31 December</b>			<b>Six months ended 30 June</b>	
		<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
						(unaudited)
<b>Discontinued transactions</b>						
Proceeds from sale of investment properties to a director and close family members of the directors (note 19(c) & (e))	(a)	69,264	—	—	—	—
Handling fee charge from a director and close family members of the directors (note 19(c) & (e))	(b)	—	—	318	—	—
Proceeds from sale of an investment to 蘇州新繼園林綠化有限公司	(c)	—	—	—	156	—
Interest expense charges from						
• CL Panama (note 19(d)(i))		(1,144)	(761)	—	—	—
• Miripa (note 22(c))		(830)	(295)	—	—	—
• WML (note 22(c))		(3,809)	(387)	—	(202)	—
Management fee charges to B.T. Shipping (note 19(d)(i))	(d)	(787)	(2,309)	(2,318)	—	(1,152)
Occupation charges to B.T. Shipping (note 19(d)(i))	(d)	(197)	(577)	(577)	—	(288)
<b>Continuing transactions</b>						
Rental expense to Mr. Richard Tao	(e)	—	(332)	(309)	(155)	(155)
Rental income from Clark (note 19(b)(iv))	(e)	—	—	—	(57)	—
		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

- (a) The sales of investment properties were based on the terms mutually agreed by both parties in the ordinary course of the business. In the opinion of the directors, the selling prices were determined with reference to the market prices of the prescribed year.
- (b) The handling fee were charged at a rate of 10% of the gross rental income. The charges by the director and close family member of the directors were in accordance with the terms of the underlying agreements.
- (c) The sale of the investment was based on the terms mutually agreed by both parties in the ordinary course of the business. The consideration was determined at the original paid-up capital contributed by the Group.
- (d) The charges by these related companies were in accordance with the terms of the underlying agreements. In the opinion of the directors, such charges are subject to review on an annual basis and were determined with reference to the estimated costs and resources involved.
- (e) The rental expense to Mr. Richard Tao, the director of the Company, and rental income from a related company, in which Mr. Richard Tao and Mr. Paul Tao are common directors, were in accordance with the terms of the underlying agreements. In the opinion of the directors, the rentals were determined with reference to the market price at the prescribed year.

### **32. CONTINGENT LIABILITIES**

As at 30 June 2005, there were no material contingent liabilities for the Group and the Company.

### **33. FINANCIAL INSTRUMENTS**

The Group does not have written risk management policies and guidelines. However, the board of directors meets periodically to analyse and formulate measures to manage the Group's exposure to market risk, including principally changes in interest rates and currency exchange rates. Generally, the Group employs a conservative strategy regarding its risk management. As the directors of the Company consider that the Group's exposure to market risk is kept at a minimum level, the Group has not used any derivatives or other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes.

The financial assets of the Group comprise primarily other receivables, amounts due from related parties and cash and bank balances (including pledged bank deposits). The financial liabilities of the Group comprise account and other payables, accruals, deposits received, amounts due to related parties and borrowings.

#### **(a) Interest rate risk**

The Group has no significant interest-bearing assets. The Group's interest rate risk arises from long term borrowings. The interest rates and terms of repayment of the borrowings are disclosed in note 22.

#### **(b) Foreign currency risk**

The Group's exposure to risk resulting from changes in foreign currency exchange rates is minimal.

#### **(c) Credit risk**

The carrying amounts of other receivables and amounts due from related parties represent the Group's maximum exposure to credit risk in relation to its financial assets. The Group has no other significant concentration of credit risk. No other financial assets carry a significant exposure to credit risk.

**(d) Fair value**

The fair value of the Group's financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments. The fair value of long-term borrowings is not disclosed because the carrying value is not materially different from the fair value.

**34. ULTIMATE HOLDING COMPANY**

As at 30 June 2005, the directors of the Company considered Belbroughton Limited ("Belbroughton"), incorporated in BVI, as the ultimate holding company.

**III. SUBSEQUENT EVENTS**

The following significant subsequent events took place subsequent to 30 June 2005 and up to date of this report:

- (a) On 6 July 2005, Accordcity acquired 2,354,012 shares, 2,603,992 shares and 1,301,996 shares of HK\$10 each, which in aggregate represent the entire issued share capital of, NH Investments, from Belbroughton, Mr. SP Tao and Oriental Pearl International Inc. ("OPII") at the respective considerations of HK\$23,540,120, HK\$26,039,920 and HK\$13,019,960, which were satisfied by the allotment and issue of 38 shares, 42 shares and 21 shares of US\$1.00 each in the capital of Accordcity to Belbroughton, Mr. SP Tao and OPII respectively, credited as fully paid, on the same day.
- (b) On 12 July 2005, NH Corporation acquired 38 shares, 42 shares and 21 shares of US\$1.00 each, which in aggregate represent the entire issued share capital of Accordcity, from Belbroughton, Mr. SP Tao and OPII respectively at the respective considerations of HK\$23,540,120, HK\$26,039,920 and HK\$13,019,960, which were satisfied by the allotment and issue of 38 shares, 42 shares and 21 shares of US\$1.00 each in the capital of NH Corporation to Belbroughton, Mr. SP Tao and OPII respectively, credited as fully paid, on the same day.
- (c) On 13 July 2005, the Company acquired 38 shares, 42 shares and 21 shares of US\$1.00 each in the capital of NH Corporation from Belbroughton, Mr. SP Tao and OPII respectively at the respective considerations of HK\$23,540,120, HK\$26,039,920 and HK\$13,019,960, which were satisfied by the allotment and issue of 630,136 Shares, 697,052 Shares and 348,526 Shares in the capital of the Company to Belbroughton, Mr. SP Tao and OPII respectively, credited as fully paid, on the same day.
- (d) On 13 July 2005, a sale and purchase agreement was entered into between Mr. CF Tao and Mr. SP Tao as vendors and the Company as purchaser, pursuant to which the respective 1 share and 1 share of US\$1.00 each in the capital of NH Corporation were transferred from Mr. CF Tao and Mr. SP Tao respectively to the Company at the respective consideration of HK\$107.07 and HK\$107.07, which were satisfied by the allotment and issue of 10,707 Shares to Belbroughton, as directed by Mr. CF Tao, and of 10,707 Shares to Mr. SP Tao, credited as fully paid, on the same day.
- (e) On 14 November 2005, a subscription agreement was entered into between the Company and Belbroughton, pursuant to which the Company issued and allotted 431,809 Shares to Belbroughton at par in cash on 15 November 2005.

- (f) On 14 November 2005, a subscription agreement was entered into between the Company and OPII, pursuant to which the Company issued and allotted 20,536 Shares to OPII at par for cash on 15 November 2005.
- (g) On 14 November 2005, a subscription agreement was entered into between the Company and the four executive Directors comprising Mr. Richard Tao, Mr. Paul Tao, Mr. Kong Mui Sum Lawrence and Mr. Yim Chun Leung, pursuant to which the Company issued and allotted 65,773 Shares, 65,773 Shares, 16,440 Shares and 8,220 Shares to Mr. Richard Tao, Mr. Paul Tao, Mr. Kong Mui Sum Lawrence and Mr. Yim Chun Leung respectively, all at par for cash, on 15 November 2005.
- (h) On 14 November 2005, a subscription agreement was entered into between the Company and each of the Staff Shareholders comprising Mr. Fung Sik Kuen, Mr. Li Chun Fai, Ms. Chan Sik Kum, Ms. Lau Yuk Ling Kathy, Ms. Fung Yuk Ling Elaine, Ms. Lee Shuk Chan and Ms. Tsang Yuen Hing Janet, pursuant to which the Company issued and allotted 620 Shares, 1,320 Shares, 980 Shares, 980 Shares, 1,320 Shares, 980 Shares and 1,320 Shares to Mr. Fung Sik Kuen, Mr. Li Chun Fai, Ms. Chan Sik Kum, Ms. Lau Yuk Ling Kathy, Ms. Fung Yuk Ling Elaine, Ms. Lee Shuk Chan and Ms. Tsang Yuen Hing Janet respectively, all at par for cash, on 15 November 2005.
- (i) On 25 August 2005, a loan agreement of RMB10,000,000 was entered into between a subsidiary of the Company and a bank for a term of one year. In this connection, certain investment properties were pledged to secure this loan granted.
- (j) On 8 October 2005, a loan agreement of USD3,200,000 was entered into between a subsidiary of the Company and a bank for a term of two years. In this connection, a fixed deposit held by a director of the Company was pledged to secure this loan granted to the subsidiary. This security will be replaced by a corporate guarantee provided by the Company upon successful listing of the shares of the Company on the Stock Exchange.
- (k) On 10 October 2005, the Group signed a confirmation of acceptance of public trading price bidding for land use right (國有土地使用權掛牌競價成交確認書) with the Suzhou Land Resources Bureau (蘇州市國土資源局) with regard to the acquisition of a piece of land in Wu Zhong District (吳中區) of Suzhou, PRC, for an aggregate consideration of RMB75,362,960. On 26 September 2005, the Company paid RMB4,000,000 as non-refundable security over the acquisition of the land use right. The remaining balance of the consideration will be fully settled on or before 10 April 2006.
- (l) On 1 November 2005, a bank granted a banking facility to a subsidiary of the Company to the extent of approximately HK\$74,260,000. The facility is secured by certain properties held by certain related companies, fixed deposits held by a related company and a director, and corporate guarantee executed by the Company.

Save as aforesaid, no other significant event took place subsequent to 30 June 2005.



**IV. SUBSEQUENT ACCOUNTS**

No audited accounts of the Group, the Company or any of its subsidiaries have been prepared in respect of any period subsequent to 30 June 2005.

Yours faithfully,

**Grant Thornton**  
*Certified Public Accountants*  
Hong Kong