
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Skyfame Realty (Holdings) Limited**, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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

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

**(1) PROPOSED ISSUE OF
US\$200 MILLION 4 PER CENT
SECURED CONVERTIBLE NOTES DUE 2013 AND
CONNECTED TRANSACTION;
(2) VERY SUBSTANTIAL ACQUISITION AND CONNECTED
TRANSACTIONS IN RELATION TO PROPOSED ACQUISITION
OF THE WESTIN PROJECT**

**Independent Financial Adviser
to the Independent Board Committee and the Independent Shareholders**



Shenyin Wanguo Capital (H.K.) Limited

A letter from the independent board committee of Skyfame Realty (Holdings) Limited is set out on pages 57 to 58 of this circular. A letter from Shenyin Wanguo Capital, the independent financial adviser to the independent board committee and the independent shareholders of Skyfame Realty (Holdings) Limited, is set out on pages 59 to 96 of this circular.

A notice convening the special general meeting of Skyfame Realty (Holdings) Limited to be held at Luk Kwok Hotel, Basement, 72 Gloucester Road, Wanchai, Hong Kong on Thursday, 26 April 2007 at 3:00 p.m. is set out on pages 97 to 114 of this circular. A form of proxy for use at the aforesaid special general meeting is also enclosed. Whether or not you are able to attend and vote at the aforesaid special general meeting, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar of Skyfame Realty (Holdings) Limited in Hong Kong, Abacus Share Registrars Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the special general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the special general meeting or any adjournment thereof should you so wish.

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DEFINITIONS

In this circular, the following expressions have the following meanings unless the context requires otherwise:

“2006 Warrants”	warrants issued by the Company on 3 August 2006 which are listed on the Stock Exchange (stock code: 584)
“29% Acquisition”	the proposed acquisition of the Yue Tian Sale Shares and the Yue Tian Sale Debt by Great Elegant from Wise Gain pursuant to the Wise Gain Westin Agreement
“71% Acquisition”	collectively, the Red Empire Acquisition and the Allright Acquisition
“Ace Billion”	Ace Billion Investments Limited, a company incorporated in the BVI with limited liability which is wholly-owned by Loyal Way and, through Guangzhou Zhoutouzui, owns 10% of the Zhoutouzui Project as at the Latest Practicable Date
“Ace Billion Share Charge”	a first priority fixed charge in favour of the Security Trustee to be granted by Loyal Way over its 100% interest in Ace Billion, upon completion of the Zhoutouzui Acquisition
“Additional Security”	collectively, (i) the Bright Able Share Charge; (ii) the BA Loyal Way Share Charge; (iii) the Fortunate Start Share Charge; (iv) the Ace Billion Share Charge; (v) the Guangzhou Zhoutouzui Share Charge; (vi) the Long World Share Charge; (vii) the Trencos Share Charge; (viii) the Post Restructuring Yue Tian Share Charge; and (ix) the Post Restructuring Guangzhou Zhoutouzui Share Charge
“Agency Agreement”	a paying and conversion agency agreement to be entered into between the Company, The Hongkong and Shanghai Banking Corporation Limited as principal agent and registrar and the Trustee on the Closing Date
“Allright”	Allright Investments Limited, a company incorporated in Samoa with limited liability and is a wholly-owned subsidiary of Shell as at the Latest Practicable Date
“Allright Acquisition”	the proposed acquisition of the Allright Sale Share and the Allright Sale Debt by Great Elegant from Shell pursuant to the Poly/Shell Westin Agreement

DEFINITIONS

“Allright Consideration”	the total consideration for the purchase of the Allright Sale Share and the Allright Sale Debt
“Allright Sale Debt”	HK\$124,689,718, being the face value of the total amount due by Allright to Shell as at 31 January 2007, which sum is interest free and has no fixed repayment date
“Allright Sale Share”	one ordinary share of US\$1.00 in the issued share capital of Allright, representing the entire issued share capital of Allright
“Allright Share Charge”	a first priority fixed charge in favour of the Security Trustee to be granted by Great Elegant over its 100% interest in Allright upon completion of the Allright Acquisition
“Announcement”	the announcement dated 12 March 2007 made by the Company in relation to, among other things, the proposed issue of the Notes and the Westin Acquisition
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“BA Loyal Way Share Charge”	a first priority fixed charge in favour of the Security Trustee to be granted by Bright Able over its 49% interest in Loyal Way upon completion of the Zhoutouzui Acquisition
“Board”	the board of Directors
“Bright Able”	Bright Able Development Limited, a company incorporated in the BVI with limited liability which is wholly-owned by Poly Hong Kong as at the Latest Practicable Date
“Bright Able Share Charge”	a first priority fixed charge in favour of the Security Trustee to be granted by Smartford over its 100% interest in Bright Able, upon completion of the Zhoutouzui Acquisition
“BVI”	the British Virgin Islands
“Bye-laws”	the Bye-laws of the Company

DEFINITIONS

“Change of Control”	occurs when, <ul style="list-style-type: none">(i) any person or persons acting in concert acquires or acquire Control of the Company if such person or persons does not or do not have, and would not be deemed to have, Control of the Company on the Closing Date, except arising from the issue of Conversion Shares on exercise of the Conversion Rights;(ii) the Company consolidates with or merges into or sells or transfers all or substantially all of the Company’s assets to any other person, unless the consolidation, merger, sale or transfer will not result in the other person or persons acquiring Control over the Company or the successor entity; or(iii) one or more persons acting in concert (other than any person referred to in sub-paragraph (i) above) acquiring the legal or beneficial ownership of more than 50% of the Company’s issued share capital, except arising from the issue of Conversion Shares on exercise of the Conversion Rights
“Charge Over Accounts”	a charge over the Escrow Account and the Interest Reserve Account to be executed by the Company in favour of the Security Trustee on behalf of the Noteholders relating to all sums held in the Escrow Account and the Interest Reserve Account
“Chargors”	collectively, Fine Luck, Great Elegant, Smartford and Nicco
“Closing Date”	10 May 2007 or such other date as the Company, Merrill Lynch Far East Limited as the settlement agent and the Purchasers may agree
“Company”	Skyfame Realty (Holdings) Limited, an exempt company incorporated in Bermuda whose Shares are listed on the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules

DEFINITIONS

“Control”	the right to appoint and/or remove all or the majority of the members of the Board or other governing body of the Company, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise
“Conversion Period”	in respect of the Notes, the period commencing from the date that is the 41st day after the Closing Date and up to the close of business on the date 10 days prior to the Maturity Date or, if the Notes shall have been called for redemption before the Maturity Date, up to the close of business on a date no later than 5 business days prior to the date fixed for redemption thereof
“Conversion Price”	the price at which the Conversion Shares will be issued upon conversion of the Notes from time to time
“Conversion Ratio”	equals to the principal amount of each Note divided by the Conversion Price translated into US\$ at the Exchange Rate
“Conversion Right”	the right attaching to the Notes of a Noteholder to convert any Note into Conversion Shares
“Conversion Shares”	the Shares to be issued and allotted upon exercise of the Conversion Rights
“Convertible Preference Shares”	the convertible preference shares of HK\$0.01 each in the share capital of the Company to be created by the Company, the principal terms of which are disclosed under the paragraph headed “Principal Terms of Convertible Preference Shares” of this circular
“Deed of Mortgage”	the deed of mortgage in relation to the Yue Tian Sale Shares dated 2 February 2005 and entered into between Wise Gain, Red Empire and Allright
“Deed of Non-Competition”	the deed of non-competition to be executed by Mr. YU in favour of the Purchasers for the purpose of regulating the non-competition and non-solicitation obligations of Mr. YU in relation to the Group

DEFINITIONS

“Directors”	the directors of the Company
“Early Redemption Amount”	in respect of each US\$200,000 principal amount of the Notes together with the accrued interest, and after taking into account any interest paid, the amount which represents for the Noteholders a gross yield of 15% per annum, calculated on a semi-annual basis
“Enlarged Group”	the Group and the Red Empire Group (including the Yue Tian Group) and Allright
“Escrow Account”	the account to be opened and maintained with the Security Trustee and into which US\$92.5 million (or approximately HK\$722.6 million) of the net proceeds of the issue of the Notes will be paid on the Closing Date
“Exchange Rate”	the fixed rate of US\$1.00 = HK\$7.8119
“Fine Luck”	Fine Luck Group Limited, a company incorporated in the BVI with limited liability and a direct wholly-owned subsidiary of the Company
“Fine Luck Share Charge”	a first priority fixed charge in favour of the Security Trustee to be granted by the Company over its 100% interest in Fine Luck
“Fortunate Start”	Fortunate Start Investments Limited, a company incorporated in the BVI with limited liability which is wholly-owned by Loyal Way and, through Guangzhou Zhoutouzui, owns 90% of the Zhoutouzui Project as at the Latest Practicable Date
“Fortunate Start Share Charge”	a first priority fixed charge in favour of the Security Trustee to be granted by Loyal Way over its 100% interest in Fortunate Start, upon completion of the Zhoutouzui Acquisition
“Full Ocean”	Full Ocean Development Inc., a company ultimately wholly-owned by Mr. YU and which owns 100% interest in the Tianyu Project as at the Latest Practicable Date
“GCC”	廣州市城市建設開發集團有限公司 (Guangzhou City Construction & Development Holdings Limited), the PRC party of the PRC Company and is independent of the Company and its connected persons and is not a connected person of the Company

DEFINITIONS

“Grand Cosmos”	Grand Cosmos Holdings Limited, a company incorporated in the BVI with limited liability and wholly-owned by Sharp Bright
“Grand Cosmos Share Charge”	a first priority fixed charge in favour of the Security Trustee to be granted by Sharp Bright over its 100% interest in Grand Cosmos and a first priority floating charge granted by Sharp Bright in respect of its undertaking and all its present and future assets
“Grand Cosmos Shares”	shares in the issued share capital of Grand Cosmos
“Great Elegant”	Great Elegant Investment Limited, a company incorporated in the BVI with limited liability and wholly-owned by Fine Luck
“Great Elegant Share Charge”	a first priority fixed charge in favour of the Security Trustee to be granted by Fine Luck over its 100% interest in Great Elegant
“Gross Asset Value”	at any time, means the value determined by the addition of: (i) the average of the values from appraisals performed by two approved valuers on the real property of the Group (including the units of property development or real estate projects of the Group which have been registered for pre-sale) as at the end of the immediately preceding full year fiscal period; and (ii) the consolidated cash and cash equivalents balance (excluding cash deposits received in relation to the units of property development or real estate projects of the Group which have been registered for pre-sale) of the Group as at the end of the immediately preceding full year fiscal period
“Group”	the Company and its subsidiaries
“Guangzhou Zhoutouzui”	Guangzhou Zhoutouzui Development Limited, a company incorporated in Hong Kong with limited liability which is owned as to 90% by Fortunate Start and 10% by Ace Billion and directly owns the entire interest in the Zhoutouzui Project as at the Latest Practicable Date

DEFINITIONS

“Guangzhou Zhoutouzui Restructuring”	the restructuring of Smartford and its subsidiaries to be implemented after completion of the Zhoutouzui Acquisition such that Guangzhou Zhoutouzui will become a direct wholly-owned subsidiary of Smartford
“Guangzhou Zhoutouzui Share Charge”	a first priority fixed charge in favour of the Security Trustee to be granted by Fortunate Start and Ace Billion over the aggregate 100% interest in Guangzhou Zhoutouzui owned by Fortunate Start and Ace Billion upon completion of the Zhoutouzui Acquisition
“Guarantee and Indemnity”	the guarantee and indemnity dated 8 December 2005 in respect of the Loan Agreement and entered into between (i) Poly Hong Kong, Shell Electric and Mr. YU as guarantors, (ii) Yue Tian as subordinated lender, (iii) the PRC Company as borrower and (iv) the KW Bank as lender
“GZ Port”	廣州港集團有限公司(Guangzhou Port Group Co., Limited), a state owned enterprise in the PRC
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board established by the Board to advise the Independent Shareholders regarding the Note Purchase Agreement, the 71% Acquisition and the 29% Acquisition and the transactions contemplated thereunder
“Independent Shareholders”	Shareholders other than Poly, Shell, Grand Cosmos, Sharp Bright, Wise Gain and PMA Investment and Mr. YU and their respective associates (for Grand Cosmos, Sharp Bright and Wise Gain, including Mr. YU and for PMA Investment, including PMA Capital)
“Independent Third Party(ies)”	third party(ies) independent of the Company and connected persons (as defined under the Listing Rules) of the Company and are not connected persons (as defined under the Listing Rules) of the Company
“Initial Conversion Price”	the initial conversion price at which Conversion Shares will be issued upon conversion of the Notes, being HK\$1.35 per Share, subject to adjustments

DEFINITIONS

“Interest Reserve Account”	the account to be opened and maintained with the Security Trustee and into which US\$16 million (or approximately HK\$125.0 million) of the net proceeds of the issue of the Notes will be paid on the Closing Date for the purpose of satisfying the interest payments payable under the Notes for the 2 years following the Closing Date
“KW Bank”	CITIC Ka Wah Bank Limited
“KW Bank Share Charge”	the share charge incorporating subordination dated 8 December 2005 and entered into between (i) Wise Gain, Red Empire and Allright as shareholders, (ii) Yue Tian as foreign party and (iii) the KW Bank as lender
“Land”	the piece of land located at 廣州天河區林和東路以西、天河商旅7區 (West of Linhe Dong Road, Zone 7 of Tianhe Shanglü, Tianhe District, Guangzhou) in the PRC having a site area of approximately 9,121 square metres
“Last Trading Day”	2 March 2007, being the last trading day of the Shares immediately prior to the suspension of trading in the Shares pending release of the Announcement
“Latest Practicable Date”	30 March 2007, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Loan Agreement”	the loan agreement dated 10 November 2005 and entered into between the PRC Company as borrower and the KW Bank as lender in respect of a HK\$400 million loan facility
“Long World”	Long World Trading Limited, a company incorporated in the BVI with limited liability which indirectly owns the entire interest in the Tianyu Project and will become wholly-owned by Fine Luck upon completion of the Tianyu Project Injection

DEFINITIONS

“Long World Share Charge”	a first priority fixed charge in favour of the Security Trustee to be granted by Fine Luck over its 100% interest in Long World upon the completion of the Tianyu Project Injection
“Loyal Way”	Loyal Way (China) Group Limited, a company incorporated in the BVI with limited liability which is a non wholly-owned subsidiary of the Company and is owned as to 51% by Smartford and as to the remaining 49% by Bright Able and indirectly owns the entire interests in the Zhoutouzui Project as at the Latest Practicable Date
“Maturity Date”	6 years from the Closing Date, which is expected to be on or around 10 May 2013
“Mr. YU”	Mr. YU Pan, an executive Director, the chairman and controlling shareholder of the Company
“New Shares”	new Shares to be issued and allotted to Grand Cosmos by the Company upon exercise of the conversion right attaching to the Westin CPS
“Nicco”	Nicco Limited, a company incorporated in the BVI with limited liability which is wholly-owned by Fine Luck and, through Yaubond, indirectly owns 49% of the Tianhe Project as at the Latest Practicable Date
“Nicco Share Charge”	a first priority fixed charge in favour of the Security Trustee to be granted by Fine Luck over its 100% interest in Nicco
“Note Purchase Agreement”	the note purchase agreement dated 2 March 2007 entered into between the Company, Sharp Bright, Grand Cosmos, the Chargors and the Purchasers relating to the issue and purchase of the Notes
“Noteholder(s)”	holder(s) of the Notes
“Notes”	unlisted secured convertible notes with an aggregate principal amount of US\$200 million due 2013 proposed to be issued by the Company to the Purchasers or their nominee(s) pursuant to the Note Purchase Agreement
“PMA Capital”	PMA Capital Management Limited, the holding company of PMA Investment, a substantial Shareholder and therefore a connected person of the Company

DEFINITIONS

“PMA Investment”	PMA Investment Advisors Ltd., a subsidiary of PMA Capital
“Poly”	CMIC Property (China) Limited, a company incorporated in the BVI with limited liability and is a wholly owned subsidiary of Poly Hong Kong
“Poly Hong Kong”	Poly (Hong Kong) Investments Limited, a company incorporated in Hong Kong with limited liability whose shares are listed on the Stock Exchange, a substantial shareholder of Loyal Way (a non wholly-owned subsidiary of the Company) and therefore a connected person of the Company
“Poly/Shell Westin Agreement”	the agreement dated 2 March 2007 made between Poly, Shell and Great Elegant in respect of the 71% Acquisition
“Post Restructuring Guangzhou Zhoutouzui Share Charge”	a first priority fixed charge in favour of the Security Trustee to be granted by Smartford over its 100% direct interest in Guangzhou Zhoutouzui upon completion of the Guangzhou Zhoutouzui Restructuring
“Post Restructuring Yue Tian Share Charge”	a first priority fixed charge in favour of the Security Trustee to be granted by Great Elegant over its 100% direct interest in Yue Tian upon completion of the Yue Tian Restructuring
“PRC”	the People’s Republic of China, which for the purpose of this circular excludes Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan
“PRC Company”	廣州市城建天譽房地產開發有限公司 (Guangzhou Cheng Jian Tianyu Real Estate Development Company Limited), a sino-foreign co-operative joint venture established by Yue Tian and GCC
“Purchasers”	collectively, DKR SoundShore Oasis Holding Fund Ltd., Indopark Holdings Limited, Lehman Brothers Commercial Corporation Asia Limited, Merrill Lynch International, PMA Investment and Standard Bank Asia Limited
“Red Empire”	Red Empire Limited, a company incorporated in the BVI with limited liability, and is a wholly-owned subsidiary of Poly as at the Latest Practicable Date

DEFINITIONS

“Red Empire Acquisition”	the proposed acquisition of the Red Empire Sale Share and the Red Empire Sale Debt by Great Elegant from Poly pursuant to the Poly/Shell Westin Agreement
“Red Empire Consideration”	the total consideration for the purchase of the Red Empire Sale Share and the Red Empire Sale Debt
“Red Empire Group”	Red Empire and its subsidiaries, including Yue Tian and the PRC Company
“Red Empire Sale Debt”	HK\$312,145,343, being the face value of the total amount due by Red Empire to Poly as at 31 January 2007, which sum is interest free and has no fixed repayment date
“Red Empire Sale Share”	one issued ordinary share of US\$1.00 in the issued share capital of Red Empire, representing the entire issued share capital of Red Empire
“Red Empire Share Charge”	a first priority fixed charge in favour of the Security Trustee to be granted by Great Elegant over its 100% interest in Red Empire upon completion of the Red Empire Acquisition
“Second KW Bank Share Charge”	the share charge incorporating subordination dated 19 December 2006 and entered into between (i) Wise Gain, Red Empire and Allright as shareholders, (ii) Yue Tian as borrower and (iii) the KW Bank as lender
“Second Loan Agreement”	the loan agreement dated 19 December 2006 and entered into between Yue Tian as borrower and the KW Bank as lender in respect of a HK\$96 million loan facility
“Security”	the Share Charges, the Charge Over Accounts and the Additional Security
“Security Trustee”	The Hongkong and Shanghai Banking Corporation Limited
“SF Loyal Way Share Charge”	a first priority fixed charge in favour of the Security Trustee to be granted by Smartford over its 51% interest in Loyal Way
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

DEFINITIONS

“SGM”	the special general meeting of the Company to be convened on Thursday, 26 April 2007 to consider and if thought fit, to approve, among other things, the entering into of the Westin Agreements, the Note Purchase Agreement and the respective transactions contemplated thereunder including without limitation: (i) the issue of the Notes and the issue and allotment of the Conversion Shares; (ii) the amendment to the Bye-laws in order to create the Convertible Preference Shares; (iii) the issue of the Westin CPS pursuant to the Wise Gain Westin Agreement and the New Shares to be issued upon conversion thereof
“Share Charges”	collectively, (i) the Grand Cosmos Share Charge; (ii) the Skyfame Share Charge; (iii) the Fine Luck Share Charge; (iv) the Great Elegant Share Charge; (v) the Red Empire Share Charge; (vi) the Allright Share Charge; (vii) the Yue Tian Share Charge; (viii) the Smartford Share Charge; (ix) the SF Loyal Way Share Charge; (x) the Nicco Share Charge and (xi) the Yaubond Share Charge
“Shareholder(s)”	holder(s) of Shares
“Shares”	shares of HK\$0.01 each in the share capital of the Company
“Sharp Bright”	Sharp Bright International Limited, a company incorporated in the BVI with limited liability and wholly-owned by Mr. YU
“Shell”	SMC Property Investment Limited, a company incorporated in Hong Kong, a wholly-owned subsidiary of Shell Electric and is an Independent Third Party
“Shell Electric”	Shell Electric Mfg. (Holdings) Company Limited, a company incorporated in Hong Kong with limited liability whose shares are listed on the Stock Exchange

DEFINITIONS

“Shenyin Wanguo Capital”	Shenyin Wanguo Capital (H.K.) Limited, a licensed corporation to carry on type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of terms of the Note Purchase Agreement and the Westin Acquisition
“Skyfame Share Charge”	a first priority fixed charge in favour of the Security Trustee to be granted by Grand Cosmos over all of its shareholding interest in the Company and its entire holding of the Convertible Preference Shares and the new Shares to be received by it upon conversion of the Convertible Preference Shares
“Smartford”	Smartford Limited, a company incorporated in the BVI with limited liability which is wholly-owned by Fine Luck and indirectly wholly-owned by the Company, and indirectly owns a 51% interest in the Zhoutouzui Project as at the Latest Practicable Date
“Smartford Share Charge”	a first priority fixed charge in favour of the Security Trustee to be granted by Fine Luck over its 100% interest in Smartford
“Special Committee of Noteholders”	the formal committee of Noteholders to be formed on the Closing Date to represent the interest of the Noteholders on certain matters
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tianhe Project”	the property development project situated at 廣州天河區天河北路 (Tianhe Bei Road, Tianhe District, Guangzhou), PRC, which comprises a roughly rectangular-shaped site for commercial and service uses, with a site area of approximately 7,217 square metres, of which 6,057 square metres is the granted area and the remaining portion with an area of 1,160 square metres is designated for the use as public roads, and abuts 廣東省社會科學院 (Guangdong Academy of Social Science) on its eastern boundary; 天河北路 (Tianhe Bei Road) on its southern boundary; 林和東路 (Linhe Dong Road) on its western boundary; and 天河區婦幼保健院 (Tianhe District Women and Children’s Hospital and Health Institute) on its northern boundary

DEFINITIONS

“Tianyu Project”	the property development project situated at 廣州天河區林和中路136號 (No. 136 Linhe Zhong Road, Tianhe District, Guangzhou), PRC, which comprises the entire second, fifth and sixth floors and Rooms 402-403 of the fourth floor of the commercial podium of 天譽花園第二期 (Tianyu Garden Phase 2), with a site area of approximately 10,111 square metres, and abuts 紫荊花園 (Zijing Garden) on its eastern boundary; 天譽花園第三期 (Tianyu Garden Phase 3) hotel and office project, which is currently under construction, on its southern boundary; 林和中路 (Linhe Zhong Road) on its western boundary; and 天譽花園第一期 (Tianyu Garden Phase 1) on its northern boundary
“Tianyu Project Injection”	subject to compliance with the Listing Rules and the approval of the Shareholders in general meeting, the transfer by Full Ocean to the Company or its subsidiaries of its 100% interest in the Tianyu Project in exchange for new Convertible Preference Shares to Grand Cosmos as directed by Full Ocean
“Trading Day(s)”	a day (or days) when the Stock Exchange is open for dealing business, provided that if no closing price is reported in respect of the Shares on the Stock Exchange for one or more consecutive dealing days such day or days will be disregarded in any relevant calculation and shall be deemed not have existed when ascertaining any period of dealing days
“Trenco”	Trenco Holdings Limited, a company incorporated in Hong Kong with limited liability which is wholly-owned by Long World and indirectly owns the entire interest in the Tianyu Project as at the Latest Practicable Date
“Trenco Share Charge”	a first priority fixed charge in favour of the Security Trustee to be granted by Long World over its 100% interest in Trenco upon completion of the Tianyu Project Injection
“Trust Deed”	a trust deed to be entered into between the Company, Sharp Bright, Grand Cosmos, the Chargors, the Trustee and the Security Trustee on the Closing Date
“Trustee”	The Hongkong and Shanghai Banking Corporation Limited

DEFINITIONS

“Westin Acquisition”	collectively, the 71% Acquisition and the 29% Acquisition
“Westin Agreements”	collectively, the Poly/Shell Westin Agreement and the Wise Gain Westin Agreement
“Westin CPS”	190,447,209 Convertible Preference Shares to be issued to Grand Cosmos as consideration for the Yue Tian Sale Shares and the Yue Tian Sale Debt under the Wise Gain Westin Agreement
“Westin International”	Westin International Services Company
“Westin Project”	the property development project situated at 廣州天河區林和中路 (Linhe Zhong Road, Tianhe District, Guangzhou), PRC, which occupies a roughly rectangular-shaped site with a site area of approximately 9,121 square metres, of which 7,672 square metres is the granted area and the remaining is the road area, and abuts the Concordia (a site under construction) on its eastern boundary; 薈雅苑 (Huiya Garden) on its southern boundary partitioned by 林和街 (Linhe Jie); 林和中路 (Linhe Zhong Road) on its western boundary; and 天譽花園第二期 (Tianyu Garden Phase 2) on its northern boundary
“Wise Gain”	Wise Gain Investment Limited, a company incorporated in the BVI with limited liability and wholly-owned by Mr. YU
“Wise Gain Westin Agreement”	the agreement dated 2 March 2007 made between Wise Gain and Great Elegant in respect of the 29% Acquisition
“Yaubond”	Yaubond Limited, a company incorporated in the BVI with limited liability which is owned as to 51% by Sunny Billion Holdings Limited, a wholly-owned subsidiary of Poly Hong Kong and as to 49% by Nicco and indirectly owns the entire interest in the Tianhe Project as at the Latest Practicable Date
“Yaubond Share Charge”	a first priority fixed charge in favour of the Security Trustee to be granted by Nicco over its 49% interest in Yaubond

DEFINITIONS

“Yue Tian”	Yue Tian Development Limited, a company incorporated in Hong Kong with limited liability and is the foreign party of the PRC Company and is owned as to 51% by Red Empire, 20% by Allright and 29% by Wise Gain as at the Latest Practicable Date
“Yue Tian Group”	Yue Tian and the PRC Company
“Yue Tian Restructuring”	the restructuring of the Yue Tian Group to be implemented after completion of the Westin Acquisition such that Yue Tian will become a direct wholly-owned subsidiary of Great Elegant
“Yue Tian Sale Debt”	HK\$173,357,134, being the face value of the total amount due by Yue Tian to Wise Gain as at 31 January 2007, which sum is interest free and has no fixed repayment date
“Yue Tian Sale Shares”	20,880 shares of HK\$1.00 each in Yue Tian, representing 29% of the issued share capital of Yue Tian
“Yue Tian Share Charge”	a first priority fixed charge in favour of the Security Trustee to be granted by Great Elegant, Red Empire and Allright over the 100% interest in Yue Tian owned by Great Elegant, Red Empire and Allright upon completion of the Westin Acquisition
“Zhoutouzui Acquisition”	the acquisition by the Group of an effective 49% interest of 廣州譽城房地產開發有限公司 (Guangzhou Yucheng Real Estate Development Company Limited), which owns the entire interest in the Zhoutouzui Project, from Poly Hong Kong (or its relevant subsidiary) pursuant to the Zhoutouzui Agreement
“Zhoutouzui Agreement”	an agreement containing material terms and conditions to be approved by a simple majority of the votes of the Purchasers (with each Purchaser having one vote in respect of each Note to be subscribed by it pursuant to the Note Purchase Agreement) to be entered into by Smartford or another subsidiary of the Company with the relevant company within the group of Poly Hong Kong in respect of the Zhoutouzui Acquisition

DEFINITIONS

“Zhoutouzui Project”	the property development project located at 廣州海珠區洲頭咀客運站 (Zhoutouzui pier, Haizhu District, Guangzhou), PRC, which comprises a plot of site zoned for commercial and residential uses with a site area of approximately 106,273 square metres, and abuts residential buildings on its eastern boundary; 洪德路 (Hongde Road) on its southern boundary; the Pearl River on its western boundary; and 同福西路 (Tongfu Xi Road) and 洲頭咀公園 (Zhoutouzui Park) on its northern boundary
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent.

For reference purposes only, the Chinese names of the PRC entities, departments or facilities have been translated into English in this circular.

If there is any inconsistency between the Chinese names of the PRC entities, departments or facilities mentioned in this circular and their respective English translations, the Chinese version shall prevail.

Unless otherwise specified in this circular, translations of RMB into HK\$ and US\$ into HK\$ are made in this circular, for illustration only, at the rate of RMB1.00 to HK\$1.00 and US\$1.00 to HK\$7.8119 respectively. No representation is made that any amount in RMB or US\$ could have been or could be converted at those rates or any other rates.

LETTER FROM THE BOARD



天譽置業（控股）有限公司*

SKYFAME REALTY (HOLDINGS) LIMITED

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

Executive Directors:

Mr. YU Pan

Mr. LAU Yat Tung, Derrick

Mr. WONG Lok

Mr. WEN Xiao Bing

Registered office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Independent non-executive Directors:

Mr. CHOY Shu Kwan

Mr. CHENG Wing Keung, Raymond

Ms. CHUNG Lai Fong

*Head office and principal place
of business in Hong Kong:*

2502B, Tower 1

Admiralty Centre

18 Harcourt Road

Hong Kong

4 April 2007

To the Shareholders and, for information only, the holders of 2006 Warrants

Dear Sir or Madam,

**(1) PROPOSED ISSUE OF
US\$200 MILLION 4 PER CENT
SECURED CONVERTIBLE NOTES DUE 2013 AND
CONNECTED TRANSACTION;
(2) VERY SUBSTANTIAL ACQUISITION AND CONNECTED
TRANSACTIONS IN RELATION TO PROPOSED ACQUISITION
OF THE WESTIN PROJECT**

INTRODUCTION

On 12 March 2007, the Board announced that on 2 March 2007, (i) the Company, Sharp Bright, Grand Cosmos, the Chargers and the Purchasers entered into the Note Purchase Agreement in relation to the issue and subscription of the Notes in the aggregate principal amount of US\$200 million (or approximately HK\$1,562.4 million); and (ii) Great Elegant (an indirect wholly-owned subsidiary of the Company) entered into (a) the Poly/Shell Westin Agreement with Poly and Shell as vendors; and (b) the Wise Gain Westin Agreement with Wise Gain as vendor in relation to the Westin Acquisition.

* For identification purposes only

LETTER FROM THE BOARD

Since Grand Cosmos and Sharp Bright have given certain undertakings under the Note Purchase Agreement and PMA Investment, being one of the Purchasers, is a connected person of the Company, Grand Cosmos, Sharp Bright and PMA Investment are considered to have a material interest in the Note Purchase Agreement and accordingly, the entering into of the Note Purchase Agreement constitutes a connected transaction for the Company under the Listing Rules. Moreover, the entering into of the Westin Agreements constitutes a very substantial acquisition and connected transactions for the Company since Mr. YU and Poly are connected persons of the Company and Mr. YU is both a controller of the Company and a substantial shareholder of Yue Tian.

The purpose of this circular is to give you (i) further details of the proposed issue of the Notes, (ii) further details of the Westin Acquisition, (iii) the recommendation of the Independent Board Committee in relation to the Note Purchase Agreement, the 71% Acquisition and the 29% Acquisition and the transactions contemplated thereunder, (iv) the advice of the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Note Purchase Agreement, the 71% Acquisition and the 29% Acquisition and the transactions contemplated thereunder and (v) a notice convening the SGM.

NOTE PURCHASE AGREEMENT

On 2 March 2007, the Company, Sharp Bright, Grand Cosmos, the Chargors and the Purchasers entered into the Note Purchase Agreement in relation to the issue and subscription of the Notes in the aggregate principal amount of US\$200 million (or approximately HK\$1,562.4 million). Further details of the Note Purchase Agreement are set out below.

Date

2 March 2007

Parties

- (1) The Company;
- (2) Sharp Bright;
- (3) Grand Cosmos;
- (4) The Chargors; and
- (5) The Purchasers

LETTER FROM THE BOARD

The Purchasers and amount of Notes to be subscribed

The Purchasers and the principal amounts of Notes which each of the Purchasers has agreed to subscribe, severally and not jointly, from the Company at the purchase price of 100% of the principal amount of the Notes, are as follows:

Name of Purchasers	Principal amount of Notes subscribed (US\$)	Number of Conversion Shares issuable at the Initial Conversion Price of HK\$1.35 per Share	Number of Conversion Shares issuable at the Minimum Reset Reference Price of HK\$1.00 per Share
DKR SoundShore Oasis Holding Fund Ltd.	50 million	289,329,629	390,595,000
Indopark Holdings Limited	50 million	289,329,629	390,595,000
Lehman Brothers Commercial Corporation Asia Limited	50 million	289,329,629	390,595,000
Merrill Lynch International	20 million	115,731,851	156,238,000
PMA Investment	20 million	115,731,851	156,238,000
Standard Bank Asia Limited	10 million	57,865,925	78,119,000

The Purchasers are professional and institutional investors. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, save and except PMA Investment which is a connected person of the Company by reason of it being a subsidiary of PMA Capital which in turn held 181,530,000 Shares, representing approximately 16.6% of the issued share capital of the Company as at the Latest Practicable Date, each of the Purchasers and their respective ultimate beneficial owners are not connected persons of the Company and are third parties independent of the Company and its subsidiaries and connected persons.

Conditions Precedent of the Note Purchase Agreement

The obligations of the Company to issue the Notes and of each Purchaser to pay or cause to be paid severally the subscription moneys for the Notes subscribed by it in accordance with the Note Purchase Agreement is subject to, among other things, fulfillment of the following conditions precedent:

- (i) the Shareholders (or if required under the Listing Rules, the Independent Shareholders) having, at the SGM, approved, among other things, the entering into of the Westin Agreements, the Note Purchase Agreement and the respective transactions contemplated thereunder, including without limitation: (a) the issue of the Notes and the issue and allotment of the Conversion Shares upon conversion of the Notes and (b) the creation and issue of the Convertible Preference Shares to be issued pursuant to the Wise Gain Westin Agreement and the New Shares to be issued upon conversion thereof;

LETTER FROM THE BOARD

- (ii) the execution of the Trust Deed, the Agency Agreement, the Share Charges, the Charge Over Accounts and the Deed of Non-Competition by all respective parties, each in a form to be agreed by relevant signing parties;
- (iii) the existing loan facility provided by KW Bank to Yue Tian having been fully repaid and all securities on assets created therefor having been discharged and released in full;
- (iv) (a) the conditions precedent to each of the Westin Agreements and the material terms and conditions as set out in the Announcement (other than completion of the Note Purchase Agreement) having been fulfilled or where applicable waived by the parties thereunder; and (b) each of the Westin Agreements having been duly completed in accordance with its terms (provided that each of the Westin Agreements shall have been deemed to have been completed where such completion takes place simultaneously with completion of the Note Purchase Agreement or the relevant completion documents having been executed by Poly and Shell in escrow pending receipt of the consideration payable by the Company or its subsidiaries);
- (v) the Zhoutouzui Agreement having been entered into;
- (vi) the approval for the listing of and permission to deal in the Conversion Shares and the New Shares (subject to conditions reasonably satisfactory to the Purchasers as may be imposed by the Stock Exchange) on the Stock Exchange having been obtained;
- (vii) the delivery to the Purchasers, the Trustee and the Security Trustee of legal opinions from Bermuda, the BVI, the PRC and Hong Kong legal advisers, each in a form substantially agreed prior to the signing of the Note Purchase Agreement or otherwise satisfactory to the Purchasers, the Trustee and the Security Trustee acting reasonably; and
- (viii) the written consent of Poly Hong Kong or its relevant subsidiary for the creation and issue of the Yaubond Share Charge having been obtained.

Each Purchaser may at its discretion, and upon such terms as it thinks fit, waive compliance with the whole or any part of the above conditions (ii), (iii), (iv), (v), (vii) and (viii) in respect of and to the extent of the principal amount of Notes to be purchased by it.

Subject to the fulfillment or waiver (as the case may be) of the conditions precedent of the Note Purchase Agreement, the Notes shall be issued on the Closing Date. As at the Latest Practicable Date, except for condition (iii) which has been fulfilled, none of the above conditions have been fulfilled or waived.

LETTER FROM THE BOARD

Undertakings

In the Note Purchase Agreement, the Company has undertaken to each Purchaser that, among other things:

- (i) neither the Company nor any of its subsidiaries or affiliates over which it exercises management or voting control, nor any person acting on its or their behalf will, for a period from the date of the Note Purchase Agreement up to 180 days after the Closing Date, without the prior written consent (if prior to the Closing Date) of each Purchaser or (if after the Closing Date) of the Special Committee of the Noteholders (in each case which consent shall not be unreasonably withheld or delayed), issue, offer, sell, contract to sell, pledge or otherwise dispose of (or publicly announce any such issuance, offer, sale or disposal), any Shares or securities convertible or exchangeable into or exercisable for Shares or warrants or other rights to purchase Shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the Shares, including equity swaps, forward sales and options representing the right to receive any Shares (whether or not such contract is to be settled by delivery of Shares or such other securities, in cash or otherwise) save for Shares issued: (a) pursuant to the conversion provisions of the Notes; (b) pursuant to the conversion of the Convertible Preference Shares; (c) pursuant to obligations in existence at the date of the Note Purchase Agreement, which have been publicly disclosed by the Company; (d) pursuant to share options granted or to be granted by the Company from time to time under its existing share option scheme; (e) pursuant to the 2006 Warrants; and

- (ii) so long as any Note remains outstanding, save with the approval of an extraordinary resolution of the Noteholders, the Company will:
 - (a) upon completion of the Zhoutouzui Acquisition, procure that (1) Smartford executes the Bright Able Share Charge, (2) Bright Able executes the BA Loyal Way Share Charge, (3) Loyal Way executes the Fortunate Start Share Charge and the Ace Billion Share Charge and (4) Fortunate Start and Ace Billion execute the Guangzhou Zhoutouzui Share Charge;

 - (b) upon completion of the Tianyu Project Injection, procure that (1) Fine Luck executes the Long World Share Charge and (2) Long World executes the Trencos Share Charge;

 - (c) upon completion of the Yue Tian Restructuring, procure that Great Elegant executes the Post Restructuring Yue Tian Share Charge; and

LETTER FROM THE BOARD

- (d) upon completion of the Guangzhou Zhoutouzui Restructuring, procure that Smartford executes the Post Restructuring Guangzhou Zhoutouzui Share Charge, as further security for the Notes.

Each of Sharp Bright and Grand Cosmos has separately undertaken to the Purchasers that, among other things:

- (i) for a period from the date of the Note Purchase Agreement up to 180 days after the Closing Date, neither it nor any of the entities or affiliates over which it exercises management or voting control nor any pledgee of Shares beneficially owned by Grand Cosmos nor any person acting on its or their behalf will, without the prior written consent (if prior to the Closing Date) of the Purchasers or (if after the Closing Date) of the Special Committee of the Noteholders (which consent shall not be unreasonably withheld or delayed), issue, offer, sell, contract to sell, pledge or otherwise dispose of (or publicly announce any such issuance, offer, sale or disposal), any Shares or securities convertible or exchangeable into or exercisable for Shares or warrants or other rights to purchase Shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the Shares, including equity swaps, forward sales and options representing the right to receive any Shares (whether or not such contract is to be settled by delivery of Shares or such other securities, in cash or otherwise) save for Shares issued: (a) pursuant to the conversion provisions of the Notes; (b) pursuant to the conversion of the Convertible Preference Shares; (c) pursuant to obligations in existence at the date of the Note Purchase Agreement which have been publicly disclosed; (d) pursuant to share options granted or to be granted by the Company from time to time under its existing share option scheme; (e) pursuant to the 2006 Warrants;
- (ii) it will vote or will procure Grand Cosmos to vote all of the Shares directly or indirectly owned by it in favour of the resolutions to be proposed at the SGM to approve, among other things, the entering into of the Westin Agreements, the Note Purchase Agreement and the respective transactions contemplated thereunder, if Grand Cosmos is not required to abstain from voting or to vote in any particular manner in the SGM by the Stock Exchange or the Listing Rules; and
- (iii) so long as any Note remains outstanding, save with the approval of an extraordinary resolution of the Noteholders, Sharp Bright and Grand Cosmos will:
- (a) subject to the approval of the Stock Exchange and the approval of the Shareholders in general meeting, complete the Tianyu Project Injection prior to 30 June 2007; and

LETTER FROM THE BOARD

- (b) undertake that, prior to the discharge of the Skyfame Share Charge and subject to the reduction in the number of Convertible Preference Shares and/or new Shares charged pursuant to the Skyfame Share Charge upon redemption or conversion of principal amount of Notes as referred to in the paragraph headed “Security” of the section headed “Principal terms of the Notes” of this circular below, the Skyfame Share Charge shall at all times be in respect of 100% of the total issued and outstanding Convertible Preference Shares (including the Convertible Preference Shares which may be issued in relation to the Tianyu Project Injection) and 100% of the total issued and outstanding New Shares.

PRINCIPAL TERMS OF THE NOTES

The principal terms of the Notes, which will be constituted by the Trust Deed, are summarised as follows:

Issuer

The Company.

Principal Amount

The aggregate principal amount of the Notes will be US\$200 million (or approximately HK\$1,562.4 million).

Issue Date

The Closing Date.

Issue Price

100% of the principal amount of the Notes.

Maturity Date

6 years from the Closing Date, the expected maturity date being 10 May 2013.

Coupon

The Notes will bear interest at the rate of 4% per annum, payable semi-annually in arrear.

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Conversion Right

A Noteholder will have the right to convert the Notes into Conversion Shares at any time during the Conversion Period.

Conversion Price

The Initial Conversion Price is HK\$1.35 per Conversion Share, which represents:

- (i) a premium of approximately 7.1% over the closing price of HK\$1.260 per Share as quoted on the Stock Exchange on 2 March 2007, being the Last Trading Day;
- (ii) a premium of approximately 3.7% over the average closing price of HK\$1.302 per Share as quoted on the Stock Exchange for the last five Trading Days up to and including the Last Trading Day;
- (iii) a discount of approximately 15.6% over the closing price of HK\$1.600 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (iv) a discount of approximately 15.9% over the average closing price of HK\$1.606 per Share as quoted on the Stock Exchange for the last five Trading Days up to and including the Latest Practicable Date.

The Conversion Price will be subject to adjustment for subdivision or consolidation of Shares, bonus issues, rights issues, dividend payments and distributions and other usual dilutive events.

Conversion Price Reset

The Conversion Price shall be adjusted downwards on the date falling 6 months from the Closing Date and every 3 months thereafter (each a “**Reset Date**”) to the arithmetic average of the volume weighted average price of a Share for each day during the period of 40 consecutive Trading Days immediately prior to the Reset Date (the “**Reset Reference Price**”) if the applicable Reset Reference Price is less than the Conversion Price in effect on the relevant Reset Date (taking into account any adjustments as set out in the terms and conditions of the Notes which may have occurred prior to the relevant Reset Date), provided that the adjusted Conversion Price shall not be less than HK\$1.00 (“**Minimum Reset Reference Price**”), adjusted to reflect any adjustments to the Conversion Price.

Conversion Shares

Assuming all the Notes are converted at the Initial Conversion Price, 1,157,318,518 Conversion Shares will be issued, representing approximately 106.1% of the issued share capital of the Company as at the Latest Practicable Date and approximately 51.5% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares.

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Assuming all the Notes are converted at the Minimum Reset Reference Price, 1,562,380,000 Conversion Shares will be issued, representing approximately 143.3% of the issued share capital of the Company as at the Latest Practicable Date and approximately 58.9% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares.

Redemption at the option of the Company

The Company shall have the option to redeem the outstanding Notes in whole but not in part at their Early Redemption Amount together with interest accrued to the date of redemption:

- (i) on or at any time after the date that is 4 years from the Closing Date and up to the date that is 10 days prior to the Maturity Date if the closing price of the Shares (translated into US\$ at the exchange rate then prevailing) for each of the 40 consecutive Trading Days immediately prior to the date upon which notice of such redemption is given, is at least 140% of the applicable Early Redemption Amount divided by the Conversion Ratio; or
- (ii) if at any time the aggregate principal amount of the Notes outstanding is less than 10% of the aggregate principal amount originally issued.

Redemption for Delisting or Change of Control

Each Noteholder shall have the right, at such Noteholder's option, to require the Company to redeem all or some only of such Noteholder's Notes at their Early Redemption Amount, together with interest accrued to the date of redemption, upon (i) the Shares ceasing to be listed or admitted to trading on the Stock Exchange or any other stock exchange (as relevant) or is suspended for more than 60 consecutive Trading Days; or (ii) the occurrence of a Change of Control with respect to the Company.

Automatic Redemption

The Company shall redeem:

- (i) US\$30 million principal amount of Notes held by the Noteholders on the date of redemption at their Early Redemption Amount, together with interest accrued to the date of redemption, if all of the conditions precedent to the agreement to be entered into by Smartford or another subsidiary of the Company with the relevant company within the group of GZ Port for the acquisition of all GZ Port's interest in the Zhoutouzui Project have not been fulfilled or (where applicable) have not been waived by the parties thereunder on or before 31 December 2007 or such other date as may be agreed between the Company and the Special Committee of Noteholders, or as may be approved by an extraordinary resolution of the Noteholders if: (1) the Special Committee of

LETTER FROM THE BOARD

Noteholders has been dissolved or no committee member has been appointed; or (2) approval of the Special Committee of Noteholders could not be obtained through want of a quorum; and

- (ii) US\$75 million principal amount of the Notes held by the Noteholders on the date of redemption at their Early Redemption Amount, together with interest accrued to the date of redemption, if the following conditions are not met on or before 31 December 2007 or such other date as may be agreed between the Company and the Special Committee of the Noteholders, or as may be approved by an extraordinary resolution of the Noteholders if: (a) the Special Committee of Noteholders has been dissolved or no committee member has been appointed; or (b) approval of the Special Committee of Noteholders could not be obtained through want of a quorum:
- (1) the land use rights certificate for a combined site area of the Zhoutouzui Project of not less than 40,000 square metres (with planning permission on design parameters for an above ground gross floor area of no less than 180,000 square metres) having been issued by the relevant governmental authority in the PRC; and
 - (2) all of the conditions precedent to the Zhoutouzui Agreement having been fulfilled or (where applicable) waived by the parties thereunder.

Provided that if automatic redemption occurs under both paragraphs (i) and (ii), only US\$75 million principal amount of the Notes in aggregate shall be redeemed. The funds held in the Escrow Account shall be applied for such redemption and any shortfall shall be paid by the Company from its internal resources.

Redemption at the Option of the Noteholders

Each Noteholder shall have the right, at such Noteholder's option, to require the Company to redeem all or some of the Notes held by that Noteholder on the dates set out below:

- (i) on the date that is 36 months from the Closing Date (the "**First Put Date**") at the applicable Early Redemption Amount for such First Put Date, plus any accrued interest. The aggregate amount of Notes put by the Noteholders on the First Put Date may not exceed 30% of the Notes which were originally issued on the Closing Date (the "**First Put Date Limit**"), and each Noteholder shall be entitled to put its pro rata portion of the First Put Date Limit;

LETTER FROM THE BOARD

- (ii) on the date that is 42 months from the Closing Date (the “**Second Put Date**”) at the applicable Early Redemption Amount for such Second Put Date, plus any accrued interest. The aggregate amount of Notes put by the Noteholders on the Second Put Date may not exceed 20% of the Notes which were originally issued on the Closing Date plus any unutilized First Put Date Limit (the “**Second Put Date Limit**”), and each Noteholder shall be entitled to put its pro rata portion of the Second Put Date Limit; and
- (iii) on the date that is 48 months from the Closing Date (the “**Third Put Date**”) at the applicable Early Redemption Amount for such Third Put Date, plus any accrued interest. On the Third Put Date, the Noteholders may redeem all outstanding Notes.

Cash Settlement

Notwithstanding the Conversion Right of each Noteholder in respect of each Note, at any time when the delivery of Conversion Shares is required, the Company shall have the option to pay to the relevant Noteholder an amount of cash in US\$ equal to the product of (i) the number of Conversion Shares otherwise deliverable in respect of the Note(s) to which the relevant conversion notice applies and (ii) the arithmetic average of the volume weighted average price of a Share for each day during the 10 consecutive Trading Days immediately after the relevant cash settlement notice date, converted into US\$ by applying the Exchange Rate, in order to satisfy Noteholder(s)’ Conversion Right in whole or in part.

Under the terms and conditions of the Notes, the Company undertakes that, if it is at any time for any reasons whatsoever (this would include for maintenance of public float) unable to issue Conversion Shares in satisfaction of the Conversion Right of any Noteholder, the Company shall exercise such option in full, or to the extent required to satisfy such Conversion Right. Once the Company exercised such option, even if the Company fails to make the cash payment, the relevant Noteholder has no right to require the Company to issue Conversion Shares covered by the Company’s exercise of the option.

Maturity

Unless previously redeemed, converted or purchased and cancelled in accordance with the terms and conditions of the Notes, the Company will redeem each Note at 201.33% of its principal amount on the Maturity Date.

Form and Denomination

The Notes will be in registered form and in denominations of US\$200,000 each or integral multiples thereof.

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Status

The Notes will constitute direct, unconditional, unsubordinated and secured obligations of the Company and shall at all times rank pari passu and without any preference or priority among themselves. The Notes shall, at all times, as to the Security, rank in priority to all of the unsecured obligations of the Company.

Transferability

The Notes are freely transferable. The Company will notify the Stock Exchange if it becomes aware of any dealings in the Notes by any director, chief executive and substantial shareholder of the Company or its subsidiaries or any of their respective associates.

Security

The payment obligations of the Company under the Notes, the Trust Deed and the Agency Agreement will be secured in favour of the Security Trustee by the Security.

Each of the Red Empire Share Charge, the Allright Share Charge and the Yue Tian Share Charge shall, upon completion of the Yue Tian Restructuring, be replaced by the Post Restructuring Yue Tian Share Charge and the Bright Able Share Charge, the BA Loyal Way Share Charge, the SF Loyal Way Share Charge, the Fortunate Start Share Charge, the Ace Billion Share Charge and the Guangzhou Zhoutouzui Share Charge shall, upon completion of the Guangzhou Zhoutouzui Restructuring, be replaced by the Post Restructuring Guangzhou Zhoutouzui Share Charge. The Yaubond Share Charge shall be released by the Security Trustee at the request of the Company.

The number of Grand Cosmos Shares and Shares charged pursuant to the Grand Cosmos Share Charge and Skyfame Share Charge respectively shall be reduced upon redemption or conversion of each US\$40,000,000 principal amount of Notes. For each US\$40,000,000 principal amount of Notes redeemed or converted, the percentage of the Grand Cosmos Shares and the Shares which are required to be charged shall be reduced by 20% of the number of Grand Cosmos Shares or Shares, as the case may be, originally charged.

The number of Convertible Preference Shares and new Shares to be issued upon conversion of the Convertible Preference Shares charged pursuant to the Skyfame Share Charge shall be adjusted in accordance with the terms and conditions of the Notes upon: (a) (subject to the completion of the Tianyu Project Injection) redemption or conversion of each US\$40,000,000 principal amount of Notes; and/or (b) conversion of all or part of the Convertible Preference Shares into new Shares.

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Listing of the Conversion Shares

The Company has applied to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares. No application will be made for the listing of, and permission to deal in, the Notes on the Stock Exchange or any other stock exchange, or the Conversion Shares on any other stock exchange.

Financial Covenants

So long as any Note remains outstanding:

- (i) the Company shall not, and shall not permit any of its subsidiaries to, incur any indebtedness if, on the date of such incurrence of such indebtedness the Company's consolidated indebtedness as reported in the Company's latest published consolidated balance sheet (the "**Consolidated Debt**") (excluding any Consolidated Debt which is subordinated to any remaining outstanding Notes) will exceed 65% of its Gross Asset Value;
- (ii) the Company or its subsidiaries may incur indebtedness in respect of the Westin Project provided that (a) if such indebtedness is for the purpose of project financing in respect of the Westin Project or (b) if such indebtedness involves using any part of the Westin Project as collateral or security, the aggregate indebtedness incurred in respect of the Westin Project shall not exceed RMB1 billion outstanding at any given time (subject to any increase approved by the Special Committee of Noteholders, such approval not to be unreasonably denied, or by an extraordinary resolution of the Noteholders if: (1) the Special Committee of Noteholders has been dissolved or no committee member has been appointed; or (2) approval of the Special Committee of Noteholders could not be obtained through want of a quorum);
- (iii) the Consolidated Debt (excluding any Consolidated Debt which is (i) project financing in respect of the acquisition of any permitted future development projects or (ii) subordinated to any remaining outstanding Notes) shall not exceed RMB3.8 billion or, if the Tianyu Project Injection is not completed by 31 August 2007, RMB3.6 billion (subject to any increase approved by the Special Committee of Noteholders, such approval not to be unreasonably denied, or by an extraordinary resolution of the Noteholders if: (1) the Special Committee of Noteholders has been dissolved or no committee member has been appointed; or (2) approval of the Special Committee of Noteholders could not be obtained through want of a quorum); and

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- (iv) the Company shall maintain a ratio of consolidated earnings before interest, taxes, depreciation and amortization (EBITDA) to consolidated cash interest expense (a) for any fiscal period commencing on or after 1 January 2009, of not less than 1.3 times; and (b) for any fiscal period commencing on or after 1 January 2010, of not less than 5.0 times.

PROPOSED ACQUISITION OF THE WESTIN PROJECT

On 2 March 2007, Great Elegant, an indirect wholly-owned subsidiary of the Company, entered into (i) the Poly/Shell Westin Agreement (which comprises the Red Empire Acquisition and the Allright Acquisition) with Poly and Shell as vendors; and (ii) the Wise Gain Westin Agreement with Wise Gain as vendor.

Pursuant to the Poly/Shell Westin Agreement, Great Elegant conditionally agreed to acquire (i) from Poly the Red Empire Sale Share and the Red Empire Sale Debt for a total consideration of HK\$452,147,600 payable in cash; and (ii) from Shell the Allright Sale Share and the Allright Sale Debt for a total consideration of HK\$177,301,667 payable in cash.

Pursuant to the Wise Gain Westin Agreement, Great Elegant conditionally agreed to acquire from Wise Gain, a company wholly-owned by Mr. YU, the Yue Tian Sale Shares and the Yue Tian Sale Debt for a total consideration of HK\$257,103,733 payable by way of the issue of the Westin CPS to Grand Cosmos as directed by Wise Gain.

Red Empire is the legal and beneficial owner of 51% of the total issued share capital of Yue Tian whereas Allright is the legal and beneficial owner of 20% of the total issued share capital of Yue Tian. Upon completion of the 71% Acquisition (which comprises the Red Empire Acquisition and the Allright Acquisition) and the 29% Acquisition, Yue Tian will become an indirect wholly-owned subsidiary of the Company. The shareholding structure of Yue Tian before and after completion of the Westin Acquisition is set out under the section headed “Shareholding structure of Yue Tian” of this circular below.

Further details of the Poly/Shell Westin Agreement and the Wise Gain Westin Agreement are set out below.

LETTER FROM THE BOARD

The Poly/Shell Westin Agreement

Date

2 March 2007

Parties

Vendors: (1) In respect of the Red Empire Acquisition:

Poly, a wholly-owned subsidiary of Poly Hong Kong, a company incorporated in Hong Kong whose shares are listed on the Stock Exchange. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Poly is an investment holding company.

(2) In respect of the Allright Acquisition:

Shell, a wholly-owned subsidiary of Shell Electric, a company incorporated in Hong Kong whose shares are listed on the Stock Exchange. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Shell is an investment holding company.

To the best of the Directors' knowledge, information and belief having made reasonable enquiries, as at the Latest Practicable Date, neither Poly, Shell, nor any associates of Poly and Shell or the respective substantial shareholders of Poly Hong Kong and Shell Electric has any shareholding interest in the Company.

Purchaser: Great Elegant, a wholly owned subsidiary of the Company.

Assets to be acquired

In respect of the Red Empire Acquisition:

- (i) the Red Empire Sale Share, being the entire issued share capital of Red Empire; and
- (ii) the Red Empire Sale Debt, representing the face value of the total amount due by Red Empire to Poly as at 31 January 2007.

LETTER FROM THE BOARD

In respect of the Allright Acquisition:

- (i) the Allright Sale Share, being the entire issued share capital of Allright; and
- (ii) the Allright Sale Debt, representing the face value of the total amount due by Allright to Shell as at 31 January 2007.

Red Empire is an investment holding company incorporated in the BVI with limited liability on 28 October 2003 and Allright is an investment holding company incorporated in Samoa with limited liability on 23 November 2004. As at the Latest Practicable Date, Red Empire and Allright have no major assets or operating businesses other than their respective 51% and 20% interest in the issued share capital of Yue Tian. Besides the Yue Tian Group, Red Empire also has a 51% direct interest in Poly Tianyu (Guangzhou) Limited which is a company incorporated in Hong Kong with limited liability and is an investment holding company with no major assets or operating business. Red Empire Group recorded audited consolidated losses before and after taxation attributable to the shareholders of Red Empire respectively for the year ended 31 December 2005 of approximately HK\$3.6 million and for the year ended 31 December 2006 of approximately HK\$0.5 million and recorded an audited consolidated net assets value attributable to shareholders of Red Empire as at 31 December 2006 of approximately HK\$40.3 million. Allright recorded audited losses before and after taxation respectively for the period from 23 November 2004 to 31 December 2005 of approximately HK\$2.8 million and for the year ended 31 December 2006 of approximately HK\$2.6 million and recorded an audited net assets value as at 31 December 2006 of approximately HK\$44.1 million, after equity accounting for Yue Tian's results. As at 31 December 2006, the face value of the total amount due by Red Empire to Poly was approximately HK\$312.1 million and the face value of the total amount due by Allright to Shell was approximately HK\$124.7 million (whereas the amount of the loan from Shell to Allright as at 31 December 2006 as shown in the audited financial statements set out in Appendix III of this circular of approximately HK\$92.0 million represented the audited fair value of the loan after adjustment to the carrying value using the effective interest rate method as required under Hong Kong Accounting Standard 39). Further financial information and management discussion and analysis of performance of the Red Empire Group are set out under the sections headed "Accountants' report of the Red Empire Group" and "Management discussion and analysis of the Red Empire Group (including the Yue Tian Group) for each of the three years ended 31 December 2006" respectively in Appendix II to this circular and those of Allright are set out in Appendix III to this circular and further information on Yue Tian is set out in the section headed "Information on Yue Tian" of this circular below.

Consideration

The Red Empire Consideration shall be HK\$452,147,600 of which the consideration for the Red Empire Sale Debt is HK\$312,145,343 and the consideration for the Red Empire Sale Share is HK\$140,002,257. An initial deposit of HK\$2,000,000 has been paid to Poly on the

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signing of the Poly/Shell Westin Agreement, a further deposit of HK\$7,000,000 has been paid to Poly on 30 March 2007 and the remaining balance of the Red Empire Consideration shall be paid by Great Elegant in cash on completion of the Red Empire Acquisition.

The Allright Consideration shall be HK\$177,301,667 of which the consideration for the Allright Sale Debt is HK\$124,689,718 and the consideration for the Allright Sale Share is HK\$52,611,949. An initial deposit of HK\$1,000,000 has been paid to Shell on the signing of the Poly/Shell Westin Agreement, a further deposit of HK\$2,540,000 has been paid to Shell on 30 March 2007 and the remaining balance of the Allright Consideration shall be paid by Great Elegant in cash on completion of the Allright Acquisition.

The total consideration has been agreed after arm's length negotiations between Great Elegant and Poly or Shell (as the case may be) with reference to the valuation of the market value of the Land (including the Westin Project) as of 31 December 2006 of approximately RMB1,498,000,000 (or approximately HK\$1,498,000,000), the face value of the respective Red Empire Sale Debt and the Allright Sale Debt as at 31 January 2007, the investment costs of Poly and Shell, the value of the construction in progress and the outstanding construction costs of the Westin Project. According to the valuation report of DTZ Debenham Tie Leung Limited (the text of which is set out in Appendix V of this circular), the market value of the Land (including the Westin Project) as of 31 January 2007 was approximately RMB1,498,000,000 (or approximately HK\$1,498,000,000).

The initial deposits and the further deposits paid, by Great Elegant under the Poly/Shell Westin Agreement were financed by internal resources of the Group. The remaining balance of the total consideration for the Red Empire Acquisition and the Allright Acquisition is intended to be financed by the net proceeds from the issue of the Notes.

Adjustments to consideration

In the event that the balance of all liabilities (other than the Red Empire Sale Debt and those incurred with the consent of Great Elegant and those incurred in the usual and ordinary course of business) of the Red Empire Group as at the completion of the Red Empire Acquisition is more than HK\$10,000,000 above that disclosed in the relevant unaudited management accounts as at 31 December 2006 of approximately HK\$516.9 million, the Red Empire Consideration shall be reduced by an amount equal to, for liabilities of Red Empire, such excess on a dollar for dollar basis and for liabilities of the Yue Tian Group, 51% of such excess but in any event, not exceeding the consideration for the Red Empire Sale Share.

In the event that the balance of all liabilities (other than the Allright Sale Debt, any debt disclosed by Shell and those incurred with the consent of Great Elegant) of Allright as at the completion of the Allright Acquisition is more than HK\$1,000,000 above that disclosed in the relevant unaudited management accounts as at 31 December 2006 of approximately HK\$225,000, the Allright Consideration shall be reduced by an amount equal to such excess on a dollar for dollar basis.

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Conditions Precedent for the completion of the 71% Acquisition

Unless otherwise stated, completion of the 71% Acquisition shall be conditional upon the following conditions being fulfilled/waived:

- (a) completion by Great Elegant of a due diligence review and investigation on Red Empire, Allright (as the case may be) and the Yue Tian Group and Great Elegant being reasonably satisfied with the results thereof;
- (b) (in respect of the Red Empire Acquisition only) the warranties given by Poly in the Poly/Shell Westin Agreement being true and correct and not misleading in any material respects as if repeated at all times between the date of the Poly/Shell Westin Agreement and the completion of the Red Empire Acquisition and as at the date of such completion by reference to the facts and circumstances then subsisting;
- (c) (in respect of the Allright Acquisition only) the warranties given by Shell in the Poly/Shell Westin Agreement being true and correct and not misleading in any material respects as if repeated at all times between the date of the Poly/Shell Westin Agreement and the completion of the Allright Acquisition and as at the date of such completion by reference to the facts and circumstances then subsisting;
- (d) the passing of the necessary resolutions by the Shareholders (or if required, the Independent Shareholders) at the SGM approving the Poly/Shell Westin Agreement and the transactions contemplated thereunder, in compliance with the Listing Rules;
- (e) all necessary statutory, governmental and regulatory consents, authorizations or other approvals and requirements (or, as the case may be, the relevant waiver) of any kind in connection with the entering into and performance of the terms of the Poly/Shell Westin Agreement and the transactions contemplated thereunder having been obtained and complied with by Poly and/or Poly Hong Kong or by Shell and/or Shell Electric (as the case may be), including those under the Listing Rules;
- (f) the obtaining of all consents from other third parties which are necessary or desirable in connection with the execution and performance of the Poly/Shell Westin Agreement and any of the transactions contemplated under the Poly/Shell Westin Agreement (including without limitation, the necessary consent from the KW Bank pursuant to the Loan Agreement and the Second Loan Agreement and if required, the relevant consent from Westin International under its management contract with the PRC Company);

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- (g) all obligation and liabilities of Poly Hong Kong or Poly or Shell Electric or Shell (as the case may be) in favour of the KW Bank pursuant to the Guarantee and Indemnity, the Loan Agreement, the Second Loan Agreement, the KW Bank Share Charge, the Second KW Bank Share Charge and other related security documents (if any) having been fully released and/or discharged;
- (h) Great Elegant at its cost having obtained a legal opinion issued by a PRC firm of lawyers in respect of the PRC Company and its business (including the Westin Project), the Land and Yue Tian's interest in the PRC Company, in such form and substance to the reasonable satisfaction of Great Elegant;
- (i) (in respect of the Red Empire Acquisition only) the delivery by Poly to Great Elegant of the BVI Registered Agent's certificate confirming that Red Empire has been duly incorporated and is in good standing together with certificates of incumbency certifying the directors and shareholders of Red Empire;
- (j) (in respect of the Allright Acquisition only) the delivery by Shell to Great Elegant of a legal opinion issued by a Samoa law firm acceptable to Great Elegant and addressed to Great Elegant confirming that Allright has been duly incorporated and is in good standing together with certificates of incumbency certifying the directors and shareholders of Allright, such legal opinion to be in form and contents to the reasonable satisfaction of Great Elegant;
- (k) the passing of the necessary resolutions by the shareholders (or, if required by the Stock Exchange, the independent shareholders) of (in respect of the Red Empire Acquisition only) Poly Hong Kong and (in respect of the Allright Acquisition only) of Shell Electric approving the Poly/Shell Westin Agreement and the transactions contemplating thereunder, in compliance with the Listing Rules;
- (l) (in respect of the Red Empire Acquisition only) save as disclosed in writing to Great Elegant on the date of the Poly/Shell Westin Agreement, no material adverse change on the financial position, management, business or property, results of operations, legal or financing structure, business prospects or assets or liabilities of Red Empire or the Yue Tian Group taken as a whole having occurred between the date of the Poly/Shell Westin Agreement and the completion of the Red Empire Acquisition;
- (m) (in respect of the Allright Acquisition only) save as disclosed in writing to Great Elegant on the date of the Poly/Shell Westin Agreement, no material adverse change on the financial position, management, business or property, results of operations, legal or financing structure, business prospects or assets or liabilities of Allright having occurred between the date of the Poly/Shell Westin Agreement and the completion of the Allright Acquisition;

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- (n) (in respect of the Red Empire Acquisition only) all the conditions precedent for the completion of the Allright Acquisition (other than condition (o) below) having been fulfilled (or waived in accordance with the terms of the Poly/Shell Westin Agreement);
- (o) (in respect of the Allright Acquisition only) all the conditions precedent for the completion of the Red Empire Acquisition (other than condition (n) above) having been fulfilled (or waived in accordance with the terms of the Poly/Shell Westin Agreement); and
- (p) Great Elegant and/or the Company having obtained sufficient financing for payment of the Red Empire Consideration and the Allright Consideration on terms reasonably acceptable to Great Elegant and the Company.

In respect of the Red Empire Acquisition, Great Elegant may at any time in writing waive conditions (a), (b), (f), (h), (i), (l) and (p). Neither Great Elegant nor Poly may waive conditions (d), (e), (g), (k) and (n).

In respect of the Allright Acquisition, Great Elegant may at any time in writing waive conditions (a), (c), (f), (h), (j), (m) and (p). Neither Great Elegant nor Shell may waive conditions (d), (e), (g), (k) and (o).

If any of the above conditions has not been fulfilled (or waived by Great Elegant except conditions (d), (e), (g), (k), (n) and (o)) on or before 10 May 2007 or such other date as the parties may agree in writing, or the conditions (b), (c), (l), (m), (n) and (o) do not remain fulfilled on the date of completion of the Red Empire Acquisition or the Allright Acquisition (as the case may be) (unless waived by Great Elegant), the Poly/Shell Westin Agreement shall lapse and be terminated and thereafter all rights, obligations and liabilities of Great Elegant, Poly and Shell shall cease and determine and neither Great Elegant nor either of Poly or Shell shall have any claim against the other under the Poly/Shell Westin Agreement except for antecedent breach. As at the Latest Practicable Date, except for condition (g) which has been fulfilled, none of the above conditions have been fulfilled or waived.

In the event that the Poly/Shell Westin Agreement is terminated due to non-fulfillment of:

- (i) any of the conditions (b), (c), (f), (i), (j) and (k) and which, if applicable, has not been waived, all monies paid to Poly or Shell by Great Elegant under the Poly/Shell Westin Agreement shall be refunded to Great Elegant within 2 business days of such termination;
- (ii) condition (p) after all other conditions above (other than conditions (n) and (o)) have been fulfilled, the initial deposit paid to Poly shall be forfeited by Poly and the initial deposit paid to Shell shall be forfeited by Shell but the further deposit paid to Poly and that to Shell shall be refunded to Great Elegant within 2 business days of such termination; and

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- (iii) any above conditions not covered by paragraphs (i) and (ii) above, the initial deposit and the further deposit paid to Poly by Great Elegant shall be forfeited by Poly and the initial deposit and further deposit paid to Shell by Great Elegant shall be forfeited by Shell.

Completion of the 71% Acquisition

Subject to fulfilment or waiver (as the case may be) of the conditions precedent set out above, completion of the Red Empire Acquisition and the Allright Acquisition shall take place on 10 May 2007 or an earlier date as Great Elegant may by not less than 3 days notice informing Poly and Shell after the above conditions have been fulfilled (or where applicable, waived) or such other date as the parties may agree and is inter-conditional between themselves.

The Wise Gain Westin Agreement

Date

2 March 2007

Parties

Vendor: Wise Gain, which entire issued share capital is held by Mr. YU, an executive Director, chairman and controlling Shareholder of the Company. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Wise Gain is an investment holding company.

Purchaser: Great Elegant, a wholly owned subsidiary of the Company.

Assets to be acquired

- (i) the Yue Tian Sale Shares, being 29% of the issued share capital of Yue Tian; and
- (ii) the Yue Tian Sale Debt, representing the total amount due by Yue Tian to Wise Gain as at 31 January 2007.

As at 31 December 2006, the face value of the total amount due by Yue Tian to Wise Gain was approximately HK\$173.4 million.

Consideration

The aggregate consideration for the Yue Tian Sale Shares and Yue Tian Sale Debt shall be HK\$257,103,733 of which the consideration for the Yue Tian Sale Debt is HK\$173,357,134 and the consideration for the Yue Tian Sale Shares is HK\$83,746,599. The total consideration for the Yue Tian Sale Shares and the Yue Tian Sale Debt will be settled by way of issue of the Westin CPS by the Company to Grand Cosmos as directed by Wise Gain.

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The consideration is arrived at after arm's length negotiations between Great Elegant and Wise Gain with reference to the valuation of the market value of the Land (including the Westin Project) as of 31 December 2006 of approximately RMB1,498,000,000 (or approximately HK\$1,498,000,000), the face value of the total amount due by Yue Tian to Wise Gain as at 31 January 2007, the investment costs of Wise Gain, the value of the construction in progress and outstanding construction costs of the Westin Project. According to the valuation report of DTZ Debenham Tie Leung Limited (the text of which is set out in Appendix V of this circular), the market value of the Land (including the Westin Project) as of 31 January 2007 was approximately RMB1,498,000,000 (or approximately HK\$1,498,000,000).

Adjustments to consideration

In the event that the liabilities (other than the Yue Tian Sale Debt and those incurred with the consent of Great Elegant and those incurred in the usual and ordinary course of business) of any member of the Yue Tian Group as at the completion of the 29% Acquisition is more than HK\$10,000,000 above that disclosed in the unaudited management accounts of Yue Tian Group as at 31 December 2006, the consideration shall be reduced by, and Wise Gain shall reimburse Great Elegant in cash, an amount equal to 29% of such excess.

Principal terms of the Convertible Preference Shares (including the Westin CPS)

The principal terms of the Convertible Preference Shares (including the Westin CPS) are as follows:

- Issue price: HK\$1.35 per Convertible Preference Share
- Conversion ratio: each Convertible Preference Share carries the right to convert to one new Share (subject to adjustment for the same adjustment events as the Notes and upon a reset of the Conversion Price under the terms and conditions of the Note as set out under the paragraph headed "Adjustments to conversion ratio" under the special resolution No. 4 in the notice convening the SGM included in this circular)
- Conversion rights: each holder of Convertible Preference Shares shall have the right to convert all or any of its Convertible Preference Shares into new Shares at any time at the ratio (subject to adjustments as referred to in the paragraph above) of one Convertible Preference Share for each new Share. The conversion right shall be exercisable in whole or in part at any time that the aggregate holdings of Shares by the holders of the Convertible Preference Shares and its connected persons is less than 75% of the total issued and outstanding Shares

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Redemption:	so long as the Notes remain outstanding, the Convertible Preference Shares are not redeemable
Dividend entitlement:	nil
Transferability:	the Convertible Preference Shares are freely transferable
Voting rights:	a holder of the Convertible Preference Shares shall not be entitled to vote at any meeting of the Company by reason only of it being a holder of the Convertible Preference Shares
Listing:	no application will be made for the listing of the Convertible Preference Shares on the Stock Exchange or any other stock exchange. An application has been made by the Company for the listing of, and permission to deal in, the new Shares to be issued as a result of the exercise of the conversion rights attaching to the Convertible Preference Shares
Ranking:	the Convertible Preference Shares shall be subordinated, in terms of repayment, to the Notes. The new Shares to be issued upon exercise of the conversion rights attached to the Convertible Preference Shares will rank pari passu in all respects with all other existing Shares outstanding at the date of conversion of the Convertible Preference Shares

A special resolution will be proposed at the SGM to amend the Bye-laws in order to create the Convertible Preference Shares.

Issue price

The issue price of HK\$1.35 per Convertible Preference Share was arrived at after arm's length negotiation between Wise Gain and the Company and represents:

- (a) a premium of approximately 7.1% over the closing price of HK\$1.260 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (b) a premium of approximately 0.8% over the average closing price of HK\$1.339 per Share as quoted on the Stock Exchange for the last 10 consecutive Trading Days up to and including the Last Trading Day;
- (c) a discount of approximately 3.6% to the average closing price of HK\$1.400 per Share as quoted on the Stock Exchange for the last 30 consecutive Trading Days up to and including the Last Trading Day;

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- (d) a discount of approximately 15.6% over the closing price of HK\$1.600 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (e) a discount of approximately 17.0% over the average closing price of HK\$1.627 per Share as quoted on the Stock Exchange for the last 10 consecutive Trading Days up to and including the Latest Practicable Date; and
- (f) a premium of approximately 200.0% over the unaudited consolidated net assets value per Share of approximately HK\$0.45 as at 30 June 2006 (being the unaudited consolidated net assets value of approximately HK\$254.9 million as at 30 June 2006 adjusted by the net proceeds of approximately HK\$234.5 million received by the Company from the open offer taken place in August 2006 divided by 1,090,343,286 Shares in issue as at the date of the Announcement).

Based on the above analysis, the Directors consider the terms of the Convertible Preference Shares, including the issue price per Convertible Preference Share of HK\$1.35, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Conditions Precedent for the completion of the 29% Acquisition

Completion of the 29% Acquisition shall be conditional upon the following conditions being fulfilled/waived:

- (a) completion by Great Elegant of a due diligence review and investigation on Yue Tian Group and Great Elegant being reasonably satisfied with the results thereof;
- (b) the warranties given by Wise Gain in the Wise Gain Westin Agreement being true and correct and not misleading in any material respects as if repeated at all times between the date of the Wise Gain Westin Agreement and the completion of the 29% Acquisition and as at the date of such completion by reference to the facts and circumstances then subsisting;
- (c) the passing of the necessary resolutions by the Independent Shareholders at the SGM approving the Wise Gain Westin Agreement and the transactions contemplated thereunder, including the creation of the Convertible Preference Shares, the issue and allotment of the Westin CPS and the issue and allotment of New Shares, in compliance with the Listing Rules;
- (d) all necessary statutory, governmental and regulatory consents, authorizations or other approvals and requirements (or, as the case may be, the relevant waiver) of any kind in connection with the entering into and performance of the terms of the Wise Gain Westin Agreement and the transactions contemplated thereunder having been obtained and complied with, including those under the Listing Rules;

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- (e) the obtaining of all consents from other third parties which are necessary or desirable in connection with the execution and performance of the Wise Gain Westin Agreement and any of the transactions contemplated thereunder (including without limitation, the necessary consent from the KW Bank pursuant to the Loan Agreement and the Second Loan Agreement and if required, the relevant consent from Westin International under its management contract with the PRC Company);
- (f) all obligation and liabilities of Mr. YU in favour of the KW Bank pursuant to the Guarantee and Indemnity, the Loan Agreement, the Second Loan Agreement, the Deed of Mortgage, the KW Bank Share Charge, the Second KW Bank Share Charge and other related security documents (if any) having been fully released and/or discharged;
- (g) Great Elegant at its cost having obtained a legal opinion issued by a PRC firm of lawyers in respect of the PRC Company and its business (including the Westin Project), the Land and Yue Tian's interest in the PRC Company, in such form and substance to the reasonable satisfaction of Great Elegant;
- (h) the delivery by Wise Gain to Great Elegant of the BVI Registered Agent's certificate confirming that Wise Gain is in good standing together with certificate of incumbency certifying the directors and shareholders of Wise Gain;
- (i) save as disclosed in writing to Great Elegant on the date of the Wise Gain Westin Agreement, no material adverse change on the financial position, management, business or property, results of operations, legal or financing structure, business prospects or assets or liabilities of any member of Yue Tian Group or Yue Tian Group taken as a whole having occurred between the date of the Wise Gain Westin Agreement and the date of completion of the 29% Acquisition;
- (j) the mortgage of the Yue Tian Sale Shares under the Deed of Mortgage having been fully released and/or discharged by Red Empire and Allright; and the mortgage of the Yue Tian Sale Shares under the KW Bank Share Charge and the Second KW Bank Share Charge having been fully released and/or discharged by KW Bank; and
- (k) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the New Shares.

Great Elegant may at any time in writing waive conditions (a), (b), (e), (g), (h) and (i). Neither Great Elegant nor Wise Gain may waive condition (c), (d), (f), (j) and (k). If any of the above conditions has not been fulfilled (or waived by Great Elegant) by 10 May 2007 or such other date as the parties may agree in writing, or the conditions (b) and (i) do not remain fulfilled on the date of completion of the 29% Acquisition (unless waived by Great Elegant), the Wise Gain Westin Agreement shall lapse as between Great Elegant and Wise Gain and be terminated as between Great Elegant and Wise Gain and thereafter all rights, obligations and liabilities of Great Elegant and Wise Gain shall cease and determine and neither Great Elegant nor Wise Gain shall have any claim against the other under the Wise Gain Westin Agreement except for antecedent breach. As at the Latest Practicable Date, except for condition (f) which has been fulfilled, none of the above conditions have been fulfilled or waived.

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Completion of the 29% Acquisition

Subject to fulfilment or waiver (as the case may be) of the conditions precedent set out above, completion of the 29% Acquisition shall take place on 10 May 2007 or an earlier date as Great Elegant may by not less than 3 days notice informing Wise Gain after the above conditions have been fulfilled (or where applicable, waived) or such other date as the parties may agree. The Wise Gain Westin Agreement and the Poly/Shell Westin Agreement are not inter-conditional with each other.

INFORMATION ON YUE TIAN

Yue Tian is an investment holding company incorporated in Hong Kong with limited liability on 2 March 1993 and has not, since its incorporation, carried on any business other than the formation of the PRC Company with GCC and Yue Tian does not have any subsidiary other than the PRC Company. As at the Latest Practicable Date, Yue Tian is held as to 20% by Allright, as to 29% by Wise Gain, and as to 51% by Red Empire. As such, Yue Tian is a subsidiary of Red Empire and its results are consolidated in the accounts of Red Empire.

The PRC Company is a sino-foreign cooperative joint venture enterprise established by Yue Tian and GCC on 26 September 2002 in the PRC with a registered capital of US\$45 million (of which US\$27.5 million has been fully paid up while the remaining portion of US\$17.5 million will be paid up by Yue Tian and is intended to be financed by the net proceeds from the issue of the Notes upon completion of the Westin Acquisition) and has a term of operation of 16 years. According to the terms of the sino-foreign cooperative joint venture agreement entered into by the parties on 3 January 2005, Yue Tian has paid RMB90 million on 8 June 2006 to GCC as cash compensation and GCC is no longer entitled to the future profits generated by the PRC Company. The entire results of the PRC Company are consolidated into the accounts of Yue Tian. The PRC Company is a project company and has not carried on any business since its establishment other than the acquisition and holding of the Land and the Westin Project. The Land is located at 廣州天河區林和東路以西、天河商旅7區 (West of Linhe Dong Road, Zone 7 of Tianhe Shanglü Tianhe District, Guangzhou) consisting of a site area of approximately 9,121 square metres. The PRC Company has obtained the land use rights certificate issued by 廣州市國土資源和房屋管理局 (Bureau of Land Resources and Housing Management of Guangzhou Municipality) for a term of 70 years for residential use from 25 July 2001, 40 years for commercial, tourism and entertainment uses from 25 July 2001 and 50 years for other uses from 25 July 2001, and the relevant land use and construction permits in respect of the Land.

The Westin Project is a commercial development project principally comprising the development and construction on the Land a hotel tower of 40 storey, namely the Westin, Guangzhou and a 36-storey office complex (including shopping arcades). As at the Latest Practicable Date, the superstructure wall of the Westin Project was completed and glass walls, mechanical engineering facilities installation and internal decoration are underway and are at their final stage close to completion. The Westin, Guangzhou will be managed and operated by Westin International. It is expected that there will be approximately 440 hotel rooms and certain car parking facilities in the Westin, Guangzhou.

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The total cost of the Westin Project (inclusive of the cost of Land, the development costs and other related expenses) is estimated to be approximately RMB 1,590.3 million (or approximately HK\$1,590.3 million), of which approximately HK\$1,257.3 million has been paid and/or financed up to the Latest Practicable Date by Poly, Shell, Wise Gain and the Agricultural Bank of China (Guangdong Branch). The remaining portion of approximately HK\$333.0 million consisting of outstanding construction costs of HK\$249.0 million and pre-operating expenses of HK\$84.0 million is expected to be financed by bank loan and proceeds raised from the issue of the Notes.

To the best knowledge of the Directors, the original investment cost of Allright, Wise Gain and Red Empire of their respective interest in 20%, 29% and 51% of the issued share capital of Yue Tian was approximately HK\$3.8 million, HK\$5.5 million and HK\$9.7 million respectively. Yue Tian had an audited consolidated net assets value of approximately HK\$378.3 million as at 31 December 2006 and recorded audited consolidated losses before and after taxation respectively for the year ended 31 December 2005 of approximately HK\$9.8 million and for the year ended 31 December 2006 of approximately HK\$9.2 million. Upon completion of the Westin Acquisition, Yue Tian and the PRC Company will become indirect wholly-owned subsidiaries of the Company. Further financial information and management discussion and analysis of performance of the Yue Tian Group are set out in the sections headed “Accountants’ Report of the Yue Tian Group” and “Management discussion and analysis of the Red Empire Group (including the Yue Tian Group) for each the three years ended 31 December 2006” respectively in Appendix II of the circular.

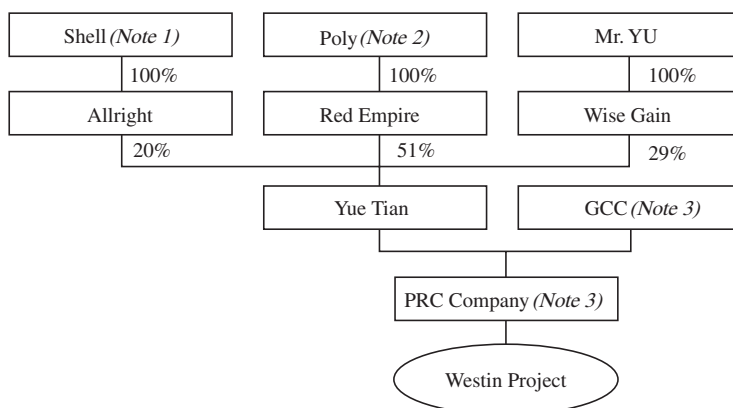
Since the date of the Note Purchase Agreement, the PRC Company has repaid all outstanding amount due to KW Bank under the Loan Agreement, which repayment was financed by shareholders’ loans. A new bank loan from the Agricultural Bank of China (Guangdong Branch) of up to RMB800 million which will be secured by land use rights and properties held for development has been arranged to re-finance such repayment.

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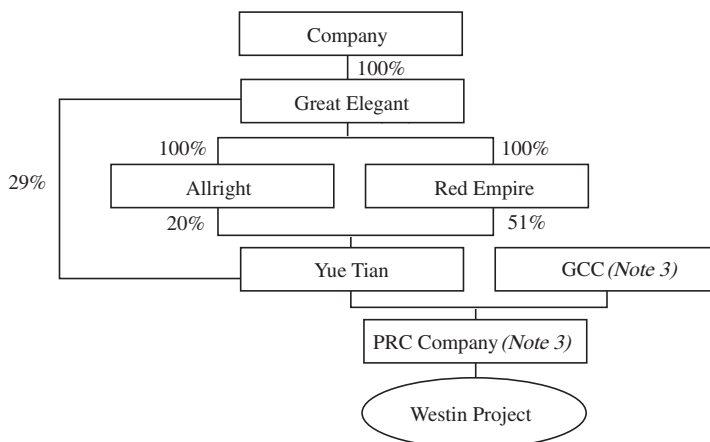
SHAREHOLDING STRUCTURE OF YUE TIAN

The shareholding structure of Yue Tian before and after completion of the Westin Acquisition is illustrated as follows:

Before completion of the Westin Acquisition



After completion of the Westin Acquisition



Notes:

1. Shell is wholly-owned by Shell Electric whose shares are listed on the Main Board of the Stock Exchange.
2. Poly is wholly-owned by Poly Hong Kong whose shares are listed on the Main Board of the Stock Exchange.
3. PRC Company is a sino-foreign cooperative joint venture enterprise. Under the terms of the sino-foreign cooperative joint venture agreement entered into by the parties on 3 January 2005, Yue Tian has paid RMB90 million on 8 June 2006 to GCC as cash compensation and GCC is no longer entitled to the future profits generated by the PRC Company. The entire results of the PRC Company are consolidated into the accounts of Yue Tian.

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EFFECTS OF CONVERSION OF THE NOTES AND THE WESTIN CPS ON ISSUED SHARE CAPITAL OF THE COMPANY

Based on the Initial Conversion Price of HK\$1.35 per Share and assuming full conversion of the Notes, 1,157,318,518 Conversion Shares will be issued, representing (i) approximately 106.1% of the issued share capital of the Company as at the Latest Practicable Date and (ii) approximately 51.5% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares.

Upon full conversion of the Westin CPS at the initial conversion ratio, a total of 190,447,209 New Shares will be issued, representing (i) approximately 17.5% of the issued share capital of the Company as at the Latest Practicable Date; (ii) approximately 14.9% of the issued share capital of the Company as enlarged by the issue of such New Shares; and (iii) approximately 7.8% of the issued share capital of the Company as enlarged by the issue of such New Shares and the Conversion Shares, assuming full conversion of the Notes at the Initial Conversion Price.

The Directors consider that there will not be a change in control of the Company as a result of the issue of the Notes and the Westin CPS.

Set out below is a table showing the Company's shareholding structure (i) as at the Latest Practicable Date; (ii) upon full conversion of the Notes; (iii) upon full conversion of the Westin CPS; (iv) upon full conversion of the Notes and the Westin CPS; and (v) upon full conversion of the Notes, the Westin CPS and the 2006 Warrants, assuming that there will be

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no change to the issued share capital of the Company as at the Latest Practicable Date, the Notes are converted at the Initial Conversion Price of HK\$1.35 and the Westin CPS are converted at the initial conversion ratio of one Westin CPS to one New Share:

	As at the Latest Practicable Date		Solely upon full conversion of the Notes at the Initial Conversion Price		Solely upon full conversion of the Westin CPS (Note 7)		Upon full conversion of the Notes at the Initial Conversion Price and the Westin CPS		Upon full conversion of the Notes at the Initial Conversion Price, the Westin CPS and the 2006 Warrants (Note 3)	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
Grand Cosmos (Note 1)	627,791,985	57.6	627,791,985	27.9	818,239,194	63.9	818,239,194	33.6	860,974,194	32.6
PMA Capital and/or PMA Investment (Notes 2 and 5)	181,530,000	16.6	297,261,851	13.2	181,530,000	14.2	297,261,851	12.2	316,800,301	12.0
DKR SoundShore Oasis Holding Fund Ltd. (Note 5)	—	—	289,329,629	12.9	—	—	289,329,629	11.9	289,329,629	10.9
Indopark Holdings Limited (Notes 4 and 5)	—	—	289,329,629	12.9	—	—	289,329,629	11.9	289,329,629	10.9
Lehman Brothers Commercial Corporation Asia Limited (Note 5)	—	—	289,329,629	12.9	—	—	289,329,629	11.9	289,329,629	10.9
Merrill Lynch International (Notes 4 and 5)	—	—	115,731,851	5.1	—	—	115,731,851	4.7	115,731,851	4.4
Subtotal	809,321,985	74.2	1,908,774,574	84.9	999,769,194	78.1	2,099,221,783	86.2	2,161,495,233	81.7
Public shareholding (Note 6):										
Standard Bank Asia Limited (Note 5)	—	—	57,865,925	2.6	—	—	57,865,925	2.3	57,865,925	2.2
Other public Shareholders	281,021,301	25.8	281,021,301	12.5	281,021,301	21.9	281,021,301	11.5	423,900,170	16.1
Total	1,090,343,286	100	2,247,661,800	100	1,280,790,495	100	2,438,109,009	100	2,643,261,328	100

Set out below is a table showing the Company's shareholding structure (i) as at the Latest Practicable Date; (ii) upon full conversion of the Notes; (iii) upon full conversion of the Westin CPS; and (iv) upon full conversion of the Notes and the Westin CPS; and (v) upon full conversion of the Notes, the Westin CPS and the 2006 Warrants, assuming that there will be no change to the issued share capital of the Company as at the Latest Practicable Date, the

LETTER FROM THE BOARD

Notes are converted at the Minimum Reset Reference Price of HK\$1.00, and the conversion ratio of the Westin CPS are adjusted as a result of the Conversion Price being adjusted to the Minimum Reset Reference Price of HK\$1.00 such that the conversion ratio becomes 1 Westin CPS to 1.35 New Shares:

	As at the Latest Practicable Date		Solely upon full conversion of the Notes at the Minimum Reset Reference Price		Solely upon full conversion of the Westin CPS (Note 7)		Upon full conversion of the Notes at the Minimum Reset Reference Price and the Westin CPS		Upon full conversion of the Notes at the Minimum Reset Reference Price, the Westin CPS and the 2006 Warrants (Note 3)	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
Grand Cosmos (Note 1)	627,791,985	57.6	627,791,985	23.7	884,895,718	65.7	884,895,718	30.4	927,630,718	29.8
PMA Capital and/or PMA Investment (Notes 2 and 5)	181,530,000	16.6	337,768,000	12.8	181,530,000	13.5	337,768,000	11.6	357,306,450	11.5
DKR SoundShore Oasis Holding Fund Ltd. (Note 5)	—	—	390,595,000	14.7	—	—	390,595,000	13.4	390,595,000	12.5
Indopark Holdings Limited (Notes 4 and 5)	—	—	390,595,000	14.7	—	—	390,595,000	13.4	390,595,000	12.5
Lehman Brothers Commercial Corporation Asia Limited (Note 5)	—	—	390,595,000	14.7	—	—	390,595,000	13.4	390,595,000	12.5
Merrill Lynch International (Notes 4 and 5)	—	—	156,238,000	5.9	—	—	156,238,000	5.4	156,238,000	5.0
Subtotal	809,321,985	74.2	2,293,582,985	86.5	1,066,425,718	79.2	2,550,686,718	87.6	2,612,960,168	83.8
Public shareholding (Note 6):										
Standard Bank Asia Limited (Note 5)	—	—	78,119,000	2.9	—	—	78,119,000	2.7	78,119,000	2.5
Other public Shareholders	281,021,301	25.8	281,021,301	10.6	281,021,301	20.8	281,021,301	9.7	423,900,170	13.7
Total	1,090,343,286	100	2,652,723,286	100	1,347,447,019	100	2,909,827,019	100	3,114,979,338	100

Notes:

- Grand Cosmos is beneficially and wholly-owned by Mr. YU, an executive Director, chairman and controlling shareholder of the Company.
- The 181,530,000 Shares held by PMA Capital include Shares held by PMA Asia Opportunities Fund, Diversified Asian Strategies Fund and Asia Diversified Total Return Limited Duration Company as at the Latest Practicable Date, all of which are wholly controlled by PMA Capital. Since PMA Capital is the holding company of PMA Investment, PMA Capital is deemed to be interested in the Shares held by PMA Investment upon conversion of the Notes.
- Being warrants issued by the Company on 3 August 2006 which are listed on the Stock Exchange (stock code: 584). As at the Latest Practicable Date, there are 205,152,319 outstanding 2006 Warrants of which 42,735,000 2006 Warrants are held by Grand Cosmos, 19,538,450 2006 Warrants are held by PMA Capital and 142,878,869 2006 Warrants are held by public Shareholders.
- Merrill Lynch & Co., Inc is the ultimate controlling shareholder of each of Indopark Holdings Limited and Merrill Lynch International.

LETTER FROM THE BOARD

5. Being Purchasers under the Note Purchase Agreement. Since no fractional Shares will be issued upon conversion of the Notes, the number of Conversion Shares to be issued to each Purchaser upon conversion is round down to the nearest number of Shares. As such, the total number of Conversion Shares which may be issued upon conversion in full of the Notes at the Initial Conversion Price of 1,157,318,514 as stated in the above table is different from the number of Conversion Shares of 1,157,318,518 which could be issued as disclosed in the paragraph headed “Conversion Shares” under the section headed “Principal terms of the Notes” of this circular above.
6. In the context of this circular and for illustration purpose only, the public shareholding interest represents the shareholding interest of other public Shareholders who are not connected persons of the Company and any other Shareholders who has less than 10% shareholding interest in the Company.
7. The conversion right attaching to the Westin CPS shall be not exercisable if the aggregate holdings of Shares by the holders of the Convertible Preference Shares and its connected persons reaches 75% or more of the total issued and outstanding Shares.

As the Company foresees that there will be future dilution effect on the Shareholders resulting from the exercise of the conversion rights attaching to the Notes and the Westin CPS, the Company will disclose by way of an announcement all relevant details of the conversion of the Notes and the Westin CPS in the following manner:

- (a) the Company will make a monthly announcement (“Monthly Announcement”) on the website of the Stock Exchange. Such announcement will be made on or before the fifth business day following the end of each calendar month and will include the following details in a table form:
 - (i) whether there is any conversion of the Notes and the Westin CPS during the relevant month. If there is a conversion, details thereof including the conversion date, number of new Shares issued and conversion price or conversion ratio for each conversion. If there is no conversion during the relevant month, a negative statement to that effect;
 - (ii) the amount of outstanding Notes and the Westin CPS after the conversion, if any;
 - (iii) the total number of Shares issued pursuant to other transactions during the relevant month, including Shares issued pursuant to exercise of options under any share option scheme(s) of the Company; and
 - (iv) the total issued share capital of the Company as at the commencement and the last day of the relevant month;
- (b) in addition to the Monthly Announcement, if the cumulative amount of the Conversion Shares and New Shares issued pursuant to the conversion of the Notes and the Westin CPS reaches 5% of the issued share capital of the Company as disclosed in the last Monthly Announcement or any subsequent announcement made by the Company in

LETTER FROM THE BOARD

respect of the Notes and the Westin CPS (as the case may be) (and thereafter in a multiple of such 5% threshold), the Company will make an announcement on the website of the Stock Exchange including details as stated in (a) above for the period commencing from the date of the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Notes and the Westin CPS (as the case may be) up to the date on which the total amount of Shares issued pursuant to the conversion amounted to 5% of the issued share capital of the Company as disclosed in the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Notes and the Westin CPS (as the case may be).

For the avoidance of doubt, the Monthly Announcement will be made on the website of the Stock Exchange only and no paid announcement will be made.

MAINTENANCE OF PUBLIC FLOAT

The Company has undertaken to the Stock Exchange that the Company will not issue any Conversion Shares in the event that such issue will render the Company unable to maintain sufficient public float. In such event, the Company shall exercise the cash settlement option as referred to in the paragraph headed “cash settlement” under the section headed “Principal terms of the Notes” of this circular in full, or to the extent required to satisfy such Conversion Right.

REASONS FOR ISSUE OF THE NOTES, ACQUISITION OF THE WESTIN PROJECT AND USE OF PROCEEDS

The Company is an investment holding company and its principal subsidiaries are engaged in investment holding, property development, the provision of project management and related services in the PRC. As stated in the Company’s interim report for the six months ended 30 June 2006, the Group will continue its prudent land reserve strategy and explore more premium grade projects with promising potentials in the PRC especially in Guangzhou with the expectation that the extensive premium grade property portfolio will bring in steady revenues to the Group and fruitful returns to Shareholders. Westin International is a well known hotel operator and to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, save for its management agreement with the PRC Company in respect of the hotel section of the Westin Project, is independent of the Company and its connected persons and is not a connected person of the Company. With the prospect of the Westin Project, the Company considers the 71% Acquisition and the 29% Acquisition represent valuable opportunities to the Company which allow the Company to expand its property portfolio with premium grade properties, and is in line with the Company’s business strategy. The Westin Project is located at a prime site and is a fine quality hotel and commercial complex which the Board is confident would bring in attractive return to the Group.

As at the Latest Practicable Date, the Company has been participating in two property development projects, namely, the Tianhe Project in which the Group has a 49% interest and the Zhoutouzui Project in which the Group has a 51% interest. Based on the current plan, the

LETTER FROM THE BOARD

Tianhe Project will comprise a hotel, serviced apartments, parking spaces and related construction is scheduled for completion in 2009; and the Zhoutouzui Project will principally comprise luxury high rise condominium towers, residential apartments, serviced-residential apartments, a hotel, community center and other ancillary facilities and the project is expected to be partially completed and ready for occupation by the end of 2009. Upon completion of the proposed development of the Zhoutouzui Project, GZ Port, being one of the parties of the sino-foreign cooperative joint venture enterprise which holds the Zhoutouzui Project, will be entitled to 28% of the total gross floor area of the Zhoutouzui Project and after which, GZ Port will no longer be entitled to any profits generated from the Zhoutouzui Project (details of the 51% acquisition and GZ Port's sharing rights were set out in the Company's circular dated 2 August 2006).

The Group is considering to acquire the remaining 49% interest held by Poly Hong Kong in the Zhoutouzui Project and the GZ Port's entitlement of the Zhoutouzui Project and is negotiating with Poly Hong Kong and GZ Port respectively on the terms and conditions of such acquisition. The negotiation in respect of such acquisition is still at the preliminary stage and the amounts of consideration has yet to be determined and no formal sale and purchase agreement has yet been entered into between the parties as at the Latest Practicable Date. The Company will make further announcements and comply with the relevant Listing Rules in respect of such acquisition as and when required under the Listing Rules.

The Directors consider that the proposed issue of the Notes will provide the Company a timely opportunity to raise funds for the Westin Acquisition, the acquisition from GZ Port and the Zhoutouzui Acquisition and for the operations of the Group. The Directors consider that the Note Purchase Agreement is on normal commercial terms following arm's length negotiations between the Company and the Purchasers and that the terms of the Note Purchase Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Directors also consider that the issue of the Notes will strengthen the financial position of the Group, in particular, the working capital and cash flow position of the Group. Based on the unaudited pro forma financial information set out in Appendix IV to this circular and the bases and assumptions taken into account in preparing such unaudited pro forma financial information (unaudited pro forma consolidated income statement and cash flow statement of the Enlarged Group have been prepared as if the issue of the Notes and/or the completion of the Westin Acquisition had taken place on 1 January 2005 while unaudited pro forma consolidated balance sheet of the Enlarged Group has been prepared as if the aforesaid transactions had taken place on 31 December 2005), the Group's total assets and total liabilities would be enhanced by HK\$2,445.5 million and HK\$2,274.7 million respectively while its losses for the period would be increased by HK\$236.2 million as a result of the issue of the Notes and completion of the Westin Acquisition. The details of the financial effect of the issue of the Notes and the Westin Acquisition on the financial position and results of the Group together with the bases and assumptions taken into account in preparing the unaudited pro forma financial information are set out, for illustration purpose only, in Appendix IV to this circular.

LETTER FROM THE BOARD

The net proceeds after deducting the relevant expenses from the issue of the Notes will amount to approximately US\$192.5 million (or approximately HK\$1,503.8 million). Approximately US\$80.7 million (or approximately HK\$630.4 million) of such net proceeds will be applied for payment of the consideration under the Poly/Shell Westin Agreement, US\$16.0 million (or approximately HK\$125.0 million) will be held in the Interest Reserve Account and used as reserve for part of the interest payments payable under the Notes and US\$92.5 million (or approximately HK\$722.6 million) will be held in the Escrow Account for the payment of the consideration under the Zhoutouzui Agreement, the acquisition of GZ Port's entitlement in the Zhoutouzui Project (or for the automatic redemption as referred to in the paragraph headed "Automatic Redemption" under the section headed "Principal terms of the Notes" of this circular or part of the Notes if certain conditions in relation to the Zhoutouzui Agreement and the acquisition of GZ Port's entitlement in the Zhoutouzui Project cannot be met), the payment of the registered capital of the PRC Company of US\$17.5 million (or approximately HK\$136.7 million) and development of the Westin Project. The balance of the net proceeds will be used as general working capital of the Group. However, since the consideration under the Zhoutouzui Agreement and the acquisition of GZ Port's entitlement in the Zhoutouzui Project cannot be ascertained unless and until the relevant agreements have been entered into, the respective amounts of the net proceeds from the issue of the Notes which will be utilised for such purposes cannot be determined as at the Latest Practicable Date.

TIANYU PROJECT INJECTION

Apart from the proposed Westin Acquisition, acquisition from GZ Port, and the Zhoutouzui Acquisition as set out in this circular, the Company announced on 8 March 2007 that, Fine Luck, a wholly-owned subsidiary of the Company, entered into a non-legally binding Letter of Intent (the "**Letter of Intent**") with Full Ocean, a company ultimately wholly-owned by Mr. YU. Pursuant to the Letter of Intent, the parties proposed to enter into negotiations with respect to the possible acquisition from Full Ocean by Fine Luck of the entire issued share capital of and all shareholders' loan due by Long World. Long World is an investment holding company and holds the entire issued share capital of Trengo, which owns the entire equity interest in 廣州創譽房地產開發有限公司 (Guangzhou Chuangyu Real Estate Development Company Limited) which in turn owns the Tianyu Project.

As at the date of the Letter of Intent, the total consideration for the proposed Tianyu Project Injection and the acquisition of the relevant shareholders' loan is preliminarily estimated to be not more than RMB320 million and it is agreed that the consideration will be settled by way of issue to Full Ocean or its nominee of Convertible Preference Shares at an issue price of HK\$1.35 per Convertible Preference Share.

LETTER FROM THE BOARD

Shareholders and potential investors should note that the Letter of Intent may or may not lead to the entering into of formal sale and purchase agreement by Fine Luck and Full Ocean and the proposed Tianyu Project Injection may or may not proceed. As Full Ocean is ultimately wholly-owned by Mr. YU, should the formal sale and purchase agreement in relation to the Tianyu Project Injection be entered into between Fine Luck and Full Ocean, the acquisition may constitute a notifiable and connected transaction for the Company under the Listing Rules. The Company will make further announcement and comply with the relevant Listing Rules in respect thereof as and when required by the Listing Rules.

FUND RAISING ACTIVITIES OF THE COMPANY IN THE 12 MONTHS IMMEDIATELY PRECEDING THE LATEST PRACTICABLE DATE

In August 2006, the Company raised net proceeds of approximately HK\$234.5 million by way of open offer of 267,324,486 offer shares of HK\$0.01 each at HK\$0.90 per offer share payable in full on application (in the proportion of 13 offer shares for every 40 shares held with 10 2006 Warrants for every 13 offer shares taken up). The Company intended to apply the net proceeds to finance the consideration for the acquisition of an indirect 51% interest in the Zhoutouzui Project. As at the Latest Practicable Date, the entire HK\$234.5 million has been utilised for the purpose.

Save as disclosed above, the Group has not raised any funds by issue of equity securities or convertible notes of the Company in the twelve months immediately preceding the Latest Practicable Date.

PROPOSED AMENDMENTS TO THE BYE-LAWS

As the Company will allot and issue Convertible Preference Shares upon completion of the Wise Gain Westin Agreement, the Company proposes to put forward certain amendments to the Bye-laws for the creation of the Convertible Preference Shares, including the insertion of new definitions of “share(s)”, “Preference Share(s)” and “Ordinary Share(s)” in Bye-law 1, the deletion of the existing Bye-law 3(1) and substituting therefor a new Bye-law 3(1), and the insertion of new Bye-law 169 in relation to the rights, privileges and restrictions attaching to the Convertible Preference Shares.

The proposed amendments to the Bye-laws are subject to the approval of the Shareholders by way of a special resolution to be proposed at the SGM. Shareholders should refer to the special resolution no. 4 as set out in the notice of the SGM to this circular for details of the proposed amendments to the Bye-laws.

LETTER FROM THE BOARD

GENERAL

As the Note Purchase Agreement and the Westin Agreements may or may not complete, Shareholders, holders of the 2006 Warrants and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

Merrill Lynch Far East Limited is acting as the sole placing agent of the Notes.

Since Grand Cosmos and Sharp Bright have given certain undertakings under the Note Purchase Agreement as disclosed in the paragraph headed “Undertakings” under the section headed “Note Purchase Agreement” of this circular and PMA Investment, being one of the Purchasers, is a connected person of the Company, Grand Cosmos, Sharp Bright and PMA Investment are considered to have a material interest in the Note Purchase Agreement and accordingly, the entering into of the Note Purchase Agreement constitutes a connected transaction for the Company under the Listing Rules.

As at the Latest Practicable Date, to the best of the Directors’ knowledge, save and except for PMA Capital’s interests in 181,530,000 Shares, the Purchasers (other than PMA Investment), their respective ultimate beneficial owners and their associates do not have any interest in the Shares.

The 71% Acquisition and the 29% Acquisition together constitute a very substantial acquisition for the Company under Rule 14.06(5) of the Listing Rules. Moreover, given that (i) Mr. YU, an executive director, chairman and controlling shareholder of the Company, is a controller of the Company pursuant to Rule 14A.10 of the Listing Rules and is therefore a connected person of the Company; (ii) Mr. YU, through his holding interest in Wise Gain, is a substantial shareholder of Yue Tian; and (iii) Poly Hong Kong is a substantial shareholder of Loyal Way, a 51% held subsidiary of the Company, and is therefore a connected person of the Company, the 71% Acquisition and the 29% Acquisition are connected transactions for the Company under Rule 14A.13(1)(a) and Rule 14A.13(1)(b)(i) of the Listing Rules. Accordingly, completion of the 71% Acquisition and the 29% Acquisition is subject to, among other things, approval by the Independent Shareholders. A special resolution will also be proposed at the SGM to amend the Bye-laws in order to create the Convertible Preference Shares.

Given that Poly, Shell, Grand Cosmos, Sharp Bright, Wise Gain and PMA Investment have material interests in the Note Purchase Agreement, the Westin Agreements and the transactions contemplated thereunder (including the proposed amendments to the Bye-laws to create the Convertible Preference Shares), Poly, Shell, Grand Cosmos, Sharp Bright, Wise Gain and PMA Investment and their respective associates (for Grand Cosmos, Sharp Bright and Wise Gain, including Mr. YU and for PMA Investment, including PMA Capital) shall abstain from voting for the relevant resolutions to approve the Note Purchase Agreement, the Westin Agreements and the respective transactions contemplated thereunder (including the proposed amendments to the Bye-laws to create the Convertible Preference Shares) at the SGM. As at

LETTER FROM THE BOARD

the Latest Practicable Date, Mr. YU and his associates (including Grand Cosmos, Sharp Bright and Wise Gain) together controlled approximately 57.6% of the voting rights of the Company and PMA Investment and its associates controlled approximately 16.6% of the voting rights of the Company whereas each of Poly and Shell and their respective associates does not have any interest in the issued share capital of the Company.

The voting at the SGM to approve the Note Purchase Agreement, the Westin Agreements and the amendments to the Bye-laws will be taken by way of poll.

THE SGM

Set out on pages 97 to 114 of this circular is a notice convening the SGM to be held at Luk Kwok Hotel, Basement, 72 Gloucester Road, Wanchai, Hong Kong on Thursday, 26 April 2007, at 3:00 p.m. at which resolutions will be proposed to the Independent Shareholders to consider and, if thought fit, approve the Note Purchase Agreement, the Westin Agreements and their respective transactions contemplated therein, and the amendment to the Bye-laws in order to create the Convertible Preference Shares.

A form of proxy for use at the SGM is also enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrars in Hong Kong, Abacus Share Registrars Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

PROCEDURES BY WHICH A POLL MAY BE DEMANDED

Pursuant to Bye-law 66 of the Bye-laws, at any general meeting, a resolution put to the vote of the meeting shall be decided on a show of hands unless voting by way of a poll is required by the Listing Rules or (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by:

- (a) the Chairman of such meeting; or
- (b) at least three Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or
- (c) any Shareholder or Shareholders present in person or by proxy or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or

LETTER FROM THE BOARD

- (d) a Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy and holding Shares conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all Shares conferring that right; or
- (e) if required by the Listing Rules, by any Director or Directors who, individually or collectively, hold proxies in respect of Shares representing five per cent. (5%) or more of the total voting rights at such meeting in circumstances where, or a show of hands, a meeting votes in the opposite manner to that instructed in those proxies, provided that if it is apparent from the total proxies held that a vote taken on a poll shall not reverse the vote taken on a show of hands, then the Director or Directors shall not be required to demand a poll.

In compliance with the Listing Rules, the Company will procure the Chairman of the SGM to demand a poll for the resolutions to be proposed at the SGM to approve the Note Purchase Agreement, the Westin Agreements and the transactions contemplated thereunder (including the proposed amendments to the Bye-laws to create the Convertible Preference Shares).

RECOMMENDATION

The Directors consider the terms of the Note Purchase Agreement and the Westin Agreements and the proposed amendments to the Bye-laws to create the Convertible Preference Shares are fair and reasonable and the entering into of the Note Purchase Agreement and the Westin Agreements and the proposed amendments to the Bye-laws to create the Convertible Preference Shares are in the interest of the Shareholders as a whole. Your attention is also drawn to the text of the letter of advice from Shenyin Wanguo Capital containing its recommendation and the principal factors they have taken into account in arriving at their recommendation set out on pages 59 to 96 of this circular. You are advised to read the letter from the Independent Board Committee and the letter from Shenyin Wanguo Capital before deciding how to vote at the SGM.

FURTHER INFORMATION

Your attention is drawn to the letter from the Independent Board Committee, the letter of advice from Shenyin Wanguo Capital, and the additional information set out in the Appendices to this circular.

Yours faithfully,
For and on behalf of the Board
Skyfame Realty (Holdings) Limited
YU Pan
Chairman



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

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

4 April 2007

*To the Independent Shareholders and,
for information only, holders of the 2006 Warrants*

Dear Sir or Madam,

**PROPOSED ISSUE OF
US\$200 MILLION 4 PER CENT SECURED CONVERTIBLE NOTES
DUE 2013 AND CONNECTED TRANSACTION,
VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTIONS
IN RELATION TO PROPOSED ACQUISITION
OF THE WESTIN PROJECT**

We refer to the circular of the Company dated 4 April 2007 (the “Circular”), of which this letter forms part. Terms used herein have the same meanings as those defined in the Circular unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to advise you as to whether, in our opinion, the terms of the Note Purchase Agreement and the Westin Acquisition and the transactions contemplated thereunder are fair and reasonable so far as in the interests of the Independent Shareholders are concerned and are in the interests of the Company and the Independent Shareholders as a whole.

Shenyin Wanguo Capital has been appointed as the independent financial adviser to advise us and you regarding the terms of the Note Purchase Agreement and the Westin Acquisition and the transactions contemplated thereunder. Details of its advice, together with the principal factors and reasons it has taken into consideration in giving its advice, are set out in its letter on pages 59 to 96 of the Circular. Your attention is also drawn to the letter from the Board set out on pages 18 to 56 of the Circular and the additional information set out in the Appendices to the Circular.

* For identification purposes only

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered the terms of Note Purchase Agreement and the Westin Acquisition and the advice of Shenyin Wanguo Capital, we are of the opinion that the terms of the Note Purchase Agreement and the Westin Acquisition and the transactions contemplated thereunder are fair and reasonable so far as the Company and the Independent Shareholders are concerned and are in the interests of the Company and the Independent Shareholders as a whole. We therefore recommend that the Independent Shareholders vote in favour of the ordinary resolutions to be proposed at the SGM to approve the Note Purchase Agreement and the Westin Acquisition and the transactions contemplated thereunder.

Yours faithfully,

Independent Board Committee

Mr. CHOY Shu Kwan
Independent non-executive
Director

Mr. CHENG Wing Keung, Raymond
Independent non-executive
Director

Ms. CHUNG Lai Fong
Independent non-executive
Director

LETTER FROM SHENYIN WANGUO CAPITAL

The following is the text of a letter of advice from Shenyin Wanguo Capital to the Independent Board Committee and the Independent Shareholders in connection with the Note Purchase Agreement and the Westin Acquisition and the transactions contemplated thereunder, which has been prepared for the purpose of incorporation into this circular.



Shenyin Wanguo Capital (H.K.) Limited
28th Floor, Citibank Tower
Citibank Plaza
3 Garden Road
Hong Kong

4 April 2007

*To the Independent Board Committee and the Independent Shareholders
Skyfame Realty (Holdings) Limited*

Dear Sirs,

**PROPOSED ISSUE OF US\$200 MILLION
4 PER CENT SECURED CONVERTIBLE NOTES
DUE 2013 AND CONNECTED TRANSACTION;
VERY SUBSTANTIAL ACQUISITION AND
CONNECTED TRANSACTIONS IN RELATION TO
PROPOSED ACQUISITION OF THE WESTIN PROJECT**

INTRODUCTION

We refer to our appointment to act as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the terms of the Note Purchase Agreement and the Westin Acquisition (comprising the 71% Acquisition and the 29% Acquisition), details of which are contained in the circular of the Company to the Shareholders dated 4 April 2007 (the “Circular”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

Since Grand Cosmos and Sharp Bright have given certain undertakings under the Note Purchase Agreement as disclosed in the paragraph headed “Undertakings” of the Circular and PMA Investment, being one of the Purchasers, is a connected person of the Company, Grand Cosmos, Sharp Bright and PMA Investment are considered to have a material interest in the Note Purchase Agreement and accordingly, the entering into of the Note Purchase Agreement constitutes a connected transaction for the Company under the Listing Rules.

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The 71% Acquisition (which comprises the Red Empire Acquisition and Allright Acquisition) and the 29% Acquisition together constitute a very substantial acquisition for the Company under the Listing Rules. Moreover, given that (i) Mr. YU, an executive director, chairman and controlling shareholder of the Company, is a controller of the Company pursuant to Rule 14A.10 of the Listing Rules and is therefore a connected person of the Company; (ii) Mr. YU, through his holding interest in Wise Gain, is a substantial shareholder of Yue Tian; (iii) Poly Hong Kong is a substantial shareholder of Loyal Way, a 51% held subsidiary of the Company, and is therefore a connected person of the Company, the 71% Acquisition and the 29% Acquisition also constitute connected transactions for the Company under the Listing Rules. Accordingly, completion of the 71% Acquisition and the 29% Acquisition is subject to, among other things, approval by the Independent Shareholders.

The Independent Board Committee comprising all three independent non-executive Directors has been established to advise the Independent Shareholders regarding the Note Purchase Agreement and the Westin Acquisition. We have been appointed to advise the Independent Board Committee and the Independent Shareholders on these matters.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the information and statements supplied, opinions and representations expressed by the Company and the Directors and have assumed that all such information, statements, opinions and representations as set out in the Circular were reasonably made after due and careful inquiry and were true, accurate and complete at the time they were made and continue to be true at the date of the Circular, and we have relied on the same. We have also sought and obtained confirmation from the Company that no material facts have been omitted from the information, statements, opinions and representations referred to in the Circular.

We consider that we have been provided sufficient information to enable us to reach an informed view regarding the Note Purchase Agreement and the Westin Acquisition (comprising the 71% Acquisition and the 29% Acquisition), and to justify reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis of our opinions. We have no reason to suspect that any material facts or information (which is known to the Company) have been omitted or withheld from the information or statements supplied, or opinions or representations expressed in the Circular nor to doubt the truth and accuracy of the information and facts, or the reasonableness of the opinions expressed by the Company and the Directors which have been provided to us. We have not, however, carried out any independent verification on the information provided to us by the Directors, nor have we conducted an independent in-depth investigation into the business or affairs or future prospects of the Group, Yue Tian, the PRC Company, the Westin Project and the Zhoutouzui Project.

The Directors collectively and individually accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement in the Circular misleading.

PRINCIPAL FACTORS AND REASONS CONSIDERED

I. The Note Purchase Agreement

In formulating our opinion in respect of the Note Purchase Agreement, we have taken into account the following principal factors and reasons:

i. Background and financial position of the Company

The Company, formerly named renren Holdings Limited, was taken control by Mr. YU through Grand Cosmos in December 2004. Based on its audited consolidated financial statements for the year ended 31 December 2004, the Company had a net asset value of approximately HK\$9.5 million and a net loss attributable to Shareholders of approximately HK\$47.5 million. To strengthen its financial and cashflow position, four capital raising exercises were undertaken by the Group. In May 2005, the Company raised approximately HK\$21 million through a placing of new Shares. In December 2005, a rights issue was completed, raising net proceeds of approximately HK\$142 million and at the same time a convertible note amounting to HK\$60 million was issued to settle part of the consideration for acquiring an interest in the Tianhe Project. In August 2006, the Company raised approximately HK\$234.6 million through an open offer (the “Open Offer”).

Leveraging on the experience of Mr. YU and Mr. Derrick Lau, the deputy chairman of the Company, both of whom have substantial property development experience in the PRC, the Group began to diversify into property development and provision of property project management services since the beginning of 2005. With the funds raised through the above mentioned rights issue and the Open Offer, the Company acquired 49% interest in the Tianhe Project and 51% interest in the Zhoutouzui Project.

For the year ended 31 December 2005 and the six months ended 30 June 2006, the Company reported a net loss of approximately HK\$4.8 million and a net profit of approximately HK\$6.4 million respectively.

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Based on the circular of the Company dated 2 August 2006 (the “August Circular”) in relation to the Group’s acquisition of 51% interest in the Zhoutouzui Project (the “51% Zhoutouzui Acquisition”) and as set out in Appendix IV to the Circular, assuming completion of the Open Offer and the 51% Zhoutouzui Acquisition as at 31 December 2005, the unaudited pro forma net assets of the enlarged group comprising the Group and the Loyal Way group attributable to equity holders of the Company amounted to approximately HK\$426.8 million (the “Adjusted NAV”) prior to the entering into of the Note Purchase Agreement.

On 2 March 2007, the Company entered into the Note Purchase Agreement under which it will raise net proceeds of approximately US\$192.5 million (or approximately HK\$1,503.8 million). Such amount of net proceeds would amount to approximately 3.5 times of the Group’s Adjusted NAV as shown above. Due to the substantial size of the Notes relative to the Adjusted NAV, we understand from the Directors that the placing agent and the Purchasers had requested certain terms and conditions, which include, amongst others, automatic redemption, financial covenants, consent for future development projects, and limitation on distribution, for the purpose of protecting the financial interest of the Noteholders prior to any redemption or conversion of the Notes, to be incorporated in the Note Purchase Agreement after arm’s length negotiation with the Company. However, given that (i) the amount of net proceeds raised from the proposed issue of the Notes is substantial compared to the Adjusted NAV; and (ii) the issue of the Notes will provide the Company a timely opportunity to raise funds for the Westin Acquisition, the acquisition of GZ Port’s entitlement in the Zhoutouzui Project, the Zhoutouzui Acquisition and for the general working capital of the Group, the Directors consider that the proposed issue of the Notes is in the interest of the Company and the Independent Shareholders as a whole and we concur with their view.

We also note the Purchasers are professional and institutional investors, namely DKR SoundShore Oasis Holding Fund Ltd., Indopark Holdings Limited, Lehman Brothers Commercial Corporation Asia Limited, Merrill Lynch International, PMA Investment and Standard Bank Asia Limited. The Directors consider that the portfolio of Shareholders will be further strengthened upon conversion of the Notes by the Purchasers, and we concur with the Directors’ view that the entering into of the Note Purchase Agreement is in the interest of the Company.

ii. Reasons for issue of the Notes and benefits to the Group

As stated in the letter from the Board, the net proceeds after deducting the relevant expenses from the issue of the Notes will amount to approximately US\$192.5 million (or approximately HK\$1,503.8 million). Approximately US\$80.7 million (or approximately HK\$630.4 million) of such net proceeds will be applied for payment of the consideration under the Poly/Shell Westin Agreement, US\$16.0 million (or approximately HK\$125.0 million) will be held in the Interest Reserve Account and used as reserve for part of the interest payments payable under the Notes and US\$92.5 million (or approximately HK\$722.6 million) will be held in the Escrow Account for the payment of the consideration under the Zhoutouzui Agreement, the acquisition of GZ Port's entitlement in the Zhoutouzui Project (or for the automatic redemption as referred to in the paragraph headed "Automatic Redemption" of the letter from the Board of part of the Notes if certain conditions in relation to the Zhoutouzui Agreement and the acquisition of GZ Port's entitlement in the Zhoutouzui Project cannot be met), the payment of the registered capital of the PRC Company of US\$17.5 million (or approximately HK\$136.7 million) and development of the Westin Project. The balance of the net proceeds will be used as general working capital of the Group.

According to the Company's interim report for the six months ended 30 June 2006, the Group will continue exploring more premium grade projects with promising potentials in the PRC especially in Guangzhou to bring in steady revenues to the Group and fruitful returns to the Shareholders. We understand from the Directors that the Westin Project and the Zhoutouzui Project are certainly two property projects with geographic supremacy. The Westin Project, comprising a hotel of approximately 440 rooms and an office tower with a gross floor area ("GFA") of approximately 44,800 square meters, is within a walkable distance from the Hong Kong-Guangzhou direct train station in the Tianhe central business district, whilst the Zhoutouzui Project is located opposite to the White Swan Hotel on the converging point of the three estuaries of the Pearl River where the Directors consider as a prime site for development of luxury residential and commercial (including hotel and office tower) buildings. By acquiring the full control of these two projects, the Directors believe the Company can establish itself as a major player in the premium grade property market in Guangzhou. In addition, the Westin Project would provide the Company with a steady recurring income from its rental and hotel operations, whilst the Zhoutouzui Project would enable the Company to earn strong development revenue in the years to come.

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After series of arm's length negotiations with the placing agent and the Purchasers, and comparing other financing proposals obtained from various financiers, the Directors decided to enter into the Note Purchase Agreement for the following reasons:

1. the Note Purchase Agreement provides the only available source of funding sufficient to complete both acquisitions;
2. the interest serving obligation is 4% per annum which is lower than the US six-month interbank borrowing rate for US dollars at 5.3% as at the Latest Practicable Date;
3. the first two year interest serving obligations amounting to US\$16 million (or approximately HK\$125.0 million) will have been capitalised in an Interest Reserve Account, which ensures payments for the first two years of the Notes tenure will be met; and
4. the earliest the Noteholders can redeem the Notes is three years from the Closing Date. The Directors believe the revenues from the Westin Project and the Zhoutouzui Project can readily cope with the redemption amounts at such time.

Given the reasons considered by the Directors as mentioned above, we concur with the Directors' view that the issue of the Notes for the Westin Acquisition and the Zhoutouzui Acquisition is beneficial to the long term development of the Company.

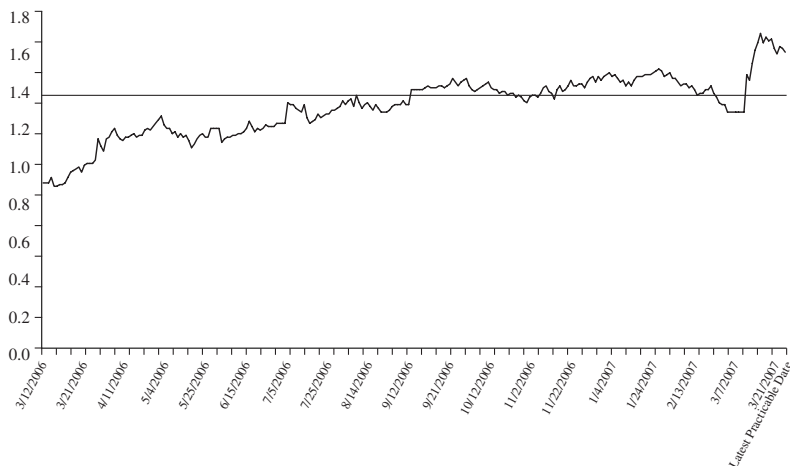
iii. Terms and conditions of the Notes

Initial Conversion Price

The Notes are convertible at the option of the Noteholders at any time from the date that is the 41st day after the Closing Date, which is expected to be 10 May 2007 or such other date as the Company, Merrill Lynch Far East Limited as the settlement agent and the Purchasers may agree, and up to the date that is 10 days prior to the Maturity Date, which is expected to be on or around 10 May 2013, or, if the Notes shall have been called for redemption before the Maturity Date, up to the close of business on a date no later than 5 business days prior to the date fixed for redemption thereof. The Initial Conversion Price is HK1.35 per Conversion Share. The Conversion Price will be subject to adjustment for subdivision or consolidation of Shares, bonus issues, rights issues, dividend payments and distributions and other usual dilutive events.

Chart 1 below illustrates the closing prices of the Shares as quoted on the Stock Exchange during the period from 1 March 2006 to the Latest Practicable Date.

Chart 1. Closing prices of the Shares as quoted on the Stock Exchange from 1 March 2006 to the Latest Practicable Date



Source: Bloomberg

As illustrated in Chart 1 above, during the period under review, the closing prices of the Shares ranged from HK\$0.864 to HK\$1.68 and the Initial Conversion Price lies within the upper end of the range. As at the Latest Practicable Date, the Share price closed at HK\$1.60.

The Initial Conversion Price represents:

- (i) a premium of approximately 7.1% over the closing price of HK\$1.26 per Share as quoted on the Stock Exchange on 2 March 2007, being the Last Trading Day;
- (ii) a premium of approximately 3.8% over the average closing price of HK\$1.30 per Share as quoted on the Stock Exchange for the last five Trading Days up to and including the Last Trading Day;
- (iii) a discount of approximately 3.6% to the average closing price of HK\$1.40 per Share as quoted on the Stock Exchange for the last 30 Trading Days up to and including the Last Trading Day;
- (iv) a discount of approximately 15.6% to the closing price of HK\$1.60 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (v) a premium of approximately 245.3% over the Adjusted NAV per Share of approximately HK\$0.391 (based on 1,090,343,286 Shares in issue as at the Latest Practicable Date).

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We have made reference to the convertible bonds/notes/debentures issued or proposed to be issued by listed companies on the Main Board of the Stock Exchange (the “Comparables”) announced in 2007 up to the Last Trading Day (the “Comparable Issues”):

Initial announcement date	Issuer	Principal amount	Maturity	Premium/(discount) represented by the initial conversion price <i>(Notes 1, 2)</i>
10 January 2007	Cosmopolitan International Holdings Ltd.	HK\$56 million	2 years	(56.3%)
19 January 2007	Hopson Development Holdings Ltd.	RMB1,555 million	3 years	36.7%
23 January 2007	Kerry Properties Ltd.	HK\$2,350 million	5 years	35.0%
25 January 2007	Sino Gas Group Ltd.	HK\$46.8 million	2 years	14.0%
26 January 2007	GFT Holdings Ltd.	HK\$34 million	2 years	(42.9%)
1 February 2007	Aurora Global Investment Holdings Ltd.	US\$10 million	3 years	N.A. (The conversion price will be fixed at 12% discount to the average closing price of 30 trading days immediately before signing of the subscription agreement)
7 February 2007	139 Holdings Ltd.	HK\$101,962,500	3 years	1.4%
13 February 2007	Guo Xin Group Ltd.	HK\$95,074,580	2 years	(19.1%)

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Initial announcement date	Issuer	Principal amount	Maturity	Premium/(discount) represented by the initial conversion price <i>(Notes 1, 2)</i>
13 February 2007	Interchina Holdings Co., Ltd.	HK\$111,698,000	2 years	(7.4%)
15 February 2007	Sun Innovation Holdings Ltd.	HK12.6 million	1.5 years	15.6%
16 February 2007	Sun Innovation Holdings Ltd.	HK20 million	1.5 years	24.0%
26 February 2007	Poly Investment Holdings Ltd.	HK\$500 million	3 years	(18.0%)
27 February 2007	Get Nice Holdings Ltd.	HK250 million	3 years	N.A. <i>(The conversion price will be fixed at (i) (within the first 12 months from the date of issue) HK1.00 (representing a premium of 20.5% over the closing price of the shares on the last trading day); (ii) (within the next 12 months from the first anniversary of date of issue) HK1.10 (representing a premium of 32.5% over the closing price of the shares on the last trading day); (iii) (within the next 12 months from the second anniversary of date of issue) HK1.20 (representing a premium of 44.6% over the closing price of the shares on the last trading day))</i>
28 February 2007	South Sea Petroleum Holdings Ltd.	US\$100 million	5 years	N.A. <i>(The conversion price will be fixed at 2% discount to the average closing share price of five trading days immediately prior to the date of conversion notice)</i>
12 March 2007	The Company	US\$200 million	6 years	(i) 7.1% represented by the Initial Conversion Price; or (ii) (20.6%) represented by the Minimum Reset Reference Price

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Notes:

1. Premium/(discount) represented by initial conversion price over/to closing price of the shares of the Comparables on their respective last trading day of shares prior to the date of their respective initial announcement.
2. N.A. stands for not applicable.

As set out above, the conversion prices of the Comparable Issues range from a discount of approximately 56.3% to the closing price to a premium of approximately 36.7% over the closing price of the shares of the Comparables on their respective last trading day. The premium or discount represented by the Initial Conversion Price over the closing prices of the Shares as discussed above is within the above mentioned range of that of the Comparable Issues.

We consider that (i) as the premium/discount represented by the Initial Conversion Price over/to the Share prices as set out above falls within the range of that of the Comparable Issues; and (ii) the Initial Conversion Price represents a premium over the Adjusted NAV per Share, the Initial Conversion Price is fair and reasonable so far as the Company and the Independent Shareholders are concerned and is on normal commercial terms.

Conversion Price Reset

The Conversion Price shall be adjusted downwards on the date falling 6 months from the Closing Date and every 3 months thereafter (each a “Reset Date”) to the arithmetic average of the volume weighted average price of a Share for each day during the period of 40 consecutive Trading Days immediately prior to the Reset Date (the “Reset Reference Price”) if the applicable Reset Reference Price is less than the Conversion Price in effect on the relevant Reset Date (taking into account any adjustments as set out in the terms and conditions of the Notes which may have occurred prior to the relevant Reset Date), provided that the adjusted Conversion Price shall not be less than HK\$1.00 (“Minimum Reset Reference Price”), adjusted to reflect any adjustments to the Conversion Price.

When comparing with the closing prices of the Shares during the past 12 months as illustrated in Chart 1 above, we note that the Minimum Reset Reference Price is also within the price range. The Minimum Reset Reference Price represents a discount of approximately 20.6% to the closing price per Share on the Last Trading Day which lies within the range of discount/premium to/over the closing price of the shares of the Comparables on their respective last trading day. The Minimum Reset Reference Price also represents a premium of approximately 155.8% over the Adjusted NAV per Share of approximately HK\$0.391 (based on 1,090,343,286 Shares in issue as at the Latest Practicable Date). In view of the above, we consider that the Minimum Reset Reference Price is fair and reasonable so far as the Company and the Independent Shareholders are concerned.

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Cash settlement

Pursuant to the Note Purchase Agreement, at any time when the Company is required to deliver the Conversion Shares to satisfy the Conversion Rights exercised by the Noteholders, the Company has the option to satisfy such Conversion Rights in full or in part by cash. This option enables the Directors (i) to avoid, or reduce to a certain extent, the dilution effect from the conversion of any outstanding Notes by the Noteholders on the shareholding of the Shareholders; and (ii) to maintain sufficient public float in the event the issue of any Conversion Shares would have rendered the Company unable to meet the minimum public float requirement under the Listing Rules. Accordingly, we are of the view that the cash settlement option is fair and reasonable so far as the Company and the Independent Shareholders are concerned and is in the interest of the Company and the Independent Shareholders as a whole. For details of the cash settlement option, please refer to the paragraph headed “Cash Settlement” in the letter from the Board.

Coupon rate and yield to maturity

The Notes bear interest at the rate of 4% per annum of the principal amount of the Notes. Interest is payable semi-annually in arrear.

We have compared the interest rate of the Notes to the interest/coupon rate of the Comparable Issues. We set out below our findings:

Initial announcement date	Issuer	Principal amount	Interest/coupon rate (%)	Maturity	Yield to maturity (approximately %)
10 January 2007	Cosmopolitan International Holdings Ltd.	HK\$56 million	Nil	2 years	3.5
19 January 2007	Hopson Development Holdings Ltd.	RMB1,555 million	Nil	3 years	1.5
23 January 2007	Kerry Properties Ltd.	HK\$2,350 million	Nil	5 years	3.2

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Initial announcement date	Issuer	Principal amount	Interest/ coupon rate (%)	Maturity	Yield to maturity (approximately %)
25 January 2007	Sino Gas Group Ltd.	HK\$46.8 million	2	2 years	2.0
26 January 2007	GFT Holdings Ltd.	HK\$34 million	Nil	2 years	2.5
1 February 2007	Aurora Global Investment Holdings Ltd.	US\$10 million	7.5	3 years	7.5
7 February 2007	139 Holdings Ltd.	HK\$101,962,500	2	3 years	2.0
13 February 2007	Guo Xin Group Ltd.	HK\$95,074,580	3.5	2 years	3.5
13 February 2007	Interchina Holdings Co., Ltd.	HK\$111,698,000	3.5	2 years	3.5
15 February 2007	Sun Innovation Holdings Ltd.	HK\$12.6 million	5	1.5 years	5.0
16 February 2007	Sun Innovation Holdings Ltd.	HK\$20 million	5	1.5 years	5.0
26 February 2007	Poly Investment Holdings Ltd.	HK\$500 million	2	3 years	2.0
27 February 2007	Get Nice Holdings Ltd.	HK\$250 million	5	3 years	5.0
28 February 2007	South Sea Petroleum Holdings Ltd.	US\$100 million	Nil	5 years	0.0
12 March 2007	The Company	US\$200 million	4	6 years	15.0

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As set out above, the interest/coupon rate of the Comparable Issues range from nil to 7.5% per annum. The interest/coupon rate of the Notes of 4% per annum is within this range. As the coupon/interest rate of the Notes (i) lies within the range of interest/coupon rates of the Comparable Issues; and (ii) is below the US six-month interbank borrowing rate for US dollars at 5.3% as at the Latest Practicable Date, we are of the view that the coupon rate of 4% per annum is fair and reasonable so far as the Company and the Independent Shareholders are concerned and is on normal commercial terms.

As shown above, the yields to maturity of the Comparable Issues range from nil to 7.5%. We note from the Note Purchase Agreement that, unless previously redeemed, converted or purchased and cancelled, the Company will redeem each Note at 201.33% of the principal amount of the Notes on the Maturity Date representing a yield to maturity of approximately 15.0% which is the same as the gross yield implied by the Early Redemption Amount. Both the yield to maturity and the gross yield implied by the Early Redemption Amount are above the range of yields to maturity of the Comparable Issues as set out in the above table.

However, we understand that when an issuer and its investors or placing agent come to determine the yield to maturity of a convertible note issue, a combination of factors would be taken into account. These factors include, among others, the tenure of the issue, the operating history, financial position and expected future operating performance of the issuer, the relevant industry prospects and the then investment market conditions when the issue is launched. We also note that:

- (i) all the Comparable Issues had a shorter tenure than that of the Notes;
- (ii) except for Hopson Development Holdings Ltd. and Kerry Properties Ltd., the other Comparables have a different line of business from that of the Company, which is property development in the PRC; and
- (iii) while Hopson Development Holdings Ltd. and Kerry Properties Ltd. are engaged in PRC property development business, they possess a strong operating history and have a market capitalisation of approximately 14.5 times and 28.6 times respectively of that of the Company as at the Latest Practicable Date.

We have also reviewed the recent issue of convertible bonds by two property companies listed on the Main Board of the Stock Exchange, namely Greentown China Holdings Limited and Coastal Greenland Limited. Both of these two listed issuers are principally engaged in similar business as the Group, which is property development in the PRC. The market capitalisation of Greentown China Holdings Limited and Coastal Greenland Limited is approximately 10.9 times and 1.5 times respectively of that of the Company as at the Latest Practicable Date. We consider

that the market capitalisation of these two listed companies are more comparable to that of the Company than Hopson Development Holdings Ltd. and Kerry Properties Ltd.. We would also like to point out that the convertible bonds of Greentown China Holdings Limited were issued prior to its listing. Both issues were also taken up by professional investors, namely Shepherd Investments International Ltd., Centar Investments (Asia), Ltd., Stark Asia Master Fund Ltd., J.P. Morgan Securities Ltd. and Citadel Equity Fund Ltd. respectively. We consider that the recent issue of convertible bonds by these two listed issuers can serve as appropriate and relevant comparables. We note from the prospectus of Greentown China Holdings Limited that, prior to its listing, it completed a convertible bond issue in January 2006, with an aggregate principal amount of US\$130 million comprising US\$65 million secured mandatory convertible bonds and US\$65 million secured non-mandatory convertible bonds. Greentown China Holdings Limited had agreed to redeem the mandatory convertible bonds at an early redemption amount which in respect of each mandatory convertible bond, represents an annualised rate of return of 20% to the bond holders. We also note another issue of convertible bonds announced in June 2006 by Coastal Greenland Limited. According to a circular dated 5 July 2006 issued by Coastal Greenland Limited, Coastal Greenland Limited proposed to issue convertible bonds with an aggregate principal amount of US\$40 million. The convertible bonds will be redeemed at a price equal to 145% of the principal amount on 30 December 2009. The estimated yield to maturity was approximately 15.1%.

As illustrated above, the yields to maturity/annualised rate of return of the Comparable Issues and the convertible bonds issued by the two listed property companies range from nil to 20%. We would also like to highlight that despite the fact that Greentown China Holdings Limited and Coastal Greenland Limited possess operating history, their respective investors also demanded a yield to maturity of not less than 15% in their convertible bond issues. We note that the yield to maturity of the Notes of 15.0% lies toward the upper end of the above range of yields to maturity/annualised rate of return from nil to 20%. However, having considered the substantial size of the Notes and the benefits of the issue of the Notes to the Group, the yield to maturity of the Notes is acceptable.

Therefore, given that (i) the amount of funds to be raised by the issue of the Notes is substantially over the Group's Adjusted NAV; (ii) the projects, namely the Westin Project and the Zhoutouzui Project, to be acquired are not presently revenue generating; (iii) the Company has not derived any revenue from the PRC property development business up to the entering into of the Note Purchase Agreement; and (iv) the yield to maturity of the Notes of 15.0% lies within the range of the yields to maturity/annualised rate of return of the Comparable Issues and the above mentioned financing deals of two property companies, which is from nil to 20%, we concur with the Directors' view that the current yield to maturity and the gross yield implied by the Early Redemption Amount are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

Redemption

We have reviewed the Note Purchase Agreement and note that there are the following redemption clauses, details of which are set out in the section headed “Principal terms of the Notes” in the letter from the Board of the Circular:

(a) Redemption at the option of the Company

We understand from the Directors that this clause provides the Company an option to buy back the Notes from the Noteholders on or at any time after the date that is four years from the Closing Date and up to the date that is 10 days prior to the Maturity Date. This option enables the Directors to buy back the Notes to avoid any dilution effect on the shareholding of the then Shareholders from the conversion of any outstanding Notes by the Noteholders in the event that the Directors hold the view that the future price performance of the Shares would exceed 140% of the applicable Early Redemption Amount divided by the Conversion Ratio. As such, this redemption clause, which is commonly adopted in the issue of convertible notes by listed issuers, is on normal commercial terms.

(b) Redemption for delisting or change of Control

This is a standard early redemption clause for issue of convertible securities for listed issuers. Should the Company be delisted, the Notes would lose their feature to convert into shares of a listed company and their value would be adversely affected. In addition, if the control of the Company is changed, it would be uncertain as to whether the management under the new controlling shareholder would have the equivalent experience and expertise in managing the operation as originally envisaged by the Noteholders. Therefore, under these two scenarios, it is normal that the Noteholders should be offered the opportunity to early redeem the Notes.

(c) Automatic redemption

We understand that this clause may not be commonly adopted in the issue of convertible notes by listed issuers where no specific use of proceeds from the issue of the notes are designated. In this case, the proceeds from the issue of the Notes have been earmarked for the Westin Project and the Zhoutouzui Project and the Directors consider that the above projects will

bring in recurring and steady revenue to the Group. The Purchasers and the Company entered into the Note Purchase Agreement to provide funding for the acquisition of these projects. It is therefore fair that should the specific use of proceeds have not been fulfilled in accordance with the conditions set out in the Note Purchase Agreement, the Noteholders should have the right to redeem the relevant portion of the Notes.

As the Note Purchase Agreement provides the only available source of funding sufficient to complete both the Westin Acquisition and the Zhoutouzui Acquisition which are beneficial to the development of the Group, we concur with the Directors' view that the flexibility of the use of the proceeds from the Notes issue is not vital to the interest of the Company in this case and this clause, despite of not being commonly adopted in the issue of convertible notes by listed issuers where no specific use of proceeds from the issue of the notes are designated, is acceptable.

(d) Redemption at the option of the Noteholders

This clause is commonly adopted in the issue of convertible notes by listed issuers. To mirror the option to early redeem any outstanding Notes by the Company as stated above, the Directors believe it is fair to give the Noteholders an option to partially early redeem the Notes after 3 years from the Closing Date. We consider that this redemption clause is on normal commercial terms.

In view of the reasons given for each of the above redemption clauses, we are of the view the redemption clauses are fair and reasonable so far as the Company and the Independent Shareholders are concerned and are on normal commercial terms.

Financial covenants

To provide protection of the Noteholders' interests in the Company, the Company has agreed to comply with, so long as any Note remains outstanding, certain financial covenants, of which any breach will constitute an event of default and the Noteholders can demand immediate redemption of the Notes from the Company. These covenants lay out, notably: (i) the maximum level of indebtedness the Company can incur, particularly in relation to its Gross Asset Value and the Westin Project, and (ii) the minimum ratio of its consolidated earnings before interest, taxes, depreciation and amortisation (EBITDA) to its consolidated cash interest expenses that the Company needs to maintain, during the tenure of the Notes. For details of each of the financial covenants, please refer to the paragraph headed "Financial Covenants" in the letter from the Board of the Circular.

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As confirmed by the Directors, the Company has given due and thorough considerations before committing to these covenants after taking into account of the expected future performance and the budgeted capital expenditure of the Westin Project and the Zhoutouzui Project. We have discussed with the Directors the bases and the assumptions they used in arriving at the operating projection of the Westin Project and the Zhoutouzui Project and accept the fairness and reasonableness of such bases and assumptions used. We also concur with the Directors' view that the Company has the ability in meeting these covenants during the tenure of the Notes and are of the view that the financial covenants are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

Future development projects

We note from the Note Purchase Agreement that subject to the exception below, the Company shall not, and shall not permit any of its subsidiaries to, directly or indirectly engaged in any new property development projects or invest in or participate in any new real estate projects apart from the Westin Project, the Tianyu Project, the Zhoutouzui Project and the Tianhe Project and any related financing plans (each a “**Future Development Project**”) unless approved by the Special Committee of Noteholders, such approval not to be unreasonably denied, or by an extraordinary resolution of the Noteholders if: (a) no committee member has been appointed; or (b) approval of the Special Committee of Noteholders could not be obtained through want of a quorum.

If approval by the Special Committee of Noteholders cannot be obtained due to (1) no committee member having been appointed; or (2) the want of a quorum of a meeting of the Special Committee of Noteholders, the Company and/or any of its subsidiaries shall nonetheless be permitted to directly or indirectly engage, invest or participate in any Future Development Project without an extraordinary resolution of the Noteholders provided that:

- (i) the total cost of acquisition of such Future Development Project does not exceed the average of the values from appraisals performed by two approved valuers on such Future Development Project;
- (ii) the indebtedness to be incurred in respect of such Future Development Project shall consist only of project financing and at all times such indebtedness shall not exceed 65% of the fair market value for the relevant asset(s) of such Future Development Project;

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- (iii) the Company and/or any of its subsidiaries owns or controls (either directly or through one or more other subsidiaries) more than 50% of the issued share capital or other ownership interest having ordinary voting power to elect directors, managers or trustees of the company directly operating such Future Development Project; and
- (iv) the equity contribution by the Company and/or any of its subsidiaries in such Future Development Project shall be made from one or more of the following sources:
 - (a) internal cash and cash equivalents resources not exceeding a cumulative amount of US\$20,000,000 for all Future Development Projects (which amount shall be increased by 50% of the principal amount of Notes converted from time to time);
 - (b) funding raised from the issue of new equity by the Company; or
 - (c) funding raised from the issue of new debt by the Company, which debt shall be subordinated to any remaining outstanding Notes such that in the event of the winding up of the Company, the claims of such debtors will be subordinated in right of payment to the claims of the Noteholders.

The Directors have confirmed that the aforesaid provisions are in line with the existing strategy adopted by the Company when engaging in new projects. As such, the Directors are of the view that the above provisions would not limit the scope and development of the Group. In the event that the Company identifies any project which will enhance the profitability of the Company and Shareholders' return, the Directors believe they can obtain the Noteholders' approval in engaging in such business opportunities. In addition, the Directors also agree that it is prudent for the Company to undertake the new projects only when the above conditions are met. Furthermore, we note from the Note Purchase Agreement that such approval is not to be unreasonably denied by the Noteholders. Therefore, we concur with the Directors that this clause requires the Group to act prudently in selecting projects which have to be beneficial to the future development of the Group and is, hence, in the interest of the Company.

Limitation on distribution

We note from the Note Purchase Agreement that the Company will not declare or make any dividend, payment or distribution on account of or with respect to any and all of the Shares, interest, rights to purchase, warrants, options, participations or other equivalents in equity of the Company, whether outstanding on the issue

date of the Notes or issued thereafter, including, without limitation, all common stock and preferred stock in respect of any fiscal period (each a “Restricted Distribution”) unless:

- (i) on the date of declaring such Restricted Distribution the Company’s consolidated indebtedness as reported in its latest published consolidated balance sheet is less than 40% of the Gross Asset Value; and
- (ii) the Company’s ratio of consolidated earnings before interest, taxes, depreciation and amortisation to consolidated cash interest expense for such fiscal period exceeds 8.0 times,

in which case the Company may declare and make such Restricted Distribution provided that such Restricted Distribution does not exceed 30% of the distributable profits for such fiscal period.

The Directors have confirmed that the above clauses do not form part of the existing dividend policy of the Company. Shareholders should, therefore, note that the above clause would limit the Board’s decision in declaring and making payment of any dividend during the tenure of the Notes. As we understand from the Directors, they consider that retaining cash in the Group will enhance the capital sufficiency and liquidity of the Group for its property development projects. In view of the substantial size of the proposed issue of the Notes relative to the Group’s Adjusted NAV, and to protect the Noteholders’ interest in the Group, the Directors also consider it appropriate to declare and make dividend only when the covenants set out above are met. Moreover, the issue of the Notes provides the only available source of funding sufficient to complete the acquisitions of the Westin Project and the Zhoutouzui Project. The Directors believe these projects will bring in recurring and steady revenue to the Group. Therefore, we concur with the Directors’ view that maintaining sufficient cashflow would be beneficial to the development of the Group and is in the interest of the Company. We further concur with the Directors’ view that although this clause limits the Board’s decision in declaring and making payment of any dividend during the tenure of the Notes, the benefits of the Notes issue outweigh this limitation and therefore, this clause is acceptable.

iv. Dilution effect

Based on the Initial Conversion Price of HK\$1.35 per Share and assuming full conversion of the Notes, 1,157,318,518 Conversion Shares will be issued, representing (i) approximately 106.1% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 51.5% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares.

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Set out below is a table showing the Company's shareholding structure (i) as at the Latest Practicable Date; (ii) upon full conversion of the Notes at the Initial Conversion Price; and (iii) upon full conversion of the Notes and the Westin CPS, assuming that there will be no change to the issued share capital of the Company as at the Latest Practicable Date, the Notes are converted at the Initial Conversion Price and the Westin CPS are converted at the initial conversion ratio of one Westin CPS to one New Share:

	As at the Latest Practicable Date		Solely upon full conversion of the Notes at the Initial Conversion Price		Upon full conversion of the Notes at the Initial Conversion Price and the Westin CPS	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
Grand Cosmos	627,791,985	57.6	627,791,985	27.9	818,239,194	33.6
PMA Capital and/or PMA Investment	181,530,000	16.6	297,261,851	13.2	297,261,851	12.2
Purchasers (other than PMA Investment)						
DKR SoundShore Oasis Holding Fund Ltd.	—	—	289,329,629	12.9	289,329,629	11.9
Indopark Holdings Ltd.	—	—	289,329,629	12.9	289,329,629	11.9
Lehman Brothers Commercial Corporation Asia Ltd.	—	—	289,329,629	12.9	289,329,629	11.9
Merrill Lynch International	—	—	115,731,851	5.1	115,731,851	4.7
Subtotal	809,321,985	74.2	1,908,774,574	84.9	2,099,221,783	86.2
Public shareholding						
Standard Bank Asia Ltd.	—	—	57,865,925	2.6	57,865,925	2.3
Other public Shareholders	281,021,301	25.8	281,021,301	12.5	281,021,301	11.5
Total	1,090,343,286	100	2,247,661,800	100	2,438,109,009	100

Set out below is a table showing the Company's shareholding structure (i) as at the Latest Practicable Date; (ii) upon full conversion of the Notes at the Minimum Reset Reference Price of HK\$1.00; and (iii) upon full conversion of the Notes and the Westin CPS, assuming that there will be no change to the issued share capital of the Company as at the Latest Practicable Date, the Notes are converted

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at the Minimum Reset Reference Price of HK\$1.00, and the conversion ratio of the Westin CPS is adjusted as a result of the Conversion Price being adjusted to the Minimum Reset Reference Price of HK\$1.00 such that the conversion ratio becomes 1 Westin CPS to 1.35 New Shares:

	As at the Latest Practicable Date		Solely upon full conversion of the Notes at the Minimum Reset Reference Price		Upon full conversion of the Notes at the Minimum Reset Reference Price and the Westin CPS	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
Grand Cosmos	627,791,985	57.6	627,791,985	23.7	884,895,718	30.4
PMA Capital and/or PMA Investment Purchasers (other than PMA Investment)	181,530,000	16.6	337,768,000	12.8	337,768,000	11.6
DKR SoundShore Oasis Holding Fund Ltd.	—	—	390,595,000	14.7	390,595,000	13.4
Indopark Holdings Ltd.	—	—	390,595,000	14.7	390,595,000	13.4
Lehman Brothers Commercial Corporation Asia Ltd.	—	—	390,595,000	14.7	390,595,000	13.4
Merrill Lynch International	—	—	156,238,000	5.9	156,238,000	5.4
Subtotal	809,321,985	74.2	2,293,582,985	86.5	2,550,686,718	87.6
Public shareholding						
Standard Bank Asia Ltd.	—	—	78,119,000	2.9	78,119,000	2.7
Other public Shareholders	281,021,301	25.8	281,021,301	10.6	281,021,301	9.7
Total	1,090,343,286	100	2,652,723,286	100	2,909,827,019	100

As illustrated in the possible shareholding structure above, the existing Independent Shareholders will suffer a dilution to their shareholdings from approximately 25.8% to approximately 11.5% and to approximately 9.7% upon full conversion of the Notes at the Initial Conversion Price and the Westin CPS at the conversion ratio of one Westin CPS to one New Share and upon full conversion of the Notes at the Minimum Reset Reference Price and the Westin CPS at the conversion ratio of 1 Westin CPS to 1.35 New Shares respectively. Having considered that the Westin Project and the Zhoutouzui Project are beneficial to the long term development of the Group, we are of the view that the potential dilution on the shareholding interest of the existing Independent Shareholders is acceptable.

We also note that the percentage of the Shares held by the public may fall below the minimum 25% as required by Rule 8.08 of the Listing Rules upon full conversion of the Notes by the Purchasers at either the Initial Conversion Price or the Minimum Reset Reference Price and the Westin CPS. As confirmed by the Directors, they will closely monitor the public float of the Shares. The Company has undertaken to the Stock Exchange that it will not issue any Conversion Shares if such issue will render the Company unable to maintain sufficient public float pursuant to Rule 8.08 of the Listing Rules. As confirmed by the Directors, the Company would in such event exercise the cash settlement option as referred to in the paragraph headed “Cash Settlement” in the letter from the Board to satisfy such Conversion Right in full, or to the extent required to satisfy such Conversion Rights. Therefore, there will be sufficient public float following conversion of the Notes at any time during the tenure of the Notes and we consider that the cash settlement option is fair and reasonable so far as the Company and the Independent Shareholders are concerned.

II. The Westin Acquisition

In arriving at our opinion and recommendation to the Independent Board Committee and the Independent Shareholders in respect of the 71% Acquisition and the 29% Acquisition, we have taken the following principal factors and reasons into consideration:

i. Background

On 2 March 2007, Great Elegant, an indirect wholly-owned subsidiary of the Company, entered into the Poly/Shell Westin Agreement with Poly and Shell pursuant to which Great Elegant conditionally agreed to acquire (i) from Poly the Red Empire Sale Share and the Red Empire Sale Debt for a total consideration of HK\$452,147,600 payable in cash; and (ii) from Shell the Allright Sale Share and the Allright Sale Debt for a total consideration of HK\$177,301,667 payable in cash. As at the Latest Practicable Date, Red Empire and Allright have no major assets or operating businesses other than their respective 51% and 20% interest in the issued share capital of Yue Tian. On 2 March 2007, Great Elegant also entered into the Wise Gain Westin Agreement with Wise Gain pursuant to which Great Elegant conditionally agreed to acquire from Wise Gain the Yue Tian Sale Shares (representing 29% of the issued share capital of Yue Tian) and the Yue Tian Sale Debt for a total consideration of HK\$257,103,733 payable by way of the issue of the Westin CPS to Grand Cosmos as directed by Wise Gain.

ii. Information on Yue Tian

As stated in the letter from the Board, Yue Tian is an investment holding company incorporated in Hong Kong with limited liability on 2 March 1993 and has not, since its incorporation, carried on any business other than the formation of the PRC Company with GCC and Yue Tian does not have any subsidiary other than the PRC Company. As at the Latest Practicable Date, Yue Tian is held as to 20% by Allright, as to 29% by Wise Gain, and as to 51% by Red Empire. Yue Tian had an audited consolidated net asset value of approximately HK\$378.3 million as at 31 December 2006 and recorded audited consolidated losses before and after taxation respectively for the year ended 31 December 2005 of approximately HK\$9.8 million and for the year ended 31 December 2006 of approximately HK\$9.2 million. Upon completion of the Westin Acquisition, Yue Tian and the PRC Company will become indirect wholly-owned subsidiaries of the Company.

We note from the letter from the Board that the PRC Company is a sino-foreign cooperative joint venture enterprise established by Yue Tian and GCC on 26 September 2002 in the PRC with a registered capital of US\$45 million (of which US\$27.5 million has been fully paid up while the remaining portion of US\$17.5 million will be paid up by Yue Tian and is intended to be financed by the net proceeds from the issue of the Notes upon completion of the Westin Acquisition) and has a term of operation of 16 years. According to the terms of the sino-foreign cooperative joint venture agreement entered into by the parties on 3 January 2005, Yue Tian has paid RMB90 million on 8 June 2006 to GCC as cash compensation and GCC is no longer entitled to the future profits generated by the PRC Company. The entire results of the PRC Company are consolidated into the accounts of Yue Tian. The PRC Company is a project company and has not carried on any business since its establishment other than the acquisition and holding of the Land and the Westin Project. The Land is located at 廣州天河區林和東路以西、天河商旅7區 (West of Linhe Dong Road, Zone 7 of Tianhe Shanglu, Tianhe District, Guangzhou) consisting of a site area of approximately 9,121 square metres. The PRC Company has obtained the land use rights certificate issued by 廣州市國土資源和房屋管理局 (Bureau of Land Resources and Housing Management of Guangzhou Municipality) for a term of 70 years for residential use from 25 July 2001, 40 years for commercial, tourism and entertainment uses from 25 July 2001 and 50 years for other uses from 25 July 2001 and the relevant land use and construction permits in respect of the Land. The Westin Project is a commercial development project principally comprising the development and construction on the Land a hotel tower of approximately 440 rooms, namely the Westin, Guangzhou and an office complex with a GFA of approximately 44,800 square metres.

iii. *Reasons for the Westin Acquisition*

Business and strategy of the Group

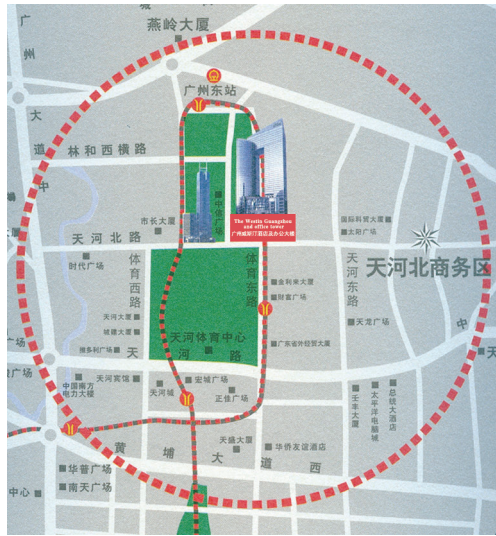
The Group is principally engaged in investment holding, property development, the provision of project management and related services in the PRC.

As at the Latest Practicable Date, the Company has been participating in two property development projects, namely, the Tianhe Project in which the Group has a 49% interest and the Zhoutouzui Project in which the Group has a 51% interest. Based on the current plan, the Tianhe Project will comprise a hotel, serviced apartments, parking spaces and related construction is scheduled for completion in 2009; and the Zhoutouzui Project, with a total GFA of approximately 312,000 square metres, will principally comprise luxury high rise condominium towers, residential apartments, serviced-residential apartments, a hotel, community centre and other ancillary facilities and the project is expected to be partially completed and ready for occupation by the end of 2009.

According to the Company's interim report for the six months ended 30 June 2006, the Group will continue its prudent land reserve strategy and explore more premium grade projects with promising potentials in the PRC especially in Guangzhou, and the Group believes that its extensive premiere grade property portfolio will bring in steady revenues to the Group and fruitful returns to Shareholders. With the prospect of the Westin Project, the Company considers the 71% Acquisition and the 29% Acquisition represent valuable opportunities to the Company, which allow the Company to expand its property portfolio with premium grade properties. We are of the view that the Westin Acquisition is in line with the Company's business strategy.

The Westin Project

The Westin Project is a commercial development project principally comprising the development and construction on the Land a hotel tower of 40 storey, namely the Westin, Guangzhou and a 36-storey office complex (including shopping arcades). As advised by the Board, the Westin Project is located at a prime site in Tianhe District which has emerged as a new commercial and business district in the last decade. The following map shows the geographical location of the Westin Project.



As stated in the letter from the Board, the superstructure wall of the Westin Project was completed and glass walls, mechanical engineering facilities installation and internal decoration are underway and are at their final stage close to completion. It is expected that there will be approximately 440 hotel rooms and certain car parking facilities in the Westin, Guangzhou. As advised by the Board, the hotel is expected to be operational and opened for business in the second half of 2007.

We note from the letter from the Board that the Westin Project is located at a prime site and is a fine quality hotel and commercial complex which the Board is confident would bring in attractive return to the Group. We also note that the Westin, Guangzhou will be managed and operated by Westin International which is a well known hotel operator. The PRC Company and the Westin International entered into a management contract dated 17 May 2005 (the “Management Contract”) in connection with the management and operation of Westin, Guangzhou for an initial operating term of 10 years commencing on the opening date which is defined in the Management Contract as the latter of the date on which (a) 100% of the guestrooms and substantially all the ancillary facilities are completed and ready for occupancy and the hotel may reasonably be operated in accordance with operating standard as set out in the Management Contract; and (b) the hotel is opened for business on an on-going basis to the general public. The initial operating term may be extended by two renewal terms of five years. We consider that the Group can leverage on the expertise of the hotel management team of Westin International. The Westin Acquisition will provide an opportunity for the Group to expand its hotel portfolio and build up its recurring income base. In addition, in light of the positive outlook of both the tourism and hotel industry in Guangzhou and grade A office property market in the vicinity of the Westin Project as stated below, we concur with the Directors that the Westin Acquisition would offer a stable return to the Group.

Tourism and hotel industry in Guangzhou

The PRC economy has been growing with strong momentum during the ten year period from 1996 to 2005, as evidenced by the increase in its gross domestic product (“GDP”) from approximately RMB7,117.7 billion in 1996 to approximately RMB18,308.5 billion in 2005, representing a compound annual growth rate (“CAGR”) of approximately 11.1%. Guangzhou, the capital of Guangdong province in the PRC, is a key city in the Pearl River Delta Region. The economic growth rate of Guangzhou as expressed by its GDP has exceeded the national growth rate for the ten year period as stated above. Based on the statistics published on the website of Guangzhou Statistics Department, the GDP of Guangzhou during the ten year period from 1996 to 2005 increased from approximately RMB146.8 billion in 1996 to approximately RMB515.4 billion in 2005, which represented a CAGR of approximately 15.0%. The statistics also indicate that the total number of tourists from foreign countries, Hong Kong, Macau and Taiwan visiting Guangzhou reached approximately 5.1 million in 2005, representing an increase of approximately 16.7% from that in 2004. As advised by DTZ Debenham Tie Leung Limited, the occupancy rate of five-star hotels in the PRC ranges from 70% to 80%. In view of the continuing economic growth in Guangzhou and with Guangzhou hosting the 2010 Asian Games, the growth in business and leisure travellers is expected to increase in the next few years, which may in turn lead to an increase in demand for hotel rooms in Guangzhou.

Office property market in Guangzhou

We note from a property market research report issued by Colliers International in March 2007 (the “March Report”) that the grade A office monthly rental in Guangzhou increased from RMB79 per square metre in 2000 to RMB120 per square metre in 2006, representing a CAGR of approximately 7.2%. It is also expected in the March Report that the monthly rental will continue to rise steadily to RMB149 per square metre in 2010.

As referred to in the quarterly research report titled “Greater China Office and Residential Market Overview” issued by Colliers International in January 2007, due to the lack of new supply in the office property market in Guangzhou in 2006, the demand for grade A offices remained strong which led to a downward adjustment to the overall vacancy rate to approximately 9.2% in the fourth quarter of 2006. According to the said report, over 700,000 square metres of grade A offices are scheduled for completion by 2007 in Guangzhou which will attract more international tenants such as foreign banks and multinational corporations looking for high quality offices in Guangzhou.

As noted in the March Report, the average vacancy rate is expected to increase with the launch of new grade A office space in Guangzhou to about 23% in 2007. However, as set out in a report prepared by Guangdong Centaline Property Limited for the Company in February 2007, the latest occupancy rate of existing grade A office properties, located in the vicinity of the Westin Project, was above 93%, indicating that the demand for office space in that area is generally stronger than the market in general. Furthermore, given the close proximity of the office tower of the Westin Project to Westin, Guangzhou, an international hotel managed by Westin International, which offers an unique attraction to potential tenants, we concur with the Directors' view that the Group would not encounter major difficulties in attracting tenants to lease the available office space.

According to the statistics published on the website of Guangzhou Statistics Department, the total number of enterprises in Guangzhou increased from 226,016 in 2000 to 285,557 in 2005, which represented a CAGR of approximately 4.8%. As a result of the accession of the PRC into the World Trade Organisation in 2000, foreign investors are allowed to participate in more business sectors in the PRC. Based on the statistics published on the website of Guangzhou Statistics Department, the number of wholly foreign funded enterprises in Guangzhou increased from 2,620 in 2000 to 4,964 in 2005, which represented a CAGR of approximately 13.6%. Having considered (i) the continuing economic growth in Guangzhou as stated above; and (ii) the accession of the PRC into the World Trade Organisation would offer more business and investment opportunities for different sectors in Guangzhou, we consider that the demand for offices in Guangzhou would continue to increase as a result of the expansion plans of both domestic and foreign enterprises in the PRC.

In view of the above, we consider that the outlook for the grade A office property market in the vicinity of the Westin Project is generally positive.

Having considered that (a) the principal business of the Group includes property development and the Westin Acquisition is in line with the Company's business strategy; (b) the anticipated increase in demand for hotel rooms in Guangzhou; and (c) the outlook for the grade A office property market in the vicinity of the Westin Project is in general positive, we are of the view that the Westin Agreements are entered into in the ordinary and usual course of the business of the Group, and the Westin Acquisition is in the interests of the Company and the Independent Shareholders as a whole.

iv. Consideration

Consideration and terms of payment

(a) The 71% Acquisition

The Red Empire Consideration shall be HK\$452,147,600 of which the consideration for the Red Empire Sale Debt is HK\$312,145,343 and the consideration for the Red Empire Sale Share is HK\$140,002,257. An initial deposit of HK\$2,000,000 has been paid to Poly on the signing of the Poly/Shell Westin Agreement, a further deposit of HK\$7,000,000 has been paid to Poly on 30 March 2007 and the remaining balance of the Red Empire Consideration shall be paid by Great Elegant in cash on completion of the Red Empire Acquisition.

The Allright Consideration shall be HK\$177,301,667 of which the consideration for the Allright Sale Debt is HK\$124,689,718 and the consideration for the Allright Sale Share is HK\$52,611,949. An initial deposit of HK\$1,000,000 has been paid to Shell on the signing of the Poly/Shell Westin Agreement, a further deposit of HK\$2,540,000 has been paid to Shell on 30 March 2007 and the remaining balance of the Allright Consideration shall be paid by Great Elegant in cash on completion of the Allright Acquisition.

The initial deposits and the further deposits paid by Great Elegant under the Poly/Shell Westin Agreement were financed by internal resources of the Group. The remaining balance of the total consideration for the Red Empire Acquisition and the Allright Acquisition is intended to be financed by the net proceeds from the issue of the Notes.

(b) The 29% Acquisition

The aggregate consideration for the Yue Tian Sale Shares and Yue Tian Sale Debt shall be HK\$257,103,733 of which the consideration for the Yue Tian Sale Debt is HK\$173,357,134 and the consideration for the Yue Tian Sale Shares is HK\$83,746,599. The total consideration for the Yue Tian Sale Shares and the Yue Tian Sale Debt will be settled by way of issue of the Westin CPS by the Company to Grand Cosmos as directed by Wise Gain.

(c) Adjustments to consideration

As stated in the letter from the Board, pursuant to the Poly/Shell Westin Agreement, in the event that the balance of all liabilities (other than the Red Empire Sale Debt and those incurred with the consent of Great Elegant and those incurred in the usual and ordinary course of business) of the Red Empire Group as at the completion of the Red Empire Acquisition is more than HK\$10,000,000 above that disclosed in the relevant unaudited management accounts as at 31 December 2006 of approximately HK\$516.9 million, the Red Empire Consideration shall be reduced by an amount equal to, for liabilities of Red Empire, such excess on a dollar for dollar basis and for liabilities of the Yue Tian Group, 51% of such excess but in any event, not exceeding the consideration for the Red Empire Sale Share. In addition, in the event that the balance of all liabilities (other than the Allright Sale Debt, any debt disclosed by Shell and those incurred with the consent of Great Elegant) of Allright as at the completion of the Allright Acquisition is more than HK\$1,000,000 above that disclosed in the relevant unaudited management accounts as at 31 December 2006 of approximately HK\$225,000, the Allright Consideration shall be reduced by an amount equal to such excess on a dollar for dollar basis.

As mentioned in the letter from the Board, pursuant to the Wise Gain Westin Agreement, in the event that the liabilities (other than the Yue Tian Sale Debt and those incurred with the consent of Great Elegant and those incurred in the usual and ordinary course of business) of any member of the Yue Tian Group as at the completion of the 29% Acquisition is more than HK\$10,000,000 above that disclosed in the unaudited management accounts of Yue Tian Group as at 31 December 2006, the consideration shall be reduced by, and Wise Gain shall reimburse Great Elegant in cash, an amount equal to 29% of such excess.

As advised by the Board, the above adjustment mechanism under the Westin Agreements is intended to cover any potential liabilities which may arise between 31 December 2006 and the date of completion of the Westin Acquisition. The Directors have confirmed that the minimum threshold amounts over which the adjustment mechanism will kick in, being HK\$10,000,000, HK\$1,000,000 and HK\$10,000,000 for each of the Red Empire Acquisition, the Allright Acquisition and the 29% Acquisition respectively were arrived at after arm's length negotiations between the relevant parties. The Directors also consider that, based on their experience in the PRC property development market, such threshold amounts in respect of the adjustment mechanism are acceptable and we concur with their view.

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Evaluation of the consideration

As confirmed by the Directors, the aggregate consideration under the Westin Agreements of HK\$886,553,000 is arrived at after arm's length negotiations between Great Elegant and Poly or Shell or Wise Gain (as the case may be).

The following table sets out the consideration payable under the Westin Acquisition:

	Consideration for sale debt <i>HK\$</i>	Consideration for sale shares <i>HK\$</i>	Total consideration <i>HK\$</i>
Red Empire Acquisition	312,145,343	140,002,257	452,147,600
Allright Acquisition	<u>124,689,718</u>	<u>52,611,949</u>	<u>177,301,667</u>
	436,835,061	192,614,206	629,449,267
29% Acquisition	<u>173,357,134</u>	<u>83,746,599</u>	<u>257,103,733</u>
	<u><u>610,192,195</u></u>	<u><u>276,360,805</u></u>	<u><u>886,553,000</u></u>

As advised by the Directors, the consideration was determined primarily based on the valuation of the market value of the Land (including the Westin Project) of approximately RMB1,498 million, while other factors (being the face value of the respective Red Empire Sale Debt, the Allright Sale Debt and the Yue Tian Sale Debt as at 31 January 2007, the investment costs of Poly, Shell and Wise Gain of approximately HK\$330.9 million, HK\$128.5 million and HK\$178.9 million respectively, the value of the construction in progress of approximately HK\$1,110.1 million, and the construction costs to be incurred for completion of the Westin Project of approximately HK\$249.0 million) were also considered.

Red Empire and Allright have no major assets or operating businesses other than their respective 51% and 20% interest in the issued share capital of Yue Tian. Besides the Yue Tian Group, Red Empire also has a 51% direct interest in Poly Tianyu (Guangzhou) Limited which is an investment holding company with no major assets or operating business. Yue Tian recorded an audited consolidated loss of approximately HK\$9.2 million for the year ended 31 December 2006, as the Westin Project would only commence operations in the second half of 2007. As Yue Tian is loss making, we cannot perform any price-earning ratio analysis in our evaluation of the consideration. Moreover, Yue Tian is an investment company holding effectively 100% interest in the PRC Company which is a

project company and has not commenced any operation since its establishment other than the acquisition and holding of the Land and the Westin Project. As at the date of the Westin Agreements (being 2 March 2007), the Westin Project was still under construction. Accordingly, we consider that using price-book ratio to assess the consideration would be inappropriate.

The market value of the Land (including the Westin Project) as at 31 January 2007 was valued by DTZ Debenham Tie Leung Limited (the “Valuer”), a firm of independent professional valuers, at RMB1,498 million (or approximately HK\$1,498 million) (the “Valuation Amount”). A copy of the valuation report is set out in Appendix V to the Circular. In assessing the fairness and reasonableness of the basis for determining the aggregate consideration of the Westin Acquisition, we have reviewed the valuation report prepared by the Valuer. As referred to in the valuation report, the Westin Project is planned to comprise, among others, a 36-storey office building and a 40-storey hotel building and will be completed on or before 31 July 2007. We have also discussed with the Valuer the methodology adopted, the bases and assumptions used in arriving at the market value of the Land (including the Westin Project) as at 31 January 2007. We understand that the Valuer has performed an inspection on the Land and the buildings erected on it and adopted the direct comparison approach by making reference to comparable sales evidences as available in the relevant market. Based on our review of the valuation report and discussions with the Valuer, we accept the fairness and reasonableness of the methodology adopted and the bases and the assumptions applied by the Valuer in arriving at the valuation of the Land (including the Westin Project).

The unpaid registered capital of the PRC Company amounting to US\$17.5 million (or approximately HK\$136.7 million) is intended to be financed by the net proceeds from the Notes issue. In addition, up to 31 December 2006, the Westin Project has incurred cost of approximately HK\$1,110.1 million of which HK\$366.3 million was financed by bank loan from KW Bank and the remainder was by shareholders. We note from the letter from the Board that all outstanding amount due to KW Bank under the Loan Agreement has been repaid by the PRC Company since the date of the Note Purchase Agreement and a new bank loan from the Agricultural Bank of China (Guangdong Branch) of up to RMB800 million has been arranged to re-finance such repayment. Such bank loan has to be eventually repaid by the Group after completion of the Westin Acquisition. The aggregate consideration in respect of the Westin Acquisition comprising (i) the aggregate consideration payable under the Westin Agreements of approximately HK\$886.6 million; (ii) the payment of the registered capital of the PRC Company of US\$17.5 million (or approximately HK\$136.7 million); and (iii) the bank loan of HK\$366.3 million as stated above would amount to approximately HK\$1,389.6 million (the “Aggregate Value”), which is below the Valuation Amount.

LETTER FROM SHENYIN WANGUO CAPITAL

Given that (i) the consideration for each of the 71% Acquisition and the 29% Acquisition has been determined after arm's length negotiations between the relevant parties; (ii) we accept the fairness and reasonableness of the methodology adopted and the bases and the assumptions applied by the Valuer in arriving at the market value of the Land (including the Westin Project); and (iii) the Aggregate Value represents a discount of approximately 7.2% to the Valuation Amount, we consider the consideration for each of the 71% Acquisition and the 29% Acquisition to be fair and reasonable so far as Company and the Independent Shareholders are concerned and is on normal commercial terms.

v. ***Capital commitment of the Westin Project***

The Group's total capital commitment in respect of the Westin Project is as follows:

- (a) the aggregate consideration payable for the Westin Acquisition amounts to approximately HK\$886.6 million. Deposits of approximately HK\$12.6 million in respect of the 71% Acquisition have been paid as at the Latest Practicable Date while the total consideration for the 29% Acquisition of approximately HK\$257.1 million will be settled by way of issue of the Westin CPS. The remaining balance of the total consideration payable for the Westin Acquisition will be financed by the net proceeds from the Notes issue;
- (b) the unpaid registered capital of the PRC Company amounting to US\$17.5 million (or approximately HK\$136.7 million) is intended to be financed by the net proceeds from the Notes issue; and
- (c) construction cost to be incurred for completion of the Westin Project of approximately HK\$249.0 million will be financed by bank loan from the Agricultural Bank of China and the net proceeds from the Notes issue.

The bank loan for the purpose of financing the construction cost as set out in item (c) above from the Agricultural Bank of China of up to RMB800 million is secured by land use rights and properties held for development.

vi. ***Financing of the 29% Acquisition***

Pursuant to the Wise Gain Westin Agreement, the aggregate consideration for the Yue Tian Sale Shares and Yue Tian Sale Debt of HK\$257,103,733 will be settled by way of issue of the Westin CPS by the Company to Grand Cosmos as directed by Wise Gain.

LETTER FROM SHENYIN WANGUO CAPITAL

Principal terms of the Convertible Preference Shares (including the Westin CPS)

As set out in the letter from the Board, upon full conversion of the Westin CPS at the initial conversion ratio, a total of 190,477,209 New Shares will be issued. The principal terms of the Convertible Preference Shares (including the Westin CPS) include:

1. the Convertible Preference Shares will be issued at HK\$1.35 each;
2. each Convertible Preference Share carries the right to convert to one new Share (subject to adjustment for the same adjustment events as the Notes and upon a reset of the Conversion Price under the terms and conditions of the Notes, the maximum adjustment to the conversion ratio of the Westin CPS as a result of the Conversion Price being adjusted to the Minimum Reset Reference Price of HK\$1.00 will be 1 Westin CPS to 1.35 New Shares);
3. each holder of Convertible Preference Shares shall have the right to convert all or any of its Convertible Preference Shares into new Shares at any time at the ratio (subject to adjustments as referred to above) of one Convertible Preference Share for each new Share. The conversion right shall be exercisable in whole or in part at any time that the aggregate holdings of Shares by the holders of the Convertible Preference Shares and its connected persons is less than 75% of the total issued and outstanding Shares;
4. so long as the Notes remain outstanding, the Convertible Preference Shares are not redeemable;
5. the Convertible Preference Shares do not confer on the holders of the Convertible Preference Shares any right to dividend; and
6. a holder of the Convertible Preference Shares shall not be entitled to vote at any meeting of the Company by reason only of it being a holder of the Convertible Preference Shares.

We also note from the Note Purchase Agreement that holders of the Convertible Preference Shares rank after the Noteholders and Shareholders on a return of capital on liquidation or winding up or transaction with a similar effect.

Issue price of the Convertible Preference Shares

As advised by the Board, the issue price of HK\$1.35 per Convertible Preference Share was arrived at after arm's length negotiation between Wise Gain and the Company.

LETTER FROM SHENYIN WANGUO CAPITAL

The issue price of HK\$1.35 per Convertible Preference Share represents:

- (i) a premium of approximately 7.1% over the closing price of HK\$1.26 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 3.8% over the average closing price of HK\$1.30 per Share as quoted on the Stock Exchange for the last five consecutive Trading Days up to and including the Last Trading Day;
- (iii) a discount of approximately 3.6% to the average closing price of HK\$1.40 per Share as quoted on the Stock Exchange for the last 30 consecutive Trading Days up to and including the Last Trading Day; and
- (iv) a discount of approximately 15.6% to the closing price of HK\$1.60 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

During the period from 1 March 2006 up to the Latest Practicable Date, the Shares were traded with closing prices in the range of HK\$0.864 per Share on 7 and 8 of March 2006 to HK\$1.68 per Share on 20 of March 2007. The issue price of HK\$1.35 per Convertible Preference Share lies toward the upper end of the range at which the Shares have traded.

The issue price of HK\$1.35 per Convertible Preference Share also represents a premium of approximately 245.3% over the Adjusted NAV per Share of approximately HK\$0.391.

In view of the above and having taken into account that the issue price of HK\$1.35 per Convertible Preference Share (i) lies toward the upper end of the range at which the Shares have traded during the period under review; and (ii) represents a premium of approximately 245.3% over the Adjusted NAV per Share as stated above, we consider that the issue price per Convertible Preference Share of HK\$1.35 is fair and reasonable so far as the Independent Shareholders are concerned.

The maximum adjustment to the conversion ratio of the Westin CPS as a result of the Conversion Price being adjusted to the Minimum Reset Reference Price of HK\$1.00 will be 1 Westin CPS to 1.35 New Shares. As such, the issue price of the Westin CPS will be adjusted downwards to HK\$1.00 (the “Minimum Issue Price”). When comparing with the closing prices of the Shares during the past 12 months as illustrated in Chart 1 above, we note that the Minimum Issue Price is also within the price range. The Minimum Issue Price represents a discount of approximately 20.6% to the closing price per Share on the Last Trading Day which lies within the range of discount/premium to/over the closing price of the shares of the Comparables on their respective last trading day. The Minimum

LETTER FROM SHENYIN WANGUO CAPITAL

Issue Price also represents a premium of approximately 155.8% over the Adjusted NAV per Share of approximately HK\$0.391 (based on 1,090,343,286 Shares in issue as at the Latest Practicable Date). In view of the above, we consider that the Minimum Issue Price is fair and reasonable so far as the Company and the Independent Shareholders are concerned.

Potential dilution effect

Upon full conversion of the Westin CPS at the initial conversion ratio, a total of 190,477,209 New Shares will be issued, representing (i) approximately 17.5% of the issued share capital of the Company as at the Latest Practicable Date; (ii) approximately 14.9% of the issued share capital of the Company as enlarged by the issue of such New Shares; and (iii) approximately 7.8% of the issued share capital of the Company as enlarged by the issue of such New Shares and the Conversion Shares, assuming full conversion of the Notes at the Initial Conversion Price.

According to the tables set out in the section headed “Effects of conversion of the Notes and the Westin CPS on issued share capital of the Company” in the letter from the Board, the existing Independent Shareholders will suffer a dilution to their Shareholdings from approximately 25.8% (i) to approximately 21.9% and to approximately 20.8% solely upon full conversion of the Westin CPS at the conversion ratio of one Westin CPS to one New Share and 1 Westin CPS to 1.35 New Shares respectively; and (ii) to approximately 11.5% and to approximately 9.7% upon full conversion of the Notes at the Initial Conversion Price and the Westin CPS at the conversion ratio of one Westin CPS to one New Share and upon full conversion of the Notes at the Minimum Reset Reference Price and the Westin CPS at the conversion ratio of 1 Westin CPS to 1.35 New Shares respectively.

In view of the above and having taken into account that:

- (i) approximately 29% of the aggregate consideration under the Westin Agreements will be satisfied by way of issue of the Westin CPS which enables the Group to finance partly the Westin Acquisition and at the same time limit the amount of immediate cash outlay; and
- (ii) the Westin Acquisition is beneficial to the long term development of the Group,

we consider that the potential dilution on the shareholding interest of the existing Independent Shareholders is acceptable.

Based on the above, we are of the view that the terms of the Convertible Preference Shares are fair and reasonable so far as the Independent Shareholders are concerned.

III. Financial effects of the issue of the Notes and completion of the Westin Acquisition

i. Net asset value

According to the August Circular and as set out in Appendix IV to the Circular, assuming completion of the Open Offer and the 51% Zhoutouzui Acquisition as at 31 December 2005, the Adjusted NAV of the Group attributable to the equity holders of the Company prior to the entering into of the Note Purchase Agreement would arrive at approximately HK\$426.8 million.

Based on the unaudited pro forma financial information following the issue of the Notes and the completion of the Westin Acquisition as set out in Appendix IV to the Circular, the pro forma net asset value of the Enlarged Group attributable to the equity holders of the Company will be approximately HK\$597.8 million, representing an increase of approximately HK\$171.0 million when compared to the Adjusted NAV prior to the entering into of the Note Purchase Agreement. The increase in the net asset value based on the pro forma net asset value of the Enlarged Group mainly arises from the issue of the Westin CPS after deducting the fair value of derivative component of the Westin CPS which is treated as liability.

As noted above, there will not be any significant adverse impact on the net asset value of the Group immediately following the Westin Acquisition.

ii. Earnings

Upon completion of the Westin Acquisition, Yue Tian and the PRC Company will become indirect wholly-owned subsidiaries of the Company and their respective accounts will be consolidated in the financial statements of the Company.

Based on the unaudited pro forma financial information as set out in Appendix IV to the Circular, assuming completion of the Open Offer and the 51% Zhoutouzui Acquisition as at 1 January 2005, the loss for the year ended 31 December 2005 attributable to the equity holders of the Company would arrive at approximately HK\$9.1 million. Following the issue of the Notes and the completion of the Westin Acquisition as set out in Appendix IV to the Circular, the loss for the year of the pro forma Enlarged Group attributable to the equity holders of the Company will be approximately HK\$240.8 million, representing an increase of approximately HK\$231.7 million which mainly arises from nominal interest expense of the Notes of approximately HK\$242.1 million for the first year from the Closing Date. However, we note that the Notes bear interest at the rate of 4% per annum of the principal amount of the Notes of US\$200 million (or approximately HK\$1,562.4 million). Hence, the actual interest payment to be made by the Group

during the tenure of the Notes would amount to US\$8 million (or approximately HK\$62.5million) per annum assuming no redemption or conversion of the Notes. Yue Tian recorded an audited consolidated loss of approximately HK\$9.2 million for the year ended 31 December 2006, as the Westin Project would only commence operations in the second half of 2007. However, in light of the positive outlook of both the tourism and hotel industry in Guangzhou and the grade A office property market in the vicinity of the Westin Project, we concur with the Directors' view that the Westin Acquisition would provide an opportunity for the Group to build up a recurring income base but the quantification of such income will depend on the future performance of the Westin Project.

iii. Working capital

The working capital position of the Group will be strengthened as a result of the increase in its cash and bank balances from the net proceeds of approximately HK\$1,503.8 million from the issue of the Notes. After utilising approximately HK\$1,478 million as set out in the paragraph headed "Reasons for issue of the Notes, acquisition of the Westin Project and use of proceeds" in the letter from the Board, the Group's working capital will increase by approximately HK\$25.8 million.

iv. Gearing ratio

Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to the Circular, the gearing ratio (being the ratio of total liabilities over total assets) increased from approximately 21.8% for the unaudited pro forma enlarged group as at 31 December 2005 to approximately 74.6% for the unaudited pro forma Enlarged Group as a result of the issue of the Notes and the completion of the Westin Project. Having considered that the Westin Project and the Zhoutouzui Project are beneficial to the long term development of the Group, we are of the view that the increase in gearing ratio is acceptable.

RECOMMENDATION

Independent Shareholders are advised to take note of the possible dilution effect on their shareholding interests in the Company when the Notes and/or the Westin CPS are converted into Conversion Shares or the New Shares, as the case may be. However, having taking into account the benefits of the issue of the Notes and the Westin Acquisition to the Group, we consider the possible dilution effect as mentioned above is acceptable.

LETTER FROM SHENYIN WANGUO CAPITAL

Having considered the principal factors and reasons above, we consider that the Note Purchase Agreement and the Westin Acquisition (comprising the 71% Acquisition and the 29% Acquisition) are on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we would recommend the Independent Shareholders, and advise the Independent Board Committee to recommend to the Independent Shareholders to vote in favour of the relevant resolutions to approve and implement the above transactions at the SGM.

Yours faithfully,

For and on behalf of

Shenyin Wanguo Capital (H.K.) Limited

Tanny Chau

Director

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

A summary of the results, assets and liabilities of the Group for the three financial years ended 31 December 2005, as prepared by reference to the published audited financial statements for the three years ended 31 December 2005, and a summary of the results, assets and liabilities of the Group for the six months ended 30 June 2006 (together with comparative figures for the six months ended 30 June 2005) as extracted from the unaudited interim report for the six months ended 30 June 2006, are set out below.

	For the three years ended 31 December			For the six months ended 30 June	
	2005	2004	2003	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)	(Restated)		(Restated)
Results					
Turnover					
— Continuing operations	4,757	—	—	14,043	2,700
— Discontinued operations	457	9,709	672	—	457
	<u>5,214</u>	<u>9,709</u>	<u>672</u>	<u>14,043</u>	<u>3,157</u>
(Loss)/profit before income tax					
— Continuing operations	(2,580)	(7,425)	—	7,204	(559)
— Discontinued operations	(2,234)	(38,704)	(100,777)	—	(5,033)
	<u>(4,814)</u>	<u>(46,129)</u>	<u>(100,777)</u>	<u>7,204</u>	<u>(5,592)</u>
Income tax expenses					
— Continuing operations	(33)	—	—	(775)	—
— Discontinued operations	—	(1,359)	(8)	—	—
	<u>(33)</u>	<u>(1,359)</u>	<u>(8)</u>	<u>(775)</u>	<u>—</u>
(Loss)/profit for the year/period					
— Continuing operations	(2,613)	(7,425)	—	6,429	(559)
— Discontinued operations	(2,234)	(40,063)	(100,785)	—	(5,033)
	<u>(4,847)</u>	<u>(47,488)</u>	<u>(100,785)</u>	<u>6,429</u>	<u>(5,592)</u>
Attributable to					
— Equity holders of the Company	(4,847)	(47,487)	(100,785)	6,429	(5,592)
— Minority interests	—	(1)	—	—	—
	<u>(4,847)</u>	<u>(47,488)</u>	<u>(100,785)</u>	<u>6,429</u>	<u>(5,592)</u>
	At 31 December			At 30 June	
	2005	2004	2003	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)	(Restated)		(Restated)
Financial position					
Total assets	250,120	13,836	16,041	257,318	27,645
Total liabilities	(57,786)	(5,802)	(14,241)	(2,424)	(5,458)
Total equity attributable to equity holders of the Company	<u>192,334</u>	<u>8,034</u>	<u>1,800</u>	<u>254,894</u>	<u>22,187</u>

2. AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005

- (a) Set out below is the auditors' report extracted from the annual report of the Company for the financial year ended 31 December 2005. References to the page numbers are to page numbers of the annual report of the Company for the financial year ended 31 December 2005.

Report of the Auditors



BDO McCabe Lo Limited
Certified Public Accountants
25th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong
Telephone: (852) 2541 5041
Telefax: (852) 2815 0002

德豪嘉信會計師事務所有限公司

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

To the members of Skyfame Realty (Holdings) Limited
(formerly known as renren Holdings Limited)
(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 23 to 79 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective Responsibilities of Directors and Auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We were appointed auditors of the Company on 25 November 2005. The financial statements of the Company and its subsidiaries for the year ended 31 December 2004 were audited by another firm of auditors whose report dated 25 April 2005 was qualified in respect of limited evidence available to them to assess the recoverability of the promissory notes receivable with a net carrying amount of HK\$5,322,000 (aggregate principal amount of HK\$10,644,000 less provision for doubtful debts of HK\$5,322,000) and the adequacy of the provision as at 31 December 2004.

Basis of Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants, except that the scope of our work was limited as explained below. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and the Company's circumstances, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited as follows:

(1) Scope limitation — Audit scope limitation affecting opening balances

We were not able to obtain sufficient reliable evidence to enable us to assess the net carrying amounts of the promissory note receivable of HK\$1,422,000 (principal amount of HK\$2,844,000 less provision for doubtful debt of HK\$1,422,000) and account receivable of HK\$3,900,000 (gross amount of HK\$7,800,000 less provision for doubtful debt of HK\$3,900,000, now reclassified from the promissory notes receivable as detailed in note 22) brought forward as at 1 January 2005. Any adjustments found to be necessary in respect thereof had we been able to obtain sufficient reliable evidence would have a consequential effect on the carrying amounts of the promissory note receivable, the account receivable, and the accumulated losses of the Group as at 1 January 2005 and the Group's results for the current year and the related disclosures thereof in the financial statements.

(2) Scope limitation — Impairment losses on the promissory note receivable and account receivable and gain on disposal of subsidiary

The promissory note receivable and account receivable referred to in point (1) above were recorded in the books of a wholly-owned subsidiary of the Company. During the year, further impairment losses on the promissory note receivable and account receivable totalling HK\$4,682,000 have been provided before the disposal of said subsidiary from which a gain on disposal of HK\$2,348,000 was generated. Our scope was limited due to the absence of sufficient and reliable evidence to enable us to assess whether the additional impairment losses provided by the Group in the current year is

appropriate and whether the recognition of the impairment losses of HK\$4,682,000 and the gain on disposal of HK\$2,348,000 included in the Group's results for the year under the classification "discontinued operations" were fairly stated and properly classified. Any adjustments found to be necessary to the above amounts would affect the related disclosures thereof in the financial statements.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Qualified Opinion arising from Limitation of Audit Scope

Except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence in respect of the promissory note receivable and account receivable referred to above, in our opinion, the financial statements give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2005 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

BDO McCABE LO LIMITED

Certified Public Accountants

LI Yin Fan

Practising Certificate Number P03113

Hong Kong, 28 March 2006

- (b) Set out below are the audited consolidated financial statements of the Group for the financial year ended 31 December 2005 together with the comparative figures for the financial year ended 31 December 2004 which were extracted from the annual report of the Company for the financial year ended 31 December 2005.

Consolidated Income Statement

For the year ended 31 December 2005

	<i>Notes</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> (Restated)
Continuing operations:			
Turnover	4	4,757	—
Other income	6	117	2
Administration expenses		(7,457)	(7,081)
Other operating expenses		(17)	(105)
Loss from operations	7	(2,600)	(7,184)
Finance costs	9	(220)	(306)
Finance income	9	240	65
Loss before income tax		(2,580)	(7,425)
Income tax expense	10	(33)	—
Loss for the year from continuing operations		(2,613)	(7,425)
Discontinued operations:			
Loss for the year from discontinued operations	11	(2,234)	(40,063)
Loss for the year		<u>(4,847)</u>	<u>(47,488)</u>
Attributable to:			
— Equity holders of the Company		(4,847)	(47,487)
— Minority interests		—	(1)
		<u>(4,847)</u>	<u>(47,488)</u>
Dividends	13	<u>Nil</u>	<u>Nil</u>
Basic loss per share for loss attributable to equity holders of the Company			
— from continuing operations	14	(HK\$0.025)	(HK\$0.119)
— from discontinued operations		(HK\$0.022)	(HK\$0.643)
— from continuing and discontinued operations		<u>(HK\$0.047)</u>	<u>(HK\$0.762)</u>

*Consolidated Balance Sheet**As at 31 December 2005*

	<i>Notes</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> (Restated)
Non-current assets			
Plant and equipment	<i>17</i>	163	213
Investment property	<i>18</i>	—	300
Goodwill	<i>19</i>	—	8
Interest in associate	<i>20</i>	165,807	—
Investment securities	<i>21</i>	—	900
Account receivable	<i>22</i>	—	3,900
Promissory note receivable	<i>23</i>	—	1,422
		<u>165,970</u>	<u>6,743</u>
Current assets			
Other investments	<i>21</i>	—	435
Deposits, prepayments and other receivables	<i>24</i>	403	6,311
Cash and cash equivalents	<i>25</i>	83,747	347
		<u>84,150</u>	<u>7,093</u>
Current liabilities			
Trade and other payables	<i>26</i>	1,773	4,443
Income tax payable		66	1,359
		<u>1,839</u>	<u>5,802</u>
Net current assets		<u>82,311</u>	<u>1,291</u>
Total assets less current liabilities		<u>248,281</u>	<u>8,034</u>
Non-current liabilities			
Convertible note	<i>27</i>	55,087	—
Deferred tax liabilities	<i>28</i>	860	—
		<u>55,947</u>	<u>—</u>
Net assets		<u>192,334</u>	<u>8,034</u>
Capital and reserves			
Share capital	<i>29</i>	6,407	68,474
Reserves/(deficit)	<i>30</i>	185,927	(60,440)
Total equity attributable to equity holders of the Company		<u>192,334</u>	<u>8,034</u>

Balance Sheet*As at 31 December 2005*

	<i>Notes</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> (Restated)
Non-current assets			
Interests in subsidiaries	31	172,667	—
Current assets			
Deposits, prepayments and other receivables	24	206	2,578
Cash and cash equivalents	25	77,172	306
		77,378	2,884
Current liabilities			
Trade and other payables	26	2,090	9,912
Net current assets/(liabilities)		75,288	(7,028)
Non-current liabilities			
Convertible note	27	55,087	—
Deferred tax liabilities	28	860	—
		55,947	—
Net assets/(liabilities)		192,008	(7,028)
Capital and reserves			
Share capital	29	6,407	68,474
Reserves/(deficit)	30	185,601	(75,502)
		192,008	(7,028)

*Consolidated Statement of Changes in Equity**For the year ended 31 December 2005*

2004	Notes	Attributable to equity holders of the Company			Minority interests HK\$'000	Total HK\$'000
		Share capital HK\$'000	Share premium HK\$'000	Accumulated losses HK\$'000		
At 1 January 2004						
— As previously reported		13,068	536,454	(545,562)	—	3,960
— Prior period adjustment	36	—	(2,160)	—	—	(2,160)
		<u>13,068</u>	<u>534,294</u>	<u>(545,562)</u>	<u>—</u>	<u>1,800</u>
Expenses incurred on issue of shares and recognised directly in equity						
	30	—	(2,833)	—	—	(2,833)
Loss for the year		<u>—</u>	<u>—</u>	<u>(47,487)</u>	<u>(1)</u>	<u>(47,488)</u>
Total recognised expenses for the year						
		<u>—</u>	<u>(2,833)</u>	<u>(47,487)</u>	<u>(1)</u>	<u>(50,321)</u>
Issue of shares:						
— Conversion of convertible bonds and accrued interests	29, 30	491	1,080	—	—	1,571
— Rights issue	29	54,237	—	—	—	54,237
— Exercise of share options	29, 30	678	68	—	—	746
Capital contributions from minority shareholders						
		<u>—</u>	<u>—</u>	<u>—</u>	<u>1</u>	<u>1</u>
		<u>55,406</u>	<u>1,148</u>	<u>—</u>	<u>1</u>	<u>56,555</u>
At 31 December 2004, as restated						
		<u>68,474</u>	<u>532,609</u>	<u>(593,049)</u>	<u>—</u>	<u>8,034</u>

2005	Notes	Attributable to equity holders of the Company					(Accumulated)		Total HK\$'000
		Share capital HK\$'000	Share premium HK\$'000	Contributed surplus reserve HK\$'000	Convertible note equity reserve HK\$'000	Foreign exchange reserve HK\$'000	losses/ retained profits HK\$'000		
At 1 January 2005									
— As previously reported		68,338	534,185	—	—	—	(593,049)	9,474	
— Prior period adjustment	36	136	(1,576)	—	—	—	—	(1,440)	
— As restated		68,474	532,609	—	—	—	(593,049)	8,034	
Expenses incurred on issue of shares	30	—	(4,354)	—	—	—	—	(4,354)	
Exchange differences arising on consolidation of overseas subsidiary	30	—	—	—	—	1	—	1	
Net (expenses)/income recognised directly in equity		—	(4,354)	—	—	1	—	(4,353)	
Loss for the year		—	—	—	—	—	(4,847)	(4,847)	
Total recognised (expenses)/income for the year		—	(4,354)	—	—	1	(4,847)	(9,200)	
Issue of shares — share placing	29, 30	13,550	8,130	—	—	—	—	21,680	
Capital re-organisation:									
— Capital reduction	29, 30	(81,204)	—	81,204	—	—	—	—	
— Cancellation of share premium	30	—	(542,404)	542,404	—	—	—	—	
— Set-off against accumulated losses of the Company	30	—	—	(608,111)	—	—	608,111	—	
Cancellation of paid-up ordinary share capital	29, 30	—	—	—	—	—	—	—	
Issue of shares:									
— Acquisition of associate	29, 30	667	19,333	—	—	—	—	20,000	
— Rights issue	29, 30	4,920	142,693	—	—	—	—	147,613	
Recognition of equity component of convertible note	27, 30	—	—	—	5,100	—	—	5,100	
Tax on equity component of convertible note	28, 30	—	—	—	(893)	—	—	(893)	
		(62,067)	(372,248)	15,497	4,207	—	608,111	193,500	
At 31 December 2005		6,407	156,007	15,497	4,207	1	10,215	192,334	

*Consolidated Cash Flow Statement**For the year ended 31 December 2005*

	<i>Notes</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> (Restated)
Net cash generated from/(used in) operating activities	<i>34(a)</i>	2,270	(17,523)
Investing activities			
Interest received		240	65
Dividend received from listed investment		—	36
Acquisitions of subsidiary	<i>34(b)</i>	—	(4,000)
Disposal of subsidiaries, net of cash disposed of	<i>34(c)</i>	2,300	124
Purchase of other investments		—	(53,634)
Proceeds from sale of other investments		949	25,008
Acquisition of associate	<i>34(d)</i>	(85,807)	—
Purchase of plant and equipment		(183)	(108)
Net cash used in investing activities		(82,501)	(32,509)
Financing activities			
Proceeds from issue of ordinary shares		169,293	54,237
Proceeds from shares issued under share option scheme		—	746
Expenses incurred on issue of shares		(4,354)	(2,833)
Interest paid		(33)	(365)
Proceeds from borrowings		4,000	3,973
Repayments of borrowings		(4,000)	(5,223)
Decrease in amount due to director		(1,276)	(417)
Capital contributions from minority shareholders		—	1
Net cash from financing activities		163,630	50,119
Increase in cash and cash equivalents		83,399	87
Effect of foreign exchange rate changes		1	—
Cash and cash equivalents at beginning of year		347	260
Cash and cash equivalents at end of year	25	83,747	347

*Notes to the Financial Statements**31 December 2005***1. General**

Skyfame Realty (Holdings) Limited (formerly known as renren Holdings Limited) (the “Company”) is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the Stock Exchange of Hong Kong Limited. As at 31 December 2005, the directors considered that the parent and ultimate holding company of the Company is Grand Cosmos Holdings Limited, which is incorporated in the British Virgin Islands (the “BVI”). The Company’s registered office and principal place of business situate at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and 2502B, Tower 1, Admiralty Centre, 18 Harcourt Road, Hong Kong respectively.

The Company and its subsidiaries are hereinafter collectively referred to as the “Group”. The principal activity of the Company continues to be investment holding. The principal activities of its subsidiaries are investment holding, property development and provision of property development project management services. During the year, the Group ceased its operations in general trading, securities and property investments and the provision of internet and telecommunication products and services.

The consolidated financial statements are presented in thousands of Hong Kong dollars, which is also the functional currency of the Company, unless otherwise stated.

2. Principal accounting policies*(a) Statement of compliance*

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretations (hereinafter collectively referred to as the “new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

(b) Basis of preparation

The consolidated financial statements have been prepared under the historical cost basis except for the investment property and certain financial instruments, which are measured at fair values or revalued amounts.

In the current year, the Group has applied, for the first time, a number of new HKFRSs issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively.

The applicable HKFRSs are set out below and the 2004 consolidated financial statements have been restated in accordance with the relevant requirements, where applicable.

HKAS 1	Presentation of Financial Statements
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	Segment 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 28	Investments in Associates
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 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations
HKAS-INT 15	Operating Leases — Incentives
HKAS-INT 21	Income Taxes — Recovery of Revalued Non-Depreciable Assets

The adoption of HKAS 1, 7, 8, 10, 12, 14, 16, 18, 19, 21, 23, 24, 27, 28, 33, 36, 37, 38 and HKAS-INT 15 and 21 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 affects certain presentation in the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity.
- HKAS 8, 16, 21 and 28 affect certain disclosures of the consolidated financial statements.
- HKAS 7, 10, 12, 14, 18, 19, 23, 27, 33, 36, 37, 38 and HKAS-INT 15 and 21 do not have any impact as the Group's accounting policies already comply with the standards.
- HKAS 24 affects the identification of related parties and the disclosure of related party transactions.

HKFRS 2 “Share-based Payment”

In the current year, the Group has applied HKFRS 2 “Share-based Payment” which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares (“equity-settled transactions”), or in exchange for other assets equivalent in value to a given number of shares or rights over shares (“cash-settled transactions”). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors’ and employees’ share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1 January 2005. In relation to share options granted before 1 January 2005, the Group has taken advantage of the transitional provision set out in HKFRS 2, under which the new recognition and measurement policies have not been applied to the following grants of options:

- (a) all options granted to directors and employees on or before 7 November 2002; and
- (b) all options granted to directors and employees after 7 November 2002 but which had vested before 1 January 2005.

No adjustment to the opening balances as at 1 January 2004 is required as all options existed at that time were vested before 1 January 2005.

*HKFRS 3 “Business Combinations”**Goodwill*

In prior years, positive goodwill which arose on or after 1 January 2001 was amortised on a straight line basis over its useful life and was subject to impairment testing when there were indications of impairment.

In accordance with the relevant transitional provisions under HKFRS 3 and HKAS 36 “Impairment of Assets”, the Group has applied the new policy in respect of positive goodwill prospectively from 1 January 2005. Comparative figures for 2004 have not been restated. The cumulative amount of amortisation as at 1 January 2005 has been offset against the cost of goodwill. Positive goodwill is no longer amortised but is tested for impairment annually including the year of initial recognition, as well as when there are indications of impairment, at the cash generating unit level by applying a fair-value-based test in accordance with HKAS 36.

Excess of the Group’s interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over cost (previously known as “negative goodwill”).

In accordance with HKFRS 3, any excess of the Group’s interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over the cost of acquisition (“discount on acquisition”) is recognised immediately in income statement in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions prior to 1 January 2001 was held in reserves, and negative goodwill arising on acquisitions after 1 January 2001 was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. The change in policy relating to negative goodwill had no effect on the financial statements as there was no negative goodwill deferred as at 31 December 2004.

HKFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”

In the current year, the Group has adopted HKFRS 5 from 1 January 2005 prospectively in accordance with the standard’s provisions. The adoption of HKFRS 5 has resulted in a change in the accounting policy for non-current assets (or disposal groups) held for sale. The non-current asset (or disposal groups) held for sale were previously neither classified nor presented as current assets or liabilities. There was no difference in measurement for non-current assets (or disposal groups) held for sale or for continuing use. Non-current assets (or disposal groups) are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use. The application of HKFRS 5 does not have any impact on the prior-year financial statements other than a change in the presentation of the results and cash flows of discontinued operations.

*HKAS 17 “Leases”**HKAS 40 “Investment Property”*

The adoption of HKAS 17 has resulted in a change in accounting policy relating to leasehold land. In the current year, the Group has applied HKAS 17 “Leases”. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. The adoption of HKAS 17 had no effect on the financial statements for the current and prior periods.

In the current year, the Group has, for the first time, applied HKAS 40 “Investment Property”. At 1 January 2005, the property interest owned by the Group was held under an operating lease under HKAS 17. It also satisfied the classification of, and the Group has opted to account it for as, an investment property under HKAS 40. In accordance with the standards’ provisions, the property interest is accounted for as if it were a finance lease and fair value model is used for the asset recognised. Fair value model requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the year in which they arise. In previous years, investment properties under the Statement of Standard Accounting Practice (“SSAP”) 13 “Accounting for Investment Properties” were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and revaluation subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1 January 2005 onwards. No investment property revaluation reserve existed at 1 January 2005.

HKAS 32 “Financial Instruments: Disclosure and Presentation”

HKAS 39 “Financial Instruments: Recognition and Measurement”

In the current year, the Group has applied HKAS 32 “Financial Instruments: Disclosure and Presentation” and HKAS 39 “Financial Instruments: Recognition and Measurement”. HKAS 32 requires retrospective application. HKAS 39, which is effective for accounting periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Convertible debt

The principal impact of HKAS 32 on the Group is in relation to convertible debts issued by the Group that contain both liability and equity components. Previously, convertible debts were classified as liabilities on the balance sheet. HKAS 32 requires an issuer of a compound financial instrument that contains both financial liability and equity components to separate the compound financial instrument into the liability and equity components on initial recognition and to account for these components separately. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. Further details of the new policies are set out in note 2(i)(iii).

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Debt and equity securities previously accounted for under the benchmark treatment of SSAP 24

Prior to 1 January 2005, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of SSAP 24. Under SSAP 24, debt securities that the Group intends and has the ability to hold to maturity (“held-to-maturity securities”) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of a discount or premium arising from the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment. Investments other than held-to-maturity securities are classified as investment securities or other investments. Securities which are held for an identified long-term purpose, are classified as investment securities. They are measured at subsequent reporting dates at cost, less any impairment loss that is other than temporary. Securities not classified as investment securities are classified as other investments. Other investments are measured at fair value at subsequent reporting dates, with unrealised gains and losses included in net profit or loss for the year.

From 1 January 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as “financial assets at fair value through profit or loss”, “available-for-sale financial assets”, “loans and receivables”, or “held-to-maturity financial assets”. “Financial assets at fair value through profit or loss” that are not part of a hedging relationship and “available-for-sale financial assets” are carried at fair value, with

changes in fair values recognised in profit or loss and equity respectively. “Loans and receivables” and “held-to-maturity financial assets” are measured at amortised cost using the effective interest method after initial recognition.

On 1 January 2005, the Group classified and measured its debt and equity securities in accordance with the transitional provisions of HKAS 39. The adoption of HKAS 39 had no effect on the financial statements as at 1 January 2005.

Financial assets and financial liabilities other than debt and equity securities

From 1 January 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as “financial assets at fair value through profit or loss”, “available-for-sale financial assets”, “loans and receivables” or “held-to-maturity financial assets”. Financial liabilities are generally classified as “financial liabilities at fair value through profit or loss” or “financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)”. “Other financial liabilities” are carried at amortised cost using the effective interest method.

Derecognition

Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset’s cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively for transfers of financial assets on or after 1 January 2005. Further details of the new policies are set out in note 2 (i)(iv).

(c) ***Basis of consolidation***

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

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

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

The Company’s interests in subsidiaries are stated at cost less impairment loss, if any. All significant inter-company transactions and balances among group companies are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

(d) *Cash and cash equivalents*

Cash includes cash on hand and demand deposits with any bank or other financial institutions. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash which are subject to an insignificant risk of changes in value.

(e) *Goodwill*

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

Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the income statement.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is credited in full to the income statement.

(f) *Impairment of non-financial assets*

Impairment test on goodwill is undertaken annually. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit (i.e. the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows). Goodwill is allocated on initial recognition to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination giving rise to the goodwill.

Impairment charges are included in the administrative expenses line item in the income statement, except to the extent they reverse gains previously recognised in the statement of recognised income and expense.

(g) *Associates*

Where the Group has the power to participate in (but not control) the financial and operating policy decisions of another entity, it is classified as an associate. Associates are initially recognised in the consolidated balance sheet at cost. The Group's share of post-acquisition profits and losses is recognised in the consolidated income statement, except that losses in excess of the Group's investment in the associate are not recognised unless there is an obligation to make good those losses.

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

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

(h) *Foreign currency*

Transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which it operates (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are similarly recognised immediately in the income statement, except for foreign currency borrowings qualifying as a hedge of a net investment in a foreign operation.

On consolidation, the results of overseas operations are translated into Hong Kong dollars at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the balance sheet date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised directly in equity (the "foreign exchange reserve"). Exchange differences recognised in the income statement of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the overseas operation concerned are reclassified to the foreign exchange reserve if the item is denominated in the functional currency of the Group or the overseas operation concerned.

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

(i) *Financial instruments*

(i) *Financial assets*

The Group classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. Other than financial assets in a qualifying hedging relationship (see below), the Group's accounting policy for each category is as follows:

Fair value through profit or loss: This category comprises the financial assets that have been acquired for the purpose of selling or repurchasing it in the short-term or if so designated by management. This category includes derivatives which are not qualified for hedge accounting. Debt securities and bank deposits with embedded derivatives for yield enhancement whose economic characteristics and risks are not closely related to the host securities and deposits are designated as financial assets at fair value through profit or loss. They are carried in the balance sheet at fair value with changes in fair value recognised in the income statement.

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

Held-to-maturity investments: These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. At each balance sheet date subsequent to initial recognition, held-to-maturity investment are measured at amortised cost using effective interest rate method, less any identified impairment losses.

Available-for-sale: Non-derivative financial assets not included in the above categories are classified as available-for-sale and comprise the Group's strategic investments in entities not qualifying as subsidiaries, associates or jointly controlled entities. They are carried at fair value with changes in fair value recognised directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in the income statement.

(ii) *Financial liabilities*

The Group classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was incurred. Other than financial liabilities in a qualifying hedging relationship (see below), the Group's accounting policy for each category is as follows:

Fair value through profit or loss: This category comprises only out-of-the-money derivatives. They are carried in the balance sheet at fair value with changes in fair value recognised in the income statement.

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

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

(iii) *Convertible debt*

The proceeds received on issue of the Group's convertible debt are allocated into their liability and equity components. The amount initially attributed to the debt component equals the discounted cash flows using a market rate of interest that would be payable on a similar debt instrument that did not include an option to convert. Subsequently, the debt component is accounted for as a financial liability measured at amortised cost.

The difference between the net proceeds of the convertible debt and the amount allocated to the debt component is credited direct to equity and is not subsequently remeasured. On conversion, the debt and equity elements are credited to share capital and share premium as appropriate.

(iv) *Derecognition*

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

(j) *Employee benefits*

(i) *Defined contribution pension plan*

Obligations for contributions to defined contribution retirement plan are recognised as an expense in the income statement as incurred.

(ii) *Employee entitlements*

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

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(k) *Share-based payments*

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

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

Where equity instruments are granted to persons other than employees, the income statement is charged with the fair value of goods and services received.

(l) Leased assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Group (a “finance lease”), the asset is treated as if it had been purchased outright. The amount initially recognised as an asset is the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to the income statement over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

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

(m) Investment properties

Investment properties are properties held for long-term rental yields or for capital appreciation and not occupied by the Group. Investment properties are carried at fair value, representing open-market value determined annually by independent qualified valuers. Changes in fair value are recognised in the income statement.

(n) Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Plant and equipment are depreciated at rates sufficient to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives and residual value are reviewed, and adjusted if appropriate, at each balance sheet date. The principal annual rates are as follows:

Computer equipment and software	20% — 50%
Furniture and fixtures	20%
Motor vehicles	25%
Leasehold improvements	over the remaining lives of the lease

(o) Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale when:

- they are available for immediate sale;
- management is committed to a plan to sell;
- it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn;
- an active programme to locate a buyer has been initiated;
- the asset or disposal group is being marketed at a reasonable price in relation to its fair value; and
- a sale is expected to complete within 12 months from the date of classification.

Following their classification as held for sale, non-current assets (including those in a disposal group) are not depreciated.

The results of operations disposed of during the year are included in the consolidated income statement up to the date of disposal.

(p) Revenue recognition

Revenue from goods sold is recognised when title of goods sold has passed to the purchaser, which is at the time of delivery.

Property development project management and web design and development service fee income are recognised when services are provided.

Rental income is recognised on a straight-line basis over the term of the relevant lease.

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

Dividend income is recognised when the right to receive the dividend is established.

(q) Income taxes

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

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

Deferred tax arises from temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes and is accounted for using the balance sheet liability method. Except for recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Income taxes are recognised in the income statement except when they relate to items directly recognised to equity in which case the taxes are also directly recognised in equity.

(r) Provisions and contingent liabilities

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

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

(s) ***Borrowing costs***

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(t) ***Discontinued operations***

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resell.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs when the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the income statement, which comprises:

- the post-tax profit or loss of the discontinued operation; and
- the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

(u) ***Segment reporting***

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidated process, except to the extent that such intra-group balances and transactions are between Group entities within a single segment.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year.

3. Potential impact arising on the new accounting standards not yet effective

The Group has not yet applied the following new HKFRSs that have been issued but are not yet effective.

		Effective for accounting periods beginning on or after
HKAS 1 Amendment	Capital Disclosures	1 January 2007
HKAS 19 Amendment	Employee Benefits — Actuarial Gains and Losses, Group Plans and Disclosures	1 January 2006
HKAS 21 Amendment	The Effects of Changes in Foreign Exchange Rates — Net Investment in a Foreign Operation	1 January 2006
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions	1 January 2006
HKAS 39 Amendment	The Fair Value Option	1 January 2006
HKAS 39 & HKFRS 4 Amendments	Financial Instruments: Recognition and Measurement and Insurance Contracts — Financial Guarantee Contracts	1 January 2006
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources	1 January 2006
HKFRS 6	Exploration for and Evaluation of Mineral Resources	1 January 2006
HKFRS 7	Financial Instruments: Disclosures	1 January 2007
HKFRS-INT 4	Determining whether an Arrangement contains a Lease	1 January 2006
HKFRS-INT 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	1 January 2006
HK(IFRIC)-INT 6	Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment	1 December 2005
HK(IFRIC)-INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies	1 March 2006

The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether they would have a significant impact on its results of operations and financial position.

4. Turnover

Turnover represents the net invoiced value of goods sold, property development project management fee, web design and development service fee, financial advisory service fee and rental income earned by the Group. The amounts of each significant category of revenue recognised in turnover during the year are as follows:

	2005 HK\$'000	2004 HK\$'000
Continuing operations		
Property development project management fee	4,757	—
Discontinued operations (<i>note 11(b)</i>)		
Rental income	7	16
Sales of goods	—	1,593
Financial advisory service fee	—	7,800
Web design and development service fee	450	300
	<u>457</u>	<u>9,709</u>
	<u>5,214</u>	<u>9,709</u>

5. Segment information

Segment information is presented by way of two-segment format:

- (i) by business segment, being the primary segment reporting basis; and
- (ii) by geographical segment, being the secondary segment reporting basis.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns different from those of other business segments. A summary of the business segments is as follows:

Continuing operations

- (a) Property development segment refers to the development and sale of properties (*Note: this segment did not generate any revenue and results in year 2005*); and
- (b) Project management segment refers to the provision of advisory and management services rendered for property development projects;

Discontinued operations

- (c) Investment holding segment refers to the investment in securities and properties;
- (d) Online and telecommunication segment refers to the provision of internet services and telecommunication services and products; and
- (e) Trading and financial advisory segment refers to the general trading and the provision of financial advisory services.

In presenting the Group's geographical segments, revenue and results attributable to the segments are based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Business segments

	Continuing operations		Discontinued operations								Total		Consolidated	
	Project management		Online and telecommunication		Trading and financial advisory		Investment holding		2005	2004	2005	2004	2005	2004
	2005	2004	2005	2004	2005	2004	2005	2004						
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Income statement														
Segment revenue from external customers	4,757	—	450	300	—	9,393	7	16	457	9,709	5,214	9,709		
Segment results	4,190	—	130	(5,757)	(3,998)	856	(1,534)	(41,819)	(5,402)	(46,720)	(1,212)	(46,720)		
Unallocated operating income and expenses	(6,790)	(7,184)							178	4,403	(6,612)	(2,781)		
Loss from operations	(2,600)	(7,184)							(5,224)	(42,317)	(7,824)	(49,501)		
Finance costs	(220)	(306)							—	(90)	(220)	(396)		
Finance income	240	65							—	—	240	65		
Loss before income tax	(2,580)	(7,425)							(5,224)	(42,407)	(7,804)	(49,832)		
Income tax expense	(33)	—							—	(1,359)	(33)	(1,359)		
Gain on disposal of subsidiaries	—	—							2,990	3,703	2,990	3,703		
Loss for the year	(2,613)	(7,425)							(2,234)	(40,063)	(4,847)	(47,488)		

	Property development		Project management		Online and telecommunication		Trading and financial advisory		Investment holding		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest in associate	165,807	—	—	—	—	—	—	—	—	—	165,807	—
Other segment assets	—	—	6,498	—	—	1,800	—	4,015	—	5,441	6,498	11,256
Unallocated assets											77,815	2,580
Total assets											250,120	13,836
Liabilities												
Segment liabilities	—	—	170	—	—	56	—	2,013	—	—	170	2,069
Unallocated liabilities											57,616	3,733
Total liabilities											57,786	5,802

(Restated)

	Continuing operations						Discontinued operations						Consolidated			
	Project management		Unallocated		Total		Online and telecommunication		Trading and financial advisory		Investment holding				Total	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other segment information																
Capital expenditure	86	—	97	—	183	—	—	—	—	580	—	—	—	580	183	580
Bad debts written off	—	—	—	95	—	95	—	—	—	—	—	6,034	—	6,034	—	6,129
Provision for doubtful debts	—	—	—	—	—	—	—	—	—	3,900	—	2,142	—	6,042	—	6,042
Impairment losses on promissory note receivable and account receivable	—	—	—	—	—	—	—	—	3,431	—	1,251	—	4,682	—	4,682	—
Impairment loss on investment securities	—	—	—	—	—	—	—	—	—	—	—	14,333	—	14,333	—	14,333
Impairment of goodwill	—	—	—	—	—	—	—	2,921	—	—	—	—	—	2,921	—	2,921
Fair value losses (including loss on disposal) on financial assets at fair value through profit or loss	—	—	—	—	—	—	—	—	—	—	267	—	267	—	267	—
Net realised and unrealised losses on other investments	—	—	—	—	—	—	—	—	—	—	—	15,991	—	15,991	—	15,991
Depreciation and amortization	—	—	78	70	78	70	—	1,078	43	80	—	1,614	43	2,772	121	2,842

Geographical segments

	Hong Kong		Elsewhere in the People's Republic of China (the "PRC")		Consolidated	
	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	1,507	9,409	3,707	300	5,214	9,709
Segment assets	79,154	13,836	170,966	—	250,120	13,836
Capital expenditure	97	580	86	—	183	580

6. Other income

	Continuing operations		Discontinued operations (note 11(b))		Consolidated	
	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Commission income	—	2	—	58	—	60
Dividend income from listed investment	—	—	—	36	—	36
Net realised gains on investment securities	—	—	—	3,192	—	3,192
Write-back of trade and other payables	117	—	20	634	137	634
Others	—	—	158	483	158	483
	117	2	178	4,403	295	4,405

7. Loss from operations

Loss from operations is stated after charging:

	Continuing operations		Discontinued operations (note 11(b))		Consolidated	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Amortisation of goodwill	—	—	—	2,692	—	2,692
Auditors' remuneration:						
— current year	452	320	—	—	452	320
— under-provision for prior years	120	—	—	—	120	—
Bad debts written off	—	95	—	6,034	—	6,129
Deposits written off	—	—	—	400	—	400
Impairment losses on promissory note receivable and account receivable	—	—	4,682	—	4,682	—
Provision for doubtful debts	—	—	—	6,042	—	6,042
Cost of inventories sold and services provided	—	—	280	1,617	280	1,617
Decrease in fair value of investment property	—	—	—	643	—	643
Depreciation	78	70	43	80	121	150
Impairment loss on investment securities	—	—	—	14,333	—	14,333
Impairment of goodwill	—	—	—	2,921	—	2,921
Loss on disposal of plant and equipment	—	—	—	27	—	27
Minimum lease payments under operating lease in respect of land and buildings	80	282	—	—	80	282
Preliminary expenses	—	26	—	—	—	26
Fair value losses (including loss on disposal) on financial assets at fair value through profit or loss	—	—	267	—	267	—
Net realised and unrealised losses on other investments	—	—	—	15,991	—	15,991

8. Staff costs

	2005 HK\$'000	2004 HK\$'000
Staff costs (including directors) comprise:		
Basic salaries and other benefits	3,388	5,555
Bonuses	436	—
Retirement scheme contributions	70	35
	<u>3,894</u>	<u>5,590</u>

9. Finance costs and income

	Continuing operations		Discontinued operations (note 11(b))		Consolidated	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Finance costs:						
Interest on convertible note wholly repayable within five years (note 27)	187	—	—	—	187	—
Interest on convertible bonds wholly repayable within five years	—	31	—	—	—	31
Interest on short-term loan from a director	13	—	—	—	13	—
Interest on other borrowings	20	275	—	90	20	365
	<u>220</u>	<u>306</u>	<u>—</u>	<u>90</u>	<u>220</u>	<u>396</u>
Finance income:						
Bank interest income	240	65	—	—	240	65

10. Income tax expense

	Continuing operations		Discontinued operations (note 11(b))		Consolidated	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Provision for current tax for the year:						
— Hong Kong profits tax	62	—	—	1,359	62	1,359
— outside Hong Kong	4	—	—	—	4	—
Deferred tax (note 28)	(33)	—	—	—	(33)	—
Total income tax expense	<u>33</u>	<u>—</u>	<u>—</u>	<u>1,359</u>	<u>33</u>	<u>1,359</u>

Hong Kong profits tax is calculated at 17.5% (2004: 17.5%) on the estimated assessable profits for the year.

Taxation for the Group's operations outside Hong Kong is provided at the applicable current rates of taxation on the estimated assessable profits in the relevant jurisdiction during the year.

The income tax expense for the year can be reconciled to the loss per the consolidated income statement as follows:

	2005 HK\$'000	2004 HK\$'000
Loss before income tax from (note 34(a)):		
Continuing operations	(2,580)	(7,425)
Discontinued operations	<u>(2,234)</u>	<u>(38,704)</u>
	<u>(4,814)</u>	<u>(46,129)</u>
Tax calculated at the domestic tax rate of 17.5% (2004: 17.5%)	(843)	(8,073)
Effect of different tax rates of subsidiaries operating in other jurisdictions	2	—
Tax effect of expenses not deductible for tax purposes	1,111	5,919
Tax effect of revenue not subject to tax	(598)	(654)
Tax effect of tax losses not recognised	371	4,164
Tax effect of utilisation of tax losses not previously recognised	—	(5)
Tax effect of utilisation of taxable temporary difference not previously recognised	—	8
Others	<u>(10)</u>	<u>—</u>
Income tax expense	<u>33</u>	<u>1,359</u>

11. Discontinued operations

During the year, the Group entered into sale and purchase agreements to dispose of certain of its subsidiaries which carried out businesses in online and telecommunication services, general trading, financial advisory services and securities and property investment activities. The disposal was effected in order to streamline the operations of the Group and to focus on its core businesses in property development and provision of property development project management services.

- (a) The loss for the year from the discontinued operations is analysed as follows:

		2005	2004
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss of discontinued operations for the year		(5,224)	(43,766)
Gain on disposal of subsidiaries	34(c)	2,990	3,703
		<u>(2,234)</u>	<u>(40,063)</u>

- (b) An analysis of the results of the discontinued operations, which have been included in the consolidated income statement, is as follows:

		2005	2004
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	4	457	9,709
Cost of sales and services provided		<u>(280)</u>	<u>(1,617)</u>
Gross profit		177	8,092
Other income	6	178	4,403
Administration expenses		(630)	(5,649)
Other operating expenses		<u>(4,949)</u>	<u>(49,163)</u>
Loss from operations	7	(5,224)	(42,317)
Finance costs	9	<u>—</u>	<u>(90)</u>
Loss before income tax		(5,224)	(42,407)
Income tax expense	10	<u>—</u>	<u>(1,359)</u>
Loss for the year		<u>(5,224)</u>	<u>(43,766)</u>

- (c) No tax charge or credit arose from gain on disposal of subsidiaries.

- (d) During the year, the cash flows from discontinued operations are as follows:

	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash from/(used in) operating activities	3,614	(10,263)
Net cash from/(used in) investing activities	2,349	(32,574)
Net cash used in financing activities	<u>—</u>	<u>(90)</u>
Increase/(decrease) in cash and cash equivalents	<u>5,963</u>	<u>(42,927)</u>

12. Profit/(loss) attributable to equity holders of the company

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK\$9,890,000 (2004: Loss of HK\$208,563,000).

13. Dividends

The directors do not recommend payment of any dividend for the year ended 31 December 2005 (2004: Nil).

14. Loss per share***Basic loss per share****From continuing and discontinued operations*

The calculation of basic loss per share is based on the loss attributable to ordinary equity holders of the Company of HK\$4,847,000 (2004: HK\$47,487,000), and the weighted average of 102,746,254 (2004: 62,313,118) ordinary shares in issue during the year, as adjusted to reflect the effect of share consolidation and rights issue during the year.

From continuing operations

The calculation of basic loss per share from continuing operations attributable to ordinary equity holders of the Company is based on the loss of HK\$2,613,000 (2004: HK\$7,425,000), and the same weighted average number of ordinary shares mentioned above.

From discontinued operations

The calculation of basic loss per share from discontinued operations attributable to ordinary equity holders of the Company is based on the loss of HK\$2,234,000 (2004: HK\$40,062,000), and the same weighted average number of ordinary shares mentioned above.

Diluted loss per share

No diluted loss per share is presented for the years ended 31 December 2005 and 2004 as the Company's outstanding convertible note has an anti-dilutive effect.

15. Directors' emoluments

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

		Salaries and other benefits (note (i))	Bonuses	Compensation for loss of office	Retirement scheme contributions	Total
Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
2004						
Executive directors						
	—	2,586	—	—	12	2,598
	—	1,616	—	—	—	1,616
	—	102	—	—	—	102
Independent non-executive directors						
	229	—	—	—	—	229
	109	—	—	—	—	109
	30	—	—	—	—	30
	<u>368</u>	<u>4,304</u>	<u>—</u>	<u>—</u>	<u>12</u>	<u>4,684</u>
2005						
Executive directors						
	—	1,200	200	—	12	1,412
	—	100	19	—	—	119
	(ii)	235	50	—	8	293
	(iii)	82	27	—	4	113
Independent non-executive directors						
	100	—	8	—	—	108
	100	—	8	—	—	108
	100	—	8	—	—	108
	(iv)	—	—	50	—	50
	<u>300</u>	<u>1,617</u>	<u>320</u>	<u>50</u>	<u>24</u>	<u>2,311</u>

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

Notes:

- (i) Salaries and other benefits included basic salaries, housing, other allowances and benefits in kind.
- (ii) Appointed on 6 May 2005.
- (iii) Appointed on 29 August 2005.
- (iv) Save as to the payment to Mr. WONG Kwong Lung, Terence, a former director of the Company, during the current and prior years, no other emoluments were paid by the Group to any of the directors or former directors as an inducement to join the Group or upon joining the Group or as compensation for loss of office.

16. Five highest paid individuals

The five highest paid individuals during the year included two (2004: four) directors, details of whose emoluments are set out in note 15 above. Details of the emoluments of the remaining three (2004: one) individuals are as follows:

	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Basic salaries and other benefits	1,071	145
Bonuses	107	—
Retirement scheme contributions	23	6
	<u>1,201</u>	<u>151</u>

The number of highest paid individuals in 2005 and 2004 whose emoluments fall within the band set out below is as follows:

	No of employees	
	2005	2004
Nil to HK\$1,000,000	<u>3</u>	<u>1</u>

17. Plant and equipment

Group

	Computer equipment and software <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost					
At 1 January 2004	21,127	249	—	280	21,656
Additions	83	5	20	—	108
Disposals	(7)	—	(20)	—	(27)
At 1 January 2005	21,203	254	—	280	21,737
Additions	121	62	—	—	183
Disposal of subsidiaries	(21,203)	(254)	—	(280)	(21,737)
At 31 December 2005	121	62	—	—	183
Accumulated depreciation					
At 1 January 2004	21,127	177	—	70	21,374
Charge for the year	32	48	—	70	150
At 1 January 2005	21,159	225	—	140	21,524
Charge for the year	35	28	—	58	121
Eliminated on disposal of subsidiaries	(21,178)	(249)	—	(198)	(21,625)
At 31 December 2005	16	4	—	—	20
Net book value					
At 31 December 2005	105	58	—	—	163
At 31 December 2004	44	29	—	140	213

18. Investment property

	Group	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
At beginning of year, at valuation	300	943
Disposal of subsidiary	(300)	—
Change in fair value	—	(643)
At end of year, at valuation	—	300

At 31 December 2004, the property was situated in Hong Kong and was held under a medium-term lease. This property interest held under operating lease to earn rentals was measured using the fair value model and was classified and accounted for as an investment property under finance lease. The property was leased out under operating lease.

Gross rental income from leasing the investment property amounted to HK\$7,000 for the year ended 31 December 2005 (2004: HK\$16,000).

19. Goodwill

	Group	
	2005	2004
	HK\$'000	HK\$'000
Cost		
At beginning of year	12,824	122,144
Opening balance adjustment to eliminate accumulated amortisation	(1,078)	—
	<u>11,746</u>	<u>122,144</u>
At beginning of year, as adjusted	11,746	122,144
Acquired through business combinations	—	4,000
Eliminated on disposal of subsidiaries	(11,746)	(113,320)
	<u>—</u>	<u>(113,320)</u>
At end of year	-----	-----
	-----	12,824
Amortisation and impairment		
At beginning of year	12,816	114,102
Eliminated against cost at 1 January 2005	(1,078)	—
	<u>11,738</u>	<u>114,102</u>
At beginning of year, as adjusted	11,738	114,102
Amortisation	—	2,692
Impairment	—	2,921
Eliminated on disposal of subsidiaries	(11,738)	(106,899)
	<u>—</u>	<u>(106,899)</u>
At end of year	-----	-----
	-----	12,816
Net book value		
At end of year	<u>-----</u>	<u>8</u>

20. Interest in associate

	Group	
	2005	2004
	HK\$'000	HK\$'000
Share of net assets other than goodwill	79,223	—
Goodwill	3,692	—
Loan to associate (<i>note (i)</i>)	82,892	—
	<u>165,807</u>	<u>—</u>
	-----	-----

Note:

(i) The loan is unsecured, interest-free and repayable on demand.

(a) Details of the associate, which is unlisted, are as follows:

Name of associate	Form of business structure	Place of incorporation/ operation	Particulars of issued and paid-up capital	Proportion of ownership interest		Principal activity
				Group's effective interest	Held by a subsidiary	
Yaubond Limited	Incorporated	BVI/Hong Kong	100 ordinary shares of US\$1 each	49%	49%	Investment holding

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

	2005 HK\$'000	2004 HK\$'000
Total assets	<u>429,913</u>	<u>—</u>
Total liabilities	<u>(268,234)</u>	<u>—</u>

The associate has not yet contributed any revenue and profits to the Group during the year ended 31 December 2005 (2004: Nil).

(c) Pledge of assets

As at 31 December 2005, the Group has pledged its shares of the associate, representing 49% interest in the associate, in favour of the holder of the other 51% interest in the associate to secure for the warranties given by the Group for the performance of a subsidiary of the Group, United Prime Limited, as the property project manager of the associate.

21. Investments in securities

	Group	
	2005	2004
	HK\$'000	HK\$'000
Investment securities:		
Unlisted in Hong Kong, at cost less impairment	—	900
Other investments:		
Listed in Hong Kong, at market value	—	117
Listed outside Hong Kong, at market value	—	318
	—	435
	—	1,335
Carrying amount analysed for reporting purposes as:		
Non-current	—	900
Current	—	435
	—	1,335

22. Account receivable

	Group	
	2005	2004
	HK\$'000	HK\$'000
		(Restated)
Account receivable, as previously reported	—	—
— reclassification (<i>note 23</i>)	—	7,800
Account receivable, as restated	—	7,800
<i>Less:</i> Provision for doubtful debt		
— as previously reported	—	—
— reclassification (<i>note 23</i>)	—	(3,900)
— as restated	—	(3,900)
Amount due after one year	—	3,900

In 2004, one of the Group's subsidiaries provided financial services to an independent third party to earn a fee of HK\$7,800,000. The independent third party settled the fee by assigning a promissory note with a principal amount of HK\$7,800,000 issued by another independent third party. As the promissory note was not duly registered in the name of the subsidiary as at 31 December 2004, it should not be classified as promissory note receivable as set out in note 23 below. Accordingly, the said receivable was reclassified from promissory note receivable to account receivable.

The account receivable was disposed of through the disposal of the subsidiary during the year.

23. Promissory notes receivable

	Group	
	2005 HK\$'000	2004 HK\$'000 (Restated)
Promissory notes receivable, as previously reported	—	10,644
— reclassification (<i>note 22</i>)	—	(7,800)
	<u> </u>	<u> </u>
Promissory note receivable, as restated	-----	-----2,844
<i>Less:</i> Provision for doubtful debt		
— as previously reported	—	(5,322)
— reclassification (<i>note 22</i>)	—	3,900
	<u> </u>	<u> </u>
— as restated	-----	-----1,422
	<u> </u>	<u> </u>
Amount due after one year	<u> </u>	<u> </u> 1,422

The promissory note was unsecured, convertible (in whole or in part) into shares of common stock of the issuer in case of default as defined in the terms of the promissory note and borne interest at a rate of 2.5% per annum for the initial year and up to 4% per annum for the second year on the principal amount and all accrued interest unpaid. The promissory note was disposed of through the disposal of one of the Group's subsidiaries during the year.

24. Deposits, prepayments and other receivables

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Prepayments	281	561	86	561
Deposits and other receivables	122	4,250	120	2,017
Short-term loan receivable	—	1,500	—	—
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	<u> </u> 403	<u> </u> 6,311	<u> </u> 206	<u> </u> 2,578

Deposits and other receivables are expected to be recovered within one year. The fair values of deposits and other receivables and short-term loan receivable approximate their respective carrying amounts at the balance sheet date due to their short maturity.

The short-term loan was unsecured, borne interest at a rate of 9% per annum and was fully repaid during the year.

25. Cash and cash equivalents

	Group		Company	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Short-term bank deposits	75,331	—	74,029	—
Cash at bank and in hand	8,416	347	3,143	306
	<u>83,747</u>	<u>347</u>	<u>77,172</u>	<u>306</u>

Included in cash and cash equivalents are the following amounts denominated in currencies other than the functional currency of the Company:

	Group		Company	
	2005	2004	2005	2004
	'000	'000	'000	'000
Renminbi ("RMB")	<u>RMB1,434</u>	<u>RMB Nil</u>	<u>RMB Nil</u>	<u>RMB Nil</u>

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

The effective interest rate on short-term bank deposits ranges from 2.6% to 3.8% per annum (2004: Nil). These deposits have an average maturity of approximately 20 days.

26. Trade and other payables

	Group		Company	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)		(Restated)
Trade payables	—	273	—	—
Other payables and accruals	1,773	2,894	1,495	2,194
Amount due to director	—	1,276	—	1,276
Amounts due to subsidiaries	—	—	595	6,442
	<u>1,773</u>	<u>4,443</u>	<u>2,090</u>	<u>9,912</u>

Trade and other payables are expected to be settled within one year. The fair values of trade and other payables approximate their respective carrying amounts at the balance sheet date due to their short maturity.

At 31 December 2004, the trade payables were aged over 90 days.

The amount due to a director was unsecured, interest-free and was fully repaid during the year.

The amounts due to subsidiaries are unsecured, interest-free and repayable on demand.

Included in trade and other payables are the following amounts denominated in currencies other than the functional currency of the Company:

	Group		Company	
	2005 '000	2004 '000	2005 '000	2004 '000
Renminbi	<u>RMB153</u>	<u>RMB Nil</u>	<u>RMB Nil</u>	<u>RMB Nil</u>

27. Convertible note

The Company issued a 3% convertible note with a face value of HK\$60 million on 16 December 2005.

The convertible note matures in 2 years from the issue date at its face value of HK\$60 million or can be converted into shares of the Company at the holder's option between the fifteenth day after the issue date and fifteen days prior to the maturity date at HK\$0.33 per share.

The fair values of the liability component and the equity conversion component were determined at issuance of the note.

The fair value of the liability component at initial recognition was calculated using a market interest rate for an equivalent non-convertible note. The residual amount, representing the value of the equity conversion component, is included in shareholders' equity (*note 30*) net of deferred income taxes.

The convertible note recognised in the balance sheets is calculated as follows:

	Group and Company	
	2005 HK\$'000	2004 HK\$'000
Face value of convertible note issued on 16 December 2005	60,000	—
Equity component (<i>note 30</i>)	<u>(5,100)</u>	<u>—</u>
Liability component on initial recognition at 16 December 2005	54,900	—
Interest expense (<i>note 9</i>)	<u>187</u>	<u>—</u>
Liability component at end of year	<u>55,087</u>	<u>—</u>

The fair value of the liability component of the convertible note at 31 December 2005 amounted to HK\$55,087,000. The fair value is calculated using cash flows discounted at a rate based on the borrowings rate of 7.75%.

Interest expense on the convertible note is calculated using the effective interest method by applying the effective interest rate of 7.75% to the liability component.

28. Deferred tax liabilities

The deferred tax liabilities recognised in the balance sheets and the movements during the year are as follows:

Group and Company	Arising from convertible note <i>HK\$'000</i>
At 1 January 2004 and 1 January 2005	—
Charged to equity (<i>note 30</i>)	893
Credited to income statement (<i>note 10</i>)	(33)
	<hr/>
At 31 December 2005	<u>860</u>

At the balance sheet date, the Group and the Company have estimated unused tax losses of HK\$16,469,000 (2004: HK\$49,063,000) and HK\$16,148,000 (2004: HK\$14,349,000) respectively which are available to offset against future profits. No deferred tax asset has been recognised in respect of these balances due to the unpredictability of future profit streams. The unrecognised tax losses can be carried forward indefinitely.

29. Share capital

Share	Notes	Number of shares		Nominal value of share capital	
		2005 '000	2004 '000 (Restated)	2005 HK\$'000	2004 HK\$'000 (Restated)
Authorised					
At beginning of year, ordinary shares of HK\$0.01 each		30,000,000	30,000,000	300,000	300,000
Capital re-organisation	(ii)				
— Share consolidation of every 100 shares of HK\$0.01 each into one consolidated share of HK\$1.00		(29,700,000)	—	—	—
— Share sub-division of every consolidated share of HK\$1.00 into 100 shares of HK\$0.01 each		29,700,000	—	—	—
At end of year, ordinary shares of HK\$0.01 each		<u>30,000,000</u>	<u>30,000,000</u>	<u>300,000</u>	<u>300,000</u>
Issued and fully paid					
At beginning of year, ordinary shares of HK\$0.01 each					
— As previously reported		6,833,788	1,306,815	68,338	13,068
— Prior period adjustment	36	13,585	—	136	—
— As restated		<u>6,847,373</u>	<u>1,306,815</u>	<u>68,474</u>	<u>13,068</u>
Issue of shares — share placing	(i)	1,355,000	—	13,550	—
Capital re-organisation:					
— Share consolidation of every 100 shares of HK\$0.01 each into one share of HK\$1.00 each and reduction of nominal value of issued shares from HK\$1.00 each to HK\$0.01 each on 5 August 2005	(ii)	(8,120,350)	—	(81,204)	—
Cancellation of paid-up ordinary share capital	(iii)	(16)	—	—	—
Issue of shares:					
— Acquisition of associate	(iv)	66,667	—	667	—
— Rights issue	(iv)	492,045	5,423,662	4,920	54,237
— Conversion of convertible bonds and accrued interests		—	49,100	—	491
— Exercise of share options		—	67,796	—	678
		<u>(6,206,654)</u>	<u>5,540,558</u>	<u>(62,067)</u>	<u>55,406</u>
At end of year, ordinary shares of HK\$0.01 each		<u>640,719</u>	<u>6,847,373</u>	<u>6,407</u>	<u>68,474</u>

Notes:

- (i) During the year, pursuant to a placing agreement dated 17 May 2005, a total of 1,355,000,000 new ordinary shares of HK\$0.01 each, were placed through a placing agent on a best effort basis at a placing price of HK\$0.016 per share. The closing market price was HK\$0.019 per share as quoted on The Stock Exchange of Hong Kong Limited on 17 May 2005. The net proceeds from the placement of shares were for the purposes of providing additional working capital.
- (ii) Pursuant to a special resolution passed on 4 August 2005, the Company underwent a capital re-organisation scheme involving a consolidation of all issued and unissued ordinary shares on the basis of every 100 shares of HK\$0.01 each into one consolidated share of HK\$1.00, a reduction of the issued share capital of the Company by cancelling paid-up capital to the extent of HK\$0.99 on each consolidated share, a sub-division of each consolidated share of HK\$1.00 each in the authorised but unissued share capital into 100 ordinary shares of HK\$0.01 each and a cancellation of the entire amount of the share premium account of the Company (collectively, the “Capital Re-organisation”). The credits arising from the capital reduction and the cancellation of share premium were transferred to the contributed surplus account of the Company. The contributed surplus to the extent of HK\$608,111,000 was then utilised to eliminate the entire accumulated losses of the Company as at 31 December 2004 in accordance with the bye-laws of the Company and the Companies Act 1981 of Bermuda. As a result of the Capital Re-organisation, issued share capital amounting to approximately HK\$81,204,000 was reduced.
- (iii) On 9 November 2005, the Company cancelled 16,299 ordinary shares of HK\$0.01 each, as adjusted by the Capital Re-organisation referred to above and the capital re-organisation in August 2002, as a result of the wrongful conversion of convertible bonds as detailed in note 36.
- (iv) On 16 December 2005, the Company issued 492,044,616 ordinary shares of HK\$0.01 each by a rights issue in the proportion of 6 rights shares for every 1 share at a subscription price of HK\$0.30 per share, and issued 66,666,666 ordinary shares of HK\$0.01 each as part of the purchase consideration for the acquisition of associate. The fair value of the shares issued at the date of acquisition amounted to HK\$20,000,000 (HK\$0.30 per share) (*note 34(d)*).

All new shares issued as a result of the placement of shares, exercise of share options, conversion of convertible bonds, rights issue and acquisition of associate rank *pari passu* with the then existing shares in all respects.

Share option schemes

Pursuant to a resolution passed on 4 August 2005, the 2000 share option scheme was terminated and a new share option scheme was adopted (the “2005 Scheme”). Under the 2000 share option scheme, no share options were granted during the year.

The Company operates the 2005 Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the 2005 Scheme include the Company’s directors and other employees of the Group. The 2005 Scheme became effective on 5 August 2005 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. Under the 2005 Scheme, the directors of the Company are authorised at their absolute discretion, to invite any employee (including the executive and non-executive directors), executive or officer of

any member of the Group or any entity in which the Group holds any equity interest and any supplier, consultant, adviser or customer of the Group or any entity in which the Group holds an equity interest who is eligible to participate in the 2005 Scheme, to take up options to subscribe for shares in the Company.

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

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

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

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

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

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

As at the balance sheet date, no share options have been granted under the 2005 Scheme since its adoption.

30. Reserves/(Deficit)

Group

		(Accumulated					
		Contributed	Convertible	Foreign	losses)/		
		Share	surplus	exchange	retained	Total	
		premium	reserve	reserve	profits	Total	
Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
2004							
At 1 January 2004							
		536,454	—	—	(545,562)	(9,108)	
	36	(2,160)	—	—	—	(2,160)	
		534,294	—	—	(545,562)	(11,268)	
Issue of shares:							
		1,080	—	—	—	1,080	
		68	—	—	—	68	
Expenses incurred on issue of shares							
		(2,833)	—	—	—	(2,833)	
Loss for the year							
		—	—	—	(47,487)	(47,487)	
At 31 December 2004, as restated							
		<u>532,609</u>	<u>—</u>	<u>—</u>	<u>(593,049)</u>	<u>(60,440)</u>	
2005							
At 1 January 2005							
		534,185	—	—	(593,049)	(58,864)	
	36	(1,576)	—	—	—	(1,576)	
		532,609	—	—	(593,049)	(60,440)	
Issue of shares — share placing							
	29(i)	8,130	—	—	—	8,130	
Capital re-organisation:							
	29(ii)	—	81,204	—	—	81,204	
		(542,404)	542,404	—	—	—	
		—	(608,111)	—	608,111	—	
Cancellation of paid-up ordinary share capital							
	29(iii)	—	—	—	—	—	
Issue of shares:							
	29(iv)	19,333	—	—	—	19,333	
		142,693	—	—	—	142,693	
Expenses incurred on issue of shares							
		(4,354)	—	—	—	(4,354)	
Recognition of equity component of convertible note							
	27	—	—	5,100	—	5,100	
Tax on equity component of convertible note							
	28	—	—	(893)	—	(893)	
Loss for the year							
		—	—	—	(4,847)	(4,847)	
Exchange differences arising on consolidation of overseas subsidiary							
		—	—	1	—	1	
At 31 December 2005							
		<u>156,007</u>	<u>15,497</u>	<u>4,207</u>	<u>1</u>	<u>10,215</u>	
		<u>185,927</u>					

Company

		Share premium	Contributed surplus reserve	Convertible note equity reserve	(Acc- umulated losses)/ retained profits	Total
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
2004						
At 1 January 2004						
— As previously reported		536,454	—	—	(399,548)	136,906
— Prior period adjustment	36	(2,160)	—	—	—	(2,160)
— As restated		534,294	—	—	(399,548)	134,746
Issue of shares:						
— Conversion of convertible bonds and accrued interests		1,080	—	—	—	1,080
— Exercise of share options		68	—	—	—	68
Expenses incurred on issue of shares		(2,833)	—	—	—	(2,833)
Loss for the year		—	—	—	(208,563)	(208,563)
At 31 December 2004, as restated		<u>532,609</u>	<u>—</u>	<u>—</u>	<u>(608,111)</u>	<u>(75,502)</u>
2005						
At 1 January 2005						
— As previously reported		534,185	—	—	(608,111)	(73,926)
— Prior period adjustment	36	(1,576)	—	—	—	(1,576)
— As restated		532,609	—	—	(608,111)	(75,502)
Issue of shares — share placing	29(i)	8,130	—	—	—	8,130
Capital re-organisation:	29(ii)					
— Capital reduction		—	81,204	—	—	81,204
— Cancellation of share premium		(542,404)	542,404	—	—	—
— Set-off against accumulated losses of the Company		—	(608,111)	—	608,111	—
Cancellation of paid-up ordinary share capital	29(iii)	—	—	—	—	—
Issue of shares:	29(iv)					
— Acquisition of associate		19,333	—	—	—	19,333
— Rights issue		142,693	—	—	—	142,693
Expenses incurred on issue of shares		(4,354)	—	—	—	(4,354)
Recognition of equity component of convertible note	27	—	—	5,100	—	5,100
Tax on equity component of convertible note	28	—	—	(893)	—	(893)
Profit for the year		—	—	—	9,890	9,890
At 31 December 2005		<u>156,007</u>	<u>15,497</u>	<u>4,207</u>	<u>9,890</u>	<u>185,601</u>

(a) *Nature and purpose of reserves*

(i) *Share premium*

The amount relates to subscription for share capital in excess of nominal value. The application of the share premium account is governed by clause 150 of the Company's bye-laws and the Companies Act 1981 of Bermuda.

(ii) *Contributed surplus reserve*

The amount arose from the capital reduction, cancellation of share premium and part of which has been set-off against the accumulated losses of the Company as at 31 December 2004 pursuant to the Capital Re-organisation as mentioned in note 29(ii) to these financial statements.

Under the Companies Act 1981 of Bermuda, the Company may make distributions to its equity holders out of the contributed surplus reserve under certain circumstances.

(iii) *Convertible note equity reserve*

The amount represents the value of the unexercised equity component of the convertible note issued by the Company recognised in accordance with the accounting policy adopted in note 2(i)(iii).

(iv) *Foreign exchange reserve*

The amount represents gains/losses arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 2(h).

(b) *Distributable reserves*

At 31 December 2005, the distributable reserves available for distribution to equity holders of the Company were HK\$25,387,000 (2004: HK\$Nil).

31. Interests in subsidiaries

	2005 HK\$'000	2004 HK\$'000
Unlisted shares, at cost	—	—
Amounts due from subsidiaries	172,667	492,137
Provision for amounts due from subsidiaries	—	(492,137)
	<u>172,667</u>	<u>—</u>

The amounts due from subsidiaries are unsecured, interest-free and repayable on demand.

Details of the Company's principal subsidiaries are as follows:

Name of subsidiaries	Place of incorporation	Particulars of issued ordinary share/registered capital	Percentage of interest held by the Company		Principal activities
			Directly	Indirectly	
Nicco Limited	BVI	US\$100	—	100%	Investment holding
Skyfame Management Services Limited	Hong Kong	HK\$1	100%	—	Provision of management services to the Group
United Prime Limited	BVI	US\$1	—	100%	Provision of property development project management services and acting as the project manager to undertake and supervise the construction of property in the PRC
Guangzhou Yu Jun Consulting Service Company Limited ("Yu Jun") (廣州譽浚諮詢服務有限公司)	PRC	HK\$5,000,000	—	100%	Provision of property development project management services

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affects the results or assets of the Group. Yu Jun is a wholly foreign-owned enterprise with limited liability established in the PRC.

Except for Yu Jun, which operates in the PRC, all the above subsidiaries operate in Hong Kong.

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

32. Employee retirement benefits*Defined contribution pension plans*

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

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

33. Lease arrangement

The Group leases office premises in the PRC under operating lease. The lease runs for a period of two years with no renewal option and contingent rental under the terms of the lease.

	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Rentals on office premises		
— minimum lease payments	<u>80</u>	<u>282</u>

At the balance sheet date, the total future minimum lease payments under the non-cancellable operating lease are payable as follows:

	Group	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	<u>40</u>	<u>—</u>

34. Notes to the consolidated cash flow statement

(a) Reconciliation of loss from operating activities to net cash generated from/(used in) operating activities

	<i>Notes</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> (Restated)
Loss before income tax	<i>10</i>	(4,814)	(46,129)
Adjustment for:			
Amortisation of goodwill		—	2,692
Bad debts written off		—	6,129
Provision for doubtful debts		—	6,042
Impairment losses on promissory note receivable and account receivable		4,682	—
Decrease in fair value of investment property		—	643
Depreciation of plant and equipment		121	150
Deposits written off		—	400
Dividend income from listed investment		—	(36)
Net realised gains on investment securities		—	(3,192)
Impairment loss on investment securities		—	14,333
Impairment of goodwill		—	2,921
Finance costs		220	396
Finance income		(240)	(65)
Loss on disposal of plant and equipment		—	27
Fair value losses (including loss on disposal) on financial assets at fair value through profit or loss		267	—
Net realised and unrealised losses on other investments		—	15,991
Write-back of trade and other payables		(137)	(634)
Gain on disposal of subsidiaries	<i>(c)</i>	(2,990)	(3,703)
Operating loss before working capital changes		(2,891)	(4,035)
Increase in account receivable		—	(7,800)
Decrease/(increase) in deposits, prepayments and other receivables		5,600	(2,622)
Decrease in trade and other payables		(439)	(3,061)
Cash generated from/(used in) operations		2,270	(17,518)
Income tax paid		—	(10)
Income tax refunded		—	5
Net cash generated from/(used in) operations		<u>2,270</u>	<u>(17,523)</u>

(b) Acquisition of subsidiary

	2005 HK\$'000	2004 HK\$'000
Net assets acquired:		
Other receivables	—	1
	<u>—</u>	<u>1</u>
51% share of net assets acquired	—	—
Goodwill arising from acquisition	—	4,000
	<u>—</u>	<u>4,000</u>
Satisfied by:		
Cash	—	4,000
	<u>—</u>	<u>4,000</u>
Net cash outflow arising from acquisition of subsidiary		
Cash consideration	—	4,000
	<u>—</u>	<u>4,000</u>

(c) Disposal of subsidiaries

	2005 HK\$'000	2004 HK\$'000
Net assets disposed of:		
Plant and equipment	112	—
Investment property	300	—
Interest in associate	—	3
Account receivable	469	—
Promissory note receivable	171	—
Other investments	119	—
Trade and other receivables	308	922
Cash and cash equivalents	43	6
Trade and other payables	(818)	(2,888)
Income tax payable	(1,359)	(3)
	<u>(655)</u>	<u>(1,960)</u>
Unamortised goodwill	8	6,421
Gain on disposal of subsidiaries (<i>note 11(a)</i>)	2,990	3,703
	<u>2,343</u>	<u>8,164</u>
Satisfied by:		
Cash	2,343	130
Other receivables	—	8,034
	<u>2,343</u>	<u>8,164</u>
Net cash inflow arising from disposal of subsidiaries		
Cash consideration	2,343	130
Cash and cash equivalents disposed of	(43)	(6)
	<u>2,300</u>	<u>124</u>

(d) Acquisition of associate

On 16 December 2005, the Group acquired 49% equity interests in Yaubond Limited, an investment holding company operating in Hong Kong. Yaubond Limited has not yet contributed any revenue and profits to the Group for the period from 16 December 2005 to 31 December 2005. Had the acquisition occurred on 3 May 2005 (date of incorporation of Yaubond Limited), the Group's profit for the year would have been HK\$38,937,000.

Details of share of net assets acquired and goodwill are as follows:

	<i>HK\$'000</i>
Purchase consideration:	
— cash paid	84,819
— direct costs relating to the acquisition	988
— fair value of shares issued (<i>note 29 (iv)</i>)	20,000
— issue of convertible note	60,000
	<hr/>
Total purchase consideration	165,807
Fair value of share of net assets acquired — shown as below	(79,223)
Shareholder's loan acquired	(82,892)
	<hr/>
Goodwill	<u>3,692</u>

The goodwill is attributable to the high profitability of the acquired associate.

The fair value of the shares issued was based on the published share price.

The assets and liabilities arising from the acquisition are as follows:

	Fair value	Acquiree's carrying amount
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash and cash equivalents	483	483
Property held for development	400,961	298,254
Other receivables	28,468	28,468
Other payables	(145)	(145)
Shareholders' loans	(169,168)	(169,168)
Deferred tax liabilities	(98,920)	(65,027)
	<hr/>	<hr/>
Net assets	<u>161,679</u>	<u>92,865</u>
	<hr/>	<hr/>
49% share of net assets acquired	<u>79,223</u>	
	<hr/>	
Net cash outflow arising from acquisition of associate		
Cash consideration		84,819
Direct costs relating to the acquisition		988
		<hr/>
		<u>85,807</u>

There was no acquisition of associate during the year ended 31 December 2004.

(e) *Major non-cash transactions*

During the year, the Group acquired an associate at a consideration of HK\$165,807,000 of which HK\$20,000,000 and HK\$60,000,000 were settled by issue of 66,666,666 Company's ordinary shares and issue of convertible note with face value of HK\$60,000,000 respectively.

35. Related party transactions

Pursuant to a deed of appointment entered into by the Company and its subsidiary, United Prime Limited, with an associate of the Company, as disclosed in note 20 to these financial statements, the performance of United Prime Limited, the project manager of a property development project held by the associate of the Company, was guaranteed by the Company which was counter-indemnified by Mr. YU Pan, the director of the Company, in favour of the Company. Mr. YU Pan is also one of the directors of the associate of the Company.

During the year, Mr. YU Pan provided an unsecured short term advance of HK\$4,000,000 to the Company at an interest approximately of HK\$13,000 calculated at 5% per annum. The advance was fully repaid during the year.

During the year, an underwriting agreement was entered into between the Company and Grand Cosmos Holdings Limited, the entire shares of which were beneficially held by Mr. YU Pan, to underwrite up to 169,153,715 ordinary shares of the Company in a rights issue. As a result, an underwriting commission in respect of the rights issue amounted to HK\$1,269,000 was paid to Grand Cosmos Holdings Limited.

A lease agreement was entered into between a subsidiary of the Company, Yu Jun, and Guangzhou Chuang Yu Property Development Company Limited ("Chuang Yu") for the lease of office premises owned by Chuang Yu for one year commencing from 1 November 2005 to 31 October 2006 at monthly rental of RMB41,000. In addition, Guangzhou Tian Yu Property Management Company Limited ("Tian Yu Property") has charged Yu Jun the building management and air-conditioning expenses. Mr. YU Pan is a major shareholder of Chuang Yu and Tian Yu Property. Rental of RMB84,000 and building management fee and air-conditioning charges of RMB114,000 respectively were charged to Yu Jun during the year.

During the year, the Group disposed of the entire interest in a subsidiary, Jet Concord Inc., to Madam So Siu Ngan Amy, the spouse of a former director, Mr. MAK Chi Yeung, at a consideration of HK\$200,000.

The Group occupied during the year an office as its principal place of business in Hong Kong free of rental and all other outgoings relating to the office premises. The existing tenant of the premises is Yue Tian Development Limited ("Yue Tian") of which 29% equity interest is held by Mr. YU Pan who is also a director of Yue Tian.

36. Prior period adjustment

In 2002, an aggregate amount of HK\$2,160,000 of convertible bonds were converted into 40,754,714 conversion shares ("Conversion Shares") without the bondholders' consent. In 2004, the Company paid HK\$720,000, being the par value of one of the convertible bonds, to one of the bondholders to settle the wrongful conversion of 13,584,905 Conversion Shares. Share capital and share premium of HK\$136,000 and HK\$584,000 were then reversed in 2004 respectively. However, the relevant shares wrongly issued should not have been cancelled until the approval of the Supreme Court of Bermuda was obtained in 2005.

Accordingly, a prior period adjustment was recorded in the current year to rectify the error. The Company's share capital and number of shares have been increased by HK\$136,000 and 13,584,905 respectively as at 31 December 2004. In addition, the Company's and the Group's share premium as at 1 January 2004 and 31 December 2004 has been decreased by HK\$2,160,000 and HK\$1,576,000 respectively to retrospectively adjust for the aggregate amount of all the convertible bonds in subject and the related premium arising from the wrongful conversion. Other payables as at 31 December 2004 have been increased by HK\$1,440,000.

37. Events after the balance sheet date

On 16 February 2006, a sale and purchase agreement was entered into between a third party and Grand Cosmos Holdings Limited which is 100% beneficially owned by Mr. YU Pan, the director of the Company, for the transfer of a convertible note, which was originally held by the third party, in the principal amount of HK\$60,000,000 with the right of conversion into the Company's ordinary shares of HK\$0.01 per share at a price of HK\$0.33 per share.

On 20 February 2006, Grand Cosmos Holdings Limited exercised the conversion right and was allotted a total of 181,818,181 ordinary shares of HK\$0.01 each of the Company.

38. Financial instruments — risk management

The Group's principal financial assets are cash and bank balances and short-term bank deposits. Financial liabilities of the Group include trade and other payables and convertible note. The Company has not issued and does not hold any financial instruments for trading purposes at the balance sheet date, except the Company's issued ordinary shares which are listed on the Stock Exchange of Hong Kong Limited. The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk.

(a) Interest rate risk

The Group's exposure to interest rate risk relates primarily to the convertible note. The Group has not entered into any interest rate hedging contracts or any other derivative financial instruments. The rates of interest and terms of repayment of the convertible note have been disclosed in note 27 to these financial statements.

(b) Foreign currency risk

The Group's major investment is the interest in an associate operating in the PRC, which is engaged in property development activities. The Group also contracts with suppliers for goods and services that are denominated in Renminbi. The Group does not hedge its foreign currency risks as the rate of exchange between Hong Kong dollar and Renminbi is controlled within a narrow range. However, any permanent changes in foreign exchange rates in Renminbi may have an impact on the Group's results.

(c) Credit risk

Financial instruments that are subject to credit risk are mainly related to cash and cash equivalents consisting of short-term bank deposits and cash and bank balances. They are placed with licensed banks having high credit ratings and in short terms. The management foresees minimal credit risks.

The Group's maximum exposure to credit risk arising from default of the counterparties is equal to the carrying amounts of these financial instruments.

(d) *Liquidity risk*

The Group's policy is to regularly monitor the current and expected liquidity requirements, to ensure that it maintains sufficient reserves of cash resources and adequately committed funding from financial institutions to meet its liquidity requirements in the short and long term.

(e) *Fair value*

All significant financial instruments are carried at amounts not materially different from their fair values as at 31 December 2005.

The Group has no off-balance sheet arrangements that have or are likely to have a current or future effect on its financial condition, revenue or expenses, results of operations, liquidity, capital expenditure or capital resources that is material to the equity holders of the Company.

39. Comparative figures

Certain comparative figures have been adjusted or re-classified as a result of the changes in accounting policies and the prior period adjustment (*note 36*).

40. Approval of financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 28 March 2006.

3. UNAUDITED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2006

Set out below are the unaudited consolidated financial statements of the Group for the six months ended 30 June 2006 together with the comparative figures for the six months ended 30 June 2005 which are extracted from the interim report of the Company for the six months ended 30 June 2006.

Condensed Consolidated Income Statement

For the six months ended 30 June 2006

	Notes	Six months ended 30 June	
		2006 (Unaudited) HK\$'000	2005 (Unaudited and restated) HK\$'000
Continuing operations			
Turnover	2	14,043	2,700
Cost of services provided		(1,473)	—
Gross profit		12,570	2,700
Other income		114	8
Administration expenses		(6,193)	(3,234)
Profit (loss) from operations	3	6,491	(526)
Finance income	4	1,311	—
Finance costs	4	(595)	(33)
Share of loss of associate		(3)	—
Profit (loss) before income tax		7,204	(559)
Income tax expenses	5	(775)	—
Profit (loss) for the period from continuing operations		6,429	(559)
Discontinued operations			
Loss for the period from discontinued operations	18(a)	—	(5,033)
Profit (loss) for the period attributable to equity holders of the Company		6,429	(5,592)
Dividends	6	Nil	Nil
Basic earnings (loss) per share	7		
— from continuing operations		HK0.83 cents	(HK0.77 cents)
— from discontinued operations		N/A	(HK6.97 cents)
— from continuing and discontinued operations		HK0.83 cents	(HK7.74 cents)

*Condensed Consolidated Balance Sheet**As at 30 June 2006*

		30 June 2006	31 December 2005
		(Unaudited)	(Audited)
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Plant and equipment	8	1,702	163
Interest in associate	9	154,817	165,807
		<u>156,519</u>	<u>165,970</u>
Current assets			
Deposits paid on acquisition of equity interest in unlisted company		10,000	—
Prepayments, trade and other receivables	10	4,306	403
Cash and cash equivalents		86,493	83,747
		<u>100,799</u>	<u>84,150</u>
Current liabilities			
Trade and other payables	11	1,689	1,773
Income tax payable		735	66
		<u>2,424</u>	<u>1,839</u>
Net current assets		<u>98,375</u>	<u>82,311</u>
Total assets less current liabilities		<u>254,894</u>	<u>248,281</u>
Non-current liabilities			
Convertible note	12	—	55,087
Deferred tax liabilities		—	860
		<u>—</u>	<u>55,947</u>
Net assets		<u>254,894</u>	<u>192,334</u>
Capital and reserves			
Share capital	13	8,225	6,407
Reserves		246,669	185,927
Total equity attributable to equity holders of the Company		<u>254,894</u>	<u>192,334</u>

*Condensed Consolidated Statement of Changes in Equity**For the six months ended 30 June 2006*

	Notes	Attributable to equity holders of the Company					Retained profits/ losses (Accumulated) (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
		Share capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Contributed surplus reserve (Unaudited) HK\$'000	Convertible note equity reserve (Unaudited) HK\$'000	Foreign exchange reserve (Unaudited) HK\$'000		
At 1 January 2006		6,407	156,007	15,497	4,207	1	10,215	192,334
Exchange differences arising on consolidation of overseas subsidiary and net income recognised directly in equity		—	—	—	—	24	—	24
Net profit for the period		—	—	—	—	—	6,429	6,429
Total recognised income for the period		—	—	—	—	24	6,429	6,453
Conversion of convertible note	12	1,818	58,496	—	(4,207)	—	—	56,107
At 30 June 2006		8,225	214,503	15,497	—	25	16,644	254,894
At 1 January 2005		68,338	534,185	—	—	—	(593,049)	9,474
— As previously reported		68,338	534,185	—	—	—	(593,049)	9,474
— Prior period adjustment	16	136	(1,576)	—	—	—	—	(1,440)
— As restated		68,474	532,609	—	—	—	(593,049)	8,034
Expenses incurred on issue of shares and net expenses recognised directly in equity		—	(495)	—	—	—	—	(495)
Net loss for the period		—	—	—	—	—	(5,592)	(5,592)
Total recognised expenses for the period		—	(495)	—	—	—	(5,592)	(6,087)
Issue of shares — share placing	13	13,550	8,130	—	—	—	—	21,680
At 30 June 2005, as restated		82,024	540,244	—	—	—	(598,641)	23,627

*Condensed Consolidated Cash Flow Statement**For the six months ended 30 June 2006*

	Six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited and restated)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash from operating activities	2,393	4,179
Net cash from investing activities	661	1,131
Net cash (used in) from financing activities	(331)	19,876
Net increase in cash and cash equivalents	2,723	25,186
Effects of change in foreign exchange rates	23	—
Cash and cash equivalents at beginning of the period	83,747	347
Cash and cash equivalents at end of the period	<u>86,493</u>	<u>25,533</u>
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	<u>86,493</u>	<u>25,533</u>

*Notes to the Condensed Consolidated Financial Statements**For the six months ended 30 June 2006***1. Statement of Compliance and Accounting Policies**

These unaudited condensed consolidated interim financial statements (“Interim Financial Statements”) have been prepared in accordance with the applicable requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Hong Kong Accounting Standard 34: Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants.

These Interim Financial Statements should be read in conjunction with the annual financial statements for the year ended 31 December 2005.

The accounting policies and methods of computation used in the preparation of these Interim Financial Statements are consistent with those used in the annual financial statements for the year ended 31 December 2005.

2. Turnover and Segment Information

An analysis of the Group’s turnover is as follows:

	Six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	<i>HK\$’000</i>	<i>HK\$’000</i>
Continuing operations		
Property development project management and interior decoration service fee	14,043	2,700
	-----	-----
Discontinued operations (Note 18(b))		
Web design and development service fee	—	450
Rental income	—	7
	-----	-----
	—	457
	-----	-----
	<u>14,043</u>	<u>3,157</u>

Segment information is presented in respect of the Group’s business segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group’s internal financial reporting.

The businesses based upon which the Group reports its primary segment information are as follows:

Continuing operations

- (a) Project management segment refers to the provision of advisory and management services rendered for property development projects and interior decoration projects;
- (b) Property development segment refers to the development and sale of properties;

Discontinued operations

- (c) Investment holding segment refers to the investment in securities and properties;
- (d) Online and telecommunication segment refers to the provision of internet services and telecommunication services and products; and
- (e) Trading and financial advisory segment refers to the general trading and the provision of financial advisory services.

The Group's revenue and results by business segment for the six months ended 30 June 2006, together with the comparative figures for the corresponding period of 2005, are presented below:

Business segments

	Continuing operations			Discontinued operations			Sub-total HK\$'000	Consolidated HK\$'000
	Project management HK\$'000	Property development HK\$'000	Sub-total HK\$'000	Online and telecommuni- cation HK\$'000	Trading and financial advisory HK\$'000	Investment holding HK\$'000		
<i>For the six months ended 30 June 2006 (Unaudited)</i>								
Turnover	14,043	—	14,043	—	—	—	—	14,043
Segment results	10,256	(12)	10,244	—	—	—	—	10,244
Unallocated operating income and expenses			(3,753)				—	(3,753)
Profit from operations			6,491				—	6,491
Finance income			1,311				—	1,311
Finance costs			(595)				—	(595)
Share of loss of associate		(3)	(3)				—	(3)
Profit before income tax			7,204				—	7,204
Income tax expenses			(775)				—	(775)
Profit for the period			6,429				—	6,429
<i>For the six months ended 30 June 2005 (Unaudited and restated)</i>								
Turnover	2,700	—	2,700	450	—	7	457	3,157
Segment results	2,688	—	2,688	130	(3,837)	(1,406)	(5,113)	(2,425)
Unallocated operating income and expenses			(3,214)				150	(3,064)
Loss from operations			(526)				(4,963)	(5,489)
Finance costs			(33)				—	(33)
Loss before income tax			(559)				(4,963)	(5,522)
Income tax expenses			—				—	—
Loss on disposal of subsidiaries			—				(70)	(70)
Loss for the period			(559)				(5,033)	(5,592)

3. Profit (Loss) from Operations

Profit (loss) from operations for the period has been arrived at after charging:

	Continuing operations		Discontinued operations (Note 18 (b))		Consolidated	
	Six months ended					
	30 June					
	2006	2005	2006	2005	2006	2005
	(Unaudited)	(Unaudited and restated)	(Unaudited)	(Unaudited and restated)	(Unaudited)	(Unaudited and restated)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost of services provided	1,473	—	—	280	1,473	280
Staff costs, including directors' remuneration:						
— Basic salaries and other benefits	3,076	1,360	—	52	3,076	1,412
— Pension scheme contributions	136	19	—	—	136	19
	3,212	1,379	—	52	3,212	1,431
Auditors' remuneration						
— Under-provision for prior year	80	120	—	—	80	120
— Current year	290	250	—	—	290	250
	370	370	—	—	370	370
Depreciation of plant and equipment	99	82	—	—	99	82
Minimum lease payments under operating lease in respect of land and buildings	240	—	—	—	240	—
Impairment losses on promissory note receivable and account receivable	—	—	—	4,472	—	4,472
Fair value losses (including loss on disposal) on financial assets at fair value through profit or loss	—	—	—	194	—	194
	<u>—</u>	<u>—</u>	<u>—</u>	<u>194</u>	<u>—</u>	<u>194</u>

4. Finance Income and Costs

	Six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Continuing operations:		
Finance income:		
Bank interest income	<u>1,311</u>	<u>—</u>
Finance costs:		
Interest on convertible note wholly repayable within five years	595	—
Interest on short-term loan from a director	—	13
Interest on other borrowings	—	20
	<u>595</u>	<u>33</u>

5. Income Tax Expenses

	Six months ended 30 June	
	2006	2005
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Continuing operations:		
Provision for current tax for the period:		
— Hong Kong profits tax	400	—
— outside Hong Kong	479	—
Deferred tax	(104)	—
	<u> </u>	<u> </u>
Total income tax expenses	<u> 775</u>	<u> </u>

Hong Kong profits tax is calculated at 17.5% (six months ended 30 June 2005: 17.5%) on the estimated assessable profits for the period (six months ended 30 June 2005: Nil).

Taxation for the Group's operations outside Hong Kong is provided at the applicable current rates of taxation on the estimated assessable profits in the relevant jurisdiction during the period.

6. Dividends

The Board does not recommend the payment of interim dividend in respect of the six months ended 30 June 2006 (six months ended 30 June 2005: Nil).

7. Earnings (Loss) Per Share

*Basic earnings (loss) per share**From continuing and discontinued operations*

The calculation of basic earnings (loss) per share is based on the profit attributable to ordinary equity holders of the Company of HK\$6,429,000 (six months ended 30 June 2005 (restated): loss of HK\$5,592,000) and the weighted average of 772,310,882 (six months ended 30 June 2005 (restated): 72,266,100) ordinary shares in issue during the period, as adjusted to reflect the effect of share consolidation and rights issue during the periods.

From continuing operations

The calculation of basic earnings (loss) per share from continuing operations attributable to ordinary equity holders of the Company is based on the profit of HK\$6,429,000 (six months ended 30 June 2005 (restated): loss of HK\$559,000) and the weighted average number of ordinary shares mentioned above.

From discontinued operations

The calculation of basic earnings (loss) per share from discontinued operations attributable to ordinary equity holders of the Company is based on the profit and loss of HK\$Nil (six months ended 30 June 2005 (restated): loss of HK\$5,033,000) and the weighted average number of ordinary shares mentioned above.

Diluted earnings (loss) per share

Diluted earnings (loss) per share has not been calculated as there were no diluting events existing during the periods.

8. Plant and Equipment

During the current period, the Group acquired plant and equipment at the total cost of HK\$1,637,000.

9. Interest in Associate

	30 June 2006	31 December 2005
	(Unaudited)	(Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net assets other than goodwill	151,125	79,223
Goodwill	3,692	3,692
Loan to associate (<i>Note a</i>)	—	82,892
	<u>154,817</u>	<u>165,807</u>

Notes:

- (a) The loan to associate was unsecured, interest-free and on 28 June 2006 the outstanding balance of HK\$71,905,000 was converted as share capital of the associate.
- (b) Details of the unlisted associate are as follows:

Name of associate	Place of incorporation/ operation	Particulars of issued and paid-up capital	Attributable equity	
			interest indirectly held by the Company	Principal activity
Yaubond Limited	British Virgin Islands/ Hong Kong	100 ordinary shares of US\$1 each	49%	Investment holding

- (c) Financial information of the associate is as follows:

	30 June 2006	31 December 2005
	(Unaudited)	(Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Total assets	<u>407,632</u>	<u>429,913</u>
Total liabilities	<u>(99,214)</u>	<u>(268,234)</u>

The associate has contributed no revenue and incurred a loss of approximately HK\$3,000 attributable to the Group during the six months ended 30 June 2006 (six months ended 30 June 2005: Nil).

(d) Pledge of assets

As at 30 June 2006, the Group has pledged its shares in the associate, representing 49% interest in the associate, in favour of the holder of the other 51% interest in the associate to secure for the warranties given by the Group for the performance of a subsidiary of the Group, United Prime Limited, as the property project manager of the associate.

10. Prepayments, Trade and Other Receivables

The Group has a policy of allowing an average credit period of 60 days to its trade customers. The following includes an ageing analysis of trade receivables at the reporting date:

	30 June 2006	31 December 2005
	(Unaudited)	(Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables, aged 0 — 30 days	1,155	—
Deposits, prepayments and other receivables	3,151	403
	<u>4,306</u>	<u>403</u>

11. Trade and Other Payables

The following includes an ageing analysis of trade payables at the reporting date:

	30 June 2006	31 December 2005
	(Unaudited)	(Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 — 30 days	202	—
31 — 90 days	22	—
	<u>224</u>	<u>—</u>
Total trade payables	224	—
Other payables and accruals	1,465	1,773
	<u>1,689</u>	<u>1,773</u>

12. Convertible Note

On 16 February 2006, Grand Cosmos Holdings Limited, a company wholly owned by the Group's chairman, Mr. YU Pan, acquired the convertible note in a face value of HK\$60 million from the note holder and on 20 February 2006 exercised the conversion right to convert the note into 181,818,181 ordinary shares of HK\$0.01 each in the Company at the conversion price of HK\$0.33 per share. No convertible note was outstanding at 30 June 2006.

13. Share Capital

	Notes	2006		2005	
		Number of shares '000	Nominal value of share capital HK\$'000	Number of shares '000	Nominal value of share capital HK\$'000
Ordinary shares of HK\$0.01 each					
Authorised:					
At beginning and end of the period		<u>30,000,000</u>	<u>300,000</u>	<u>30,000,000</u>	<u>300,000</u>
Issued and fully paid:					
At beginning of the period					
— As previously reported		640,719	6,407	6,833,788	68,338
— Prior period adjustment	16	<u>—</u>	<u>—</u>	<u>13,585</u>	<u>136</u>
— As restated		640,719	6,407	6,847,373	68,474
Issue of shares — share placing		—	—	1,355,000	13,550
Conversion of convertible note	12	<u>181,818</u>	<u>1,818</u>	<u>—</u>	<u>—</u>
At end of the period		<u>822,537</u>	<u>8,225</u>	<u>8,202,373</u>	<u>82,024</u>

14. Related Party Transactions

Pursuant to a deed of appointment entered into by the Company and its subsidiary, United Prime Limited, with an associate of the Company, Yaubond Limited, the performance of United Prime Limited, the project manager of a property development project held by Yaubond Limited, was guaranteed by the Company which was counter-indemnified by Mr. YU Pan, the director of the Company, in favour of the Company. Mr. YU Pan is also one of the directors of the associate of the Company.

In connection with United Prime Limited acting as the project manager of the property development project held by Yaubond Limited, a project management fee of RMB4,200,000 (approximately HK\$4,080,000) was charged to a subsidiary of Yaubond Limited, Guangzhou Huan Cheng Real Estate Development Company Limited, for the six months ended 30 June 2006.

A lease agreement was entered into between a subsidiary of the Company, Guangzhou Yu Jun Consulting Service Company Limited (“Yu Jun”) and Guangzhou Chuang Yu Property Development Company Limited (“Chuang Yu”) for the lease of office premises owned by Chuang Yu for a term of one year expiring on 31 October 2006 at a monthly rental of RMB41,000. In addition, Guangzhou Tian Yu Property Management Company Limited (“Tian Yu Property”) has charged Yu Jun the building management and air-conditioning expenses. Mr. YU Pan is a major shareholder of Chuang Yu and Tian Yu Property. Rental of RMB249,000 (approximately HK\$240,000) and building management fee and air-conditioning charges of RMB249,000 (approximately HK\$240,000) were charged to Yu Jun for the six months ended 30 June 2006.

The Group occupied during the period an office as its principal place of business in Hong Kong free of rental and all other outgoings relating to the office premises. The existing tenant of the premises is Yue Tian Development Limited (“Yue Tian”) of which 29% equity interest is held by Mr. YU Pan who is also a director of Yue Tian.

15. Events after the Balance Sheet Date

On 3 August 2006, the Group completed an open offer of 267,324,486 ordinary shares of HK\$0.01 each in the Company at HK\$0.90 per share in the proportion of 13 offer shares for every 40 existing shares held with 10 bonus warrants for every 13 offer shares taken up (“Open Offer”) and has raised a net proceed of approximately HK\$234.5 million. It planned to apply the net proceed to acquire an indirect 51% equity interest in a sino-foreign cooperative joint venture enterprise in the PRC (“PRC JV”) formed to be engaged in property development at Zhoutouzui, Guangzhou, the PRC.

In connection with the Open Offer, a bonus issue of warrants was also made of 205,634,220 warrants attached with a subscription price of HK\$1.10 per share exercisable at any time during a two-year period ending 2 August 2008. The Group will receive net proceeds of about HK\$225 million upon the warrants being exercised in full.

On 6 July 2006, the Group entered into an acquisition agreement wherein the vendor, Mr. LUO Dong Liang, conditionally agreed to sell 51 shares of US\$1 each in the issued share capital of Local Way (China) Group Limited (“Loyal Way”) representing 51% of the issued share capital of Loyal Way, and assign the total shareholders’ loans contributed by the vendor in accordance with his 51% shareholding interest in Loyal Way on the acquisition completion date, at an aggregate consideration of not more than HK\$400 million. Loyal Way is engaged in investment holding and holds 100% equity interest in the PRC JV. It is expected that the acquisition transaction will be completed in December 2006 upon the issue of the land use right certificate.

16. Prior Period Adjustment

In 2002, an aggregate amount of HK\$2,160,000 of convertible bonds were converted into 40,754,714 conversion shares (“Conversion Shares”) without the bondholders’ consent. In 2004, the Company paid HK\$720,000, being the par value of one of the convertible bonds, to one of the bondholders to settle the wrongful conversion of 13,584,905 Conversion Shares. Share capital and share premium of HK\$136,000 and HK\$584,000 were then reversed in 2004 respectively. However, the relevant shares wrongly issued should not have been cancelled until the approval of the Supreme Court of Bermuda was obtained in November 2005. Accordingly, a prior period adjustment was recorded in the six months ended 30 June 2005 to rectify the error. The Company’s issued and paid-up share capital and number of issued shares were increased by HK\$136,000 and 13,584,905 respectively as at 1 January 2005. In addition, the Group’s share premium as at 1 January 2005 was decreased by HK\$1,576,000 to retrospectively adjust for the aggregate amount of all the convertible bonds in subject and the related premium arising from the wrongful conversion and to restate the net loss for the six months ended 30 June 2005 by a reversal of provision for losses on litigation of HK\$2,160,000. Other payables as at 1 January 2005 were increased by HK\$1,440,000.

17. Comparative Figures

Certain comparative figures have been adjusted or re-classified as a result of the prior period adjustment (*Note 16*).

18. Discontinued Operations

During the six months ended 30 June 2005, the Group entered into sale and purchase agreements to dispose of certain of its subsidiaries which carried out businesses in online and telecommunication services, general trading and securities and property investment activities.

- (a) The loss for the period from the discontinued operations is analysed as follows:

	Six months ended 30 June	
	2006	2005
	(Unaudited) <i>HK\$'000</i>	(Unaudited) <i>HK\$'000</i>
Loss of discontinued operations for the period	—	(4,963)
Loss on disposal of subsidiaries	—	(70)
	<u>—</u>	<u>(5,033)</u>

- (b) An analysis of the results of the discontinued operations, which have been included in the condensed consolidated income statement, is as follows:

	<i>Notes</i>	Six months ended 30 June	
		2006	2005
		(Unaudited) <i>HK\$'000</i>	(Unaudited) <i>HK\$'000</i>
Turnover	2	—	457
Cost of services provided		—	(280)
Gross profit		—	177
Other income		—	150
Administration expenses		—	(624)
Other operating expenses		—	(4,666)
Loss before income tax	3	—	(4,963)
Income tax expenses		—	—
Loss for the period		<u>—</u>	<u>(4,963)</u>

- (c) No tax charge or credit arose from loss on disposal of subsidiaries.

4. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP FOR EACH OF THE THREE FINANCIAL YEARS ENDED 31 DECEMBER 2005 AND THE SIX MONTHS ENDED 30 JUNE 2006

For the financial year ended 31 December 2003

In the year of 2003, amidst with the bottoming world economy were the outbreaks of SARS and the Iraq War. To counter the poor environment, the Group streamlined its telecom operation as a measure to minimize continuing operating loss incurred by the drastic change in telecom market. Sales of telecommunication products came to a halt and telecommunication service income was at its low level of just HK\$0.7 million. Administrative expenses decreased in line with the contraction in operating activities. Amortization of goodwill caused by the investment of subsidiaries of HK\$39.8 million and impairment of the goodwill of approximately HK\$38.6 million due to the deteriorated financial position of the subsidiaries and associates. These became the two biggest contributing factors to the loss attributable to shareholders of approximately HK\$100.8 million for the year.

Liquidity and financial resources

Capital structure and liquidity

As at 31 December 2003, at restated values where applicable, the Group had shareholders fund of approximately HK\$1.8 million comprising issued capital of approximately HK\$13.1 million and deficit of approximately HK\$11.3 million. The current assets and current liabilities of the Group were approximately HK\$6.8 million and HK\$14.2 million respectively such that the current ratio was approximately 0.5:1. The Group's gearing ratio, being total liabilities over total assets, was 88.8%.

Borrowings and pledge of assets

As at 31 December 2003, the Group had a loan from a major shareholder of HK\$50,000 and loans from third parties of HK\$1.2 million. The loan from major shareholder was interest-free and the loans from third parties to the extent of HK\$0.4 million are charged at interest of 1.25% per month and the remaining HK\$0.8 million are charged at the interest rate of approximately 54% per annum. All of such short term loans are unsecured and repayable within one year.

Convertible bonds in the principal amount of HK\$3 million were issued by the Company on 5 September 2003 in favor of four independent third parties pursuant to a bond placement agreement dated 25 August 2003. The convertible bonds were repayable on 4 September 2004 and interest bearing at 12% per annum. During the year ended 31 December 2003, an amount of HK\$1.5 million of the convertible bonds and accrued interest of HK\$50,795 had been converted into 48,462,327 conversion shares.

Foreign currency management

The Group's sales and purchases were denominated in HK\$ and the Group was not exposed to any significant exchange risk.

Contingent liabilities

As at 31 December 2003, the Company granted guarantees to the extent of HK\$15 million to various securities dealers who had offered financing facilities to several wholly-owned subsidiaries of the Group. Other than these, the Group had no significant contingent liabilities as at 31 December 2003.

Employees

The Group employed 15 full-time employees as at 31 December 2003. Employee costs excluding director's remuneration was approximately HK\$1.9 million for the year ended 31 December 2003. No options had been granted to any employees during the year.

For the financial year ended 31 December 2004

During the financial year ended 31 December 2004, the Group recorded an audited consolidated net loss attributable to shareholders of approximately HK\$47.5 million and net asset of approximately HK\$8.0 million (at restated value). The loss mainly comprised of loss on disposal of trading securities of approximately HK\$13.7 million, loss on and provision for investment in securities of approximately HK\$16.0 million, write-off of bad debts and provision for doubtful debts of approximately HK\$12.2 million and amortization and impairment of goodwill of approximately HK\$5.6 million. The Group reviewed its existing investment portfolio and disposed of those with low earning potential. In 2004, the Group's revenue was mainly generated from the general trading and provision of agency services. Due to the very keen competition and the drastic changes in the information technology industries, the project in the on-line game was also closed down.

*Liquidity and financial resources**Capital structure and liquidity*

As at 31 December 2004, at restated values where applicable, the Group had shareholders fund of approximately HK\$8.0 million comprising issued capital of approximately HK\$68.5 million and deficit of approximately HK\$60.4 million. The current assets and current liabilities of the Group were approximately HK\$7.1 million and approximately HK\$5.8 million respectively such that the current ratio was approximately 1.2:1. The Group's gearing ratio, being total liabilities over total assets, was 41.9%.

Borrowings and pledge of assets

The Group had no outstanding bank borrowings as at 31 December 2004.

Foreign currency management

Most revenue received from customers of the Group were denominated in US\$. The Group did not hedge its foreign currency risks as the rate of exchange between HK\$ and US\$ is pegged and controlled within a narrow range. However, any permanent changes in the peg system with US\$ may have an impact on the Group's results.

Contingent liabilities

The Group had no contingent liabilities as at 31 December 2004.

Employees

As at 31 December 2004, other than executive Directors, the Group employed one employee in Hong Kong. The Group's staff costs amounted to approximately HK\$0.9 million during the year. Employees are remunerated according to qualifications and experience, job nature and performance, with pay scale aligned with market conditions.

For the financial year ended 31 December 2005

For the year ended 31 December 2005, the new management started and completed the Group's restructure program to streamline its investments by either disposing of or winding up unprofitable projects. The online and telecommunication operations, general trading, financial advisory services, securities and property investment activities were discontinued. As a result of these measures, the Group recorded losses from discontinued operation of approximately HK\$2.2 million during the year.

The board of directors determined to dedicate the Group's resources in the property development operations. The Directors adopted "Skyfame Realty (Holdings) Limited" as the name of the Company in February 2006 which signified the change of the primary business focus of the Group to the property development and related businesses. During the year, the Group has been contracted as a project manager in two property development projects in Guangzhou that generate a relatively constant inflow of income and cash. Yet the operation of this new business has not reflected a full year extent in the profit and loss accounts of the Company for the year, the management believes the operating performance in the coming year will be improving.

The Group's 49% equity investment in the development project in North Tianhe Road, Guangzhou is a premium residential and commercial complex tower located in the heart of the central business district of the city. As at 31 December 2005, project stands an investment value of approximately HK\$166 million in the balance sheet of the Group. In the long term, leveraging on the experience of the management team, the Group plans to explore more quality property projects with promising potential in the PRC so as to build an extensive premium grade property portfolio.

Liquidity and financial resources

Capital structure and liquidity

As a result of the placing and rights issue of shares for cash during the year which has brought about a net proceed of approximately HK\$165 million, the Group's liquidity position was strengthened with a bank balance of approximately HK\$83.7 million at the balance sheet date. The current assets and current liabilities of the Group were approximately HK\$84.2 million and approximately HK\$1.8 million respectively such that the current ratio was improved from 1.2:1 as at the end of 2004 to 45.8:1. This was accompanied with a decrease in the Group's gearing ratio (the ratio of total liabilities over total assets) from 41.9% to 23.1%. The Group's liabilities mainly consist of a convertible note in a principal amount of HK\$60 million that was fully converted into shares on 20 February 2006. The conversion leads the Group virtually with a minimal liability position.

Borrowings and pledge of assets

As at 31 December 2005, the Group had pledged its 49% interests in Yaubond Limited, an associate of the Group engaged in the property project at North Tianhe Road, to secure for warranties given by the Group for the appointment of a subsidiary of the Group as the property project manager. The Group had no bank borrowing as at 31 December 2005.

Foreign currency management

The Group's major investment is the interest in Yaubond Limited which is engaged in property development activities in the PRC. The Group also contracts with its suppliers for goods and services that are denominated in RMB. The Group does not hedge its foreign currency risks as the rate of exchange between HK\$ and RMB is controlled within a narrow range. However, any permanent changes in foreign exchange rates in RMB may have an impact on the Group's results.

Contingent liabilities

The Group had no contingent liabilities as at 31 December 2005.

Employees

As at 31 December 2005, other than executive directors, the Group employed 22 employees in Hong Kong and the PRC. The Group's staff costs amounted to approximately HK\$3.9 million during the year. Employees are remunerated according to qualifications and experience, job nature and performance, with pay scale aligned with market conditions.

For the six months ended 30 June 2006

During the six-month period ended 30 June 2006, the Group's operating result was turned around to a net profit of HK\$6.4 million as a result of its strategy to streamline loss-making businesses and focus on property development and management services. By end of 2005, the Group was interested in 49% of Tianhe Project and providing project management services to 2 property development projects in Guangzhou, which helped generate steady income flow for the Group.

In the long run, the management, with their ample experience in the PRC premium grade property development markets, will prudently explore other prime sites and develop more good quality property projects in Guangzhou and other first tier cities in the PRC. The Group believes that its extensive high-grade property portfolio will bring in steady revenues to the Group and fruitful returns to the shareholders.

*Liquidity and financial resources**Capital structure and liquidity*

As at 30 June 2006, the Group's liquidity position was strengthened with a bank balance of approximately HK\$86.5 million. The current assets and liabilities of the Group were approximately HK\$100.8 million and approximately HK\$2.4 million respectively, accompanied with a decrease in the Group's gearing ratio (the ratio of total liabilities over total assets) from 23.1% to 0.9%. The Group's liabilities as at 31 December 2005 was mainly consisted of a convertible note at a face value of HK\$60 million and it was fully converted into Shares in February 2006. As a result, the Group's liability position was significantly enhanced.

Borrowings and pledge of assets

As at 30 June 2006, the Group had pledged its 49% interest in Yaubond Limited, an associate of the Group engaged in the property development project at North Tianhe Road, to secure for warranties given by the Group for the appointment of a subsidiary of the Group as the property project manager. The Group had no bank borrowing as at 30 June 2006.

Foreign currency management

The Group's major investment is the interest in an associate, Yaubond Limited, a subsidiary of which is engaged in property development activities in the PRC. The Group also contracts with its suppliers for goods and services that are denominated in RMB. The Group does not hedge its foreign currency risks as the rate of exchange between HK\$ and RMB is controlled within a narrow range. However, any permanent changes in foreign exchange rates in RMB may have an impact on the Group's results.

Contingent liabilities

The Group has no contingent liabilities as at 30 June 2006.

Employees

As at 30 June 2006, other than executive directors, the Group employed 28 employees in Hong Kong and the PRC. The Group's staff costs amounted to approximately HK\$3.2 million for the six months ended 30 June 2006. Employees are remunerated according to qualifications and experience, job nature and performance, with pay scale aligned with market conditions.

The Group is working aggressively to recruit additional staff and senior management of suitable calibre to cope with the Group's business expansion.

Segmental information of the Group

At present, the principal business of the Group is property development activities and property development project management which involves the provision of advisory and project management services on property development projects.

In the past few years, the Group has engaged in the following businesses which were all discontinued in 2005:

- (i) Online operation which involved the provision of internet services, web design and set-up services, etc.;
- (ii) Trading, financial services and investment holding which involved general trading of goods, provision of financial services, investment in securities and leasing of investment properties; and
- (iii) Offline operation which involved the provision of telecommunication services and products.

In 2003, the Group recorded tremendous losses which were mainly due to unsatisfactory performance of the Group's investment holdings activities and offline operations (accounted for approximately 62% and 29% respectively of the total segmental losses of the Group for the year ended 31 December 2003). The high impairment and amortization of goodwill incurred in the investment holding activities and the offline activities for the year ended 31 December 2003 accounted for approximately 80% of the total segmental losses for the year. Besides, as the online business was still in the stage of strategic development, it had not yielded any revenue to the Group during 2003 but incurred development costs, thus further putting pressure on the results of the Group.

In the year 2004, the Group started the provision of financial service, being agency services performed in the solicitation of a client's sales of securities to an interested investor, and general trading of unalloyed aluminium. Both of these businesses became additional income streams of the Group, but were operating at a loss. At the same time, the Group also held substantial investment in listed and unlisted securities, which the investment holding business continued to suffer from impairment loss on investments and trading loss in investment securities. All these businesses were terminated in 2005.

Starting from the year 2005, the Group stepped into a new business sector in property development project management service, which became the Group's only profit-making income stream.

Subsequent transactions

Subsequent to 30 June 2006, the Group has completed the following transactions which details have been disclosed in the respective announcements and circulars issued by the Company:

- (1) On 7 June 2006, the Company announced that it proposed to raise approximately HK\$240.59 million before expenses by issuing 267,324,486 offer shares at a price of HK\$0.90 per offer share by way of an open offer, on the basis of 13 offer shares for every 40 Shares held with 10 2006 Warrants for every 13 offer shares taken up. The Company raised net proceeds of approximately HK\$234.5 million as a result of the open offer. The dealings of the offer shares and the 2006 Warrants commenced on 7 August 2006; and
- (2) On 11 July 2006, the Company announced that Smartford entered into an acquisition agreement with Mr. LUO Dong Liang, an Independent Third Party, pursuant to which Smartford conditionally agreed to purchase, and Mr. LUO conditionally agreed to sell, the 51% shareholding in and shareholders' loan due by Loyal Way. The acquisition was completed in October 2006.

5. AUDITED FINANCIAL STATEMENTS OF THE LOYAL WAY GROUP

In October 2006, Smartford, a wholly-owned subsidiary of the Company, acquired 51% shareholding in and shareholder's loan due by Loyal Way (which indirectly holds the entire interest in the Zhoutouzui Project) at an aggregate consideration of not more than HK\$400 million of which HK\$336 million shall be settled by cash and HK\$64 million shall be settled by way of the issue of a promissory note. There was no variation to the aggregate remuneration payable to and benefits in kind receivable by the directors of Loyal Way as a result of such acquisition.

Set out below is the accountant's report of the Loyal Way Group for the period from 6 July 2005 (date of incorporation of Loyal Way) to 31 December 2005 and the three months ended 31 March 2006 prepared by BDO McCabe Lo Limited as extracted from Appendix II of the Company's circular dated 2 August 2006.



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The Directors
Skyfame Realty (Holdings) Limited
2502B, Admiralty Centre
Tower 1
18 Harcourt Road
Hong Kong

2 August 2006

Dear Sirs,

We set out below our report on the financial information regarding Loyal Way (China) Group Limited ("Loyal Way") and its subsidiaries and its jointly controlled entity (hereinafter collectively referred to as the "Loyal Way Group") for the period from 6 July 2005 (date of incorporation of Loyal Way) to 31 December 2005 and the three months ended 31 March 2006 (the "Relevant Periods"), for inclusion in the circular of Skyfame Realty (Holdings) Limited (the "Company") dated 2 August 2006 (the "Circular"), issued in connection with, inter alia, the proposed acquisition of 51% equity interest in Loyal Way (the "Acquisition").

Loyal Way was incorporated in the British Virgin Islands (the "BVI") with limited liability on 6 July 2005 under the International Business Companies Act (Cap. 291) of the BVI. Loyal Way has not carried on any business since the date of its incorporation save for the acquisition and holding of its entire equity interests in Guangzhou Zhoutouzui Development Limited ("ZTZ") through its two wholly-owned subsidiaries, namely Fortunate Start Investments Limited ("Fortunate Start") and Ace Billion Investments Limited ("Ace Billion").

As at the date of this report, Loyal Way has direct and indirect interests in the following subsidiaries and jointly controlled entity.

Name of subsidiary/jointly controlled entity	Place and date of incorporation and kind of legal entity	Issued/ registered and paid-in capital	Attributable equity interest held by Loyal Way		Principal activity
			Directly	Indirectly	
Fortunate Start	BVI, 5 August 2005, limited company	United States dollars ("US\$")100	100%	—	Investment holding
Ace Billion	BVI, 12 August 2005, limited company	US\$100	100%	—	Investment holding
ZTZ	Hong Kong, 26 August 2002, limited company	Hong Kong dollars ("HK\$") 100	—	100%	Investment holding
Guangzhou Yucheng Real Estate Development Company Limited ("Yucheng") 廣州市譽城房地產 開發有限公司 ("譽城")	The People's Republic of China (the "PRC"), 31 March 2003, Sino-foreign cooperative joint venture enterprise	US\$12,000,000	—	100% (Note)	Property development

Note: Under the terms of the sino-foreign cooperative joint venture agreement entered into by the parties, (i) ZTZ has paid RMB10 million to Guangzhou Yuexiu Enterprise (Group) Company Limited ("Yuexiu") as cash compensation and Yuexiu is then no longer entitled to any profit or loss generated by Yucheng; (ii) Guangzhou Port Authority Bureau ("GPAB") will be entitled to 28% of the total gross floor area of the project upon completion of the proposed development and after which, GPAB will no longer be entitled to any profit or loss generated by Yucheng; and (iii) ZTZ will be entitled to 72% of the total gross floor area of the project upon completion of the proposed development and the entire profit or loss to be generated by Yucheng.

No audited statutory financial statements have been prepared for Loyal Way since its date of incorporation as there are no statutory requirements for it to prepare audited financial statements. The statutory financial statements of Yucheng for the period from 31 March 2003 (date of incorporation) to 31 December 2003, and for the two years ended 31 December 2004 and 2005, which were prepared in accordance with the relevant PRC accounting rules and regulations, were audited by Guang Dong Zhihe Certified Public Accountants Co., Ltd. (廣東智合會計師事務所有限公司), Shenzhen Da Hua Tian Cheng Certified Public Accountants (深圳大華天誠會計師事務所) and Guangzhou Pei Feng Certified Public Accountants Co., Ltd. (廣州沛豐會計師事務所有限公司), certified public accountants registered in the PRC.

For the purpose of this report, the directors of Loyal Way have prepared the management accounts of the Loyal Way Group for the Relevant Periods, in accordance with Hong Kong Financial Reporting Standards promulgated by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). We have undertaken an independent audit of the management accounts of the Loyal Way Group in accordance with the Hong Kong Standards on Auditing issued by the HKICPA.

The financial information and the notes thereto for the Relevant Periods set out in Sections A to D below (the “Financial Information”) have been prepared based on the management accounts of the Loyal Way Group. We have examined the management accounts of the Loyal Way Group and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline “Prospectuses and the Reporting Accountant” issued by the HKICPA.

The preparation of the management accounts of the Loyal Way Group is the responsibility of the directors of Loyal Way. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information together with the notes thereto give, for the purpose of this report, a true and fair view of the state of affairs of Loyal Way and of the Loyal Way Group as at 31 December 2005 and 31 March 2006, and of the results and cash flows of the Loyal Way Group for the Relevant Periods.

A. Financial information

1. Consolidated income statements

		Period from 6 July 2005 (date of incorporation of Loyal Way) to 31 December 2005	Three months ended 31 March 2006
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	3	—	—
Other revenue	5	22	—
General and administrative expenses		(483)	(37)
Interest on amounts due to shareholders		—	(4,350)
Loss before income tax expense	6	(461)	(4,387)
Income tax expense	10	—	—
Loss for the period attributable to the equity holder of Loyal Way		<u>(461)</u>	<u>(4,387)</u>

2. Consolidated balance sheets

		As at 31 December 2005 HK\$'000	As at 31 March 2006 HK\$'000
	<i>Note</i>		
Assets			
Non-current assets			
Office equipment	15	14	13
Properties held for development	14	221,304	495,530
Goodwill	17	65,474	65,474
		<u>286,792</u>	<u>561,017</u>
Current assets			
Prepayments and other receivables	18	86,539	—
Cash and cash equivalents	19	17,310	19,743
		<u>103,849</u>	<u>19,743</u>
Total assets		<u>390,641</u>	<u>580,760</u>
Liabilities			
Current liabilities			
Other payables and accrued charges		2,489	3,128
		<u>2,489</u>	<u>3,128</u>
Non-current liabilities			
Amounts due to shareholders	20	289,980	459,938
Deferred tax liabilities	21	51,302	51,302
		<u>341,282</u>	<u>511,240</u>
Total liabilities		<u>343,771</u>	<u>514,368</u>
TOTAL NET ASSETS		<u>46,870</u>	<u>66,392</u>
Capital and reserves			
Share capital	23	1	1
Reserves	24	46,869	66,391
Total equity attributable to equity holders of Loyal Way		<u>46,870</u>	<u>66,392</u>

3. *Balance sheets of Loyal Way*

	<i>Note</i>	As at 31 December 2005 <i>HK\$'000</i>	As at 31 March 2006 <i>HK\$'000</i>
Non-current assets			
Investments in subsidiaries	16	2	2
Current liabilities			
Amount due to a subsidiary	16	(11)	(11)
Net liabilities		<u>(9)</u>	<u>(9)</u>
Capital and reserves			
Share capital	23	1	1
Deficits	24	(10)	(10)
		<u>(9)</u>	<u>(9)</u>

4. *Consolidated statements of changes in equity*

	<i>Note</i>	Share capital <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 6 July 2005 (Date of incorporation of Loyal Way)		—	—	—	—	—
Issue of shares	23	1	—	—	—	1
Contribution from shareholders		—	47,107	—	—	47,107
Exchange differences on translation of financial statements of a jointly controlled entity	24	—	—	223	—	223
Loss for the period	24	—	—	—	(461)	(461)
At 31 December 2005		1	47,107	223	(461)	46,870
Contribution from shareholders		—	24,119	—	—	24,119
Exchange differences on translation of financial statements of a jointly controlled entity	24	—	—	(210)	—	(210)
Loss for the period	24	—	—	—	(4,387)	(4,387)
At 31 March 2006		<u>1</u>	<u>71,226</u>	<u>13</u>	<u>(4,848)</u>	<u>66,392</u>

5. Consolidated cash flow statements

	Period from 6 July 2005 (date of incorporation of Loyal Way) to 31 December 2005 HK\$'000	Three months ended 31 March 2006 HK\$'000
Cash flows from operating activities		
Loss before income tax expenses	(461)	(4,387)
Adjustments for:		
Interest on amounts due to shareholders	—	4,350
Interest income	(22)	—
	<u> </u>	<u> </u>
Operating loss before working capital changes	(483)	(37)
Properties held for development	(19,380)	(274,225)
Prepayments and other receivables	(69,745)	86,539
Other payables and accrued charges	(6,977)	639
	<u> </u>	<u> </u>
Net cash used in operating activities	----- (96,585)	----- (187,084)
Cash flows from investing activities		
Acquisition of a subsidiary, net of cash acquired (<i>Note 22</i>)	(158,800)	—
Interest received	22	—
	<u> </u>	<u> </u>
Net cash used in investing activities	----- (158,778)	----- —
Cash flows from financing activities		
Proceeds from issue of ordinary shares	1	—
Advances from shareholders	272,678	189,517
	<u> </u>	<u> </u>
Net cash from financing activities	----- 272,679	----- 189,517
Net increase in cash and cash equivalents	17,316	2,433
Effect of foreign exchange on cash and cash equivalents	(6)	—
Cash and cash equivalents at beginning of period	<u> </u>	<u> </u> 17,310
Cash and cash equivalents at end of period (<i>Note 19</i>)	<u> </u> 17,310	<u> </u> 19,743

B. Notes to the financial information

1. General

Loyal Way was incorporated in the BVI with limited liability on 6 July 2005 under the International Business Companies Act (Cap. 291) of the BVI. Loyal Way has not carried on any business since the date of its incorporation save for the acquisition and holding of its entire equity interests in ZTZ through its two wholly-owned subsidiaries, namely Fortunate Start and Ace Billion. The address of Loyal Way's registered office is Portcullis Trust Net Chambers, P.O. Box 3444, Road Town, Tortola, British Virgin Islands.

Loyal Way is an investment holding company. The principal activities of its subsidiaries are investment holding and property development.

The Financial Information is presented in thousands of Hong Kong dollars (HK\$'000), unless otherwise stated, which is the same as the functional currency of the Company.

2. Principal accounting policies

(a) Statement of compliance

The Financial Information set out in this report has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") (which include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs"), and Interpretations ("INTs")) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The HKICPA has issued the following standards and interpretations that are not yet effective. The Loyal Way Group has considered the following standards and interpretations but does not expect that the application of these new standards and interpretations will have a material effect on how the results of operations and financial position of the Loyal Way Group are prepared and presented.

HKAS 1 (Amendment)	Capital Disclosures ¹
HKFRS 7	Financial Instruments: Disclosures ¹
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ²
HK(IFRIC)-Int 8	Scope of HKFRS 2 ³
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives ⁴

(b) Basis of preparation

The Financial Information comprises the financial statements of Loyal Way and its subsidiaries and its jointly controlled entity.

The Financial Information has been prepared under the historical cost convention.

¹ Effective for annual periods beginning on or after 1 January 2007.

² Effective for annual periods beginning on or after 1 March 2006.

³ Effective for annual periods beginning on or after 1 May 2006.

⁴ Effective for annual periods beginning on or after 1 June 2006.

(c) *Basis of consolidation*

The consolidated financial information incorporates the Financial Information of Loyal Way and its subsidiaries and its interest in a jointly controlled entity.

Where Loyal Way has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The Financial Information presents the results of the Loyal Way Group as if they formed a single entity. Inter-company transactions and balances between group companies are therefore eliminated in full.

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

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

Loyal Way's interests in subsidiaries are stated at cost less impairment loss, if any.

A jointly controlled entity is included in the financial statements using proportionate consolidation. The share of the jointly controlled entity's assets, liabilities, income and expenses are combined on a line-to-line basis with those of Loyal Way.

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

(d) *Subsidiaries*

A subsidiary is an entity in which Loyal Way is able to exercise its control on it. Control is achieved where Loyal Way has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

(e) *Jointly Controlled Entity*

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

(f) *Goodwill*

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

Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the income statement.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is credit in full to the income statement.

(g) *Impairment of non-financial assets*

Impairment test on goodwill is undertaken annually. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit (i.e. the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows).

Impairment charges are included in the administrative expenses line item in the income statement, except to the extent they reverse gains previously recognised in the statement of recognised income and expense.

(h) *Foreign currencies*

Transactions entered into by any of the group entities in a currency other than the currency of the primary economic environment in which it operates (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are similarly recognised immediately in the income statement, except for foreign currency borrowings qualifying as a hedge of a net investment in a foreign operation.

On consolidation, the results of overseas operations are translated into Hong Kong dollars at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the balance sheet date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised directly in equity (the "foreign exchange reserve"). Exchange differences recognised in the income statement of group entities' separate financial statements on the translation of long-term monetary items forming part of the Loyal Way Group's net investment in the overseas operation concerned are reclassified to the foreign exchange reserve if the item is denominated in the functional currency of the Loyal Way Group or the overseas operation concerned.

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

(i) *Office equipment*

Office equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Office equipment is depreciated at rates sufficient to write off their costs net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives and residual value are reviewed, and adjusted if appropriate, at each balance sheet dates. The principal annual rate is 20%.

(j) *Properties held for development*

Properties held for development are stated at the lower of cost and net realizable value and comprises development expenditure and professional fees. Net realisable value is determined by reference to management estimates based on prevailing market conditions less costs to be included in selling the property. On completion, the properties are transferred to completed properties held for sale.

(k) *Properties held for sale*

Properties held for sale are stated at the lower of cost and net realisable value. Net realisable value is determined by reference to management estimates based on prevailing market conditions less estimated costs to be incurred in selling the property.

(l) *Cash and cash equivalents*

Cash includes cash on hand and demand deposits with any bank or other financial institutions. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash which are subject to an insignificant risk of changes in value.

(m) *Income taxes*

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

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

Deferred tax arises from temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes and is accounted for using the balance sheet liability method. Except for recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the reporting period end.

Income taxes are recognised in the income statement except when they relate to items directly recognised to equity in which case the taxes are also directly recognised in equity.

(n) *Revenue recognition*

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

(o) *Financial instruments*

(i) Financial assets

The Loyal Way Group classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. Other than financial assets in a qualifying hedging relationship, the Loyal Way Group's accounting policy for each category is as follows:

Fair value through profit or loss: This category comprises the financial assets that have been acquired for the purpose of selling or repurchasing it in the short-term or if so designated by management. This category includes derivatives which are not qualified for hedge accounting. Debt securities and bank deposits with embedded derivatives for yield enhancement whose economic characteristics and risks are not closely related to the host securities and deposits are designated as financial assets at fair value through profit or loss. They are carried in the balance sheet at fair value with changes in fair value recognised in the income statement.

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

Held-to-maturity investments: These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Loyal Way Group's management has the positive intention and ability to hold to maturity. At each balance sheet date subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using effective interest rate method, less any identified impairment losses.

Available-for-sale: Non-derivative financial assets not included in the above categories are classified as available-for-sale and comprise the Loyal Way Group's strategic investments in entities not qualifying as subsidiaries, associates or jointly controlled entities. They are carried at fair value with changes in fair value recognised directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in the income statement.

(ii) Financial liabilities

The Loyal Way Group classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was incurred. Other than financial liabilities in a qualifying hedging relationship, the Loyal Way Group's accounting policy for each category is as follows:

Fair value through profit or loss: This category comprises only out-of-the-money derivatives. They are carried in the balance sheet at fair value with changes in fair value recognised in the income statement.

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

- Trade payables and other short-term monetary liabilities, which are recognised at amortised cost.
- Bank borrowings, certain preference shares, amounts due to shareholders and the debt element of convertible debt issued by the Loyal Way Group are initially recognised at the amount advanced net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet. “Interest expense” in this context includes initial transaction costs and premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

(p) *Provision and contingent liabilities*

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

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

(q) *Related parties*

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

3. Turnover

The Loyal Way Group did not generate any turnover during the Relevant Periods.

4. Segment information

The Loyal Way Group is principally engaged in property development in the PRC, which is regarded as one business segment and one geographical segment.

5. *Other revenue*

	Period from 6 July 2005 (date of incorporation of Loyal Way) to 31 December 2005 <i>HK\$'000</i>	Three months ended 31 March 2006 <i>HK\$'000</i>
Bank interest income	22	—

6. *Loss before income tax expense*

Loss before income tax expense is stated after charging:

	Period from 6 July 2005 (date of incorporation of Loyal Way) to 31 December 2005 <i>HK\$'000</i>	Three months ended 31 March 2006 <i>HK\$'000</i>
Depreciation	1	1
<i>Less: expenses capitalised</i>	(1)	(1)
	—	—
Auditors' remuneration	150	—
Exchange differences, net	309	—

7. *Staff costs*

	Period from 6 July 2005 (date of incorporation of Loyal Way) to 31 December 2005 <i>HK\$'000</i>	Three months ended 31 March 2006 <i>HK\$'000</i>
Staff costs (including directors) comprise:		
Basic salaries and other benefits	—	232
Contributions to defined contribution pension plan	—	49
	—	281
<i>Less: expenses capitalised</i>	—	(281)

8. *Directors' emoluments*

No directors' emoluments were incurred for the Relevant Periods.

9. *Five highest paid individuals*

During the Relevant Periods, none of the five highest paid individuals is a director of the Company. The emoluments payable to the five highest paid individuals for the Relevant Periods are as follows:

	Period from 6 July 2005 (date of incorporation of Loyal Way) to 31 December 2005 <i>HK\$'000</i>	Three months ended 31 March 2006 <i>HK\$'000</i>
Basic salaries and other benefits	—	61
Contributions to defined contribution pension plan	—	10
	<u>—</u>	<u>71</u>

The number of highest paid individuals for the Relevant Periods whose emoluments fall within the band set out below is as follows:

	No. of employees Period from 6 July 2005 (date of incorporation of Loyal Way) to 31 December 2005	Three months ended 31 March 2006
Nil to HK\$1,000,000	<u>—</u>	<u>5</u>

10. *Income tax expense*

No Hong Kong or PRC income tax has been provided as the Loyal Way Group did not generate any assessable profits during the Relevant Periods.

Pursuant to the income tax rules and regulations of the BVI, Loyal Way is exempt from income tax in the BVI.

The Loyal Way Group's jointly controlled entity in the PRC is subject to an applicable Enterprise Income Tax ("EIT") rate of 33%.

However, there was no income tax expense reconciled since the Loyal Way Group did not generate any assessable profits for the Relevant Periods.

11. *Loss attributable to equity holder of Loyal Way*

The loss attributable to the equity holder of Loyal Way is dealt with in the Financial Information of Loyal Way to the extent of HK\$10,000 and HK\$Nil, respectively, for the period from 6 July 2005 (date of incorporation of Loyal Way) to 31 December 2005 and the three months ended 31 March 2006.

12. Dividends

No dividend has been paid or declared by Loyal Way during the Relevant Periods.

13. Earnings per share

No earnings per share information have been presented as such information is not meaningful for the purpose of this report.

14. Properties held for development

Properties held for development in PRC through acquisition of a subsidiary (Note 22) are as follows:

	As at 31 December 2005	As at 31 March 2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Land use right, premium paid for the acquisition of the interest of the land, and demolition and settlement costs	217,637	489,321
Construction cost	2,311	4,131
Others	1,356	2,078
	<u>221,304</u>	<u>495,530</u>

Land use right comprises cost of acquiring rights to use certain land, which are all located in the PRC, for property development over fixed periods between 40 to 70 years. Up to 31 March 2006, the Loyal Way Group was in the process of applying for formal land use rights certificates.

During the Relevant Periods, no properties held for development were pledged as collateral for the Loyal Way Group's borrowings.

15. Office equipment

	<i>HK\$'000</i>
Cost	
Acquired through acquisition of a subsidiary (note 22) on 25 October 2005	21
As at 31 December 2005 and 31 March 2006	21
Accumulated depreciation	
Acquired through acquisition of a subsidiary (note 22) on 25 October 2005	6
Charge for the period	1
As at 31 December 2005	7
Charge for the period	1
As at 31 March 2006	8
Net book value	
As at 31 March 2006	<u>13</u>
As at 31 December 2005	<u>14</u>

16. *Interests in subsidiaries*

	As at 31 December 2005 <i>HK\$'000</i>	As at 31 March 2006 <i>HK\$'000</i>
Unlisted investments, at cost	<u>2</u>	<u>2</u>
Amount due to a subsidiary	<u>11</u>	<u>11</u>

Investments in subsidiaries represent Loyal Way's direct interests in the following entities.

Name of subsidiary	Place and date of incorporation	Issued and paid-in capital	Attributable equity interest directly held by Loyal Way	Principal Activity
Fortunate Start	BVI 5 August 2005	US\$100	100%	Investment Holding
Ace Billion	BVI 12 August 2005	US\$100	100%	Investment Holding

The amount due to a subsidiary is unsecured, interest-free and repayable on demand. The directors consider that the carrying amount of the balance approximates its fair value.

17. *Goodwill*

	<i>HK\$'000</i>
As at 6 July 2005 (Date of incorporation of Loyal Way)	—
Acquired through acquisition of a subsidiary (<i>Note 22</i>)	56,012
Acquired through investing in a jointly controlled entity	<u>9,462</u>
As at 31 December 2005 and 31 March 2006	<u>65,474</u>

Impairment test for goodwill

The Loyal Way Group operates in one cash-generating unit (“CGU”) which is property development. The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five years period with key assumptions including revenues, direct costs and other operating costs. Management determined these key assumptions based on past performance and expectations on market development. A discount rate of 12% is used and it reflects specific risks relating to the business. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of the CGU to exceed its recoverable amount.

18. *Prepayments and other receivables*

Prepayments and other receivables are expected to be recovered within one year. The fair values of the balances approximate their respective carrying amounts at the balance sheet dates to their short maturity.

19. *Cash and cash equivalents*

An analysis of the balance of cash and cash equivalents is as follows:

Loyal Way Group

	As at 31 December 2005 HK\$'000	As at 31 March 2006 HK\$'000
Cash and bank balances	<u>17,310</u>	<u>19,743</u>

Included in cash and cash equivalents in the consolidated balance sheets are the following amounts denominated in a currency other than the functional currency of Loyal Way to which they relate:

	As at 31 December 2005 '000	As at 31 March 2006 '000
RMB	<u>17,979</u>	<u>20,466</u>

Loyal Way

	As at 31 December 2005 HK\$'000	As at 31 March 2006 HK\$'000
Cash and bank balances	<u>—</u>	<u>—</u>

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

20. *Amounts due to shareholders*

The amounts are unsecured, carry interest at an effective rate of 6% per annum and repayable no later than 1 August 2008. The fair value of the amounts due to shareholders, estimated by discounting their future cash flows at the prevailing market rates at the balance sheet dates for similar borrowings, approximates to their fair values.

21. *Deferred tax liabilities*

The component of deferred tax liabilities recognised in the balance sheet and movements during the Relevant Periods are as follows:

	Fair value Gain <i>HK\$'000</i>
As at 6 July 2005 (Date of incorporation of Loyal Way)	—
Acquisition of a subsidiary (<i>Note 22</i>)	51,233
Exchange differences	69
	<hr/>
As at 31 December 2005 and 31 March 2006	<u>51,302</u>

22. *Acquisition of a subsidiary*

On 25 October 2005, Loyal Way acquired 100% equity interest in ZTZ, which operates a jointly controlled entity, Yucheng. Yucheng is a property development company operated in the PRC. ZTZ and Yucheng contributed no revenue and incurred net losses of HK\$128,000 and HK\$2,333,000 for the period from 25 October 2005 to 31 December 2005 and the three months ended 31 March 2006, respectively.

Details of net assets acquired and goodwill on acquisition are as follows:

	<i>HK\$'000</i>	
Purchase consideration:		
— Cash paid		158,177
— Direct costs relating to the acquisition		623
		<hr/>
Total consideration		158,800
<i>Less:</i> Fair value of net assets acquired as set forth below		<u>(102,788)</u>
		<hr/>
Goodwill on acquisition		<u>56,012</u>
		<hr/>
	Carrying amount <i>HK\$'000</i>	Fair Value <i>HK\$'000</i>
Office equipment	15	15
Goodwill	9,462	9,462
Properties held for development	46,400	201,652
Prepayments	16,770	16,770
Amount due to an ex-shareholder of ZTZ	(64,408)	(64,408)
Other payables and accrued charges	(9,470)	(9,470)
Deferred tax liabilities	—	(51,233)
	<hr/>	<hr/>
Net (liabilities)/assets acquired	<u>(1,231)</u>	<u>102,788</u>

23. *Share capital*

	As at 31 December 2005	As at 31 March 2006
<i>Authorised:</i>		
50,000 ordinary shares of US\$1 each	<u>US\$50,000</u>	<u>US\$50,000</u>
<i>Issued and fully paid:</i>		
100 ordinary shares of US\$1 each	<u>US\$100</u>	<u>US\$100</u>
Shown in the Financial Information	<u>HK\$1,000</u>	<u>HK\$1,000</u>

Loyal Way was incorporated in the BVI on 6 July 2005 with an authorised share capital of US\$50,000. At the time of incorporation, 100 ordinary shares of US\$1 each were issued for cash at par to the subscribers to provide initial capital to Loyal Way.

24. *Reserves/(Deficits)***Loyal Way Group**

	Capital reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 6 July 2005 (Date of incorporation of Loyal Way)	—	—	—	—
Contribution from shareholders	47,107	—	—	47,107
Exchange differences on translation of financial statements of a jointly controlled entity	—	223	—	223
Loss for the period	<u>—</u>	<u>—</u>	<u>(461)</u>	<u>(461)</u>
As at 31 December 2005	47,107	223	(461)	46,869
Contribution from shareholders	24,119	—	—	24,119
Exchange differences on translation of financial statements of a jointly controlled entity	—	(210)	—	(210)
Loss for the period	<u>—</u>	<u>—</u>	<u>(4,387)</u>	<u>(4,387)</u>
As at 31 March 2006	<u>71,226</u>	<u>13</u>	<u>(4,848)</u>	<u>66,391</u>

Loyal Way

	Accumulated losses <i>HK\$'000</i>
As at 6 July 2005 (Date of incorporation)	—
Loss for the Relevant Period	<u>(10)</u>
As at 31 December 2005 and 31 March 2006	<u>(10)</u>

(a) Exchange reserve

The amount represents gains/losses arising from the translation of the financial statements of subsidiaries the functional currencies of which are different from the presentation currency. The reserve is dealt with in accordance with the accounting policy set out in note 2(h).

(b) Capital reserve

The amount represents the capital contributions from shareholders.

(c) Distributable reserves

As at 31 December 2005 and as at 31 March 2006, the distributable reserves available for distribution to equity holders of Loyal Way are HK\$ Nil and HK\$ Nil respectively.

25. Capital commitments**Loyal Way Group**

	As at 31 December 2005 HK\$'000	As at 31 March 2006 HK\$'000
Commitments for property development costs		
— contracted for but not provided		
in the accounts	<u>1,022,247</u>	<u>835,773</u>

26. Financial instruments

The Loyal Way Group's principal financial assets are cash and bank balances. Financial liabilities of the Loyal Way Group include loans from shareholder, which are non-interest bearing. The Loyal Way Group does not hold or issue financial instruments for trading purposes at the balance sheet date.

(a) Foreign currency risk

The functional currency of the jointly controlled entity of Loyal Way is RMB. RMB is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB must take place through the People's Bank of China or other institutions authorised to buy and sell foreign exchange. The exchange rate adopted for the foreign exchange transactions are the rates of exchange quoted by the People's Bank of China that are determined largely by supply and demand.

(b) Fair value

The carrying amounts of significant financial assets and liabilities approximate their respective fair values as at 31 December 2005 and 31 March 2006.

The carrying values of cash and bank balances and non-interest bearing loans from shareholder approximate fair value because of the short maturities of these instruments.

C. Directors' remuneration

Save as disclosed in note 8 of Section B above, no remuneration has been paid or is payable to Loyal Way's directors by the Loyal Way Group during the Relevant Periods.

D. Subsequent financial statements

No audited financial statements have been prepared by the Loyal Way Group in respect of any period subsequent to 31 March 2006.

Yours faithfully,
BDO McCABE LO LIMITED
Certified Public Accountants
Au Yeung Shiu Kau Peter
Practising Certificate Number P02289

6. MANAGEMENT DISCUSSION AND ANALYSIS OF THE LOYAL WAY GROUP

Set out below is the management discussion and analysis of Loyal Way and its subsidiaries (hereinafter collectively referred to as the “Loyal Way Group”) for the period from 6 July 2005 (date of incorporation) to 31 March 2006.

Loyal Way was incorporated on 6 July 2005 as a special purpose vehicle to hold the indirect equity interest in sino-foreign cooperative joint venture enterprise the (“PRC JV”) incorporated on 31 March 2003 pursuant to a sino-foreign cooperative joint venture agreement between Guangzhou Zhoutouzui, 廣州越秀企業(集團)公司(Guangzhou Yuexiu Enterprise (Group) Company Limited) (“Yuexiu”) and GZ Port. Under the joint venture agreement, Guangzhou Zhoutouzui is obliged to arrange the necessary financing to the PRC JV for the Zhoutouzui Project.

Loyal Way has not carried on any business since its incorporation save for the acquisition of the 100% issued capital of Guangzhou Zhoutouzui in October 2005 through its two-wholly owned subsidiaries namely Fortunate Start and Ace Billion. Guangzhou Zhoutouzui is also an investment company which holds the proprietary right in the Zhoutouzui Project through the PRC JV. The PRC JV is a project company and has not carried on any business since its establishment other than its beneficial interest in the land of the Zhoutouzui Project (the “Land”).

The Zhoutouzui Project principally comprises the development and construction on the Land of residential apartments, serviced-residential apartments, hotel, retail commercial mall and other ancillary facilities. It is expected that the PRC JV will obtain the construction permit in mid-2007. Pre-sale of the residential properties is expected to commence in mid-2008 and the whole Zhoutouzui Project is expected to be completed by the end of 2009.

The total cost of the Zhoutouzui Project is estimated to be approximately HK\$2,084 million which is to be financed by shareholders’ advances of approximately HK\$784 million, bank borrowing of approximately HK\$669 million and pre-sale proceeds of approximately HK\$631 million. As at 31 March 2006, the balance sheet of the Loyal Way Group recorded development costs in the amount of approximately HK\$496 million and goodwill of approximately HK\$65 million arising from the premium given to the vendor by Loyal Way when it acquired the interest of Guangzhou Zhoutouzui in October 2005.

Due to the nature of business as investment vehicles, Loyal Way, the intermediate holding companies and Guangzhou Zhoutouzui have been inactive since their incorporations except that certain general and administrative expenses were incurred. The consolidated accounts of the Loyal Way Group recorded operating loss of an amount of approximately HK\$4.8 million for the period from the 6 July 2005 (date of incorporation of Loyal Way) to 31 March 2006.

*Liquidity and financial resources**Capital structure and liquidity*

Loyal Way's investment in the PRC JV is entirely financed by shareholders' advances. As at 31 March 2006, shareholders had contributed a total of approximately HK\$527 million to Loyal Way Group. Other than the non-current deferred tax liabilities of approximately HK\$51 million, Loyal Way Group had creditor balances of approximately HK\$3 million as at 31 March 2006. Relying on the continuing financial support of the shareholders, Loyal Way Group maintained its current assets consisting of solely cash balance at approximately HK\$20 million as at 31 March 2006 (2005: bank balance of approximately HK\$17 million and prepaid demolition costs of approximately HK\$87 million), thus leading to a current ratio of approximately 6.3:1 as at 31 March 2006 and approximately 41.7:1 as at 31 December 2005. The Group's gearing ratio, being total liabilities over total assets, was 88.6% as at 31 March 2006 and 88.0% as at 31 December 2005.

The management is seeking a capital structure that optimizes the benefits and costs between debt and equity to Loyal Way Group. Upon the completion of the acquisition of the interest in the PRC JV by the Company, bank borrowings are to be sought to finance further development costs of the Zhoutouzui Project.

Bank borrowings and pledge of assets

As the aforesaid, the Loyal Way Group had no bank borrowing nor it had any asset pledge at the respective balance sheet dates.

Foreign currency management

The Loyal Way Group's major investment is the interest in the PRC JV which is engaged in property development activities in the PRC. It contracts with its suppliers for goods and services that are denominated in RMB. The Loyal Way Group does not hedge its foreign currency risks as the rate of exchange between HK\$ and RMB is controlled within a narrow range. However, any permanent changes in foreign exchange rates in RMB may have an impact on the Loyal Way Group's results.

Contingent liabilities

The Loyal Way Group had no contingent liabilities as at respective balance sheet dates.

Employees

Since January 2006, the Loyal Way Group has started to recruit suitable workforce for the Zhoutouzui Project. As at 31 March 2006, it employed 20 employees, out of which 10 are technical staff with expertise in the property development industry in the PRC and paid staff costs amounting to approximately HK\$0.3 million for the three months ended 31 March 2006. Employees are remunerated according to qualifications and experience, job nature and performance, with pay scale aligned with market conditions.

Segmental Information of the Loyal Way Group

The Loyal Way Group is principally engaged in property development in the PRC, which is regarded as one single business segment and geographical segment.

7. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP AS ENLARGED BY THE LOYAL WAY GROUP

Set out below is the pro forma financial information of the Group as enlarged by the Loyal Way Group as extracted from the Company's circular dated 2 August 2006 in respect of the acquisition of the 51% shareholding in and shareholders' loans due by Loyal Way. Capitalised terms used in this section shall have the same meanings as defined in the circular of the Company dated 2 August 2006 and references to appendices as set out in this section are to appendices to the Company's circular dated 2 August 2006.

A. Unaudited pro forma financial information of the Enlarged Group

The following pro forma financial information is prepared in a manner consistent with both the format and accounting policies adopted by the Group in the preparation of its published audited consolidated financial statements for the financial year ended 31 December 2005. It is prepared to provide the unaudited pro forma financial information of the Enlarged Group as a result of the Acquisition Completion and the Open Offer. As it has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position or results of the Enlarged Group at any future date.

1. Unaudited pro forma consolidated income statement of the Enlarged Group

The following table is an illustrative and unaudited pro forma consolidated income statement of the Enlarged Group which has been prepared based on the consolidated profit and loss account of the Group for the year ended 31 December 2005 as extracted from appendix I, and the consolidated profit and loss account of the Loyal Way Group for the period from 6 July 2005 (date of incorporation) to 31 December 2005 as extracted from appendix II, after making certain pro forma adjustments in relation to the Acquisition and the Open Offer as if the Acquisition Completion and the Open Offer had taken place on 1 January 2005.

	The Group for the year ended 31 December 2005 HK\$'000 (Note a)	The Loyal Way Group for the period from 6 July 2005 (date of incorporation) to 31 December 2005 HK\$'000 (Note b)	Pro forma adjustments relating to the Acquisition HK\$'000	Note	Unaudited Pro forma Enlarged Group HK\$'000
Continuing operations:					
Turnover	4,757	—	—		4,757
Other income	117	—	—		117
Administrative expenses	(7,457)	(483)	—		(7,940)
Other operating expenses	(17)	—	—		(17)
Loss from operations	(2,600)	(483)	—		(3,083)
Finance costs	(220)	—	(5,120)	(c)	(17,725)
			(27,596)	(e)	
			15,211	(f)	
Finance income	240	22	—		262
Loss before income tax	(2,580)	(461)	(17,505)		(20,546)
Income tax expense	(33)	—	—		(33)
Loss for the year from continuing operations	(2,613)	(461)	(17,505)		(20,579)
Discontinued operations:					
Loss for the year from discontinued operations	(2,234)	—	—		(2,234)
Loss for the year	<u>(4,847)</u>	<u>(461)</u>	<u>(17,505)</u>		<u>(22,813)</u>
Attributable to:					
Equity holders of the Company	(4,847)	(461)	(5,120)	(c)	(9,065)
			(27,596)	(e)	
			15,211	(f)	
			13,748	(d)	
Minority interests	—	—	(13,748)	(d)	(13,748)
	<u>(4,847)</u>	<u>(461)</u>	<u>(17,505)</u>		<u>(22,813)</u>

Notes:

- (a) Being the audited consolidated income statement of the Group for the year ended 31 December 2005 extracted from appendix I to this circular.
- (b) Being the audited consolidated income statement of the Loyal Way Group for the period from 6 July 2005 (date of incorporation) to 31 December 2005 extracted from appendix II to this circular.
- (c) Being the maximum interest expense of the 2-year promissory note of a principal amount of not more than HK\$64 million with a fixed interest rate of 8% per annum, principal and interest payable within 24 months from the date of issue.
- (d) Being recognition of the share of 49% interest of the Loyal Way Group's loss of approximately HK\$0.5 million for the period from 6 July 2005 (date of incorporation) to 31 December 2005 and the interest on amounts due to shareholders of approximately HK\$27.6 million by minority shareholder.

- (e) Being the interest expense on the amounts due to shareholders of approximately HK\$459.9 million as at 31 March 2006, which carry interest at an effective rate of 6% per annum.
- (f) Being reversal of the interest received from the Loyal Way Group on the amount due to the Group of approximately HK\$253.5 million as at 31 March 2006, which carry interest at an effective rate of 6% per annum.

2. Unaudited pro forma consolidated balance sheet of the Enlarged Group

The following table is an illustrative and unaudited pro forma consolidated balance sheet of the Enlarged Group which has been prepared based on the consolidated balance sheet of the Group as at 31 December 2005 as extracted from appendix I and the consolidated balance sheet of the Loyal Way Group as at 31 March 2006 as extracted from appendix II, after making certain pro forma adjustments relating to the Acquisition and the Open Offer as if the Acquisition Completion and the Open Offer had taken place on 31 December 2005.

	The Group as at 31 December 2005 HK\$'000 (Note a)	Pro forma adjustments relating to the Open Offer HK\$'000 Note	Unaudited Pro forma Group after the Open Offer HK\$'000	The Loyal Way Group as at 31 March 2006 HK\$'000 (Note b)	Pro forma adjustments relating to the Acquisition HK\$'000 Note	Unaudited Pro forma Enlarged Group HK\$'000 Note
Non-current assets						
Plant and equipment	163	—	163	13	—	176
Properties held for development	—	—	—	495,530	—	495,530
Goodwill	—	—	—	65,474	70,465 (e)	135,939
Interest in associate	165,807	—	165,807	—	—	165,807
	<u>165,970</u>	<u>—</u>	<u>165,970</u>	<u>561,017</u>	<u>70,465</u>	<u>797,452</u>
Current assets						
Deposits, prepayments and other receivables	403	—	403	—	—	403
Cash and cash equivalents	83,747	234,500 (c)	318,247	19,743	(284,000) (d)	53,990
	<u>84,150</u>	<u>234,500</u>	<u>318,650</u>	<u>19,743</u>	<u>(284,000)</u>	<u>54,393</u>
Current liabilities						
Trade, other payables and accruals	1,773	—	1,773	3,128	—	4,901
Income tax payable	66	—	66	—	—	66
	<u>1,839</u>	<u>—</u>	<u>1,839</u>	<u>3,128</u>	<u>—</u>	<u>4,967</u>
Net current assets/ (liabilities)	<u>82,311</u>	<u>234,500</u>	<u>316,811</u>	<u>16,615</u>	<u>(284,000)</u>	<u>49,426</u>

	The Group as at 31 December 2005 HK\$'000 (Note a)	Pro forma adjustments relating to the Open Offer HK\$'000 Note	Unaudited Pro forma Group after the Open Offer HK\$'000	The Loyal Way Group as at 31 March 2006 HK\$'000 (Note b)	Pro forma adjustments relating to the Acquisition HK\$'000 Note	Unaudited Pro forma Enlarged Group HK\$'000 Note
Total assets less current liabilities	248,281	234,500	482,781	577,632	(213,535)	846,878
Non-current liabilities						
Convertible note	55,087	—	55,087	—	—	55,087
Deferred tax liabilities	860	—	860	51,302	—	52,162
Promissory note payable	—	—	—	—	64,000 (d)	64,000
Amounts due to shareholders	—	—	—	459,938	(243,675) (d) (206,414) (g)	9,849 (f)
	55,947	—	55,947	511,240	(386,089)	181,098
Net assets	<u>192,334</u>	<u>234,500</u>	<u>426,834</u>	<u>66,392</u>	<u>172,554</u>	<u>665,780</u>
Capital and reserves						
Share capital	6,407	2,673 (c)	9,080	1	(1) (e)	9,080
Reserves	185,927	231,827 (c)	417,754	66,391	2,466 (e) (36,325) (d) (32,532) (h)	417,754
Total equity attributable to equity holders of the Company	<u>192,334</u>	<u>234,500</u>	<u>426,834</u>	<u>66,392</u>	<u>(66,392) (e)</u>	<u>426,834</u>
Minority interest	—	—	—	—	206,414 (g) 32,532 (h)	238,946
	<u>192,334</u>	<u>234,500</u>	<u>426,834</u>	<u>66,392</u>	<u>172,554</u>	<u>665,780</u>

Notes:

- (a) Being the audited consolidated balance sheet of the Group as at 31 December 2005 extracted from appendix I to this circular.
- (b) Being the audited consolidated balance sheet of the Loyal Way Group as at 31 March 2006 extracted from appendix II to this circular.
- (c) Issue of 267,324,486 Offer Shares at HK\$0.90 each for HK\$234.5 million to be received net of cost of issue in cash.
- (d) Being the aggregated acquisition consideration of not more than HK\$348 million (excluding the maximum of HK\$52 million shareholders' loan which may be contributed by the Purchaser on behalf of the Vendor during the period from the date of the Acquisition Agreement and up to the Acquisition Completion Date), comprising (i) HK\$68 million for the Sale Shares and (ii) not more than HK\$280 million for the Sale Debt. The net consideration will be settled by:
- cash of approximately HK\$284 million, and
 - the Promissory Note with a principle amount of HK\$64 million.

In terms of HKAS 39 "Financial Instruments: Recognition and Measurement", the Group would be required to record the consideration for the Sale Debt at its fair value of approximately HK\$243.7 million and to increase the cost of investment in Loyal Way by the amount of approximately HK\$36.3 million, which represents the capital contribution, being the difference between the maximum consideration for the Sales Debt of HK\$280 million and its fair value of approximately HK\$243.7 million. Accordingly the Group's cost of investment in Loyal Way would be approximately HK\$104.3 million, being the sum of the maximum consideration for the Sale Share of HK\$68 million and the capital contribution of approximately HK\$36.3 million.

- (e) Goodwill arising from the difference between the Group's cost of investment in Loyal Way amounting to approximately HK\$104.3 million stated in note (d) above and 51% of the net assets value amounting to approximately HK\$66.4 million of the Loyal Way Group as at 31 March 2006 as if the fair value of the identifiable net assets of the Loyal Way Group equals to its carrying amount.

The net assets of the Loyal Way Group at 31 March 2006 of approximately HK\$66.4 million comprise (1) the Group's share of 51% interest amounting to approximately HK\$33.8 million which is the capital contribution from the Group of HK\$36.3 million stated in note (d) after deduction of its share of the Loyal Way Group's accumulated loss amounting to approximately HK\$2.5 million and (2) the minority shareholder's share of 49% interest amounting to approximately HK\$32.6 million stated in note (h).

- (f) As at 31 March 2006, the fair value of the shareholders' loan due to the Vendor by the Loyal Way Group was higher than the fair value of the maximum consideration for the Sale Debt of approximately HK\$243.7 million. Therefore, a difference of approximately HK\$9.8 million was resulted in preparing this unaudited pro forma consolidated balance sheet of the Enlarged Group. In reality, it is expected that the fair value of the consideration for the Sale Debt will be equal to the fair value of the shareholders' loan due to the Vendor by the Loyal Way Group as at the Acquisition Completion Date and therefore the shareholders' loan due to the Vendor in the

consolidated accounts of the Loyal Way Group will be eliminated in the consolidated accounts of the Enlarged Group when Loyal Way becomes a subsidiary of the Company upon the Acquisition Completion.

- (g) Being transfer of the amount due to minority shareholder of approximately HK\$206.4 million to minority interest.
- (h) Being recognition of the share of 49% interest of the Loyal Way Group's net asset value of approximately HK\$66.4 million as at 31 March 2006 attributable to minority shareholder.

3. *Unaudited pro forma consolidated cash flow statement of the Enlarged Group*

The following table is an illustrative and unaudited pro forma consolidated cash flow statement of the Enlarged Group which has been prepared based on the consolidated cash flow statement of the Group for the year ended 31 December 2005 as extracted from appendix I, and the consolidated cash flow statement of the Loyal Way Group for the period from 6 July 2005 (date of incorporation) to 31 December 2005 as extracted from appendix II, after making certain pro forma adjustments in relation to the Acquisition and the Open Offer as if the Acquisition Completion and the Open Offer had taken place on 1 January 2005.

	The Group for the year ended 31 December 2005 HK\$'000 (Note a)	Pro forma adjustments relating to the Open Offer HK\$'000 (Note c)	The Loyal Way Group for the period from 6 July 2005 (date of incorporation) to 31 December 2005 HK\$'000 (Note b)	Pro forma adjustments relating to the Acquisition HK\$'000 Note	Unaudited Pro forma Enlarged Group HK\$'000
Net cash from (used in)					
operating activities	2,270	—	(96,585)	—	(94,315)
Net cash used in investing activities	(82,501)	—	(158,778)	(284,000) (d)	(525,279)
Net cash from financing activities	163,630	234,500	272,679	—	670,809
Net increase in cash and cash equivalents	83,399	234,500	17,316	(284,000)	51,215
Cash and cash equivalents at beginning of the period	347	—	—	—	347
Effect of foreign exchange rate changes	1	—	(6)	—	(5)
Cash and cash equivalents as at 31 December 2005, represented by bank balances and cash	<u>83,747</u>	<u>234,500</u>	<u>17,310</u>	<u>(284,000)</u>	<u>51,557</u>

Notes:

- (a) Being the audited consolidated cash flow statement of the Group for the year ended 31 December 2005 extracted from appendix I to this circular.
- (b) Being the audited consolidated cash flow statement of the Loyal Way Group for the period from 6 July 2005 (date of incorporation) to 31 December 2005 extracted from appendix II to this circular.
- (c) Being net cash received from the Open Offer.
- (d) Being the cash consideration of HK\$284 million in connection with the Acquisition, which has not taken into account the maximum of HK\$52 million shareholders' loan which may be contributed by the Purchaser on behalf of the Vendor during the period from the date of the Acquisition Agreement and up to the Acquisition Completion Date.

B. Report on unaudited pro forma financial information of the Enlarged Group

- (a) The following is the full text of a letter received from BDO McCabe Lo Limited for the purpose of incorporation in this circular.



BDO McCabe Lo Limited
Certified Public Accountants
25th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong
Telephone: (852) 2541 5041
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德豪嘉信會計師事務所有限公司

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The Board of Directors
Skyfame Realty (Holdings) Limited
2502B, Admiralty Centre
Tower 1
18 Harcourt Road
Hong Kong

2 August 2006

Dear Sirs,

We report on the statement of unaudited pro forma financial information (the “Unaudited Pro Forma Financial Information”) of Skyfame Realty (Holdings) Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) and Loyal Way (China) Group Limited and its subsidiaries (together with the Group hereinafter referred to as the “Enlarged Group”), set out in Appendix III to the circular dated 2 August 2006 (the “Circular”) issued by the Company in connection with the very substantial acquisition, whereby the Group, through an indirect wholly-owned subsidiary, Smartford Limited (the “Purchaser”), proposed to acquire 51% shareholding in and shareholder’s loans due by Loyal Way (China) Group Limited (the “Acquisition”), which has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Acquisition might have affected the financial information presented.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements (HKSIR) 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of

- the financial position of the Enlarged Group as at 31 December 2005 or any future date; and
- results and cash flows of the Enlarged Group for the year ended 31 December 2005 or any future period.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

BDO McCABE LO LIMITED
Certified Public Accountants
Au Yeung Shiu Kau Peter
Practising Certificate Number P02289

8. MATERIAL ADVERSE CHANGE

The Directors confirm that there are no material adverse changes in the financial or trading position of the Group since 31 December 2005, the date to which the latest audited consolidated financial statements of the Group were made up.

9. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Company is an investment holding company and its principal subsidiaries are engaged in investment holding, property development, the provision of project management and related services in the PRC.

From 2005, the Group has started to focus onto the property development project management business and completed business streamlining to such effect by December 2005. All the previous business segments in online operation, trading, financial and investment holding as well as the offline operations have been discontinued in 2005.

Apart from being a project manager in construction contracts for contractors in some projects in the PRC, the Group, leveraging on the management's expertise in the industry, also commenced its activities in the property development in Guangzhou, the PRC in 2006 upon the completion of the acquisition of the interest in the Zhoutouzui Project and is able to participate in other development projects, acting both as a project developer and manager.

As at the Latest Practicable Date, the Group has been participating in two property development projects, namely the Tianhe Project in which the Group has a 49% interest and the Zhoutouzui Project in which the Group has a 51% interest. Based on the current plan, the Tianhe Project will comprise a hotel, serviced apartments, parking spaces and related construction is scheduled for completion in about 2010, taking into account of the latest development of the project; and the Zhoutouzui Project will principally comprise luxury high rise condominium towers, residential apartments, serviced-residential apartments, a hotel, community center and other ancillary facilities and the project is expected to be partially completed and ready for occupation in about 2010, taking into account of the latest development of the project. With the prospect of the Westin Project, the Directors are confident that the Westin Acquisition would bring in attractive return and broaden the income stream of the Group. As set out in the letter from the Board of this circular, the Group is considering to acquire the remaining 49% interest held by Poly Hong Kong in the Zhoutouzui Project, the GZ Port Authority's entitlement of the Zhoutouzui Project and proceed with the Tianyu Project Injection as and when appropriate. The Directors are of the view that the proceeds from the issue of the Notes will provide the Company with the working capital to develop and strengthen its property development business.

Besides, the management will continue to select unique investment opportunities in property interests, mainly in the Guangzhou city, that are of growth potential in capital value and rental yield. Subject to obtaining quality land reserves and the performance in the business that brings satisfactory returns to the Shareholders, the management considers that the Group's financial prospect will be enhanced.

1. ACCOUNTANTS' REPORT OF THE RED EMPIRE GROUP

The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the auditors and reporting accountants of the Company, BDO McCabe Lo Limited.



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Certified Public Accountants
25th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong
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The Directors
Skyfame Realty (Holdings) Limited
2502B, Admiralty Centre
Tower 1
18 Harcourt Road
Hong Kong

4 April 2007

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) regarding Red Empire Limited (“Red Empire”) and its subsidiaries (hereinafter collectively referred to as the “Red Empire Group”) for each of the three years ended 31 December 2004, 2005 and 2006 (the “Relevant Periods”), for inclusion in the circular of Skyfame Realty (Holdings) Limited (the “Company”) dated 4 April 2007 (the “Circular”), issued in connection with, inter alia, (i) the proposed issue of United States dollars (“US\$”) 200 million 4 per cent secured convertible notes due 2013 (ii) the proposed acquisition of 100% shareholding in and shareholder’s loans due by Red Empire Limited (“Red Empire”); (iii) the proposed acquisition of 100% shareholding and shareholder’s loans due by Allright Investments Limited (“Allright”); and (iv) the proposed acquisition of 29% shareholding in and shareholder’s loans due by Yue Tian Development Limited (“Yue Tian”).

Red Empire was incorporated in the British Virgin Islands (the “BVI”) with limited liability on 28 October 2003 under the International Business Companies Act of the BVI. Red Empire has not carried on any business since the date of its incorporation save for the acquisition and holding of the 51% equity interest in Yue Tian and Poly Tianyu (Guangzhou) Limited (“Poly Tianyu”).

APPENDIX II FINANCIAL INFORMATION OF THE RED EMPIRE GROUP

As at the date of this report, Red Empire has direct and indirect interest in the following subsidiaries.

Name of subsidiaries	Place and date of incorporation/ establishment and kind of legal entity	Registered/authorised and issued paid-up capital	Attributable equity interest held by Red Empire		Principal activity
			Directly	Indirectly	
Yue Tian	Hong Kong, 2 March 1993, Incorporated	Authorised capital of Hong Kong dollars ("HK\$") 100,000 of 100,000 ordinary shares of HK\$1 each and issued paid-up capital of HK\$72,000	51%	—	Investment holding
Poly Tianyu	Hong Kong, 21 November 2003, Incorporated	Authorised capital of HK\$10,000 of 10,000 ordinary shares of HK\$1 each and issued paid-up capital of HK\$100	51%	—	Investment holding
Guangzhou Cheng Jian Tianyu Real Estate Development Company Limited (廣州市城建天譽 房地產開發有限公司) ("Cheng Jian Tianyu")	The People's Republic of China (the "PRC"), 26 September 2002, Sino-foreign cooperative enterprise	Registered capital of US\$45,000,000 and paid-up capital of US\$27,500,000	—	51% (Note)	Property development

Note: Pursuant to the sino-foreign cooperative agreement entered into by the parties on 3 January 2005, Yue Tian has fully paid Renminbi ("RMB") 90 million on 8 June 2006 to Guangzhou City Construction & Development Holdings Limited (廣州市城市建設開發集團有限公司) ("GCC") as cash compensation and since then, (i) GCC is no longer entitled to any profit or loss generated by Cheng Jian Tianyu; and (ii) Yue Tian will be entitled to 100% of the total gross floor area of the project upon completion of the proposed development and the entire profit or loss to be generated by Cheng Jian Tianyu.

No audited financial statements have been prepared for Red Empire and Poly Tianyu since their dates of incorporation. We have, however, reviewed all relevant transactions of Red Empire and Poly Tianyu since their dates of incorporation and carried out such procedures as we considered necessary for inclusion of the financial information relating to these companies. The consolidated financial statements of Yue Tian for the two years ended 31 December 2004 and 2005, which were prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), were audited by Deloitte Touche Tohmatsu, Certified Public Accountants. The statutory financial statements of Cheng Jian Tianyu for the two years ended 31 December 2004 and 2005, which were prepared in accordance with the relevant PRC accounting rules and regulations, were audited by Guangzhou Pei Feng Certified Public Accountants Co., Ltd. (廣州沛豐會計師事務所有限公司), certified public accountants registered in the PRC.

For the purpose of this report, the directors of Red Empire have prepared the management accounts of the Red Empire Group and of Red Empire for the Relevant Periods, in accordance with HKFRSs promulgated by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). We have undertaken an independent audit of the management accounts of the Red Empire Group in accordance with the Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information and the notes thereto for the Relevant Periods set out in Sections A to C below have been prepared based on the management accounts of the Red Empire Group. We have examined the management accounts of the Red Empire Group and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline “Prospectuses and the Reporting Accountant” issued by the HKICPA.

The preparation of the management accounts of the Red Empire Group and of Red Empire is the responsibility of the directors of Red Empire who approve their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information together with the notes thereto gives, for the purpose of this report, a true and fair view of the state of affairs of the Red Empire Group and of Red Empire as at 31 December 2004, 2005 and 2006, and of the consolidated results and cash flows of the Red Empire Group for the Relevant Periods.

A. FINANCIAL INFORMATION

1. Consolidated income statements of the Red Empire Group

	<i>Notes</i>	For the year ended 31 December		
		2004	2005	2006
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	3	—	—	—
Other revenue	5	163	121	407
General and administrative expenses		<u>(2,764)</u>	<u>(2,959)</u>	<u>(10,219)</u>
Loss from operations	6	(2,601)	(2,838)	(9,812)
Finance costs	7	<u>—</u>	<u>(8,068)</u>	<u>(1,989)</u>
Loss before income tax expense		(2,601)	(10,906)	(11,801)
Income tax expense	11	<u>—</u>	<u>—</u>	<u>—</u>
Loss for the year		<u>(2,601)</u>	<u>(10,906)</u>	<u>(11,801)</u>
Attributable to:				
— Equity holders of Red Empire		(1,146)	(3,582)	(479)
— Minority interests		<u>(1,455)</u>	<u>(7,324)</u>	<u>(11,322)</u>
		<u>(2,601)</u>	<u>(10,906)</u>	<u>(11,801)</u>

2. Consolidated balance sheets of the Red Empire Group

	Notes	As at 31 December		
		2004 HK\$'000	2005 HK\$'000	2006 HK\$'000
Non-current assets				
Prepaid lease payments				
— non-current portion	15	19,558	327,873	336,925
Plant and equipment	16	1,494	1,656	1,372
Properties held for development	17	54,961	319,473	801,322
Goodwill	19	6,739	12,172	12,172
		<u>82,752</u>	<u>661,174</u>	<u>1,151,791</u>
Current assets				
Prepaid lease payments				
— current portion	15	515	9,643	10,210
Amount due from intermediate holding company	20	—	10,000	—
Amount due from minority shareholder	20	—	2,756	—
Amounts due from related companies	21	64,168	—	—
Prepayments and other receivables		68,958	125,289	50,093
Cash and cash equivalents	22	387	88,959	5,953
		<u>134,028</u>	<u>236,647</u>	<u>66,256</u>
Current liabilities				
Amount due to intermediate holding company	20	—	19,048	—
Amount due to immediate holding company	20	104,375	317,780	312,145
Amounts due to minority shareholders	20	60,660	12,963	—
Amount due to fellow subsidiary	20	—	—	5
Amounts due to related companies	21	25,194	11,729	75,690
Amount due to related party	21	20,377	98	—
Other payables and accruals		4,808	48,240	74,864
		<u>215,414</u>	<u>409,858</u>	<u>462,704</u>
Net current liabilities		<u>(81,386)</u>	<u>(173,211)</u>	<u>(396,448)</u>
Total assets less current liabilities		<u>1,366</u>	<u>487,963</u>	<u>755,343</u>
Non-current liabilities				
Loans from minority shareholders	23	—	119,791	133,239
Deferred tax liabilities	24	—	14,331	15,131
Bank borrowings				
— due after one year	25	—	152,939	366,300
		<u>—</u>	<u>287,061</u>	<u>514,670</u>
NET ASSETS		<u>1,366</u>	<u>200,902</u>	<u>240,673</u>
Capital and reserves attributable to equity holders of Red Empire				
Share capital	26	—	—	—
(Deficits)/reserves	27	(1,061)	18,244	40,276
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF RED EMPIRE		<u>(1,061)</u>	<u>18,244</u>	<u>40,276</u>
Minority interests		2,427	182,658	200,397
TOTAL EQUITY		<u>1,366</u>	<u>200,902</u>	<u>240,673</u>

3. Balance sheets of Red Empire

		As at 31 December		
		2004	2005	2006
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current asset				
Interests in subsidiaries	18	9,000	297,377	325,285
Current asset				
Amounts due from subsidiaries	18	95,365	34,068	410
Current liabilities				
Amount due to intermediate holding company	20	—	19,048	—
Amount due to immediate holding company	20	104,375	317,780	312,145
		<u>104,375</u>	<u>336,828</u>	<u>312,145</u>
Net current liabilities		<u>(9,010)</u>	<u>(302,760)</u>	<u>(311,735)</u>
NET (LIABILITIES)/ASSETS		<u>(10)</u>	<u>(5,383)</u>	<u>13,550</u>
Capital and reserves				
Share capital	26	—	—	—
(Deficits)/reserves	27	(10)	(5,383)	13,550
TOTAL EQUITY		<u>(10)</u>	<u>(5,383)</u>	<u>13,550</u>

4. Consolidated statements of changes in equity of the Red Empire Group

	Attributable to equity holders of Red Empire						Total HK\$'000
	Share capital HK\$'000	Foreign exchange reserve HK\$'000	Revaluation reserve HK\$'000	Accumulated losses HK\$'000	Minority interests HK\$'000		
At 1 January 2004	—	—	—	(5)	3,737	3,732	
Exchange differences on translation of financial statements of foreign subsidiary	—	90	—	—	145	235	
Loss for the year	—	—	—	(1,146)	(1,455)	(2,601)	
At 31 December 2004	—	90	—	(1,151)	2,427	1,366	
Revaluation of prepaid lease payment	—	—	20,764	—	23,093	43,857	
Exchange differences on translation of financial statements of foreign subsidiary	—	2,123	—	—	2,040	4,163	
Contributions from minority shareholders	23	—	—	—	162,422	162,422	
Loss for the year	—	—	—	(3,582)	(7,324)	(10,906)	
At 31 December 2005	—	2,213	20,764	(4,733)	182,658	200,902	
Exchange differences on translation of financial statements of foreign subsidiary	—	22,511	—	—	21,627	44,138	
Contributions from minority shareholders	23	—	—	—	7,434	7,434	
Loss for the year	—	—	—	(479)	(11,322)	(11,801)	
At 31 December 2006	—	24,724	20,764	(5,212)	200,397	240,673	

5. Consolidated cash flow statements of the Red Empire Group

	For the year ended 31 December		
	2004	2005	2006
	HK\$'000	HK\$'000	HK\$'000
Cash flows from operating activities			
Loss before income tax expense	(2,601)	(10,906)	(11,801)
Adjustments for:			
Depreciation of plant and equipment	392	438	512
Write-off of hotel pre-operating expenses	—	—	5,239
Finance costs	—	8,068	1,989
Finance income	(163)	(121)	(407)
Operating loss before working capital changes	(2,372)	(2,521)	(4,468)
Changes in working capital:			
(Increase)/decrease in amount due from intermediate holding company	—	(10,000)	10,000
(Increase)/decrease in amount due from minority shareholder	—	(2,756)	2,756
(Increase)/decrease in amounts due from related companies	(60,887)	64,168	—
(Increase)/decrease in prepayments and other receivables	(31,995)	(56,331)	76,945
Increase/(decrease) in amount due to intermediate holding company	—	19,048	(19,048)
Increase/(decrease) in amount due to immediate holding company	65,370	213,405	(5,635)
Increase/(decrease) in amounts due to minority shareholders	60,660	(47,697)	(12,963)
Increase in amount due to fellow subsidiary	—	—	5
Increase/(decrease) in amounts due to related companies	4,610	(13,465)	63,307
Increase/(decrease) in amount due to related party	20,377	(20,279)	(103)
Increase in other payables and accruals	4,612	43,432	23,933
Net cash from operating activities	60,375	187,004	134,729
Cash flows from investing activities			
Acquisition of plant and equipment	(1,867)	(600)	(151)
Disposal of partial interest in subsidiary	—	9,327	—
Additions to prepaid lease payments	(20,588)	(283,658)	(1,003)
Additions to properties held for development	(51,247)	(254,869)	(446,682)
Interest received	163	121	407
Net cash used in investing activities	(73,539)	(529,679)	(447,429)
Cash flows from financing activities			
Loans from minority shareholders	—	278,724	13,744
Proceeds from new bank loans	—	152,939	213,361
Interest paid on bank and other borrowings	—	(4,579)	(1,989)
Net cash from financing activities	—	427,084	225,116
Net (decrease)/increase in cash and cash equivalents	(13,164)	84,409	(87,584)
Effect of foreign exchange rate changes	235	4,163	4,578
Cash and cash equivalents at beginning of year	13,316	387	88,959
Cash and cash equivalents at end of year (note 22)	387	88,959	5,953

B. NOTES TO THE FINANCIAL INFORMATION

1. General

Red Empire was incorporated in the BVI with limited liability on 28 October 2003 under the International Business Companies Act of the BVI. Red Empire has not carried on any business since the date of its incorporation save for the acquisition and holding of the 51% equity interest in Yue Tian. The immediate and intermediate holding companies are CMIC Property (China) Limited, a company incorporated in Hong Kong, and Poly (Hong Kong) Investments Limited, a company incorporated in Hong Kong and the shares of which are listed on The Stock Exchange of Hong Kong Limited, respectively. As at the date of this report, the directors of Red Empire considered the ultimate holding company of Red Empire to be China Poly Group Corporation, a state-owned enterprise established in the PRC. The registered office of Red Empire is located at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, BVI, and the principal place of business of Red Empire is located at Room 2503, Admiralty Centre, Tower I, 18 Harcourt Road, Hong Kong.

Red Empire is an investment holding company. The principal activities of its subsidiaries are investment holding and property development.

The Financial Information is presented in thousands of units of Hong Kong dollars (HK\$'000), unless otherwise stated, which is the same as the functional currency of Red Empire.

2. Principal accounting policies

(a) Statement of compliance

The Financial Information set out in this report has been prepared in accordance with all applicable HKFRSs (including all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”), and Interpretations (“INTs”)) issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The HKICPA has issued the following standards and interpretations that are not yet effective. The Red Empire Group has considered the following standards and interpretations but does not expect that the application of these new standards and interpretations will have a material effect on how the results of operations and financial position of the Red Empire Group are prepared and presented.

HKAS 1 Amendment	Capital Disclosures ¹
HKFRS 7	Financial Instruments: Disclosures ¹
HK(IFRIC) — Interpretation 10	Interim Financial Reporting and Impairment ²

¹ Effective for annual periods beginning on or after 1 January 2007

² Effective for annual periods beginning on or after 1 November 2007

(b) Basis of preparation

The Financial Information comprises the financial statements of Red Empire and its subsidiaries.

The Financial Information has been prepared on a going concern basis notwithstanding that the Red Empire Group had net current liabilities as at 31 December 2004, 2005 and 2006 as its holding company had agreed not to demand for the repayment of the amount due by the Red Empire Group until the Red Empire Group has the financial ability to do so; and had undertaken to provide such financial support to the Red Empire Group to enable it to continue as a going concern and to enable it to meet its liabilities as and when they fall due.

The Financial Information has been prepared under the historical cost convention except that the prepaid lease payments and the properties held for development are stated at their fair values.

(c) ***Basis of consolidation***

Where Red Empire has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The Financial Information presents the results of the Red Empire Group as if they formed a single entity. Inter-company transactions and balances between group companies are therefore eliminated in full.

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition.

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

Red Empire's interests in subsidiaries are stated at cost less impairment loss, if any.

For business combination that involves more than one exchange transaction through successive share purchases, the cost of the transaction and fair value information at the date of each exchange transaction are treated separately to determine the amount of any goodwill associated with that transaction. Any adjustments to those fair values relating to previously held interests is accounted for as an increase in revaluation reserve.

(d) ***Subsidiaries***

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

(e) ***Impairment of non-financial assets***

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit (i.e. the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows).

Impairment charges are included in the administrative expenses line item in the income statement, except to the extent they reverse gains previously recognised in the statement of recognised income and expense.

(f) ***Foreign currencies***

Transactions entered into by any of the group entities in a currency other than the currency of the primary economic environment in which it operates (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled

monetary assets and liabilities are similarly recognised immediately in the income statement, except for foreign currency borrowings qualifying as a hedge of a net investment in a foreign operation.

On consolidation, the results of overseas operations are translated into Hong Kong dollars at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the balance sheet date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised directly in equity (the “foreign exchange reserve”). Exchange differences recognised in the income statement of group entities’ separate financial statements on the translation of long-term monetary items forming part of the Red Empire Group’s net investment in the overseas operation concerned are reclassified to the foreign exchange reserve if the item is denominated in the functional currency of the Red Empire Group or the overseas operation concerned.

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

(g) *Plant and equipment*

Plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. They are depreciated at rates sufficient to write off their costs net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives and residual value are reviewed, and adjusted if appropriate, at each balance sheet date. The principal annual rate is 20%.

(h) *Properties held for development*

Properties held for development are stated at the lower of cost and net realisable value and comprise development expenditure and professional fees. Net realisable value is determined by reference to management estimates based on prevailing market conditions less costs to be included in selling the property. On completion, the properties are transferred to completed properties held for sale.

(i) *Properties held for sale*

Properties held for sale are stated at the lower of cost and net realisable value. Net realisable value is determined by reference to management estimates based on prevailing market conditions less estimated costs to be incurred in selling the property.

(j) *Cash and cash equivalents*

Cash includes cash on hand and demand deposits with any bank or other financial institutions. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash which are subject to an insignificant risk of changes in value.

(k) ***Income taxes***

Income taxes for the Relevant Periods comprise current tax and deferred tax.

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

Deferred tax arises from temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes and is accounted for using the balance sheet liability method. Except for recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the reporting period end.

Income taxes are recognised in the income statement except when they relate to items directly recognised to equity in which case the taxes are also directly recognised in equity.

(l) ***Revenue recognition***

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

(m) ***Financial instruments***

(i) ***Financial assets***

The Red Empire Group classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. Other than financial assets in a qualifying hedging relationship, the Red Empire Group's accounting policy for each category is as follows:

Fair value through profit or loss: This category comprises the financial assets that have been acquired for the purpose of selling or repurchasing it in the short-term or if so designated by management. This category includes derivatives which are not qualified for hedge accounting. Debt securities and bank deposits with embedded derivatives for yield enhancement whose economic characteristics and risks are not closely related to the host securities and deposits are designated as financial assets at fair value through profit or loss. They are carried in the balance sheet at fair value with changes in fair value recognised in the income statement.

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

Held-to-maturity investments: These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Red Empire Group's management has the positive intention and ability to hold to maturity. At each balance sheet date subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using effective interest rate method, less any identified impairment losses.

Available-for-sale: Non-derivative financial assets not included in the above categories are classified as available-for-sale and comprise the Red Empire Group's strategic investments in entities not qualifying as subsidiaries, associates or jointly controlled entities. They are carried at fair value with changes in fair value recognised directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in the income statement.

(ii) *Financial liabilities*

The Red Empire Group classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was incurred. Other than financial liabilities in a qualifying hedging relationship, the Red Empire Group's accounting policy for each category is as follows:

Fair value through profit or loss: This category comprises only out-of-the-money derivatives. They are carried in the balance sheet at fair value with changes in fair value recognised in the income statement.

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

- Trade payables and other short-term monetary liabilities, which are recognised at amortised cost.
- Bank borrowings, amounts due to immediate holding company and loans from shareholders are initially recognised at the amount advanced net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet. "Interest expense" in this context includes initial transaction costs and premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

(iii) *Derecognition*

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

(n) *Provision and contingent liabilities*

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

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

(o) *Employee benefits*

(i) *Defined contribution retirement plan*

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

The employees of the PRC subsidiary, Cheng Jian Tianyu, are required to participate in a central pension scheme operated by the local municipal government. Cheng Jian Tianyu is required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions payable are charged to the income statement when they become payable in accordance with the rules of the central pension scheme.

(ii) *Employee entitlements*

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

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(p) *Leases*

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

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Red Empire Group (a “finance lease”), the asset is treated as if it had been purchased outright. The amount initially recognised as an asset is the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to the income statement over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

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

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

(q) *Borrowing costs*

Borrowing costs are expensed in profit and loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(r) *Goodwill*

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

Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the consolidated income statements.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is credited in full to the consolidated income statements.

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

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

3. Turnover

The Red Empire Group did not generate any turnover during the Relevant Periods.

APPENDIX II FINANCIAL INFORMATION OF THE RED EMPIRE GROUP

4. Segment information

The Red Empire Group is principally engaged in property development in the PRC, which is regarded as one business segment and one geographical segment.

5. Other revenue

	For the year ended 31 December		
	2004	2005	2006
	HK\$'000	HK\$'000	HK\$'000
Bank interest income	163	121	407

6. Loss from operations

Loss from operations is stated after charging/(crediting):

	For the year ended 31 December		
	2004	2005	2006
	HK\$'000	HK\$'000	HK\$'000
Auditors' remuneration	238	12	320
Depreciation of plant and equipment	392	438	512
Write-off of hotel pre-operating expenses	—	—	5,239
Minimum lease payments under operating lease in respect of land and buildings	495	594	1,069
Exchange loss/(gain), net	71	(207)	(356)

In addition to the above, the following expenditures have been capitalised as properties held for development as disclosed in *note 17* to the Financial Information during the Relevant Periods:

	For the year ended 31 December		
	2004	2005	2006
	HK\$'000	HK\$'000	HK\$'000
Amortisation of prepaid lease payments	515	9,643	10,210
Minimum lease payments under operating lease in respect of land and buildings	646	535	565

APPENDIX II FINANCIAL INFORMATION OF THE RED EMPIRE GROUP

7. Finance costs

	For the year ended 31 December		
	2004	2005	2006
	HK\$'000	HK\$'000	HK\$'000
Interest on bank borrowings wholly repayable over five years	—	—	18,825
Interest on other borrowings wholly repayable within five years	—	4,579	1,869
Imputed interest on loans from minority shareholders wholly repayable over five years (note 23)	—	3,489	7,138
Others	—	—	120
	—	8,068	27,952
<i>Less: expenses capitalised as properties held for development (note 17)</i>	—	—	(25,963)
Finance costs charged to consolidated income statement	—	8,068	1,989

8. Staff costs

	For the year ended 31 December		
	2004	2005	2006
	HK\$'000	HK\$'000	HK\$'000
Staff costs (including directors' emoluments) comprise:			
Basic salaries and other benefits	1,206	1,174	3,425
Contributions to defined contribution pension plans	177	205	379
	1,383	1,379	3,804
<i>Less: expenses capitalised as properties held for development (note 17)</i>	(1,262)	(1,246)	(3,734)
Staff costs charged to consolidated income statement	121	133	70

9. Directors' emoluments

No directors' emoluments were incurred for the Relevant Periods.

10. Five highest paid individuals

During the Relevant Periods, none of the five highest paid individuals is a director of Red Empire. The emoluments payable to the five highest paid individuals for the Relevant Periods are as follows:

	For the year ended 31 December		
	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Basic salaries and other benefits	469	332	914
Contributions to defined contribution pension plans	20	24	38
	<u>489</u>	<u>356</u>	<u>952</u>

The number of five highest paid individuals for the Relevant Periods whose emoluments fall within the band set out below is as follows:

	No. of employees		
	For the year ended 31 December		
	2004	2005	2006
Nil to HK\$1,000,000	<u>5</u>	<u>5</u>	<u>5</u>

11. Income tax expense

No provision for Hong Kong profits tax or overseas income tax has been made as the Red Empire Group has no assessable profits during the Relevant Periods.

Hong Kong profits tax is calculated at 17.5% on the estimated assessable profits for the Relevant Periods.

The Red Empire Group's subsidiary in the PRC is subject to an applicable enterprise income tax at the rate of 33% on the estimated assessable profits for the Relevant Periods.

The income tax expense for the Relevant Periods can be reconciled to the loss per the consolidated income statements as follows:

	For the year ended 31 December		
	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss before income tax expense	<u>(2,601)</u>	<u>(10,906)</u>	<u>(11,801)</u>
Tax calculated at the Hong Kong profits tax rate of 17.5%	(455)	(1,909)	(2,065)
Tax effect of expenses not deductible for tax purpose	484	2,860	2,136
Tax effect of income not taxable for tax purpose	<u>(29)</u>	<u>(951)</u>	<u>(71)</u>
	<u>—</u>	<u>—</u>	<u>—</u>

No provision for deferred taxation has been recognised in the consolidated financial statements as the amount involved is insignificant.

12. Profit/loss attributable to equity holders of Red Empire

The loss attributable to equity holders of Red Empire is dealt with in the financial statements of Red Empire to the extent of HK\$4,000 and HK\$5,373,000 respectively, for each of the two years ended 31 December 2004 and 2005; and the profit attributable to equity holders of Red Empire is to the extent of HK\$18,933,000 for the year ended 31 December 2006.

13. Dividends

No dividend has been paid or declared by Red Empire during the Relevant Periods.

14. Earnings per share

No earnings per share information have been presented as such information is not meaningful for the purpose of this report.

15. Prepaid lease payments

The prepaid lease payments are analysed for reporting purposes as follows:

	As at 31 December		
	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Red Empire Group			
Non-current assets	19,558	327,873	336,925
Current assets	515	9,643	10,210
	<u>20,073</u>	<u>337,516</u>	<u>347,135</u>

The prepaid lease payments were paid to acquire medium-term land use rights in the PRC for the purpose of property development over a period of 40 years. As at 31 December 2005 and 2006, the land use rights were pledged to a bank to secure the bank borrowings as disclosed in *note 25* to the Financial Information.

APPENDIX II FINANCIAL INFORMATION OF THE RED EMPIRE GROUP

16. Plant and equipment

	Leasehold improvements <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Red Empire Group					
Cost					
At 1 January 2004	—	—	—	94	94
Additions	510	86	31	1,240	1,867
At 31 December 2004	510	86	31	1,334	1,961
Additions	—	9	124	467	600
At 31 December 2005	510	95	155	1,801	2,561
Additions	—	—	151	—	151
Foreign currency translation	—	—	7	70	77
At 31 December 2006	510	95	313	1,871	2,789
Accumulated depreciation					
At 1 January 2004	—	—	—	75	75
Charge for the year	102	17	6	267	392
At 31 December 2004	102	17	6	342	467
Charge for the year	102	17	16	303	438
At 31 December 2005	204	34	22	645	905
Charge for the year	102	20	49	341	512
At 31 December 2006	306	54	71	986	1,417
Net book value					
At 31 December 2006	204	41	242	885	1,372
At 31 December 2005	306	61	133	1,156	1,656
At 31 December 2004	408	69	25	992	1,494

17. Properties held for development

	As at 31 December		
	2004 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Red Empire Group			
Construction cost	52,124	310,573	759,234
Others	2,837	8,900	42,088
	54,961	319,473	801,322

As at 31 December 2005 and 2006, the properties held for development were pledged to a bank to secure bank borrowings as disclosed in *note 25* to the Financial Information.

18. Interests in subsidiaries

	As at 31 December		
	2004	2005	2006
	HK'000	HK\$'000	HK\$'000
Unlisted investment, at cost	9,000	18,727	18,727
Less: Impairment	—	(9,000)	(9,000)
	9,000	9,727	9,727
Loan to subsidiary — Yue Tian (note a)	—	287,650	315,558
Investment in subsidiaries	9,000	297,377	325,285
Amounts due from subsidiaries (note b)			
— Poly Tianyu	95,365	97	—
— Yue Tian	—	33,971	410
	95,365	34,068	410
	104,365	331,445	325,695

Notes:

- Loan to subsidiary is unsecured, interest-free and repayable by 2020. The fair value of the loan at initial recognition has been determined based on the present value of the estimated future cash flows discounted using the prevailing market rates.
- Amount due from Yue Tian is unsecured, interest-free and repayable on demand.

Investment in subsidiaries represents Red Empire's direct and indirect interest in the following entities:

Name of subsidiaries	Place and date of incorporation/ establishment and kind of legal entity	Registered/ authorised and issued paid-up capital	Attributable equity interest held by Red Empire		Principal activity
			Directly	Indirectly	
Yue Tian	Hong Kong, 2 March 1993, Incorporated	Authorised capital of HK\$100,000 of 100,000 ordinary shares of HK\$1 each and issued paid-up capital of HK\$72,000	51%	—	Investment holding
Poly Tianyu	Hong Kong, 21 November 2003, Incorporated	Authorised capital of HK\$10,000 of 10,000 ordinary shares of HK\$1 each and issued paid-up capital of HK\$100	51%	—	Investment holding

APPENDIX II FINANCIAL INFORMATION OF THE RED EMPIRE GROUP

Name of subsidiaries	Place and date of incorporation/ establishment and kind of legal entity	Registered/ authorised and issued and paid-up capital	Attributable equity interest held by Red Empire		Principal activity
			Directly	Indirectly	
			Cheng Jian Tianyu	The PRC 26 September 2002, Sino-foreign cooperative enterprise	

Note: Pursuant to the sino-foreign cooperative agreement entered into by the parties on 3 January 2005, Yue Tian has fully paid RMB90 million on 8 June 2006 to GCC as cash compensation and since then (i) GCC is no longer entitled to any profit or loss generated by Cheng Jian Tianyu; and (ii) Yue Tian will be entitled to 100% of the total gross floor area of the project upon completion of the proposed development and the entire profit or loss to be generated by Cheng Jian Tianyu.

As at 31 December 2005 and 2006, investment in, loan to and amount due from Yue Tian with carrying amount of approximately HK\$331,348,000 and HK\$325,695,000 were pledged to a bank to secure bank borrowings as disclosed in *note 25* to the Financial Information.

Except for Cheng Jian Tianyu, which operates in the PRC, all subsidiaries of Red Empire operate in Hong Kong.

None of the subsidiaries had any debt securities outstanding as at 31 December 2004, 2005 and 2006 or at any time during the Relevant Periods.

19. Goodwill

	<i>HK\$'000</i>
Red Empire Group	
At 1 January 2004 and 31 December 2004	6,739
Acquisition of additional interest in a subsidiary (<i>note 31</i>)	5,433
	<hr/>
At 31 December 2005 and 2006	12,172
	<hr/> <hr/>

Impairment test for goodwill

The Red Empire Group operates in one cash-generating unit (“CGU”) which is property development. The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period with key assumptions including revenues, direct costs and other operating costs. Management determines these key assumptions based on past performance and expectations on market development. A discount rate of 12% is used and it reflects specific risks relating to the business. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of the CGU to exceed its recoverable amount.

20. Amounts due from/(to) intermediate holding company/immediate holding company/ minority shareholders/fellow subsidiary

The amounts are unsecured, interest-free, have no fixed repayment date and are expected to be repayable within 12 months.

21. Amounts due from/(to) related companies/related party

	For the year ended 31 December		
	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Red Empire Group			
Due from related companies:			
Guangzhou City Construction & Development Company Limited (廣州市城市建設開發有限公司)	141	—	—
Guangzhou Feng Jia Enterprise Development Co., Ltd* (廣州市豐嘉企業發展有限公司)	64,027	—	—
	<u>64,168</u>	<u>—</u>	<u>—</u>
Maximum during the year			
Guangzhou City Construction & Development Company Limited (廣州市城市建設開發有限公司)	141	141	—
Guangzhou Feng Jia Enterprise Development Co., Ltd* (廣州市豐嘉企業發展有限公司)	64,027	64,027	—
	<u>64,027</u>	<u>64,027</u>	<u>—</u>
Due to related companies:			
Guangzhou Chuangyu Real Estate Development Company Limited* (廣州市創譽房地產開發有限公司)	18,737	3,251	—
Guangzhou Tianyu Real Estate Development Company Limited* (廣州市天譽房地產開發有限公司)	6,457	2,215	—
Guangzhou Feng Jia Enterprise Development Co., Ltd* (廣州市豐嘉企業發展有限公司)	—	6,263	75,690
	<u>25,194</u>	<u>11,729</u>	<u>75,690</u>
Due to related party:			
Mr. Yu Pan**	<u>20,377</u>	<u>98</u>	<u>—</u>

* The amounts represent balances with companies in which Mr. Yu Pan, a director of Yue Tian and Poly Tianyu, has beneficiary interests. These amounts are interest-free, unsecured and repayable on demand.

** Mr. Yu Pan is a director of Yue Tian.

22. Cash and cash equivalents

An analysis of the balance of cash and cash equivalents is as follows:

	As at 31 December		
	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Red Empire Group			
Cash and bank balances	<u>387</u>	<u>88,959</u>	<u>5,953</u>

APPENDIX II FINANCIAL INFORMATION OF THE RED EMPIRE GROUP

Included in cash and cash equivalents in the consolidated balance sheets are the following amounts denominated in a currency other than the functional currency of Red Empire to which they relate:

	As at 31 December		
	2004	2005	2006
	'000	'000	'000
RMB	197	89,149	5,312
USD	1	—	4

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

23. Loans from minority shareholders

The loans from minority shareholders are unsecured, interest-free, have no fixed repayment date and are expected to be repayable by 2020.

The fair value of the loans at initial recognition has been determined based on the present value of the estimated future cash flows discount using the prevailing market rates. The residual amount is included in shareholders' equity (*note 27*).

The loans from minority shareholders recognised in the consolidated balance sheets is calculated as follows:

	<i>HK\$'000</i>
Balance at 1 January 2004 and 2005	—
Loans from minority shareholders	278,724
Contributions from minority shareholders	(162,422)
Imputed interest expense (<i>note 7</i>)	3,489
	119,791
Carrying amount at 31 December 2005	119,791
Additional loans from minority shareholders	13,744
Contributions from minority shareholders	(7,434)
Imputed interest expense (<i>note 7</i>)	7,138
	133,239
Carrying amount at 31 December 2006	

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

The fair values of the loans as at 31 December 2005 and 2006 approximate to their respective carrying amounts.

24. Deferred tax liabilities

The component of deferred tax liabilities recognised in the consolidated balance sheets and the movements during the Relevant Periods are as follows:

	Revaluation of prepaid lease payments <i>HK\$'000</i>
Red Empire Group	
At 1 January 2004 and 1 January 2005	—
Acquisition of additional interest in a subsidiary (<i>note 31</i>)	14,331
	<hr/>
At 31 December 2005	14,331
Translation adjustment	800
	<hr/>
At 31 December 2006	15,131
	<hr/> <hr/>

25. Bank borrowings

At the balance sheet dates, the bank borrowings were repayable as follows:

	As at 31 December		
	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Red Empire Group			
Within two to five years	—	152,939	238,017
Over five years	—	—	128,283
	<hr/>	<hr/>	<hr/>
Non-current liabilities	—	152,939	366,300
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The bank borrowings are secured by the Red Empire Group's land use rights and properties held for development in the PRC and Red Empire's interest in Yue Tian as set forth in *notes 15, 17 and 18*, respectively, to the Financial Information, carry interest at HIBOR plus 1.8% per annum and are fully repayable in 2013.

26. Share capital

	As at 31 December					
	2004		2005		2006	
	<i>US\$'000</i>	<i>HK\$'000</i>	<i>US\$'000</i>	<i>HK\$'000</i>	<i>US\$'000</i>	<i>HK\$'000</i>
<i>Authorised:</i>						
50,000 ordinary shares of US\$1.00 each	50	390	50	390	50	390
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Issued and fully paid:</i>						
1 ordinary share of US\$1.00 each	—	—	—	—	—	—
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

APPENDIX II FINANCIAL INFORMATION OF THE RED EMPIRE GROUP

27. (Deficits)/reserves

	Foreign exchange reserve <i>HK\$'000</i>	Revaluation reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
Red Empire Group				
At 1 January 2004	—	—	(5)	(5)
Exchange differences on translation of financial statements of foreign subsidiary	90	—	—	90
Loss for the year	—	—	(1,146)	(1,146)
At 31 December 2004	90	—	(1,151)	(1,061)
Revaluation of prepaid lease payments	—	20,764	—	20,764
Exchange differences on translation of financial statements of foreign subsidiary	2,123	—	—	2,123
Loss for the year	—	—	(3,582)	(3,582)
At 31 December 2005	2,213	20,764	(4,733)	18,244
Exchange differences on translation of financial statements of foreign subsidiary	22,511	—	—	22,511
Loss for the year	—	—	(479)	(479)
At 31 December 2006	<u>24,724</u>	<u>20,764</u>	<u>(5,212)</u>	<u>40,276</u>
			(Accumulated losses)/ retained profit	
			<i>HK\$'000</i>	

Red Empire				
At 1 January 2004				(6)
Loss for the year				(4)
At 31 December 2004				(10)
Loss for the year				(5,373)
At 31 December 2005				(5,383)
Profit for the year				18,933
At 31 December 2006				<u>13,550</u>

(a) Foreign exchange reserve

The amounts represents gains/losses arising from the translation of the financial statements of subsidiaries the functional currencies of which are different from the presentation currency. The reserve is dealt with in accordance with the accounting policy set out in *note 2(f)* to the Financial Information.

(b) *Revaluation reserve*

The amount represents revaluation surplus of the net assets acquired arising from acquisition of further 12.75% equity interest in Yue Tian by Red Empire.

28. Operating lease commitments

At the balance sheet dates, the Red Empire Group has commitments for future minimum lease payments under non-cancellable operating lease in respect of land and buildings which fall due as follows:

	As at 31 December		
	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Red Empire Group			
Within one year	681	79	108
	<u>681</u>	<u>79</u>	<u>108</u>

29. Capital commitments

	As at 31 December		
	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Red Empire Group			
Capital expenditure in respect of property development costs contracted for but not provided for in the Financial Information	861,555	769,246	385,009
	<u>861,555</u>	<u>769,246</u>	<u>385,009</u>

30. Related party transactions

The significant transactions with related parties during the Relevant Periods are as follows:

Name of parties and relationship	Nature of transactions	For the year ended 31 December		
		2004	2005	2006
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Geldy Limited, fellow subsidiary	Rental expense	495	594	1,069
Poly (Hong Kong) Investments Limited, intermediate holding company	Guarantee given to a bank in respect of credit facilities extended to the Yue Tian Group	—	204,000	204,000
Mr. Yu Pan, director and shareholders of Yue Tian, Poly Tianyu and Wise Gain Investment Limited	Guarantee given to a bank in respect of credit facilities extended to the Yue Tian Group	—	116,000	116,000
Shell Electric Mfg. (Holdings) Company Limited, shareholder of Allright, shareholder of Yue Tian	Guarantee given to a bank in respect of credit facilities extended to the Yue Tian Group	—	80,000	80,000
		<u>—</u>	<u>400,000</u>	<u>400,000</u>

31. Acquisition of additional interest in a subsidiary

In 2005, Red Empire acquired further 12.75% of the issued share capital of Yue Tian from Poly Tianyu, a partially owned subsidiary of Red Empire for a consideration of approximately HK\$9,727,000. The net assets acquired and the goodwill arisen in the transaction are as follows:

	Carrying value	Fair value adjustment	Fair value
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets	76,013	44,073	120,086
Current assets	139,047	—	139,047
Current liabilities	(211,129)	—	(211,129)
Non-current liabilities	—	(14,331)	(14,331)
	<u>3,931</u>	<u>29,742</u>	<u>33,673</u>
Net assets acquired (12.75% thereon)			4,294
Cash consideration paid			<u>9,727</u>
Goodwill (<i>note 19</i>)			<u>5,433</u>

32. Financial instruments

The Red Empire Group's principal financial assets are cash and bank balances and receivables from related parties. Financial liabilities of the Red Empire Group include loans from minority shareholders, bank borrowings and other amounts due to related parties. The Red Empire Group does not hold or issue any financial instruments for trading purposes at the balance sheet dates.

(a) Foreign currency risk

The functional currency of the subsidiary of Red Empire is RMB. RMB is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB must take place through the People's Bank of China or other institutions authorised to buy and sell foreign exchange. The exchange rates adopted for the foreign exchange transactions are the rates of exchange quoted by the People's Bank of China that are determined largely by supply and demand.

(b) Fair value

The carrying amounts of significant financial assets and liabilities approximate their respective fair values as at 31 December 2004, 2005 and 2006.

The carrying values of cash and bank balances and other current related party balances approximate their respective fair values because of their short maturities. The carrying amounts of their loans from minority shareholders and bank borrowings approximate their respective fair values because the effective interest rates of the debts are approximate to the prevailing market rates at the balance sheet dates for similar borrowings available to the Red Empire Group.

33. Post balance sheet events

On 5 March 2007, Red Empire, Allright and Wise Gain Investment Limited (collectively referred to as the “Lenders”) entered into a loan agreement with Yue Tian, pursuant to which the Lenders agreed to advance a loan up to HK\$560,000,000 to Yue Tian in proportion to their shareholding in Yue Tian. The loan bears interest at a rate of 15% per annum and a default rate of 20% per annum for an overdue amount, is unsecured and repayable within a term not exceeding two months. By mid-March 2007, the aforesaid loans from the Lenders were fully repaid.

In March 2007, Cheng Jian Tianyu secured a term loan up to RMB800,000,000 from the Agricultural Bank of China.

Except for the above, there is no material post balance sheet event subsequent to 31 December 2006.

C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Red Empire Group in respect of any period subsequent to 31 December 2006.

Yours faithfully,

BDO McCABE LO LIMITED
Certified Public Accountants
Au Yeung Shiu Kau Peter
Practising Certificate Number: P02289

2. ACCOUNTANTS' REPORT OF THE YUE TIAN GROUP

The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the auditors and reporting accountants of the Company, BDO McCabe Lo Limited.



BDO McCabe Lo Limited
Certified Public Accountants
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The Directors
Skyfame Realty (Holdings) Limited
2502B, Admiralty Centre
Tower 1
18 Harcourt Road
Hong Kong

4 April 2007

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) regarding Yue Tian Development Limited (“Yue Tian”) and its subsidiary (hereinafter collectively referred to as the “Yue Tian Group”) for each of the three years ended 31 December 2004, 2005 and 2006 (the “Relevant Periods”), for inclusion in the circular of Skyfame Realty (Holdings) Limited (the “Company”) dated 4 April 2007 (the “Circular”), issued in connection with, inter alia, (i) the proposed issue of United States dollars (“US\$”) 200 million 4 per cent secured convertible notes due 2013; (ii) the proposed acquisition of 100% shareholding in and shareholder’s loans due by Red Empire Limited (“Red Empire”); (iii) the proposed acquisition of 100% shareholding in and shareholder’s loans due by Allright Investments Limited (“Allright”); and (iv) the proposed acquisition of 29% shareholding in and shareholder’s loans due by Yue Tian.

Yue Tian was incorporated in Hong Kong with limited liability on 2 March 1993 under the Hong Kong Companies Ordinance. Yue Tian has not carried on any business since the date of its incorporation save for the establishment and holding of the entire equity interest in Guangzhou Cheng Jian Tianyu Real Estate Development Company Limited (廣州市城建天譽房地產開發有限公司) (“Cheng Jian Tianyu”).

As at the date of this report, Yue Tian has direct interest in the following subsidiary.

Name of subsidiary	Place and date of establishment and kind of legal entity	Registered and paid-up capital	Attributable equity interest directly held by Yue Tian	Principal activity
Cheng Jian Tianyu	The People's Republic of China (the "PRC"), 26 September 2002, Sino-foreign cooperative enterprise	Registered capital of US\$45,000,000 and paid-up capital of US\$27,500,000	100% <i>(Note)</i>	Property development

Note: Pursuant to the sino-foreign cooperative agreement entered into by the parties on 3 January 2005, Yue Tian has fully paid Renminbi ("RMB") 90 million on 8 June 2006 to Guangzhou City Construction & Development Holdings Limited (廣州市城市建設開發集團有限公司)("GCC") as cash compensation and since then (i) GCC is no longer entitled to any profit or loss generated by Cheng Jian Tianyu; and (ii) Yue Tian will be entitled to 100% of the total gross floor area of the project upon completion of the proposed development and the entire profit or loss to be generated by Cheng Jian Tianyu.

The consolidated financial statements of Yue Tian for the two years ended 31 December 2004 and 2005, which were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), were audited by Deloitte Touche Tohmatsu, Certified Public Accountants. The statutory financial statements of Cheng Jian Tianyu for the two years ended 31 December 2004 and 2005, which were prepared in accordance with the relevant PRC accounting rules and regulations, were audited by Guangzhou Pei Feng Certified Public Accountants Co., Ltd. (廣州沛豐會計師事務所有限公司), certified public accountants registered in the PRC.

For the purpose of this report, the directors of Yue Tian have prepared the management accounts of the Yue Tian Group and of Yue Tian for the Relevant Periods, in accordance with HKFRSs promulgated by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). We have undertaken an independent audit of the management accounts of the Yue Tian Group and of Yue Tian in accordance with the Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information and the notes thereto for the Relevant Periods set out in Sections A to C below have been prepared based on the management accounts of the Yue Tian Group. We have examined the management accounts of the Yue Tian Group and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the HKICPA.

The preparation of the management accounts of the Yue Tian Group and of Yue Tian is the responsibility of the directors of Yue Tian who approve their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information together with the notes thereto gives, for the purpose of this report, a true and fair view of the state of affairs of the Yue Tian Group and of Yue Tian as at 31 December 2004, 2005 and 2006, and of the consolidated results and cash flows of the Yue Tian Group for the Relevant Periods.

A. FINANCIAL INFORMATION

1. Consolidated income statements of the Yue Tian Group

	<i>Notes</i>	For the year ended 31 December		
		2004	2005	2006
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	3	—	—	—
Other revenue	5	36	120	407
General and administrative expenses		<u>(2,392)</u>	<u>(2,901)</u>	<u>(9,578)</u>
Loss from operations	6	(2,356)	(2,781)	(9,171)
Imputed interest on loans from shareholders	21	<u>—</u>	<u>(7,045)</u>	<u>—</u>
Loss before income tax expense		(2,356)	(9,826)	(9,171)
Income tax expense	10	<u>—</u>	<u>—</u>	<u>—</u>
Loss for the year attributable to equity holders of Yue Tian		<u><u>(2,356)</u></u>	<u><u>(9,826)</u></u>	<u><u>(9,171)</u></u>

2. Consolidated balance sheets of the Yue Tian Group

		As at 31 December		
		2004	2005	2006
<i>Notes</i>		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets				
	Prepaid lease payments			
	— non-current portion	14	19,558	288,519
	Plant and equipment	15	1,494	1,656
	Properties held for development	16	54,961	317,436
			<u>76,013</u>	<u>607,611</u>
			<u>76,013</u>	<u>1,102,552</u>
Current assets				
	Prepaid lease payments			
	— current portion	14	515	7,606
	Amounts due from shareholders	18	5,136	—
	Amount due from fellow subsidiary	18	—	428
	Amounts due from related companies	19	64,168	—
	Prepayments and other receivables		68,958	125,289
	Cash and cash equivalents	20	270	87,392
			<u>139,047</u>	<u>220,715</u>
			<u>139,047</u>	<u>64,843</u>
Current liabilities				
	Amount due to immediate holding company	18	160,949	47,437
	Amounts due to fellow subsidiaries	18	—	—
	Amounts due to related companies	19	25,194	11,729
	Amount due to related party	19	20,377	98
	Other payables and accruals		4,609	47,991
			<u>211,129</u>	<u>107,255</u>
			<u>211,129</u>	<u>150,830</u>
	Net current (liabilities)/assets		<u>(72,082)</u>	<u>113,460</u>
			<u>(72,082)</u>	<u>(85,987)</u>
	Total assets less current liabilities		<u>3,931</u>	<u>721,071</u>
			<u>3,931</u>	<u>1,016,565</u>
Non-current liabilities				
	Loans from shareholders	21	—	241,890
	Bank borrowings			
	— due after one year	22	—	152,939
			<u>—</u>	<u>394,829</u>
			<u>—</u>	<u>638,257</u>
	NET ASSETS		<u>3,931</u>	<u>326,242</u>
			<u>3,931</u>	<u>378,308</u>
Capital and reserves				
	Share capital	23	72	72
	Reserves	24	3,859	326,170
			<u>3,859</u>	<u>378,236</u>
	TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF YUE TIAN		<u>3,931</u>	<u>326,242</u>
			<u>3,931</u>	<u>378,308</u>

3. Balance sheets of Yue Tian

	Notes	As at 31 December		
		2004 HK\$'000	2005 HK\$'000	2006 HK\$'000
Non-current assets				
Plant and equipment	15	493	791	580
Investment in subsidiary	17	30,759	180,396	214,204
		<u>31,252</u>	<u>181,187</u>	<u>214,784</u>
Current assets				
Amounts due from shareholders	18	5,136	—	—
Amount due from subsidiary	17	128,281	379,836	409,957
Prepayments and other receivables		202	203	22
Cash and cash equivalents	20	83	3,288	520
		<u>133,702</u>	<u>383,327</u>	<u>410,499</u>
Current liabilities				
Amount due to immediate holding company	18	160,949	66	116
Amounts due to fellow subsidiaries	18	—	9	255
Other payables and accruals		118	75	153
		<u>161,067</u>	<u>150</u>	<u>524</u>
Net current (liabilities)/assets		<u>(27,365)</u>	<u>383,177</u>	<u>409,975</u>
Total assets less current liabilities		<u>3,887</u>	<u>564,364</u>	<u>624,759</u>
Non-current liabilities				
Loans from shareholders	21	—	241,890	271,957
NET ASSETS		<u>3,887</u>	<u>322,474</u>	<u>352,802</u>
Capital and reserves				
Share capital	23	72	72	72
Reserves	24	3,815	322,402	352,730
TOTAL EQUITY		<u>3,887</u>	<u>322,474</u>	<u>352,802</u>

4. Consolidated statements of changes in equity of the Yue Tian Group

	<i>Note</i>	Share capital HK\$'000	Capital reserve HK\$'000	Foreign exchange reserve HK\$'000	Acc- umulated losses HK\$'000	Total HK\$'000
At 1 January 2004		72	12,455	6	(6,481)	6,052
Exchange differences on translation of financial statements of foreign subsidiary		—	—	235	—	235
Loss for the year		—	—	—	(2,356)	(2,356)
At 31 December 2004		72	12,455	241	(8,837)	3,931
Exchange differences on translation of financial statements of foreign subsidiary		—	—	4,163	—	4,163
Contributions from shareholders	21	—	327,974	—	—	327,974
Loss for the year		—	—	—	(9,826)	(9,826)
At 31 December 2005		72	340,429	4,404	(18,663)	326,242
Exchange differences on translation of financial statements of foreign subsidiary		—	—	42,514	—	42,514
Contributions from shareholders	21	—	18,723	—	—	18,723
Loss for the year		—	—	—	(9,171)	(9,171)
At 31 December 2006		<u>72</u>	<u>359,152</u>	<u>46,918</u>	<u>(27,834)</u>	<u>378,308</u>

5. Consolidated cash flow statements of the Yue Tian Group

	For the year ended 31 December		
	2004	2005	2006
	HK\$'000	HK\$'000	HK\$'000
Cash flows from operating activities			
Loss before income tax expense	(2,356)	(9,826)	(9,171)
Adjustments for:			
Depreciation of plant and equipment	392	438	512
Write off of hotel pre-operating expenses	—	—	5,239
Imputed interest on loans from shareholders	—	7,045	—
Interest income	(36)	(120)	(407)
Operating loss before working capital changes	(2,000)	(2,463)	(3,827)
Changes in working capital:			
(Increase)/decrease in amounts due from shareholders	(5,082)	5,136	—
(Increase)/decrease in amount due from fellow subsidiary	—	(428)	428
(Increase)/decrease in amounts due from related companies	(60,887)	64,168	—
(Increase)/decrease in prepayments and other receivables	(61,995)	(56,331)	76,966
Increase/(decrease) in amounts due to shareholders	160,949	(113,568)	(49,727)
Increase in amounts due to fellow subsidiaries	—	—	15
Increase/(decrease) in amounts due to related companies	4,610	(13,465)	63,307
Increase/(decrease) in amount due to related party	20,377	(20,279)	(103)
Increase in other payables and accruals	4,413	43,382	24,101
Net cash generated from/(used in) operating activities	60,385	(93,848)	111,160
Cash flows from investing activities			
Acquisition of plant and equipment	(1,867)	(600)	(151)
Additions to properties held for development	(51,247)	(254,869)	(446,681)
Additions to prepaid lease payments	(20,588)	(283,658)	(1,004)
Interest received	36	120	407
Net cash used in investing activities	(73,666)	(539,007)	(447,429)
Cash flows from financing activities			
Loans from shareholders	—	562,819	34,144
Proceeds from new bank loans	—	152,939	213,361
Net cash from financing activities	—	715,758	247,505
Net (decrease)/increase in cash and cash equivalents	(13,281)	82,903	(88,764)
Effect of foreign exchange rate changes	235	4,219	7,184
Cash and cash equivalents at beginning of year	13,316	270	87,392
Cash and cash equivalents at end of year (note 20)	270	87,392	5,812

B. NOTES TO THE FINANCIAL INFORMATION

1. General

Yue Tian was incorporated in Hong Kong with limited liability on 2 March 1993 under the Hong Kong Companies Ordinance. Yue Tian has not carried on any business since the date of its incorporation save for the establishment and holding of the entire equity interest in Cheng Jian Tianyu. The immediate and intermediate holding companies of Yue Tian are Red Empire Limited, a company incorporated in the British Virgin Islands, and Poly (Hong Kong) Investments Limited, a company incorporated in Hong Kong and the shares of which are listed on The Stock Exchange of Hong Kong Limited, respectively. As at the date of this report, the directors of Yue Tian considered the ultimate holding company of Yue Tian to be China Poly Group Corporation, a state-owned enterprise established in the PRC. The registered office and principal place of business of Yue Tian is located at Room 2503, Admiralty Centre, Tower 1, 18 Harcourt Road, Hong Kong.

Yue Tian is an investment holding company. The principal activity of its subsidiary is property development.

The Financial Information is presented in thousands of units of Hong Kong dollars (HK\$'000), unless otherwise stated, which is the same as the functional currency of Yue Tian.

2. Principal accounting policies

(a) Statement of compliance

The Financial Information set out in this report has been prepared in accordance with all applicable HKFRSs (including all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”), and Interpretations (“INTs”)) issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The HKICPA has issued the following standards and interpretations that are not yet effective. The Yue Tian Group has considered the following standards and interpretations but does not expect that the application of these new standards and interpretations will have a material effect on how the results of operations and financial position of the Yue Tian Group are prepared and presented.

HKAS 1 Amendment	Capital Disclosures ¹
HKFRS 7	Financial instruments: Disclosures ¹
HK(IFRIC) — Interpretation 10	Interim Financial Reporting and Impairment ²

¹ Effective for annual periods beginning on or after 1 January 2007

² Effective for annual periods beginning on or after 1 November 2007

(b) Basis of preparation

The Financial Information comprises the financial statements of Yue Tian and its subsidiary.

The Financial Information has been prepared on a going concern basis notwithstanding that the Yue Tian Group had net current liabilities as at 31 December 2004, 2005 and 2006 as its holding company has undertaken to provide such financial support to the Yue Tian Group to enable it to continue as a going concern and to enable it to meet its liabilities as and when they fall due.

The Financial Information has been prepared under the historical cost convention.

(c) ***Basis of consolidation***

Where Yue Tian has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The Financial Information presents the results of the Yue Tian Group as if they formed a single entity. Inter-company transactions and balances between group companies are therefore eliminated in full.

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition.

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

Yue Tian's interests in subsidiary are stated at cost less impairment loss, if any.

(d) ***Subsidiaries***

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

(e) ***Impairment of non-financial assets***

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit (i.e. the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows).

Impairment charges are included in the administrative expenses line item in the income statement, except to the extent they reverse gains previously recognised in the statement of recognised income and expense.

(f) ***Foreign currencies***

Transactions entered into by any of the group entities in a currency other than the currency of the primary economic environment in which it operates (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are similarly recognised immediately in the income statement, except for foreign currency borrowings qualifying as a hedge of a net investment in a foreign operation.

On consolidation, the results of overseas operations are translated into Hong Kong dollars at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the balance sheet date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised directly in equity (the “foreign exchange reserve”). Exchange differences recognised in the income statement of group entities’ separate financial statements on the translation of long-term monetary items forming part of the Yue Tian Group’s net investment in the overseas operation concerned are reclassified to the foreign exchange reserve if the item is denominated in the functional currency of the Yue Tian Group or the overseas operation concerned.

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

(g) ***Plant and equipment***

Plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. They are depreciated at rates sufficient to write off their costs net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives and residual value are reviewed, and adjusted if appropriate, at each balance sheet date. The principal annual rate is 20%.

(h) ***Properties held for development***

Properties held for development are stated at the lower of cost and net realisable value and comprise development expenditure and professional fees. Net realisable value is determined by reference to management estimates based on prevailing market conditions less costs to be included in selling the property. On completion, the properties are transferred to completed properties held for sale.

(i) ***Properties held for sale***

Properties held for sale are stated at the lower of cost and net realisable value. Net realisable value is determined by reference to management estimates based on prevailing market conditions less estimated costs to be incurred in selling the property.

(j) ***Cash and cash equivalents***

Cash includes cash on hand and demand deposits with any bank or other financial institutions. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash which are subject to an insignificant risk of changes in value.

(k) ***Income taxes***

Income taxes for the Relevant Periods comprise current tax and deferred tax.

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

Deferred tax arises from temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes and is accounted for using the balance sheet liability method. Except for recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the reporting period end.

Income taxes are recognised in the income statement except when they relate to items directly recognised to equity in which case the taxes are also directly recognised in equity.

(l) Revenue recognition

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

(m) Financial instruments

(i) Financial assets

The Yue Tian Group classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. Other than financial assets in a qualifying hedging relationship, the Yue Tian Group's accounting policy for each category is as follows:

Fair value through profit or loss: This category comprises the financial assets that have been acquired for the purpose of selling or repurchasing it in the short-term or if so designated by management. This category includes derivatives which are not qualified for hedge accounting. Debt securities and bank deposits with embedded derivatives for yield enhancement whose economic characteristics and risks are not closely related to the host securities and deposits are designated as financial assets at fair value through profit or loss. They are carried in the balance sheet at fair value with changes in fair value recognised in the income statement.

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

Held-to-maturity investments: These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Yue Tian Group's management has the positive intention and ability to hold to maturity. At each balance sheet date subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using effective interest rate method, less any identified impairment losses.

Available-for-sale: Non-derivative financial assets not included in the above categories are classified as available-for-sale and comprise the Yue Tian Group's strategic investments in entities not qualifying as subsidiaries, associates or jointly controlled entities. They are carried at fair value with changes in fair value recognised directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in the income statement.

(ii) *Financial liabilities*

The Yue Tian Group classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was incurred. Other than financial liabilities in a qualifying hedging relationship, the Yue Tian Group's accounting policy for each category is as follows:

Fair value through profit or loss: This category comprises only out-of-the-money derivatives. They are carried in the balance sheet at fair value with changes in fair value recognised in the income statement.

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

- Trade payables and other short-term monetary liabilities, which are recognised at amortised cost.
- Bank borrowings and loans from shareholders are initially recognised at the amount advanced net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet. "Interest expense" in this context includes initial transaction costs and premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

(iii) *Derecognition*

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

(n) *Provision and contingent liabilities*

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

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

(o) *Employee benefits*

(i) *Defined contribution retirement plan*

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

The employees of the PRC subsidiary, Cheng Jian Tianyu, are required to participate in a central pension scheme operated by the local municipal government. Cheng Jian Tianyu is required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions payable are charged to the income statement when they become payable in accordance with the rules of the central pension scheme.

(ii) *Employee entitlements*

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

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(p) *Leases*

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

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Yue Tian Group (a “finance lease”), the asset is treated as if it had been purchased outright. The amount initially recognised as an asset is the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to the income statement over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

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

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

(q) **Borrowing costs**

Borrowing costs are expensed in profit and loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

3. Turnover

The Yue Tian Group did not generate any turnover during the Relevant Periods.

4. Segment information

The Yue Tian Group is principally engaged in property development in the PRC, which is regarded as one business segment and one geographical segment.

5. Other revenue

	For the year ended 31 December		
	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank interest income	36	120	407
	<u>36</u>	<u>120</u>	<u>407</u>

6. Loss from operations

Loss from operations is stated after charging:

	For the year ended 31 December		
	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Auditors' remuneration	38	12	320
Depreciation of plant and equipment	392	438	512
Write-off of hotel pre-operating expenses	—	—	5,239
Minimum lease payments under operating lease in respect of land and buildings	495	594	1,069
	<u>495</u>	<u>594</u>	<u>1,069</u>

APPENDIX II FINANCIAL INFORMATION OF THE RED EMPIRE GROUP

In addition to the above, the following expenditures have been capitalised as properties held for development as disclosed in *note 16* to the Financial Information during the Relevant Periods:

	For the year ended 31 December		
	2004	2005	2006
	HK\$'000	HK\$'000	HK\$'000
Amortisation of prepaid lease payments	515	7,606	9,855
Interest on bank borrowings wholly repayable over five years	—	—	18,825
Imputed interest on loans from shareholders wholly repayable over five years (<i>note 21</i>)	—	—	14,646
Minimum lease payments under operating lease in respect of land and buildings	646	535	565
	<u>646</u>	<u>535</u>	<u>565</u>

7. Staff costs

	For the year ended 31 December		
	2004	2005	2006
	HK\$'000	HK\$'000	HK\$'000
Staff costs (including directors' emoluments) comprise:			
Basic salaries and other benefits	1,206	1,174	3,425
Contributions to defined contribution pension plans	177	205	379
	<u>1,383</u>	<u>1,379</u>	<u>3,804</u>
<i>Less: expenses capitalised as properties held for development (note 16)</i>	<u>(1,262)</u>	<u>(1,246)</u>	<u>(3,734)</u>
Staff costs charged to consolidated income statement	<u>121</u>	<u>133</u>	<u>70</u>

8. Directors' emoluments

No directors' emoluments were incurred for the Relevant Periods.

9. Five highest paid individuals

During the Relevant Periods, none of the five highest paid individuals is a director of Yue Tian. The emoluments payable to the five highest paid individuals for the Relevant Periods are as follows:

	For the year ended 31 December		
	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Basic salaries and other benefits	469	332	914
Contributions to defined contribution pension plans	20	24	38
	<u>489</u>	<u>356</u>	<u>952</u>

The number of five highest paid individuals for the Relevant Periods whose emoluments fall within the band set out below is as follows:

	No. of employees		
	For the year ended 31 December		
	2004	2005	2006
Nil to HK\$1,000,000	<u>5</u>	<u>5</u>	<u>5</u>

10. Income tax expense

No provision for Hong Kong profits tax or overseas income tax has been made as the Yue Tian Group has no assessable profits during the Relevant Periods.

Hong Kong profits tax is calculated at 17.5% on the estimated assessable profits for the Relevant Periods.

The Yue Tian Group's subsidiary in the PRC is subject to an applicable enterprise income tax at the rate of 33% on the estimated assessable profits for the Relevant Periods.

The income tax expense for the Relevant Periods can be reconciled to the loss per the consolidated income statements are follows:

	For the year ended 31 December		
	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss before income tax expenses	<u>(2,356)</u>	<u>(9,826)</u>	<u>(9,171)</u>
Tax calculated at the Hong Kong profits tax rate of 17.5%	(412)	(1,720)	(1,605)
Tax effect of expenses not deductible for tax purpose	418	1,741	1,676
Tax effect of income not taxable for tax purpose	<u>(6)</u>	<u>(21)</u>	<u>(71)</u>
	<u>—</u>	<u>—</u>	<u>—</u>

No provision for deferred taxation has been recognised in the consolidated financial statements as the amount involved is insignificant.

11. Loss attributable to equity holders of Yue Tian

The loss attributable to equity holders of Yue Tian is dealt with in the financial statements of Yue Tian to the extent of HK\$2,142,000 and HK\$9,387,000 respectively, for the two years ended 31 December 2004 and 2005; and the profit attributable to equity holders of Yue Tian for the year ended 31 December 2006 is to the extent of HK\$11,605,000.

12. Dividends

No dividend has been paid or declared by Yue Tian during the Relevant Periods.

13. Earnings per share

No earnings per share information have been presented as such information is not meaningful for the purpose of this report.

14. Prepaid lease payments

The prepaid lease payments are analysed for reporting purposes as follows:

	As at 31 December		
	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Yue Tian Group			
Non-current assets	19,558	288,519	294,856
Current assets	515	7,606	8,935
	<u>20,073</u>	<u>296,125</u>	<u>303,791</u>

The prepaid lease payments were paid to acquire medium-term land use rights in the PRC for the purpose of property development over a period of 40 years. As at 31 December 2005 and 2006, the land use rights were pledged to a bank to secure the bank borrowings as disclosed in *note 22* to the Financial Information.

15. Plant and equipment

	Leasehold improvements <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Yue Tian Group					
Cost					
At 1 January 2004	—	—	—	94	94
Additions	510	86	31	1,240	1,867
At 31 December 2004	510	86	31	1,334	1,961
Additions	—	9	124	467	600
At 31 December 2005	510	95	155	1,801	2,561
Additions	—	—	151	—	151
Foreign currency translation	—	—	7	70	77
At 31 December 2006	510	95	313	1,871	2,789
Accumulated depreciation					
At 1 January 2004	—	—	—	75	75
Charge for the year	102	17	6	267	392
At 31 December 2004	102	17	6	342	467
Charge for the year	102	17	16	303	438
At 31 December 2005	204	34	22	645	905
Charge for the year	102	20	49	341	512
At 31 December 2006	306	54	71	986	1,417
Net book value					
At 31 December 2006	204	41	242	885	1,372
At 31 December 2005	306	61	133	1,156	1,656
At 31 December 2004	408	69	25	992	1,494

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	Leasehold improvements <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Yue Tian					
Cost					
At 1 January 2004	—	—	—	94	94
Additions	510	86	20	—	616
At 31 December 2004	510	86	20	94	710
Additions	—	9	—	467	476
At 31 December 2005	510	95	20	561	1,186
Additions	—	—	8	—	8
At 31 December 2006	510	95	28	561	1,194
Accumulated depreciation					
At 1 January 2004	—	—	—	75	75
Charge for the year	102	17	4	19	142
At 31 December 2004	102	17	4	94	217
Charge for the year	102	17	5	54	178
At 31 December 2005	204	34	9	148	395
Charge for the year	102	20	4	93	219
At 31 December 2006	306	54	13	241	614
Net book value					
At 31 December 2006	204	41	15	320	580
At 31 December 2005	306	61	11	413	791
At 31 December 2004	408	69	16	—	493

16. Properties held for development

	As at 31 December		
	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Yue Tian Group			
Construction costs	52,124	308,536	756,728
Others	2,837	8,900	49,596
	54,961	317,436	806,324

As at 31 December 2005 and 2006, the properties held for development were pledged to a bank to secure bank borrowings as disclosed in *note 22* to the Financial Information.

17. Interest in subsidiary

	As at 31 December		
	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Yue Tian			
Unlisted investment, at cost	30,759	180,396	214,204
Amount due from subsidiary-current	128,281	379,836	409,957
	<u>159,040</u>	<u>560,232</u>	<u>624,161</u>

The amount due from subsidiary is unsecured, interest-free and repayable on demand.

Investment in subsidiary represents Yue Tian's direct interest in the following entity:

Name of subsidiary	Place and date of establishment kind of legal entity	Registered and paid-up capital	Attributable equity interest directly held by Yue Tian	Principal activity and place of operation
Cheng Jian Tianyu 城建天誉	PRC, 26 September 2002, Sino-foreign cooperation enterprise	Registered capital of US\$45,000,000 and paid-up capital of US\$27,500,000	100% (Note)	Property development

Note: Pursuant to the sino-foreign cooperative agreement entered into by the parties on 3 January 2005, Yue Tian has fully paid RMB90 million on 8 June 2006 to GCC as cash compensation and since then (i) GCC is no longer be entitled to any profit or loss generated by Cheng Jian Tianyu; and (ii) Yue Tian will be entitled to 100% of the total gross floor area of the project upon completion of the proposed development and the entire profit or loss to be generated by Cheng Jian Tianyu.

Cheng Jian Tianyu did not have any debt securities outstanding as at 31 December 2004, 2005 and 2006 or at any time during the Relevant Periods.

18. Amounts due from/(to) shareholders immediate holding company/fellow subsidiaries

The amounts due from/(to) shareholders/immediate holding company/fellow subsidiaries are unsecured, interest-free and repayable on demand.

19. Amounts due from/(to) related companies/related party

	As at 31 December		
	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Yue Tian Group			
Due from related companies:			
Guangzhou City Construction & Development Co., Limited (廣州市城市建設開發有限公司)	141	—	—
Guangzhou Feng Jia Enterprise Development Company Limited* (廣州市豐嘉企業發展有限公司)	64,027	—	—
	<u>64,168</u>	<u>—</u>	<u>—</u>
Maximum during the year			
Guangzhou City Construction & Development Co., Limited (廣州市城市建設開發有限公司)	141	141	—
Guangzhou Feng Jia Enterprise Development Company Limited* (廣州市豐嘉企業發展有限公司)	64,027	64,027	—
	<u>64,027</u>	<u>64,027</u>	<u>—</u>
Due to related companies:			
Guangzhou Chuangyu Real Estate Development Company Limited* (廣州市創譽房地產開發有限公司)	18,737	3,251	—
Guangzhou Tianyu Real Estate Development Company Limited* (廣州市天譽房地產開發有限公司)	6,457	2,215	—
Guangzhou Feng Jia Enterprise Development Company Limited* (廣州市豐嘉企業發展有限公司)	—	6,263	75,690
	<u>25,194</u>	<u>11,729</u>	<u>75,690</u>
Due to related party:			
Mr. Yu Pan**	20,377	98	—
	<u>20,377</u>	<u>98</u>	<u>—</u>

* The amounts represent balances with companies in which Mr. Yu Pan, a director of Yue Tian, has beneficiary interests. These amounts are unsecured, interest-free and repayable on demand.

** Mr. Yu Pan is a director of Yue Tian.

20. Cash and cash equivalents

An analysis of the balance of cash and cash equivalents is as follows:

	As at 31 December		
	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Yue Tian Group			
Cash and bank balances	<u>270</u>	<u>87,392</u>	<u>5,812</u>

Included in cash and cash equivalents in the consolidated balance sheets are the following amounts denominated in a currency other than the functional currency of Yue Tian to which they relate:

	As at 31 December		
	2004	2005	2006
	<i>'000</i>	<i>'000</i>	<i>'000</i>
RMB	197	89,149	5,312
USD	<u>1</u>	<u>—</u>	<u>4</u>

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

	As at 31 December		
	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Yue Tian			
Cash and bank balances	<u>83</u>	<u>3,288</u>	<u>520</u>

21. Loans from shareholders

The loans from shareholders are unsecured, interest-free, have no fixed repayment date and are expected to be repayable by 2020.

The fair value of the loans at initial recognition has been determined based on the present value of the estimated future cash flows discounted using the prevailing market rates. The residual amount is included in shareholders' equity (*note 24*).

The loans from shareholders recognised in the balance sheets is calculated as follows:

	<i>HK\$'000</i>
Balance at 1 January 2004 and 2005	—
Additional loans from shareholders	562,819
Contributions from shareholders (<i>note 24</i>)	(327,974)
Imputed interest expense	7,045
	<hr/>
Carrying amount at 31 December 2005	241,890
Additional loans from shareholders	34,144
Contributions from shareholders (<i>note 24</i>)	(18,723)
Imputed interest expense	14,646
	<hr/>
Carrying amount at 31 December 2006	<u>271,957</u>

Imputed interest expense on loans from shareholders is calculated using the effective interest method by applying the effective interest rate of 6% per annum to the carrying amount.

The fair values of the loans as at 31 December 2005 and 2006 approximate to their respective carrying amount. The fair value is calculated using cash flows discounted at the prevailing market interest rates.

22. Bank borrowings

At the balance sheet dates, the bank borrowings were repayable as follows:

	As at 31 December		
	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Yue Tian Group			
Within two to five years	—	152,939	238,017
Over five years	—	—	128,283
	<hr/>	<hr/>	<hr/>
Non-current liabilities	<u>—</u>	<u>152,939</u>	<u>366,300</u>

The bank borrowings are secured by the Yue Tian Group's land use rights and properties held for development in the PRC as set forth in *notes 14* and *16* to the Financial Information, carry interest at HIBOR plus 1.8% per annum and are fully repayable in 2013.

APPENDIX II FINANCIAL INFORMATION OF THE RED EMPIRE GROUP

23. Share capital

	As at 31 December		
	2004	2005	2006
	HK\$'000	HK\$'000	HK\$'000
Authorised:			
100,000 ordinary shares of HK\$1 each	100	100	100
Issued and fully paid:			
72,000 ordinary shares of HK\$1 each	72	72	72

24. Reserves

	Note	Capital	Foreign	Accumulated	Total
		reserve	exchange	losses	
		HK\$'000	reserve	HK\$'000	HK\$'000
			HK\$'000	HK\$'000	HK\$'000
Yue Tian Group					
At 1 January 2004		12,455	6	(6,481)	5,980
Exchange differences on translation of financial statements of foreign subsidiary		—	235	—	235
Loss for the year		—	—	(2,356)	(2,356)
At 31 December 2004		12,455	241	(8,837)	3,859
Exchange differences on translation of financial statements of foreign subsidiary		—	4,163	—	4,163
Contributions from shareholders	21	327,974	—	—	327,974
Loss for the year		—	—	(9,826)	(9,826)
At 31 December 2005		340,429	4,404	(18,663)	326,170
Exchange differences on translation of financial statements of foreign subsidiary		—	42,514	—	42,514
Contributions from shareholders	21	18,723	—	—	18,723
Loss for the year		—	—	(9,171)	(9,171)
At 31 December 2006		359,152	46,918	(27,834)	378,236

APPENDIX II FINANCIAL INFORMATION OF THE RED EMPIRE GROUP

	<i>Note</i>	Capital reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
Yue Tian				
At 1 January 2004		12,455	(6,498)	5,957
Loss for the year		<u>—</u>	<u>(2,142)</u>	<u>(2,142)</u>
At 31 December 2004		12,455	(8,640)	3,815
Contributions from shareholders	<i>21</i>	327,974	—	327,974
Loss for the year		<u>—</u>	<u>(9,387)</u>	<u>(9,387)</u>
At 31 December 2005		340,429	(18,027)	322,402
Contributions from shareholders	<i>21</i>	18,723	—	18,723
Profit for the year		<u>—</u>	<u>11,605</u>	<u>11,605</u>
At 31 December 2006		<u><u>359,152</u></u>	<u><u>(6,422)</u></u>	<u><u>352,730</u></u>

25. Operating lease commitments

At the balance sheet dates, the Yue Tian Group and Yue Tian have commitments for future minimum lease payments under non-cancellable operating lease in respect of land and buildings which fall due as follows:

	As at 31 December		
	2004 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Yue Tian Group			
Within one year	<u>681</u>	<u>79</u>	<u>108</u>
Yue Tian			
Within one year	<u>495</u>	<u>—</u>	<u>—</u>

26. Capital commitments

	For the year ended 31 December		
	2004 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Yue Tian Group			
Capital expenditure in respect of property development costs contracted but not provided for in the Financial Information	<u>861,555</u>	<u>769,246</u>	<u>385,009</u>
Yue Tian			
Capital expenditure in respect of property development costs contracted but not provided for in the Financial Information	<u>3,890</u>	<u>3,487</u>	<u>3,204</u>

27. Related party transactions

The significant transactions with related parties during the Relevant Periods are as follows:

Name of party and relationship	Nature of transactions	Transaction amounts for the year ended 31 December		
		2004	2005	2006
		HK\$'000	HK\$'000	HK\$'000
Geldy Limited, fellow subsidiary	Rental expense	495	594	1,069
Poly (Hong Kong) Investments Limited, intermediate holding company	Guarantee given to a bank in respect of credit facilities extended to the Yue Tian Group	—	204,000	204,000
Mr. YU Pan, director and shareholder of Wise Gain Investment Limited and Yue Tian	Guarantee given to a bank in respect of credit facilities extended to the Yue Tian Group	—	116,000	116,000
Shell Electric Mfg. (Holdings) Co Ltd., shareholder of Allright Investments Limited, shareholder of Yue Tian	Guarantee given to a bank in respect of credit facilities extended to the Yue Tian Group	—	80,000	80,000

28. Financial instruments

The Yue Tian Group's principal financial assets are cash and bank balances and receivables from related parties. Financial liabilities of the Yue Tian Group include loans from shareholders, bank borrowings and other amounts due to related parties. The Yue Tian Group does not hold or issue financial instruments for trading purposes at the balance sheet dates.

(a) Foreign currency risk

The functional currency of the subsidiary of Yue Tian is RMB. RMB is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB must take place through the People's Bank of China or other institutions authorised to buy and sell foreign exchange. The exchange rate adopted for the foreign exchange transactions are the rates of exchange quoted by the People's Bank of China that are determined largely by supply and demand.

(b) Fair value

The carrying amounts of significant financial assets and liabilities approximate their respective fair values as at 31 December 2004, 2005 and 2006.

The carrying values of cash and bank balances and other current related party balances approximate the respective fair values because of their short maturities. The carrying amounts of the loans from shareholders and bank borrowings approximate the respective fair values because the effective interest rates of the debts are approximate to the prevailing market rates at the balance sheet dates for similar borrowings available to the Yue Tian Group.

29. Post Balance Sheet Events

On 5 March 2007, Yue Tian entered into a loan agreement with Allright, Red Empire and Wise Gain Investment Limited (collectively referred to as the “Lenders”). Pursuant to the loan agreement, the Lenders agreed to advance a loan up to HK\$560,000,000 to Yue Tian in proportion to their respective shareholding in Yue Tian. The loan bears interest at a rate of 15% per annum and a default interest rate of 20% per annum or any overdue amount, is unsecured and repayable within a term not exceeding two months. By mid-March 2007, the aforesaid loans from the Lenders were fully repaid.

In March 2007, Cheng Jian Tianyu secured a term loan up to RMB800,000,000 from the Agricultural Bank of China.

Except for the above, there is no material post balance sheet event subsequent to 31 December 2006.

C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Yue Tian Group in respect of any period subsequent to 31 December 2006.

Yours faithfully,

BDO McCABE LO LIMITED
Certified Public Accountants
Au Yeung Shiu Kau Peter
Practising Certificate Number: P02289

3. MANAGEMENT DISCUSSION AND ANALYSIS OF THE RED EMPIRE GROUP (INCLUDING THE YUE TIAN GROUP) FOR EACH OF THE THREE YEARS ENDED 31 DECEMBER 2006**Red Empire Group**

Red Empire is the holding company holding the interests in Poly Tianyu and Yue Tian. Yue Tian established a sino-foreign co-operative joint venture in the PRC to engage in the property development of the Westin Project. Since Red Empire and Poly Tianyu are merely investment holding companies, the discussion and analysis in this section concentrates on Yue Tian and the PRC Company namely, 廣州市城建天譽房地產開發有限公司(Guangzhou Cheng Jian Tianyu Real Estate Development Company Limited).

Red Empire

Red Empire was incorporated in the British Virgin Islands on 28 October 2003 with its sole objective to hold an equity interest in Yue Tian. In early 2005, a shareholders' agreement was executed pursuant to which a joint venture was formed in investing in Yue Tian. Since then, Red Empire had become the direct shareholder of 51% interest in Yue Tian, the remaining 29% and 20% were respectively held by Wise Gain and Shell. Prior to that, the equity interest in Yue Tian was held as to 25% by Wise Gain and 75% by Poly Tianyu, a Hong Kong incorporated company in which 51% equity interest was held by Red Empire, 29% equity interest was held by another subsidiary of Poly Hong Kong, 10% equity interest was held by a fellow subsidiary of Poly Hong Kong and 10% equity interest was held by Wise Gain. Red Empire subscribed its 51% equity interest in Poly Tianyu on 31 December 2003 at an investment cost of approximately HK\$9 million.

Save as the loss caused by the impairment of goodwill arising from the acquisition of interest in Poly Tianyu of HK\$9 million that was reduced by imputed interest of HK\$4 million income on shareholder's loan made to Yue Tian in 2005, and the interest income on shareholder's loan granted to Poly Tianyu received by Red Empire of HK\$9.5 million and imputed interest income on shareholder's loan to Yue Tian of HK\$11.2 million in 2006 that were dealt with in the accounts of Red Empire, Red Empire incurred corporate expenses of insignificant amounts during the three years ended 31 December 2004, 2005 and 2006. Its operation as an investment holding company was financed by shareholder's advances made by its parent company and fellow subsidiaries of Poly Hong Kong.

Poly Tianyu

Poly Tianyu was incorporated in Hong Kong on 21 November 2003 and is a 51% owned subsidiary of Red Empire. Poly Tianyu originally held 75% direct interest in Yue Tian. In early 2005, all shares of Yue Tian held by Poly Tianyu were transferred to Wise Gain, Red Empire and Shell at a total consideration of HK\$19.0 million. As at the Latest Practicable Date, Poly Tianyu is a dormant company without material asset.

Being an investment holding company, Poly Tianyu incurred minimal corporate expenses during the three years ended 31 December 2004, 2005 and 2006. Its operation was financed by shareholder's advances made by its parent company.

Yue Tian and the PRC Company (“Yue Tian Group”)

Yue Tian is an investment holding company incorporated in Hong Kong on 2 March 1993 and has not, since its incorporation, carried on any business other than the establishment and investment in its only subsidiary, the PRC Company which is the only operating subsidiary of the Red Empire Group during the three years.

The PRC Company is a sino-foreign cooperative joint venture enterprise established by Yue Tian and 廣州市城市建設開發集團有限公司 (Guangzhou City Construction & Development Holdings Limited) (“GCC”) on 26 September 2002 in the PRC with a registered capital of US\$45 million (of which US\$27.5 million has been fully paid up) and has a term of operation of 16 years. According to the terms of the sino-foreign cooperative joint venture agreement entered into by Yue Tian and GCC, Yue Tian has paid RMB90 million to GCC as compensation and GCC is no longer entitled to the future profits generated by the PRC Company. The entire results of the PRC Company are therefore consolidated into the accounts of Yue Tian.

The PRC Company is engaged in the property development of the Westin Project.

The Westin Project is a commercial development project principally comprising the development and construction on the land located at the west of Linhe Dong Road at Tianhe District, Guangzhou, the PRC a 40-storey hotel tower and a 36-storey office complex (including a shopping arcade).

For the financial year ended 31 December 2004

Yue Tian Group had an audited consolidated net assets value of approximately HK\$3.9 million as at 31 December 2004 that was represented by the audited net loss before and after taxation of HK\$2.4 million for the year, which was contributed by mainly operating expenses in the rendering of general administrative and supporting services of approximately HK\$2.4 million. Yue Tian Group also received minor interest income from bank deposits.

The loss attributable to equity holders of Yue Tian is dealt with in the financial statements of Yue Tian to the extent of HK\$2,142,000 and HK\$9,387,000 respectively, for the two years ended 31 December 2004 and 2005; and the profit attributable to equity holders of Yue Tian for the year ended 31 December 2006 is to the extent of HK\$11,605,000 which was mainly attributable to the gain on foreign exchange rate changes relating to shareholders' loans granted to the PRC Company.

Liquidity and financial resources

Capital structure and liquidity

In 2004, Yue Tian's principal activity was the seeking of financial resources from equity investors for the PRC Company to carry out preliminary project development activities. Interest-free shareholders' loans with a total face value of HK\$160.9 million as at 31 December 2004 were received from shareholders and related parties to meet all the development costs and the operating expenses incurred for the development of the Westin Project. Preliminary construction works were commenced in 2004. The total costs incurred in the properties held under development, including prepaid lease payments for the land use rights, development costs and other related expenses, amounted to HK\$75.0 million as at 31 December 2004, all of which have been capitalised.

Yue Tian relied the continuing financial support of the shareholders, Poly Hong Kong and Wise Gain. Yue Tian Group's major asset was the development project which was a non-current asset. Yue Tian Group's current assets of HK\$139.0 million were mainly amounts due from related companies and prepayments and other receivables. Its current liabilities of HK\$211.1 million mainly comprise an amount due to Poly Tianyu of HK\$160.9 million and amounts due to related companies and a director in a sum of HK\$45.6 million. Despite that the current ratio was 0.66:1 on the balance sheet date which indicated low liquidity position, the amount due to Poly Tianyu was totally repaid by funding from non-current shareholders' loans contributed by the existing shareholders in 2005. The gearing ratio (based on total liabilities excluding shareholders' loans to total assets) was 23.3% as at 31 December 2004.

Borrowings and pledge of assets

Other than loans from shareholders and their affiliates, there was no bank borrowing during the year.

Foreign currency management

The PRC Company's operation was property development activities conducted in the PRC whereas its shareholders' loans were required to be repaid in Hong Kong dollars. As a result, Yue Tian Group had certain exposures in foreign currency fluctuations. Yue Tian Group did not hedge its foreign currency risks as the rate of exchange between HK\$ and RMB was controlled within a narrow range.

Contingent liabilities

Yue Tian Group had no contingent liabilities as at 31 December 2004.

Employees

As at 31 December 2004, other than executive directors, Yue Tian Group employed 1 staff in Hong Kong for monitoring the investment at corporate level and 11 in the PRC for performing daily functions in the property development activities. Staff costs amounted to approximately HK\$1.4 million during the year of which HK\$1.3 million were capitalised as costs of properties held for development. Employees are remunerated according to qualifications and experience, job nature and performance, with pay scale aligned with market conditions.

For the financial year ended 31 December 2005

Yue Tian Group had an audited consolidated net assets value of approximately HK\$326.2 million as at 31 December 2005 and recorded an audited net loss before and after taxation for the year of approximately HK\$9.8 million. Similar to the previous year, operating expenses of Yue Tian totaling HK\$2.9 million were corporate expenses and general administrative expenses and which were kept at low level. However, the increase in net loss for the year was due to an imputed interest of HK\$7.0 million charged to the profit and loss account for the year as a result of the adoption of the new accounting standards on financial instruments which requires interest-free shareholders' loans be measured at amortized cost determined using the effective interest method.

Liquidity and financial resources

Capital structure and liquidity

Yue Tian Group continued to obtain additional interest-free loans from its shareholders to finance the development of the Westin Project. Total advances from shareholders received amounted to in face value of HK\$562.8 million as at 31 December 2005. The consequential effect of the adoption of the accounting standards to present shareholders' loans at fair value impacts the balance sheet of Yue Tian with a reduction in the carrying value of the shareholders' loan by HK\$328.0 million and a corresponding increase in net asset as at 31 December 2005.

Construction works were formally commenced in 2005 when capitalised costs of properties under progress totaling HK\$613.6 million were expended for the project as at 31 December 2005. In December 2005, the PRC Company obtained a term loan facility from Citic Ka Wah Bank to finance the construction of the development. The loans were HIBOR-based, secured and with a tenor of 8 years. As at 31 December 2005, a total amount of HK\$152.9 million had been drawn down.

Instead of relying solely on the financing of shareholders, the capital structure of Yue Tian in 2005 was better balanced due to the external borrowing from Citic Ka Wah Bank in the year. The gearing ratio (based on total liabilities excluding shareholders' loans to total assets) was 25.7% as at 31 December 2005. The ratio increased further in 2006 as bank financing increased.

Other than shareholders' loans, there were temporary advances from shareholders and related companies in 2005 that were regarded as current liabilities. Comparing the current liabilities to current assets, the current ratio was 2.1:1 as at 31 December 2005.

Borrowings and pledge of assets

The land use rights and properties held for development were pledged to the bank to secure the bank loans. All other loans from shareholders and related companies were interest-free with no fixed term of repayment.

Foreign currency management

The PRC Company's operation was property development activities conducted in the PRC whereas the shareholders' loans and bank loans due to Citic Ka Wah Bank were denominated in Hong Kong dollars. As a result, Yue Tian had certain exposures in foreign currency fluctuations. Yue Tian did not hedge its foreign currency risks as the rate of exchange between HK\$ and RMB was controlled within a narrow range.

Contingent liabilities

Yue Tian Group had no contingent liabilities as at 31 December 2005.

Employees

As at 31 December 2005, other than the directors, Yue Tian Group employed 39 staff in the PRC and 1 in Hong Kong for monitoring the investment and performing the daily functions in the property development activities. Staff costs amounted to approximately HK\$1.4 million during the year of which HK\$1.3 were capitalised as costs of properties held for development. Employees are remunerated according to qualifications and experience, job nature and performance, with pay scale aligned with market conditions.

For the financial year ended 31 December 2006

Yue Tian Group had an audited consolidated net assets value of approximately HK\$378.3 million as at 31 December 2006 and recorded an audited net loss before and after taxation for the year of approximately HK\$9.1 million. Yue Tian Group did not generate

any operating revenue as the Westin Project was still in progress of construction. Operating expenses were mainly corporate and general administrative expenses incurred for monitoring the investment at corporate level and carrying out daily supervisory and administrative functions in project development. As the construction approached to completion, operating activities increased and hence operating expenses of Yue Tian Group including pre-operating expenses of HK\$5.2 million incurred in preparation for hotel opening, during the year surged to HK\$9.6 million. In addition, imputed interest of HK\$14.6 million on shareholders' loans was recognised and capitalised into the properties held for development.

Liquidity and financial resources

Capital structure and liquidity

Shareholders' loans at a total face value of HK\$597.0 million were contributed into Yue Tian Group as at 31 December 2006. The consequential effect of the adoption of the accounting standards on interest-free shareholders' loans presented at fair value had reduced the shareholders' loan to HK\$272.0 million as at 31 December 2006. Such reduction is reflected by a corresponding increase in net asset as at 31 December 2006. The bank loan due to Citic Ka Wah Bank was amounted to HK\$366.3 million as at 31 December 2006. The gearing ratio (based on total liabilities excluding shareholders' loans to total assets) was 44.3% as at 31 December 2006, which was in pace with the increasing bank borrowing.

Construction works were in full force in 2006. Capitalised costs of construction in progress totaling HK\$1,110.1 million were expended up to 31 December 2006. Total cost of development is estimated to be approximately HK\$1,590.3 million of which the outstanding development cost of HK\$480.2 million is expected to be financed by bank borrowing and proceeds raised from the Notes.

Borrowings and pledge of assets

The land use rights and properties held for development were pledged to the bank to secure the bank loans. All loans from shareholders and their affiliates were interest-free with no fixed term of repayment.

Foreign currency management

The PRC Company's operation was property development activities conducted in the PRC whereas the shareholders' loans and bank loans due to Citic Ka Wah Bank were

denominated in Hong Kong dollars. As a result, Yue Tian Group had certain exposures in foreign currency fluctuations. Yue Tian did not hedge its foreign currency risks as the rate of exchange between HK\$ and RMB was controlled within a narrow range. However, there may be some permanent changes in foreign exchange rates in RMB that may have an impact on Yue Tian.

Contingent liabilities

Yue Tian Group had no contingent liabilities as at 31 December 2006.

Employees

As at 31 December 2006, other than executive directors, a total number of 21 employees were employed (1 in Hong Kong and 20 in the PRC) for the project in the functions of construction supervision and budgeting, accounting and finance, design, marketing and administration. Staff costs amounted to approximately HK\$3.8 million during the year of which HK\$3.7 million were capitalised as costs of properties under development. Employees are remunerated according to qualifications and experience, job nature and performance, with pay scale aligned with market conditions.

Segmental information of Yue Tian Group

Yue Tian Group has only single activity throughout the years — property development in Guangzhou, PRC which is regarded as one single business and geographical segment.

1. ACCOUNTANTS' REPORT OF ALLRIGHT

The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the auditors and reporting accountants of the Company, BDO McCabe Lo Limited.



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The Directors
Skyfame Realty (Holdings) Limited
2502B, Admiralty Centre
Tower 1
18 Harcourt Road
Hong Kong

4 April 2007

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) regarding Allright Investments Limited (“Allright”) and its interest in an associate (hereinafter collectively referred to as the “Allright Group”) for the period from 23 November 2004 (date of incorporation) to 31 December 2005 and the year ended 31 December 2006 (the “Relevant Periods”), for inclusion in the circular of Skyfame Realty (Holdings) Limited (the “Company”) dated 4 April 2007 (the “Circular”), issued in connection with, inter alia, (i) the proposed issue of US\$200 million 4 per cent secured convertible notes due 2013; (ii) the proposed acquisition of 100% shareholding in and shareholder’s loans due by Red Empire Limited (“Red Empire”); (iii) the proposed acquisition of 100% shareholding in and shareholder’s loans due by Allright; and (iv) the proposed acquisition of 29% shareholding in and shareholder’s loans due by Yue Tian Development Limited (“Yue Tian”).

Allright was incorporated in Samoa with limited liability on 23 November 2004 under the International Companies Act of Samoa. Allright has not carried on any business since the date of its incorporation save for the holding of the 20% equity interest in Yue Tian.

As at the date of this report, Allright has direct interest in the following associate.

Name of associate	Place and date of Incorporation and kind of legal entity	Authorised and paid-up capital	Attributable equity interest directly held by Allright	Principal activity
Yue Tian	Hong Kong, 2 March 1993, Incorporated	Authorised capital of Hong Kong dollars (“HK\$”)100,000 of 100,000 ordinary shares of HK\$1 each and paid-up capital of HK\$72,000 of 72,000 ordinary shares of HK\$1 each	20%	Investment holding

No audited financial statements have been prepared for Allright since its date of incorporation. We have, however, reviewed all relevant transactions of Allright since its date of incorporation and carried out such procedures as we considered necessary for inclusion of the financial information relating to Allright. The statutory financial statements of Yue Tian for each of the two years ended 31 December 2004 and 2005, which were prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), were audited by Deloitte Touche Tohmatsu, Certified Public Accountants.

For the purpose of this report, the directors of Allright have prepared the management accounts of Allright for the Relevant Periods, in accordance with HKFRSs promulgated by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). We have undertaken an independent audit of the management accounts of Allright in accordance with the Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information and the notes thereto for the Relevant Periods set out in Sections A to C below have been prepared based on the management accounts of Allright. We have examined the management accounts of Allright and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline “Prospectuses and the Reporting Accountant” issued by the HKICPA.

The preparation of the management accounts of Allright is the responsibility of the directors of Allright who approve their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information together with the notes thereto gives, for the purpose of this report, a true and fair view of the state of affairs of Allright as at 31 December 2005 and 2006, and of the results and cash flows of Allright for the Relevant Periods.

A. FINANCIAL INFORMATION

1. Income statements of Allright

		23 November 2004	1 January 2006
		(Date of incorporation)	to
		to	to
		31 December 2005	31 December 2006
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	3	—	—
Other revenue	5	1,391	2,965
General and administrative expenses		(26)	(225)
Profit from operation	6	1,365	2,740
Negative goodwill	18	1,869	—
Imputed interest on loans from shareholders	14	(4,069)	(3,539)
Share of loss of associate	12	(1,965)	(1,834)
Loss before income tax expense		(2,800)	(2,633)
Income tax expense	9	—	—
Loss for the period/year attributable to equity holders of Allright		<u>(2,800)</u>	<u>(2,633)</u>

2. Balance sheets of Allright

		As at 31 December 2005	As at 31 December 2006
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current asset			
Interest in associate	12	133,069	136,399
Current asset			
Cash and cash equivalents	13	—	1
Current liabilities			
Amounts due to immediate holding company	15	26	25
Other payables and accruals		847	200
		873	225
Net current liabilities		(873)	(224)
Total assets less current liabilities		132,196	136,175
Non-current liability			
Loans from shareholders	14	96,322	92,034
NET ASSETS		35,874	44,141
Capital and reserves			
Share capital	16	—	—
Reserves	17	35,874	44,141
TOTAL EQUITY		35,874	44,141

3. Statements of changes in equity of Allright

	Note	Share capital HK\$'000	Capital reserve HK\$'000	Foreign exchange reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 23 November 2004 (Date of incorporation)		—	—	—	—	—
Share of associate's post-acquisition reserve*		—	—	833	—	833
Contributions from shareholders	14	—	37,841	—	—	37,841
Loss for the period		—	—	—	(2,800)	(2,800)
At 31 December 2005		—	37,841	833	(2,800)	35,874
Share of associate's post-acquisition reserve*		—	—	8,502	—	8,502
Contributions from shareholders	14	—	2,398	—	—	2,398
Loss for the year		—	—	—	(2,633)	(2,633)
At 31 December 2006		—	40,239	9,335	(5,433)	44,141

* Share of associate's post-acquisition reserve represents Allright's share of Yue Tian's reserve movement arising from translation of financial statements of foreign subsidiary for the period/year.

4. Cash flow statements of Allright

	23 November 2004 (Date of incorporation) to 31 December 2005 <i>HK\$'000</i>	1 January 2006 to 31 December 2006 <i>HK\$'000</i>
Cash flows from operating activities		
Loss before income tax expense	(2,800)	(2,633)
Adjustments for:		
Imputed interest on the amount due from associate	(1,391)	(2,937)
Imputed interest on loans from shareholders	4,069	3,539
Negative goodwill	(1,869)	—
Share of loss of associate	1,965	1,834
	<hr/>	<hr/>
Operating loss before working capital changes	(26)	(197)
Changes in working capital:		
Increase/(decrease) in amount due to immediate holding company	26	(1)
Increase in other payables and accruals	—	200
	<hr/>	<hr/>
Net cash generated from operating activities	—	2
	<hr/>	<hr/>
Cash flows from investing activities		
Acquisition of an associate (<i>note 18</i>)	(4,865)	—
Repayment from associate	—	5,455
Advance to associate	(125,229)	—
	<hr/>	<hr/>
Net cash (used in)/generated from investing activities	(130,094)	5,455
	<hr/>	<hr/>
Cash flows from financing activities		
Loans from shareholders	130,094	8,000
Repayment of loans from shareholders	—	(13,456)
	<hr/>	<hr/>
Net cash generated from/(used in) financing activities	130,094	(5,456)
	<hr/>	<hr/>
Net increase in cash and cash equivalents	—	1
Cash and cash equivalents at beginning of period/year	—	—
	<hr/>	<hr/>
Cash and cash equivalents at end of period/year (<i>note 13</i>)	—	1
	<hr/> <hr/>	<hr/> <hr/>

B. NOTES TO THE FINANCIAL INFORMATION

1. General

Allright was incorporated in Samoa with limited liability on 23 November 2004 under the International Companies Act of Samoa. Allright has not carried on any business since the date of its incorporation save for the holding of 20% equity interest in Yue Tian. As at the date of this report, the directors of Allright considered the parent company and the ultimate holding company of Allright to be Shell Electric Manufacturing (Holdings) Company Limited, a company incorporated in Hong Kong and the shares of which are listed on The Stock Exchange of Hong Kong Limited. The registered office of Allright is located at Offshore Chambers, P.O. Box 217, Apia, Samoa; and the principal place of business of Allright is at Shell Industrial Building, 12 Lee Chung Street, Chai Wan Industrial District, Hong Kong.

Allright is an investment holding company.

The Financial Information is presented in thousands of units of Hong Kong dollars (HK\$'000), unless otherwise stated, which is the same as the functional currency of Allright.

2. Principal accounting policies

(a) *Statement of compliance*

The Financial Information set out in this report has been prepared in accordance with all applicable HKFRSs (including all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”), and Interpretations (“INTs”)) issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The HKICPA has issued the following standards and interpretations that are not yet effective. Allright has considered the following standards and interpretations but does not expect that the application of these new standards and interpretations will have a material effect on how the results of operations and financial position of Allright are prepared and presented.

HKAS 1 Amendment	Capital Disclosures ¹
HKFRS 7	Financial instruments: Disclosures ¹
HK(IFRIC) — Interpretation 10	Interim Financial Reporting and Impairment ²

¹ Effective for annual periods beginning on or after 1 January 2007

² Effective for annual periods beginning on or after 1 November 2007

(b) *Basis of preparation*

The Financial Information has been prepared under the historical cost convention except that the interest in associate are stated at its fair value.

The Financial Information has been prepared on a going concern basis notwithstanding that Allright had net liabilities as at 31 December 2004 and 2005 as its holding company has undertaken to provide such financial support to Allright to enable it to continue as a going concern and to enable it to meet its liabilities as and when they fall due.

(c) *Associate*

Where Allright has the power to participate in (but not control) the financial and operating policy decisions of another entity, it is classified as an associate. Associates are initially recognised in the balance sheet at cost. Allright's share of post-acquisition profits and losses is recognised in the income statement, except that losses in excess of the Allright's investment in the associate are not recognised unless there is an obligation to make good those losses.

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

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

(d) *Impairment of non-financial assets*

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit (i.e. the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows).

Impairment charges are included in the administrative expenses line item in the income statement, except to the extent they reverse gains previously recognised in the statement of recognised income and expense.

(e) *Foreign currencies*

Transactions entered into by any of the group entities in a currency other than the currency of the primary economic environment in which it operates (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are similarly recognised immediately in the income statement, except for foreign currency borrowings qualifying as a hedge of a net investment in a foreign operation.

(f) *Cash and cash equivalents*

Cash includes cash on hand and demand deposits with any bank or other financial institutions. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash which are subject to an insignificant risk of changes in value.

(g) *Income taxes*

Income taxes for the Relevant Periods comprise current tax and deferred tax.

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

Deferred tax arises from temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes and is accounted for using the balance sheet liability method. Except for recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the reporting period end.

Income taxes are recognised in the income statement except when they relate to items directly recognised to equity in which case the taxes are also directly recognised in equity.

(h) *Revenue recognition*

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

(i) *Financial instruments*

(i) *Financial assets*

Allright classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. Other than financial assets in a qualifying hedging relationship, the company's accounting policy for each category is as follows:

Fair value through profit or loss: This category comprises the financial assets that have been acquired for the purpose of selling or repurchasing it in the short-term or if so designated by management. This category includes derivatives which are not qualified for hedge accounting. Debt securities and bank deposits with embedded derivatives for yield enhancement whose economic characteristics and risks are not closely related to the host securities and deposits are designated as financial assets at fair value through profit or loss. They are carried in the balance sheet at fair value with changes in fair value recognised in the income statement.

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

Held-to-maturity investments: These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that Allright's management has the positive intention and ability to hold to maturity. At each balance sheet date subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using effective interest rate method, less any identified impairment losses.

Available-for-sale: Non-derivative financial assets not included in the above categories are classified as available-for-sale and comprise the Allright's strategic investments in entities not qualifying as subsidiaries, associates or jointly controlled entities. They are carried at fair value with changes in fair value recognised directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in the income statement.

(ii) *Financial liabilities*

The company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was incurred. Other than financial liabilities in a qualifying hedging relationship, the company's accounting policy for each category is as follows:

Fair value through profit or loss: This category comprises only out-of-the-money derivatives. They are carried in the balance sheet at fair value with changes in fair value recognised in the income statement.

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

- Trade payables and other short-term monetary liabilities, which are recognised at amortised cost.
- Loans from shareholders are initially recognised at the amount advanced net shareholders of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet. "Interest expense" in this context includes initial transaction costs and premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

(iii) *Derecognition*

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

(j) Provision and contingent liabilities

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

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

3. Turnover

Allright did not generate any turnover during the Relevant Periods.

4. Segment information

Allright is principally engaged in investment holding in the PRC, which is regarded as one business segment and one geographical segment.

5. Other revenue

	23 November 2004 (Date of incorporation) to 31 December 2005 HK\$'000	1 January 2006 to 31 December 2006 HK\$'000
Imputed interest from associate	1,391	2,937
Exchange gain	—	28
	<u>1,391</u>	<u>2,965</u>

6. Profit from operation

Profit from operations is stated after charging:

	23 November 2004 (Date of incorporation) to 31 December 2005 HK\$'000	1 January 2006 to 31 December 2006 HK\$'000
Auditors' remuneration	—	200
	<u>—</u>	<u>200</u>

7. Directors' emoluments

No directors' emoluments were incurred for the Relevant Periods.

8. Five highest paid individuals

During the Relevant Periods, no emoluments were payable or paid to any individuals including directors.

9. Income tax expense

No provision for Hong Kong profits tax or overseas income tax has been made as Allright has no assessable profits during the Relevant Periods.

Hong Kong profits tax is calculated at 17.5% on the estimated assessable profits for the Relevant Periods.

The income tax expense for the Relevant Periods can be reconciled to the loss per the income statements are follows:

	23 November 2004 (Date of incorporation) to 31 December 2005 HK\$'000	1 January 2006 to 31 December 2006 HK\$'000
Loss before income tax expenses	<u>(2,800)</u>	<u>(2,633)</u>
Tax calculated at the Hong Kong profits tax rate of 17.5%	(490)	(461)
Tax effect of expenses not deductible for tax purpose	1,061	980
Tax effect of income not taxable for tax purpose	<u>(571)</u>	<u>(519)</u>
Income tax expense	<u>—</u>	<u>—</u>

No provision for deferred taxation has been recognised in the financial statements as the amount involved is insignificant.

10. Dividends

No dividend has been paid or declared by Allright during the Relevant Periods.

11. Earnings per share

No earnings per share information have been presented as such information is not meaningful for the purpose of this report.

12. Interest in associate

	As at 31 December	
	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of associate's net assets	71,196	81,610
Amount due from associate	61,873	54,789
	<u>133,069</u>	<u>136,399</u>

Investment in associate represents Allright's direct interest in the following entity:

Name of associate	Place and date of incorporation and kind of legal entity	Authorised and paid-up capital	Attributable equity interest directly held by Allright	Principal activity
Yue Tian	Hong Kong, 2 March 1993, Incorporated	Authorised capital of HK\$100,000 of 100,000 ordinary shares of HK\$1 each and paid-up capital of HK\$72,000 of 72,000 ordinary shares of HK\$1 each	20%	Investment holding

	As at 31 December	
	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Total assets	828,326	1,167,395
Total liabilities	(502,084)	(789,087)
Net assets	326,242	378,308
Fair value adjustment at acquisition	29,742	29,742
Carrying amount of net assets	<u>355,984</u>	<u>408,050</u>
Allright's share of net asset of associate	<u>71,196</u>	<u>81,610</u>

	23 November 2004 (Date of Incorporation) to 31 December 2005	1 January 2006 to 31 December 2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	<u>—</u>	<u>—</u>
Loss for the period/year	<u>(9,826)</u>	<u>(9,171)</u>
Allright's share of loss of associate	<u>(1,965)</u>	<u>(1,834)</u>

The amount due from associate is unsecured, interest-free, has no fixed repayment date and is expected to be repayable in 2015. The fair value of the amount at initial recognition has been determined based on the present value of the estimated future cash flows discounted using the prevailing market rates. The residual amount is included in investment cost in associate.

Interest expense on amount due from associate is calculated using the effective interest method by applying the effective interest rate of 4% per annum to the carrying amount.

The fair values of the loans as at 31 December 2005 and 2006 approximate to their respective carrying amount. The fair value is calculated using cash flows discounted at the prevailing market interest rate.

13. Cash and cash equivalents

An analysis of the balance of cash and cash equivalents is as follows:

	As at 31 December	
	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash and bank balance	<u>—</u>	<u>1</u>

14. Loans from shareholders

The loans from shareholders are unsecured, interest-free, have no fixed repayment date and are expected to be repayable in 2015.

The fair value of the loans at initial recognition has been determined based on the present value of the estimated future cash flows discounted using the prevailing market rates. The residual amount is included in shareholders' equity (*note 17*).

The loans from shareholders recognised in the balance sheets is calculated as follows:

	<i>HK\$'000</i>
Carrying amount at 23 November 2004 (Date of incorporation)	—
Additional loans from shareholders	130,094
Contributions from shareholders (<i>note 17</i>)	(37,841)
Imputed interest expense	4,069
	<hr/>
Carrying amount at 31 December 2005	96,322
Additional loans from shareholders	8,000
Repayment to shareholders	(13,456)
Contributions from shareholders (<i>note 17</i>)	(2,398)
Imputed interest expense	3,539
Exchange difference	27
	<hr/>
Carrying amount at 31 December 2006	<u>92,034</u>

Imputed interest expense on loans from shareholders is calculated using the effective interest method by applying the effective interest rate of 4% per annum to the carrying amount.

The fair values of the loans as at 31 December 2005 and 2006 approximate to their respective carrying amount.

15. Amount due to immediate holding company

The amount is unsecured, interest-free and repayable on demand.

16. Share capital

	As at 31 December			
	2005		2006	
	<i>US\$</i>	<i>HK\$</i>	<i>US\$</i>	<i>HK\$</i>
Authorised:				
1,000,000 ordinary shares of US\$1 each	<u>1,000,000</u>	<u>7,800,000</u>	<u>1,000,000</u>	<u>780,000</u>
Issued and fully paid:				
1 ordinary share of US\$1 each	<u>1</u>	<u>8</u>	<u>1</u>	<u>8</u>

Pursuant to the resolution dated 3 January 2005, 1 ordinary share of the company was issued at par value of US\$1 each to the creator of the company.

17. Reserves

	Note	Capital reserve HK\$'000	Foreign exchange reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 23 November 2004 (Date of incorporation)		—	—	—	—
Share of associate's post-acquisition reserve*		—	833	—	833
Contributions from shareholders	14	37,841	—	—	37,841
Loss for the period		—	—	(2,800)	(2,800)
At 31 December 2005		37,841	833	(2,800)	35,874
Share of associate's post-acquisition reserve*		—	8,502	—	8,502
Contributions from shareholders	14	2,398	—	—	2,398
Loss for the year		—	—	(2,633)	(2,633)
At 31 December 2006		<u>40,239</u>	<u>9,335</u>	<u>(5,433)</u>	<u>44,141</u>

* Share of associate's post-acquisition reserve represents Allright's share of Yue Tian's reserve movement arising from translation of financial statements of foreign subsidiary for the period/year.

18. Acquisition of an associate

In early 2005, Allright acquired 20% of the issued share capital of Yue Tian for a consideration of approximately HK\$4,865,000. The net assets acquired and the negative goodwill arisen in the transaction are as follows:

	Carrying value HK\$'000	Fair value adjustment HK\$'000	Fair value HK\$'000
Non-current assets	76,013	44,073	120,086
Current assets	139,047	—	139,047
Current liabilities	(211,129)	—	(211,129)
Non-current liability	—	(14,331)	(14,331)
	<u>3,931</u>	<u>29,742</u>	<u>33,673</u>
Net assets acquired (20% thereon)			6,734
Total cash consideration paid (including cash consideration of HK\$3,814,000 and direct costs relating to the acquisition of HK\$1,051,000)			<u>4,865</u>
Negative goodwill charged to income statement			<u>1,869</u>

19. Financial instruments

The company's principal financial assets are cash and bank balances and balances with associate. Financial liabilities of the company include loans from shareholders, other payables and accruals and the amount due to immediate holding company. The company does not hold or issue financial instruments for trading purposes at the balance sheet dates.

(a) Foreign currency risk

The functional currency of the associate of Allright is RMB. RMB is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB must take place through the People's Bank of China or other institutions authorised to buy and sell foreign exchange. The exchange rate adopted for the foreign exchange transactions are the rates of exchange quoted by the People's Bank of China that are determined largely by supply and demand.

(b) Fair value

The carrying amounts of significant financial assets and liabilities approximate their respective fair values as at 31 December 2005 and 2006.

The carrying value of cash and bank balance approximates the respective fair values because of their short maturities. The carrying amounts of the loans from shareholders and the amount due from associate approximate the respective fair values because the effective interest rates of the debts are approximate to the prevailing market rates at the balance sheet dates for similar borrowings available to Allright.

20. Post balance sheet events

On 5 March 2007, Allright, Red Empire and Wise Gain Investment Limited (collectively referred to as the "Lenders") entered into a loan agreement with Yue Tian. Pursuant to the loan agreement the Lenders agreed to advance a loan up to HK\$560,000,000 to Yue Tian in proportion to their shareholding in Yue Tian, of which Allright agreed to advance an amount of HK\$112,000,000. The advance by Allright bears interest at a rate of 15% per annum and a default rate of 20% per annum for an overdue amount, is secured and repayable within a term not exceeding two months. By mid-March 2007, the aforesaid loans from the Lenders were fully repaid.

Except for the above, there is no material post balance sheet event subsequent to 31 December 2006.

C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Allright in respect of any period subsequent to 31 December 2006.

Yours faithfully,

BDO McCABE LO LIMITED

Certified Public Accountants

Au Yeung Shiu Kau Peter

Practising Certificate Number P02289

2. MANAGEMENT DISCUSSION AND ANALYSIS OF ALLRIGHT FOR EACH OF THE THREE YEARS ENDED 31 DECEMBER 2006

Allright was incorporated on 23 November 2004 in Samoa as an investment holding for the sole purpose of investing in the 20% equity in Yue Tian. Allright acquired its 20% equity interest in Yue Tian from Poly Tianyu on 2 February 2005 at a consideration of approximately HK\$3.8 million.

Other than the imputed interest income of HK\$1.4 million and HK\$3.0 million on shareholder's loan to Yue Tian recognised, and negative goodwill of HK\$1.9 million was charged to income statement in 2005, and small corporate expenses were incurred during the period from date of incorporation to 31 December 2005 and year ended 31 December 2006. Allright has accounted for its investment in Yue Tian by taking up its share of the results of Yue Tian Group during the years of investment holding. Due to the losses recorded by Yue Tian Group, the accounts of Allright after equity accounting for the Yue Tian Group's losses show losses before and after taxation of HK\$2.8 million and HK\$2.6 million in the period from the date of incorporation to 31 December 2005 and year ended 31 December 2006 respectively. Further, starting from 2005, the accounts of Allright and Yue Tian Group adopted the accounting standards to present shareholders' loans at fair value, thus resulting in a recognition of imputed interest expense on loans from shareholders of HK\$4.0 million and HK\$3.5 million in the income statements respectively for the period from date of incorporation to 31 December 2005 and year ended 31 December 2006. Recorded net assets were HK\$35.9 million and HK\$44.1 million on the respective balance sheet dates.

Liquidity and financial resources

Capital structure and liquidity

Allright had been fully relied on the interest-free loan from its shareholder to support its investment and onward lending to Yue Tian Group. It maintained minimal cash balances to meet with its operating expenses. Other than the aforesaid, it did not have any material asset other than the investment in Yue Tian or liabilities as the balance sheet dates. Hence, the gearing ratios, based on total liabilities (other than the shareholder's loan) to total assets, were only 0.65% and 0.17% respectively as at 31 December 2005 and 31 December 2006.

Bank borrowings and pledge of assets

No bank borrowing was obtained since its incorporation.

Foreign currency management

Allright holds an investment having a property development activity conducted in the PRC whereas the shareholder's loan made by Allright to Yue Tian Group was denominated in Hong Kong dollars. As a result, Allright had certain exposures in foreign currency fluctuations in RMB against HK\$. Allright did not hedge its foreign currency risks as the rate of exchange between HK\$ and RMB was controlled within a narrow range.

Contingent liabilities

Allright had no contingent liabilities on both the balance sheet dates as at 31 December 2005 and 2006.

Employees

Allright did not employ any staff during the period or year under review.

1. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following pro forma financial information is prepared in a manner consistent with both the format and accounting policies adopted by the Group in the preparation of its published audited consolidated financial statements for the financial year ended 31 December 2005. As (i) the completion of the Note Purchase Agreement is conditional upon, among other things, completion of the 71% Acquisition and the 29% Acquisition; and the completion of the 71% Acquisition is conditional upon, among other things, Great Elegant and/or the Company having obtained sufficient financing for payment of the consideration for the 71% Acquisition, and therefore the Note Purchase Agreement and the 71% Acquisition cannot be completed on its own; and (ii) the 29% Acquisition is neither conditional upon completion of the Note Purchase Agreement nor the 71% Acquisition and therefore can be completed on its own, the pro forma financial information of the Enlarged Group is prepared to provide the possible financial effect on the Group in 2 scenarios: (1) upon issue of the Notes and completion of the 71% Acquisition and the 29% Acquisition and (2) upon completion of the 29% Acquisition alone. The pro forma financial information set out below are prepared based on (i) the unaudited published pro forma financial information (“Pro Forma Adjusted Balances”) as extracted from the Company’s circular dated 2 August 2006 (which was prepared to provide the unaudited pro forma financial information of the Enlarged Group as a result of the acquisition of 51% shareholding in and shareholders’ loan due by Loyal Way and the open offer completed subsequent to the financial year ended 31 December 2005); (ii) the consolidated financial information of Red Empire for the year ended 31 December 2006 as extracted from Appendix II; and (iii) the consolidated financial information of Allright for the year ended 31 December 2006 as extracted from Appendix III. As it has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position at any future date or results and cashflows of the Enlarged Group for any future period.

(a) Unaudited pro forma consolidated income statement of the Enlarged Group

The following table is an illustrative and unaudited pro forma consolidated income statement of the Enlarged Group which has been prepared based on the Pro Forma Adjusted Balances as extracted from the Company’s circular dated 2 August 2006 as if the issue of the Notes, the completion of the 71% Acquisition and/or the 29% Acquisition (as the case may be) had taken place on 1 January 2005.

Scenario 1: Issue of the Notes and completion of the 71% Acquisition and the 29% Acquisition

	Pro Forma Adjusted Balances for the year ended 31 December 2005 HK\$'000 (Note a, b)	The Red Empire Group for the year ended 31 December 2006 HK\$'000 (Note c)	Allright for the year ended 31 December 2006 HK\$'000 (Note d)	Pro forma adjustment relating to the acquisition HK\$'000	Notes	Pro forma adjustments relating to the convertible note issue HK\$'000	Notes	Unaudited pro forma Enlarged Group HK\$'000
Continuing operations:								
Turnover	4,757	—	—					4,757
Other income	117	—	28					145
Interest income from associates	—	—	2,937	(2,937)	(f)			—
General and administrative expenses	(7,940)	(10,219)	(225)					(18,384)
Other operating expenses	(17)	—	—					(17)
(Loss)/profit from operations	(3,083)	(10,219)	2,740					(13,499)
Negative goodwill	—	—	—	17,921	(g)			17,921
Shares of loss of an associate	—	—	(1,834)	1,834	(e)			—
Imputed interest on amounts due to shareholders	—	—	(3,539)	3,539	(f)			—
Finance costs	(17,725)	(1,989)	—			(242,104)	(h)	(261,818)
Finance income	262	407	—					669
Loss before income tax	(20,546)	(11,801)	(2,633)					(256,727)
Income tax expense	(33)	—	—					(33)
Loss for the year from continuing operations	(20,579)	(11,801)	(2,633)					(256,760)
Discontinued operations:								
Loss for the year from discontinued operations	(2,234)	—	—					(2,234)
Loss for the year	(22,813)	(11,801)	(2,633)					(258,994)
Attributable to :								
Equity holders of the Company	(9,065)	(479)	(2,633)	1,834	(e)	(242,104)	(h)	(240,751)
				(6,225)	(f)			
				17,921	(g)			
Minority interests	(13,748)	(11,322)	—	6,827	(f)			(18,243)
	(22,813)	(11,801)	(2,633)					(258,994)

Notes:

- (a) Being the published unaudited Pro Forma Adjusted Balances for the year ended 31 December 2005 extracted from the unaudited pro forma consolidated income statement set out in Appendix III to the circular of the Company dated 2 August 2006.
- (b) The full version of the unaudited pro forma consolidated income statement is reproduced in Appendix I to this circular.

- (c) Being the audited consolidated income statement of the Red Empire Group for the twelve months ended 31 December 2006 extracted from Appendix II to this circular.
- (d) Being the audited consolidated income statement of the Allright for the twelve months ended 31 December 2006 extracted from Appendix III to this circular.
- (e) Adjustment to reverse the share of 20% loss of Yue Tian for the year upon the completion of the 71% Acquisition and the 29% Acquisition.
- (f) The adjustment represents the elimination of inter company balances among the Group, the Red Empire Group and Allright as if Red Empire, Allright and Yue Tian become the wholly owned subsidiaries of the Company upon completion of the 71% Acquisition and the 29% Acquisition.
- (g) On 2 March 2007, the Group entered into agreements with Poly, Shell and Wise Gain to purchase the entire issued share capital of Red Empire and Allright and the 29% issued share capital of Yue Tian held by Wise Gain, and the Shareholders' loans owned by Red Empire, Allright and Yue Tian as at 31 January 2007 at an aggregate consideration of approximately HK\$886,553,000, which will be settled by cash of approximately HK\$629,449,000 and 190,477,209 convertible preference shares of approximately HK\$257,104,000.

The adjustment represents the negative goodwill on acquisition upon the completion of the 71% Acquisition and the 29% Acquisition, which is determined based on the consideration of approximately HK\$886,553,000 and adjusting the following:

- (i) Fair value of identifiable assets and liabilities of the Red Empire Group and Allright which are equal to the net assets value of approximately HK\$228,501,000 and HK\$44,141,000 plus the upward valuation adjustment to the properties held for development of approximately HK\$353,135,000 less its associated deferred tax liabilities of approximately HK\$116,535,000;
- (ii) Elimination of the investment cost of HK\$4,865,000 in Yue Tian held by Allright;
- (iii) Face value of shareholder's loan of approximately HK\$610,192,000; and
- (iv) Reversal of deemed capital contribution to loans from minority shareholders of approximately HK\$210,095,000.

With reference to the above, negative goodwill of approximately HK\$17,921,000 arises and is credited to the pro forma consolidated income statement.

- (h) Being nominal interest expense of the US\$200 million convertible notes, which bear interest at a fixed rate of 4% per annum, payable semi-annually in arrear and the principal is payable within 6 years from the Closing Date. Nominal interest expense of the US\$200 million Notes is calculated using the effective interest rate of 28.252% per annum on the assumption that the Closing Date is 2 March 2007.
- (i) In absence of information, the pro forma consolidated income statement does not take into account any effect of fair value adjustment to the conversion feature of the Notes and the Westin CPS issued in the acquisition. However, because of the uncertainty of the fair value adjustment, it is reasonably possible that the effect of the fair value adjustment could be material to the pro forma consolidated income statement had the valuation of the conversion feature of the Notes and the Westin CPS been available.

Scenario 2: Completion of the 29% Acquisition

	Pro Forma Adjusted Balances for the year ended 31 December 2005 <i>HK\$'000</i> <i>(Note a, b)</i>	Pro forma adjustment relating to the acquisition <i>HK\$'000</i>	<i>Note</i>	Unaudited Pro forma Enlarged Group <i>HK\$'000</i>
Continuing operations:				
Turnover	4,757			4,757
Other income	117			117
General and administrative expenses	(7,940)			(7,940)
Other operating expenses	(17)			(17)
Loss from operations	(3,083)			(3,083)
Shares of loss of an associate	—	(2,660)	<i>(c)</i>	(2,660)
Finance costs	(17,725)			(17,725)
Finance income	262			262
Loss before income tax	(20,546)			(23,206)
Income tax expense	(33)			(33)
Loss for the year from continuing operations	(20,579)			(23,239)
Discontinued operations:				
Loss for the year from discontinued operations	(2,234)			(2,234)
Profit for the year	(22,813)			(25,473)
Attributable to :				
Equity holders of the Company	(9,065)	(2,660)	<i>(c)</i>	(11,725)
Minority interests	(13,748)			(13,748)
	(22,813)			(25,473)

Notes:

- (a) Being the published unaudited Pro Forma Adjusted Balances for the year ended 31 December 2005 extracted from the unaudited pro forma consolidated income statement set out in Appendix III to the circular of the Company dated 2 August 2006.
- (b) The full version of the unaudited pro forma consolidated income statement is reproduced in Appendix I to this circular.
- (c) Adjustment to share the 29% loss of Yue Tian for the year upon the completion of the 29% Acquisition.
- (d) In absence of information, the pro forma consolidated income statement does not take into account any effect of fair value adjustment to the conversion feature of the Westin CPS issued in the 29% Acquisition. However, because of the uncertainty of the fair value adjustment, it is reasonably possible that the effect of the fair value adjustment could be material to the pro forma consolidated income statement had the valuation of the conversion features of the Westin CPS been available.

(b) Unaudited pro forma consolidated balance sheet of the Enlarged Group

The following table is an illustrative and unaudited pro forma consolidated balance sheet of the Enlarged Group which has been prepared based on the Pro Forma Adjusted Balances as extracted from the Company's circular dated 2 August 2006 as if the issue of the Notes, the completion of the 71% Acquisition and/or the 29% Acquisition (as the case may be) had taken place on 31 December 2005.

Scenario 1: Issue of the Notes and completion of the 71% Acquisition and the 29% Acquisition

	Pro Forma Adjusted Balances as at 31 December 2005 HK\$'000 (Note a, b)	The Red Empire Group as at 31 December 2006 HK\$'000 (Note c)	Allright as at 31 December 2006 HK\$'000 (Note d)	Pro forma adjustment relating to the Convertible Notes issue HK\$'000 Notes	Pro forma adjustment relating to the acquisition HK\$'000 Notes	Pro forma consolidation adjustments HK\$'000 Notes	Unaudited pro forma Enlarged Group HK\$'000 Notes
Non-current assets							
Plant and equipment	176	1,372	—				1,548
Properties held for development	495,530	801,322	—				1,296,852
Prepaid lease payments							
— non-current portion	—	336,925	—			353,135 (i)	690,060
Goodwill	135,939	12,172	—			(4,865) (i)	148,111
Interest in associate	165,807	—	136,399			(118,400) (h)	165,807
						(4,865) (i)	
						(13,134) (g)	
Interests in subsidiaries	—	—	—		886,553 (f)	(610,192) (h)	—
						(276,361) (i)	
	<u>797,452</u>	<u>1,151,791</u>	<u>136,399</u>				<u>2,302,378</u>
Current assets							
Prepaid lease payments							
— current portion	—	10,210	—				10,210
Prepayments, trade and other receivables	403	50,093	—				50,496
Cash and cash equivalents	53,990	5,953	1	1,503,800 (e)	(629,449) (f)		934,295
	<u>54,393</u>	<u>66,256</u>	<u>1</u>				<u>995,001</u>

APPENDIX IV
**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP**

	Pro Forma Adjusted Balances as at 31 December 2005 <i>HK\$'000</i> <i>(Note a, b)</i>	The Red Empire Group as at 31 December 2006 <i>HK\$'000</i> <i>(Note c)</i>	Allright as at 31 December 2006 <i>HK\$'000</i> <i>(Note d)</i>	Pro forma adjustment relating to the convertible notes issue <i>HK\$'000</i> <i>Notes</i>	Pro forma adjustment relating to the acquisition <i>HK\$'000</i> <i>Notes</i>	Pro forma consolidation adjustments <i>HK\$'000</i> <i>Notes</i>	Unaudited pro forma Enlarged Group <i>HK\$'000</i>
Current liabilities							
Trade, other payables and accruals	4,901	74,864	200				79,965
Amount due to immediate holding company	—	312,145	—			(312,145) (h)	—
Amounts due to fellow subsidiaries	—	5	—				5
Amounts due to related companies	—	75,690	25				75,715
Income tax payable	66	—	—				66
	<u>4,967</u>	<u>462,704</u>	<u>225</u>				<u>155,751</u>
Net current assets (liabilities)	<u>49,426</u>	<u>(396,448)</u>	<u>(224)</u>				<u>839,250</u>
Total assets less current liabilities	<u>846,878</u>	<u>755,343</u>	<u>136,175</u>				<u>3,141,628</u>
Non-current liabilities							
Bank and other borrowings — due after one year	—	366,300	—	—			366,300
Convertible note	55,087	—	—	761,621 (e)			816,708
Financial derivative liabilities	—	—	—	742,179 (e)	122,100 (f)		864,279
Promissory note payable	64,000	—	—				64,000
Deferred tax liabilities	52,162	15,131	—			116,535 (i)	183,828
Amount due to minority shareholders	—	133,239	—			(133,239) (h)	—
Amounts due to shareholders	9,849	—	92,034			(92,034) (h)	9,849
	<u>181,098</u>	<u>514,670</u>	<u>92,034</u>				<u>2,304,964</u>
Net assets	<u>665,780</u>	<u>240,673</u>	<u>44,141</u>				<u>836,664</u>
Capital and reserves							
Share capital	9,080	—	—		135,004 (f)		144,084
Reserves	417,754	40,276	44,141			(191,174) (h) 155,771 (i) (13,134) (g)	453,634
Total equity attributable to equity holders of the Company	426,834	40,276	44,141				597,718
Minority interests	238,946	200,397	—			(200,397) (i)	238,946
Total equity	<u>665,780</u>	<u>240,673</u>	<u>44,141</u>				<u>836,664</u>

Notes:

- (a) Being the published unaudited Pro Forma Adjusted Balances as at 31 December 2005 extracted from the unaudited pro forma consolidated balance sheet set out in Appendix III to the circular of the Company dated 2 August 2006.
- (b) The full version of the unaudited pro forma consolidated balance sheet is reproduced in Appendix I to this circular.

- (c) Being the audited consolidated balance sheet of the Red Empire Group as at 31 December 2006 extracted from Appendix II to this circular.
- (d) Being the audited balance sheet of Allright as at 31 December 2006 extracted from Appendix III to this circular.
- (e) The adjustment represents the net proceeds of approximately HK\$1,503,800,000 received in the issue of US\$200 million Notes. These Notes have an issuer cash settlement option, an exercise price reset term and are denominated in the United States dollars, which is different to the Company's functional currency, Hong Kong dollars. The Notes are regarded as compound instruments consisting of a debt and a derivative instrument. On issue of the Notes, the fair value of the derivative instrument is determined to be approximately HK\$761,621,000 on the assumption that the Closing Date is 2 March 2007. The remainder of the proceeds is allocated to the debt, which amounts to approximately HK\$742,179,000.
- (f) Being an aggregated acquisition consideration of approximately HK\$886,553,000, comprising (i) approximately HK\$140,002,000, HK\$52,612,000 and HK\$83,747,000 for the sale of the entire issued share capital of Red Empire and Allright and 29% of the issued share capital of Yue Tian held by Wise Gain and (ii) the assignment of the amount owed to CMIC Property (China) Limited, SMC Property Investment Limited and Wise Gain by Yue Tian of approximately HK\$312,145,000, HK\$124,690,000 and HK\$173,357,000, respectively. The net consideration will be settled by:
- cash of approximately HK\$629,449,000, and
 - 190,477,209 convertible preference shares of approximately HK\$257,104,000.
- The convertible preference shares have an exercise price reset term and are nonredeemable. The convertible preference shares are regarded as compound instruments consisting of nonredeemable preference shares and a derivative instrument. On issue of these convertible preference shares, the fair value of the derivative instrument is determined to be approximately HK\$122,100,000 on the assumption that the Closing Date is 2 March 2007. The remainder of the consideration is allocated as the nonredeemable preference share capital, which amounts to approximately HK\$135,004,000 and is regarded as equity.
- (g) Adjustment to reverse Allright's share of Yue Tian's net assets using the equity method upon the completion of the 71% Acquisition and the 29% Acquisition.
- (h) The adjustment represents the elimination of intercompany balances among the Group, the Red Empire Group and Allright as if Red Empire, Allright and Yue Tian become the wholly owned subsidiaries of the Company upon completion of the 71% Acquisition and the 29% Acquisition.
- (i) The adjustment represents elimination of investment cost in Red Empire, Allright and Yue Tian, and the recognition of the upward fair value adjustment to the properties held under development of approximately HK\$353,135,000 and its associated deferred tax liability of approximately HK\$116,535,000 on consolidation.

Scenario 2: Completion of the 29% Acquisition

	Pro Forma Adjusted Balances as at 31 December 2005 HK\$'000 (Note a, b)	Pro forma adjustments relating to the 29% acquisition HK\$'000	Note	Unaudited pro forma Enlarged Group HK\$'000
Non-current assets				
Plant and equipment	176			176
Properties held for development	495,530			495,530
Goodwill	135,939			135,939
Interest in associate	165,807	257,104	(c)	422,911
	<u>797,452</u>			<u>1,054,556</u>
Current assets				
Prepayments, trade and other receivables	403			403
Cash and cash equivalents	53,990			53,990
	<u>54,393</u>			<u>54,393</u>
Current liabilities				
Trade, other payables and accruals	4,901			4,901
Income tax payable	66			66
	<u>4,967</u>			<u>4,967</u>
Net current assets	<u>49,426</u>			<u>49,426</u>
Total assets less current liabilities	<u>846,878</u>			<u>1,103,982</u>
Non-current liabilities				
Convertible note	55,087			55,087
Financial derivative liabilities	—	122,100	(c)	122,100
Promissory note payable	64,000			64,000
Deferred tax liabilities	52,162			52,162
Amount due to shareholders	9,849			9,849
	<u>181,098</u>			<u>303,198</u>
Net assets	<u>665,780</u>			<u>800,784</u>
Capital and reserves				
Share capital	9,080	135,004	(c)	144,084
Reserves	417,754			417,754
Total equity attributable to equity holders of the Company	426,834			561,838
Minority interests	238,946			238,946
Total equity	<u>665,780</u>			<u>800,784</u>

Notes:

- (a) Being the published unaudited Pro Forma Adjusted Balances as at 31 December 2005 extracted from the unaudited pro forma consolidated balance sheet set out in Appendix III to the circular of the Company dated 2 August 2006.
- (b) The full version of the unaudited pro forma consolidated balance sheet is reproduced in Appendix I to this circular.
- (c) Issue 190,477,209 convertible preference shares of approximately HK\$257,104,000 to acquire 29% issued share capital of Yue Tian and equity account for its share of Yue Tian's net assets value as at 31 December 2006.

The convertible preference shares have an exercise price reset term and are nonredeemable. The convertible preference shares are regarded as compound instruments consisting of nonredeemable preference shares and a derivative instrument. On issue of these convertible preference shares, the fair value of the derivative instrument is determined to be approximately HK\$122,100,000 on the assumption that the Closing Date is 2 March 2007. The remainder of the consideration is as the nonredeemable preference share capital, which amounts to approximately HK\$135,004,000 and is regarded as equity.

(c) **Unaudited pro forma consolidated cash flow statement of the Enlarged Group**

The following table is an illustrative and unaudited pro forma consolidated cash flow statement of the Enlarged Group which has been prepared based on the Pro Forma Adjusted Balances as extracted from the Company's circular dated 2 August 2006 as if the issue of the Notes, the completion of the 71% Acquisition and/or the 29% Acquisition (as the case may be) had taken place on 1 January 2005.

Scenario 1: Issue of the Notes completion of the 71% Acquisition and the 29% Acquisition

	Pro Forma Adjusted Balances for the year ended 31 December 2005 HK\$'000 (Note a, b)	The Red Empire Group for the year ended 31 December 2006 HK\$'000 (Note c)	Allright for the year ended 31 December 2006 HK\$'000 (Note d)	Pro forma adjustment of the convertible note issue HK\$'000 (Note e)	Pro forma adjustment relating to the acquisition HK\$'000 (Note f)	Interest on convertible notes HK\$'000 (Note g)	Pro forma adjustment to eliminate inter-company cash flow HK\$'000 (Note h)	Unaudited pro forma Enlarged Group HK\$'000
Loss before income tax	(5,275)	(11,801)	(2,633)				2,436	(17,273)
Adjustment for:								
Imputed interest on the amount due from associate	—	—	(2,937)				2,937	—
Imputed interest on loans from shareholders	—	—	3,539				(3,539)	—
Share of loss of associate	—	—	1,834				(1,834)	—
Impairment losses on promissory note receivable and accounts receivable	4,682	—	—					4,682
Write-off of hotel pre-operating expenses	—	5,239	—					5,239
Depreciation of plant and equipment	121	512	—					633
Finance costs	220	1,989	—					2,209
Finance income	(262)	(407)	—					(669)
Fair value losses (including loss on disposal) on financial asset at fair value through profit and loss	267	—	—					267
Write-back of trade and other payables	(137)	—	—					(137)
Gain on disposal of subsidiaries	(2,990)	—	—					(2,990)
Operating loss before working capital changes	(3,374)	(4,468)	(197)					(8,039)
Increase in amount due from intermediate holding company	—	10,000	—				(10,000)	—
Increase in amount due from minority shareholders	—	2,756	—				(2,756)	—
Decrease in amount due to intermediate holding company	—	(19,048)	—				19,048	—
Decrease in amount due to minority shareholders	—	(12,963)	—				12,963	—
Increase in properties held for development	(19,380)	—	—					(19,380)
Decrease in amount due to immediate holding company	—	(5,635)	(1)				5,636	—
Increase in amounts due to related companies	—	63,307	—					63,307
Increase in amounts due to fellow subsidiaries	—	5	—					5
Decrease in amount due to related party	—	(103)	—					(103)
Decrease/(increase) in deposits, prepayments and other receivables	(64,145)	76,945	—					12,800
(Increase)/decrease in trade and other payables and accruals	(7,416)	23,933	200					16,717
Cash generated from/ (used in) operations	(94,315)	134,729	2					65,307

APPENDIX IV
**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP**

	Pro Forma Adjusted Balances for the year ended 31 December 2005 <i>HK\$'000</i> <i>(Note a, b)</i>	The Red Empire Group for the year ended 31 December 2006 <i>HK\$'000</i> <i>(Note c)</i>	Allright for the year ended 31 December 2006 <i>HK\$'000</i> <i>(Note d)</i>	Pro forma adjustment of the convertible note issue <i>HK\$'000</i> <i>(Note e)</i>	Pro forma adjustment relating to the acquisition <i>HK\$'000</i> <i>(Note f)</i>	Interest on convertible notes <i>HK\$'000</i> <i>(Note g)</i>	Pro forma adjustment to eliminate inter-company cash flow <i>HK\$'000</i> <i>(Note h)</i>	Unaudited pro forma Enlarged Group <i>HK\$'000</i>
Investing activities								
Interest received	262	407	—					669
Acquisition of subsidiaries, net of cash acquired	(442,800)	—	—		(629,449)		(11,148)	(1,083,397)
Disposal of subsidiaries, net of cash disposed of	2,300	—	—					2,300
Proceeds from sale of other investments	949	—	—					949
Repayment from associate	—	—	5,455				(5,455)	—
Acquisition of associate	(85,807)	—	—					(85,807)
Additions to prepaid lease payments	—	(1,003)	—					(1,003)
Additions to properties held for development	—	(446,682)	—					(446,682)
Purchase of plant and equipment	(183)	(151)	—					(334)
Net cash used in investing activities	(525,279)	(447,429)	5,455					(1,613,305)
Financing activities								
Proceeds from issue of ordinary shares	169,294	—	—					169,294
Proceeds from issue of Open Offer shares	234,500	—	—					234,500
Proceeds from issue of convertible notes	—	—	—	1,503,800				1,503,800
Advances from shareholders	272,678	—	8,000				(8,000)	272,678
Expenses incurred on issue of shares	(4,354)	—	—					(4,354)
Interest paid	(33)	(1,989)	—			(62,400)		(64,422)
Proceeds from bank and other borrowings	4,000	213,361	—					217,361
Repayments of bank and other borrowings	(4,000)	—	—					(4,000)
Decrease in amount due to director	(1,276)	—	—					(1,276)
Loans from minority shareholders	—	13,744	—				(13,744)	—
Repayment to shareholders	—	—	(13,456)				13,456	—
Net cash from financing activities	670,809	225,116	(5,456)					2,323,581
Increase in cash and cash equivalents	51,215	(87,584)	1					775,583
Effect of foreign exchange rate changes	(5)	4,578	—					4,573
Cash and cash equivalents at beginning of year	347	88,959	—					89,306
Cash and cash equivalents at end of year	<u>51,557</u>	<u>5,953</u>	<u>1</u>					<u>869,462</u>

Notes:

- (a) Being the long form of the unaudited pro forma consolidated cash flow statement for the year ended 31 December 2005 set out in Appendix III to the circular of the Company dated 2 August 2006.
- (b) The unaudited pro forma consolidated cash flow statement for the year ended 31 December 2005 extracted from Appendix III to the circular of the Company dated 2 August 2006 is reproduced in Appendix I to this circular.
- (c) Being the audited consolidated cash flow statement of the Red Empire Group for the twelve months ended 31 December 2006 extracted from Appendix II to this circular.
- (d) Being the audited consolidated cash flow statement of Allright for the twelve months ended 31 December 2006 extracted from Appendix III to this circular.
- (e) Being net cash received from the issue of the Notes.
- (f) Being the cash consideration of approximately HK\$629,449,000 in connection with the acquisition of the entire issued share capital of Red Empire and Allright and the shareholders' loans of approximately HK\$312,165,000 approximately and HK\$124,690,000 owned by Red Empire and Allright.
- (g) Being the cash interest on US\$200 million Notes, which bear interest at a rate of 4% per annum.
- (h) Being elimination of inter-company cash flow among the Group Allright and the Yue Tian Group as if Allright and Yue Tian become the wholly owned subsidiaries of the Company upon completion of the 71% Acquisition and the 29% Acquisition.

Scenario 2: Completion of the 29% Acquisition

The completion of the 29% Acquisition will be settled by issue of 190,477,209 convertible preference shares of approximately HK\$257,104,000 which are non-redeemable and do not entitle for any dividend. Accordingly the completion of the 29% Acquisition does not generate any cash inflow or outflow.

2. INDEBTEDNESS

As at the close of business on 31 January 2007, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group has outstanding (i) bank loans of approximately HK\$366.3 million which was secured by mortgages over the land use rights and the properties under development of the Enlarged Group; (ii) unsecured amounts due to related companies of approximately HK\$130.2 million and (iii) unsecured amounts due to other shareholder, Bright Able, of Loyal Way and its subsidiaries of approximately HK\$246.1 million.

In addition, as at 31 January 2007, the Enlarged Group had capital commitments contracted but not provided for in respect of the property development costs of approximately HK\$1,182.1 million.

Save as aforesaid, the Enlarged Group did not have any debt securities issued and outstanding or agreed to be issued, outstanding bank borrowings, bank overdrafts, liabilities under acceptances, acceptance credits, mortgages, charges, other indebtedness in the nature of borrowing, finance lease or hire purchase commitments, guarantees or material contingent liabilities as at 31 January 2007.

Save for further shareholders' loan advanced to Yue Tian from Red Empire, Wise Gain, and Allright of a total amount of HK\$560 million on 5 March 2007 and which has been fully repaid by Yue Tian on 14 March 2007, the new term loan granted by Agricultural Bank of China to Yue Tian of up to RMB800 million of which approximately RMB647.1 million has been drawn down as at the Latest Practicable Date and additional advances to Yue Tian from a related company, Guangzhou Feng Jia Enterprise Development Co., Ltd, of approximately HK\$6.5 million, Directors are not aware of any material changes to the indebtedness and contingent liabilities of the Enlarged Group since 31 January 2007.

3. WORKING CAPITAL

The Directors are of the opinion that taking into account the Enlarged Group's internal resources, the proposed banking facilities and the net proceeds to be raised from the issue of the Notes if the issue of the Notes becomes unconditional, the Enlarged Group has sufficient working capital for its present requirements in the absence of unforeseeable circumstances.

4. REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the full text of a letter received from BDO McCabe Lo Limited for the purpose of incorporation in this circular.



BDO McCabe Lo Limited
Certified Public Accountants
25th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong
Telephone: (852) 2541 5041
Telefax: (852) 2815 0002

德豪嘉信會計師事務所有限公司

香港干諾道中一百一十一號
永安中心二十五樓
電話:(八五二)二五四一 五〇四一
傳真:(八五二)二八一五 〇〇〇二

The Board of Directors
Skyfame Realty (Holdings) Limited
2502B, Admiralty Centre
Tower 1
18 Harcourt Road
Hong Kong

4 April 2007

Dear Sirs,

We report on the statement of unaudited pro forma financial information (the “Unaudited Pro Forma Financial Information”) of Skyfame Realty (Holdings) Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) set out in Appendix IV to the circular dated 4 April 2007 (the “Circular”) issued by the Company in connection with (i) the proposed issue of the United States dollars (“US\$”) 200 million 4 per cent secured convertible notes (“Notes”) due 2013; (ii) the proposed acquisition of 100% shareholding in and shareholder’s loans due by Red Empire Limited (“Red Empire”); (iii) the proposed acquisition of 100% shareholding in and shareholder’s loans due by Allright Investments Limited (“Allright”); and (iv) the proposed acquisition of 29% shareholding in and shareholder’s loan due by Yue Tian Development Limited (“Yue Tian”). The basis of preparation of the unaudited pro forma financial information is set out on pages IV-1 to IV-13 of the circular. The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the issue of the Notes and the proposed acquisitions might have affected the financial information presented.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements (HKSIR) 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of

- the financial position of the Enlarged Group as at 31 December 2005 or any future date; and

- results and cash flows of the Enlarged Group for the year ended 31 December 2005 or any future period.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

BDO McCABE LO LIMITED
Certified Public Accountants
Au Yeung Shiu Kau Peter
Practising Certificate Number P02289

1. *The following is the text of a letter, summary of value and valuation certificate, prepared for the purpose of incorporation in this circular received from Greater China Appraisal Limited, an independent property valuer, in connection with its valuation as at 31 January 2007 of the property interests held by the Group.*



GREATER CHINA APPRAISAL LIMITED
漢華評值有限公司

Room 2703
Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

4 April 2007

The Board of Directors
Skyfame Realty (Holdings) Limited
2502B, Tower 1
Admiralty Centre
18 Harcourt Road
Hong Kong

Dear Sirs,

Re: Valuation of Properties situated in Guangzhou City, Guangdong Province, the People's Republic of China (the "properties")

In accordance with your instructions to value the property interests held by Skyfame Realty (Holdings) Limited (the "Company") or its subsidiaries (altogether referred to as the "Group") situated in the People's Republic of China (the "PRC"), we confirm that we have carried out inspections of the properties, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the properties as at 31 January 2007 (the "date of valuation").

BASIS OF VALUATION

Our valuation of the properties represents the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

TITLESHIP

We have been provided with copies of legal documents regarding the properties in Group I and tenancy agreements regarding properties in Group II. However, we have not verified ownership of the properties and the existence of any encumbrances that would affect ownership of them.

We have also relied upon the legal opinion provided by the PRC legal adviser namely Guang Dong Fair Strategy Law Firm (廣州正大方略律師事務所) (the “PRC Legal Opinion”), to the Company on the relevant laws and regulations in the PRC, on the nature of land use rights in the properties in Group I and the validity of the leasehold interest in the properties in Group II.

VALUATION METHODOLOGY

The properties are valued by the comparison method where comparison based on prices realised or market prices of comparable properties is made. Comparable properties of similar size, character and location are analysed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of capital values.

For the property in Group I which are held for future development, we have considered their development or redevelopment potential mentioned herein.

We have attributed no commercial value to the properties in Group II rented by the Group due either to the short term nature of the Group’s leasehold interest in the properties or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rent.

ASSUMPTIONS

Our valuation has been made on the assumption that the owners sell the properties on the market in their existing state without the benefit of deferred terms contracts, leaseback, joint ventures, management agreements or any similar arrangement which would serve to affect the value of the properties.

As the properties in Group I are held by the owners by means of long term land use rights granted by the Government, we have assumed that the owner has free and uninterrupted rights to use the properties for the whole of the unexpired term of the respective land use rights.

We have valued the properties in Group I on the basis that they shall be developed after completing all necessary resettlement arrangement with existing occupiers and obtaining approval of building plans. This assumption is considered reasonable and realistic since

the PRC Legal Opinion has confirmed that the respective owners of the properties have either completed all land grant procedures or have no legal impediment in completing the land grant procedures. Subject to the compliance with planning conditions such as plot ratio and site coverage etc. as imposed by the Government and mentioned in this report, there shall have no legal impediment for the owners' obtaining building plan approval and construction permit from the Government.

Other special assumptions for our valuation (if any) would be stated out in the footnotes of the valuation certificate attached herewith.

LIMITING CONDITIONS

No allowance has been made in our report for any charges, mortgages or amounts owing on the properties valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values. Our valuation have been made on the assumption that the seller sells the property on the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the properties.

We have relied to a very considerable extent on the information given by the Enlarged Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the properties but have assumed that the site areas shown on the documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations.

We have carried out inspections of the development sites in Group I. However, we must point out that we have not carried out site investigations to determine the suitability of the ground conditions or the services for them. Our valuation is on the basis that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period.

We have inspected the exterior and, where possible, the interior of the buildings and structures of the properties. However, no structural survey has been made for them. In the course of our inspection, we did not note any apparent defects. We are not, however, able to report whether the buildings and structures inspected by us are free of rot, infestation or any structural defect. No test was carried out on any of the building services and equipment.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

In valuing the properties, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the HKIS Valuation Standards on Properties (First Edition 2005) published by The Hong Kong Institute of Surveyors effective from 1 January 2005.

Unless otherwise stated, all monetary sums stated in this report are in Renminbi (RMB).

Our summary of valuation and valuation certificate are attached herewith.

Yours faithfully,
for and on behalf of
Greater China Appraisal Limited

TSE Wai Leung
MFin BSc MRICS MHKIS RPS(GP)
Assistant Vice President

Tse Wai Leung is a member of the Royal Institution of Chartered Surveyors, a member of The Hong Kong Institute of Surveyors, a Registered Professional Surveyor in General Practice and a qualified real estate appraiser in the PRC. He is on the list of Property Valuers for Undertaking Valuations for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers of the Hong Kong Institute of Surveyors, Registered Business Valuer under the Hong Kong Business Forum and has over 10 years' experience in valuation of properties in Hong Kong, in Macau and in the PRC.

APPENDIX V PROPERTY VALUATION OF THE ENLARGED GROUP

SUMMARY OF VALUATION

Property	Market Value on vacant possession basis as at 31 January 2007 RMB
Group I — Properties held by the Group for future development	
1. Development site at the junction of Tianhe Bei Road and Linhe Dong Road Tianhe District Guangzhou City Guangdong Province The PRC	459,000,000 <i>(please refer to note 4 in the valuation certificate attached herewith)</i>
2. A parcel of waterfront land located at the north of Mayong, the east and south of Zhujiang and the west of Hongde Road Zhoutouzui Haizhu District Guangzhou City Guangdong Province The PRC	1,000,000,000 free from the estimated further costs for site clearance <i>(please refer to notes 4 & 5 in the valuation certificate attached herewith)</i>
Sub-total:	1,459,000,000
Group II — Properties rented by the Enlarged Group	
3. Unit L on Level 6 Nos. 138 and 146 Linhe Zhong Road Tianhe District Guangzhou City Guangdong Province The PRC	No commercial value
4. Portion of Level 6 No. 142 Linhe Zhong Road Tianhe District Guangzhou City Guangdong Province The PRC	No commercial value
5. Office No. 2502B 25th Floor, Tower 1 Admiralty Centre No. 18 Harcourt Road Hong Kong	No commercial value
Grand Total :	<u>1,459,000,000</u>

VALUATION CERTIFICATE

Group I — Properties held by the Group for future development

Property	Description and tenure	Particulars of occupancy	Market Value on Vacant possession basis as at 31 January 2007 <i>RMB</i>
1. Development site at the junction of Tianhe Bei Road and Linhe Dong Road, Tianhe District, Guangzhou, Guangdong Province, the PRC.	The property comprises a parcel of land with an area of 6,057 square metres (see note 3 below). A portion of the property abutting onto Tianhe Bei Road is erected with a 3-storey structure whilst the remaining portion of it is cleared and vacant. As confirmed by the Company, the 3-storey structure shall be demolished during the course of development.	The southern portion of the property abutting onto Tianhe Bei Road is currently occupied by a fire station whilst the remaining portion is vacant.	459,000,000 <i>See Note 4 below</i>
	According to the planning conditions issued by the Town Planning Bureau of Guangzhou on 29 July 2004, the property is permitted for a commercial development with a planned gross floor area of not exceeding 84,150.60 square metres.		
	The property is held for the terms of 40 years for commercial purposes.		

Notes:

1. As stipulated in the Land Use Right Certificate (No. Sui Guo Yong 2004 Di 10053 Hao 穗國用2004第10053號) dated 14 April 2005, the land use rights in the property with a land area of 6,057 square metres are held by 廣州寰城實業發展有限公司 (Guangzhou Huan Cheng Development Company Limited) for a term of 40 years for commercial purpose. It is a wholly-owned subsidiary of Yaubond Limited which is a 49%-owned associate of the Company.
2. According to the planning conditions issued by the Town Planning Bureau of Guangzhou (廣州市城市規劃局) on 29 July 2004, the property is permitted for a commercial development with a planned gross floor area of not exceeding 84,150.60 square metres of which a floor area of not less than 5,400.00 square metres shall be used for accommodating a fire station (*see PRC legal opinion in note 5.5 below*).

APPENDIX V PROPERTY VALUATION OF THE ENLARGED GROUP

3. As revealed by the Construction Land Use Planning Permit issued by the Town Planning Bureau of Guangzhou on 4 September 1995, the subject site initially covered a total area of 7,217 square metres of which 6,057 square metres is attributable to the development site currently held by Guangzhou Huan Cheng Development Company Limited and the remaining portion with an area of 1,160 square metres is designated for the use as public roads.
4. Our opinion of the property as mentioned above has been arrived at on the basis that the fire station as mentioned in note 2 above having a floor area of 5,400 square metres has been relocated somewhere else as at the valuation date such that Guangzhou Huan Cheng Development Company Limited obtains vacant possession of the entire development site and the entire building on the subject site shall be used for commercial/office purposes free from the fire station re-habitation requirement.
5. The PRC Legal Opinion on the property is summarized as follows:
 - 5.1 The land use rights in the property are held by 廣州寰城實業發展有限公司 (Guangzhou Huan Cheng Development Company Limited for a term of 40 years commencing on 12 April 2005 for commercial purpose);
 - 5.2 Guangzhou Huan Cheng Development Company Limited has settled all land costs for acquiring the property;
 - 5.3 Up to the date of the PRC Legal Opinion, the property was free from any encumbrances and was not subject to any situation leading to re-entry by the government;
 - 5.4 Guangzhou Huan Cheng Development Company Limited, as a land use right holder of the Property, can freely transfer, mortgage or lease the property on the market during the unexpired land use right term; and
 - 5.5 Regarding the re-habitation of the fire station, Guangzhou Huan Cheng Development Company Limited has obtained approval from the government to relocate the fire station at an alternative location at the full cost of Guangzhou Huan Cheng Development Co. Ltd..
6. The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the PRC Legal Opinion on the PRC law is as follows:

Land Use Rights Certificate:	Yes
Red-line Drawing :	Yes
Construction Land Permit:	Yes
Construction Land Planning Permit:	Yes
Construction Permit:	Not yet applied for
Business Licence:	Yes

APPENDIX V PROPERTY VALUATION OF THE ENLARGED GROUP

Property	Description and tenure	Particulars of occupancy	Market Value on Vacant possession basis as at 31 January 2007 RMB
2. A parcel of waterfront land located at the north of Mayong, the east and south of Zhujiang and the west of Hongde Road Zhoutouzui Haizhu District Guangzhou City Guangdong Province The PRC	<p>The property comprises an irregular-shaped site with a site area of approximately 106,273 square metres.</p> <p>According to a development plan handed to us by the Group, a composite development accommodating luxury residential, serviced apartments, retail, hotel, community centre and car parking spaces will be constructed on the subject site. The permitted total gross floor area upon completion would be 212,546 square metres plus basement area of 29,000 square metres.</p> <p>The land use rights of the property were granted for a term of 70 years for residential purpose, 40 years for commercial and recreational purpose and 50 years for composite purpose commencing from the issue date of the Land Use Right Certificate.</p>	<p>The property is currently undergoing clearance and demolition work. Out of the total site area of 106,273 square metres of the land, approximately 86,272 square metres of it has been vacated and cleared. Remaining portion of the property is currently erected with various residential buildings and simple structures and is occupied by existing residents.</p>	<p>1,000,000,000 free from the estimated further costs for site clearance <i>(please refer to notes 4 & 5 below)</i></p>

Notes:

- Pursuant to a State-owned Land Use Rights Grant Contract dated 10 September 2003, two supplemental agreements respectively dated 18 February 2004 and 15 September 2004, the land use rights in the subject land an area of approximately 106,273 square metres were granted to by the Land Resource and Building Administration Bureau of Guangzhou to 廣州越秀企業(集團)公司 (Guangzhou Yuexiu Enterprise (Group) Company Limited) for a term of 70 years for residential use, 40 years for commercial and recreational use and 50 years for other uses. Subsequently, a Construction Land Use Permit for the property was issued by the Bureau of Land Resources and Housing Management of Guangzhou Municipality on 8 April 2004 in the name of Guangzhou Yuexiu Enterprise (Group) Company Limited. The following material development conditions are contained in the State-owned Land Use Rights Grant Contract:

- Plot Ratio: 2x
- Total Gross Floor Area: 212,546 square metres (comprising 10,000 square metres of commercial floor area and 202,546 square metres of residential floor area) plus a basement area of 29,000 square metres

APPENDIX V PROPERTY VALUATION OF THE ENLARGED GROUP

2. A Construction Land Use Planning Permit (Ref: Sui Guo Tu Jian Yong Zhi [2004] No. 184) in relation to the property was issued by the Bureau of Land Resources and Housing Management of Guangzhou Municipality on 8th April 2004 in the name of Guangzhou Yuexiu Enterprise (Group) Company Limited with such permitted uses as ferry pier, commercial, tourism and residential. The planned site area is approximately 396,629 sq.m.
3. Pursuant to a Joint Development Agreement dated 18 September 2001 entered into among Guangzhou Yuexiu Enterprise (Group) Company Limited (Party A), 廣州港集團有限公司 (Guangzhou Port Group Co., Limited) (Party B) and 廣州洲頭咀發展有限公司 (Guangzhou Zhoutouzui Development Limited) (Party C) in which the Company has an effective interest of 51%, a sino-foreign cooperative joint venture enterprise namely 廣州市譽城房地產開發有限公司 (Guangzhou Yucheng Real Estate Development Company Limited) was established for undertaking the subject development project. Material conditions of the Joint Development Agreement are set out as follows:
 - Party A and B contributed the subject land for the development and Party C bears the costs of site clearance and property development.
 - Party C paid to Party A a sum of RMB10,000,000 as cash compensation.
 - For profit sharing of the project, floor area of the project upon completion shall be shared by the three parties in the following ratios:

Party A: 0%

Party B: 28%

Party C: 72%
4. Given the profit sharing conditions as mentioned above, we have taken out any benefit to be derived from the floor area of the project attributable to Party B in arriving at the market value of property interest attributable to Party C.
5. As at the valuation date, majority portion of the subject site with an area of approximately 86,272 has been vacated and cleared. The remaining portion of the subject site with an area of 20,001 square metres (the “uncleared land portion”) was being erected with buildings or simple structures of 1 to 23-storey high. These buildings and structures with a total floor area of approximately 55,000 square metres were not yet vacated. As confirmed by the Company, site clearance work for this occupied land portion shall be proceeded in due course. Given the total floor area of 55,000 square metres of those existing buildings and structures and their prevailing market prices at a unit rate of RMB3,000 to RMB3,500 per square metres in term of floor area, the cost for vacating the land portion is estimated at RMB192,500,000 as at the valuation date.
6. The PRC Legal Opinion on the property is summarized as follows:–
 - (i) The land use rights in the property which have been legally, validly and properly granted by the relevant Government authority to Guangzhou Yuexiu Enterprise (Group) Company Limited for the purpose of the subject project were legally and validly transferred to Guangzhou Yucheng Real Estate Development Company Limited and the land premium underlying the land grant have been settled in full by Guangzhou Yucheng Real Estate Development Company Limited.

APPENDIX V PROPERTY VALUATION OF THE ENLARGED GROUP

- (ii) Guangzhou Yucheng Real Estate Development Company Limited does not have any legal impediment in obtaining Land Use Right Certificate for any portion of the subject land of which site clearance is completed.
 - (iii) Guangzhou Yucheng Real Estate Development Company Limited's interest in the property is not subject to any mortgage.
 - (iv) The Construction Land Use Planning Permit dated 8th April 2004 is expiring on June 2007. As there is no under delay situation existing in the property, Guangzhou Yucheng Real Estate Development Company Limited shall have no legal impediment in applying for extension for the Construction Land Use Planning Permit.
7. The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the PRC Legal Opinion is as follows:

Land Use Rights Certificate:	In the process of applying for
Red-line Drawing:	Yes
Construction Land Permit:	Yes
Construction Land Planning Permit:	Yes
Construction Permit:	Not yet applied for
Business Licence:	Yes

Group II — Properties rented by the Group

Property	Description and tenure	Particulars of occupancy	Market Value as at 31 January 2007 RMB
3. Unit L on Level 6 Nos. 138-146 Linhe Zhong Road Tianhe District Guangzhou City Guangdong Province The PRC	<p>The property comprises an office unit on Level 6 of a 6-storey commercial podium underneath a 25-storey residential tower completed in 2002.</p> <p>The gross floor area of the property is approximately 100 square metres.</p> <p>The property is rented by the Group for a term of 3 years commencing on 9 May 2005 and expiring on 8 May 2008 at a monthly rent of RMB1,000 exclusive of management fee and other outgoings.</p>	The property is currently occupied by the Group as an office.	No commercial value

Notes:

1. Pursuant to a tenancy agreement dated 27 May 2005, the property is rented by 廣州寰城實業發展有限公司 (Guangzhou Huan Cheng Development Company Limited) in which the Company holds an effective interest of 49% from 廣州市創譽房地產開發有限公司 (Guangzhou Chuangyu Real Estate Development Company Limited) for a term of 3 years expiring on 8 May 2008 at a monthly rent of RMB1,000.
2. The PRC Legal Opinion on the property is summarized as follows:
 - 2.1 The tenancy agreement entered into between 廣州市創譽房地產開發有限公司 (Guangzhou Chuangyu Real Estate Development Company Limited) and 廣州寰城實業發展有限公司 (Guangzhou Huan Cheng Development Company Limited) on 27 May 2005 under which Guangzhou Huan Cheng Development Company Limited leased from Guangzhou Chuangyu Real Estate Development Company Limited the property for a term of 3 years expiring on 8 May 2008;
 - 2.2 a Building and Land Ownership Certificate was issued in the name of Guangzhou Chuangyu Real Estate Development Company Limited on 13 June 2003;
 - 2.3 the aforesaid tenancy agreement is legal, valid and enforceable and has been completed with registration procedures; and
 - 2.4 the land use rights in the property are held by Guangzhou Chuangyu Real Estate Development Company Limited.

APPENDIX V PROPERTY VALUATION OF THE ENLARGED GROUP

Property	Description and tenure	Particulars of occupancy	Market Value as at 31 January 2007 RMB
4. Portion of Level 6 No. 142 Linhe Zhong Road Tianhe District Guangzhou City Guangdong Province The PRC	<p>The property comprises office space on Level 6 of a 6-storey commercial podium underneath a 25-storey residential tower completed in 2002.</p> <p>The gross floor area of the property is approximately 1,295 square metres.</p> <p>The property is rented by the Group for a term of 1 year commencing on 1 November 2006 and expiring on 31 October 2007 at a monthly rent of RMB41,440 exclusive of management fee and other outgoings.</p>	The property is currently occupied by the Group as an office.	No commercial value

Notes:

1. Pursuant to tenancy agreement dated 16 October 2006, the property is rented by 廣州譽浚諮詢顧問有限公司 (Guangzhou Yu Jun Consulting Service Company Limited), a wholly-owned subsidiary of the Company from 廣州市創譽房地產開發有限公司 (Guangzhou Chuangyu Real Estate Development Company Limited) for a term of 1 year expiring on 31 October 2007 at a monthly rent of RMB41,440.
2. The PRC Legal Opinion on the property is summarized as follows:
 - 2.1 The tenancy agreement entered into between 廣州譽浚諮詢顧問有限公司 (Guangzhou Yu Jun Consulting Service Company Limited) and 廣州市創譽房地產開發有限公司 (Guangzhou Chuangyu Real Estate Development Company Limited) under which Guangzhou Yu Jun Consulting Service Company Limited leased from Guangzhou Chuangyu Real Estate Development Company Limited the property for a term of 1 year expiring on 31 October 2007;
 - 2.2 a Building and Land Ownership Certificate was issued in the name of Guangzhou Chuangyu Real Estate Development Company Limited on 13 June 2003;
 - 2.3 the aforesaid tenancy agreement is legal, valid and enforceable and has been completed with registration procedures; and
 - 2.4 the land use rights in the property are held by Guangzhou Chuangyu Real Estate Development Company Limited.

APPENDIX V PROPERTY VALUATION OF THE ENLARGED GROUP

Property	Description and tenure	Particulars of occupancy	Market Value as at 31 January 2007 <i>RMB</i>
5. Office No. 2502B 25th Floor, Tower 1 Admiralty Centre No. 18 Harcourt Road Hong Kong	<p>The property comprises office space on Level 25 of a 33-storey office tower completed in 1980.</p> <p>The gross floor area of the property is approximately 3,300 square feet (306.58 square metres).</p> <p>The property is rented by the Group for a term of 9 months commencing on 1 January 2007 and expiring on 30 September 2007 at a monthly rent of HK\$89,100 exclusive of rates, air-conditioning and management fee, utility and other charges of a recurring and/or non-capital nature.</p>	The property is currently occupied by the Group as an office.	No commercial value

Notes:

1. Pursuant to a tenancy agreement dated 16 January 2007 entered into between Geldy Limited which is a subsidiary of Poly Hong Kong and therefore a connected person of the Company, and Skyfame Management Services Limited which is a wholly owned subsidiary of the Company, the property is leased from the former to the latter for a term of 9 months from 1 January 2007 to 30 September 2007.
2. The registered owner of the property is Geldy Limited via memorial no. UB6206850 dated 26 October 1987.

2. *The following is the text of a letter, summary of value and valuation certificate, prepared for the purpose of incorporation in this circular received from DTZ Debenham Tie Leung Limited, an independent property valuer, in connection with its valuation as at 31 January 2007 of the property interests held by the Yue Tian Group.*



10th Floor
Jardine House
1 Connaught Place
Central
Hong Kong

4 April 2007

The Directors
Skyfame Realty (Holdings) Limited
Room 2502B
25th Floor
Tower I Admiralty Centre
18 Harcourt Road
Hong Kong

Dear Sirs,

Re: The Westin Guangzhou Project, situated at West of Linhe Dong Road, Zone 7 of Tianhe Shanglü, Tianhe District, Guangzhou, Guangdong Province, the People's Republic of China

INSTRUCTIONS, PURPOSE & DATE OF VALUATION

In accordance with your instructions for us to value the property interests held by Yue Tian Development Limited and Guangzhou Cheng Jian Tianyu Real Estate Development Company Limited (altogether referred to as the “Yue Tian Group”) in the People’s Republic of China (the “PRC”), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the property interests as at 31 January 2007 for disclosure purpose.

BASIS OF VALUATION

Our valuation of the property interests represents the market value which in accordance with The HKIS Valuation Standards on Properties (First Edition 2005) published by The Hong Kong Institute of Surveyors is defined as “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

VALUATION ASSUMPTIONS

Our valuation excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

In valuing the property interests which is situated in the PRC, we have assumed that transferable land use rights in respect of the property interest for a specific land use term at nominal annual land use fee have been granted and that any premium has already been fully settled. We have relied on the advice given by Guangzhou Cheng Jian Tianyu Real Estate Development Company Limited (“Guangzhou Cheng Jian Tianyu”) and the opinion of the legal adviser to Skyfame Realty (Holdings) Limited (the “Company”) as to PRC laws, Guang Dong Fair Strategy Law Firm (廣東正大方略律師事務所), regarding the title to the properties and have valued the entire interest of the properties.

In valuing the property interests, we have assumed that the grantees of the property interest have free and uninterrupted rights to use or to assign the property interests for the whole of the unexpired term as granted.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the property interest nor any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of any onerous nature which could affect its value.

METHOD OF VALUATION

In valuing the property interest of Property No. 1 in Group I, which is held by the Yue Tian Group under development in the PRC, we have valued the property interest on the basis that the property will be developed and completed in accordance with the latest development proposals provided to us. In arriving at our opinion of value, we have adopted Direct Comparison Approach by making reference to comparable sales evidences as available in the relevant market and we have also taken into account the expended construction costs and the construction costs that will be expended to complete the development to reflect the quality of the completed development.

Property No. 2 in Group II, which is leased to the Yue Tian Group in the PRC, has no commercial value due to prohibition against assignment or lack of substantial profit rent.

In valuing the property interests, we have complied with the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and The HKIS Valuation Standards on Properties (First Edition 2005) published by The Hong Kong Institute of Surveyors.

SOURCE OF INFORMATION

We have relied to a considerable extent on the information provided by the Company and the opinion of the legal adviser to the Company as to PRC laws, Guang Dong Fair Strategy Law Firm (廣東正大方略律師事務所), regarding the title to the property interests in the PRC. We have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, development scheme, construction cost, site and floor areas, completion date of buildings and all other relevant matters.

Dimension, measurements and areas included in this valuation certificate are based on the information provided to us by Guangzhou Cheng Jian Tianyu and are therefore only approximation. We have had no reason to doubt the truth and accuracy of the information provided to us by Guangzhou Cheng Jian Tianyu which is material to the valuation. We were also advised that no material facts have been omitted from the information provided to us.

We would point out that the copies of documents provided to us are mainly compiled in Chinese characters and the transliteration into English represents our understanding of the contents. We would therefore advise the Company to make reference to the original Chinese edition of the documents and consult your legal adviser regarding the legality and interpretation of these documents.

TITLE INVESTIGATION

We have been provided with extracts of the title documents relating to the property interests in the PRC. However, we have not searched the original documents to ascertain ownership or to verify any amendments which may not appear on the copies handed to us. We have therefore relied on the advice given by the Company regarding the property interests.

SITE INSPECTION

We have inspected the exterior and, where possible, the interior of the property. However, no structural survey has been made, but in the course of our inspections, we did not note any serious defects. We are not, however, able to report whether the property is free of rot, infestation or any other structural defect. No tests were carried out on any of the services. We have not carried out investigations on site to determine the suitability of the ground conditions, and the services etc. for any future developments. Our valuations are prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period. We have not carried out detailed on-site measurements to verify the site and floor areas of the property and we have assumed that the site and floor areas shown on the copies of documents handed to us are correct.

CURRENCY

Unless otherwise stated, all money amounts stated in our valuation are in Renminbi (“RMB”), the official currency of the PRC.

We enclose herewith a summary of valuation and our valuation certificates.

Yours faithfully,
For and on behalf of
DTZ Debenham Tie Leung Limited
Philip C.Y. Tsang
Registered Professional Surveyor (GP)
China Real Estate Appraiser
MSc., M.H.K.I.S., M.R.I.C.S.
Senior Associate Director

Note: Mr. Philip C. Y. Tsang is a Registered Professional Surveyor who has over 15 years’ of experience in the valuation of properties in the PRC.

SUMMARY OF VALUATION

**Capital value in existing
state as at
31 January 2007
RMB**

Property**Group I — Property interest held by the Yue Tian Group under development in the PRC**

- | | | |
|----|--|---------------|
| 1. | The Westin Guangzhou Project,
situated at West of Linhe Dong Road,
Zone 7 of Tianhe Shanglü,
Tianhe District, Guangzhou,
Guangdong Province, the PRC | 1,498,000,000 |
|----|--|---------------|

Group II — Property interest leased to the Yue Tian Group in the PRC

- | | | |
|----|--|---------------------|
| 2. | Whole of Level 12, Block 3,
Dongjun Plaza,
No. 836 Dongfeng East Road,
Yuexiu District, Guangzhou,
Guangdong Province, the PRC | No commercial value |
|----|--|---------------------|

VALUATION CERTIFICATE

Group I — Property interest held by the Yue Tian Group under development in the PRC

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2007
1. The Westin Guangzhou Project, situated at West of Linhe Dong Road, Zone 7 of Tianhe Shanglü, Tianhe District, Guangzhou, Guangdong Province, the PRC	<p>The Westin Guangzhou Project occupies a roughly rectangular-shaped site with a site area of 9,121 sq.m. (98,178 sq.ft.), among which 7,672 sq.m. (82,581 sq.ft.) is the granted area and the remaining is the road area.</p> <p>The Westin Guangzhou Project is planned to comprise a 36-storey office building and a 40-storey hotel building both erected on a 6-storey commercial podium plus a 6-storey basement. The planned total gross floor area is approximately 137,315 sq.m. (1,478,059 sq.ft.) The Westin Guangzhou Project will be completed on or before 31 July 2007.</p> <p>The land use rights of the property have been granted (Refer to Note (1) (vii)).</p>	<p>The property is under construction.</p> <p>The main body of the property has been completed and currently under interior and exterior decoration works.</p>	RMB1,498,000,000

Notes:

- (1) According to State-owned Land Use Rights Certificate Sui Guo Yong Zi No. (2005)127 (穗國用【2005】字第127號) issued by the Bureau of Land Resources and Housing Management of Guangzhou Municipality on 9 May 2005, the land use rights with a site area of 7,672 sq.m. have been granted to Guangzhou Cheng Jian Tianyu Real Estate Development Company Limited (廣州市城建天譽房地產開發有限公司). The details are summarized as follows:
- (i) Registered Owner : Guangzhou Cheng Jian Tianyu Real Estate Development Company Limited (廣州市城建天譽房地產開發有限公司)
 - (ii) Location : West of Linhe Dong Road, Zone 7 of Tianhe Shanglü, Tianhe District, Guangzhou
 - (iii) Plot No. : 2
 - (iv) Land Use : Commercial and Service
 - (v) Site Area : 7,672 sq.m.
 - (vi) Nature of Land Use Right : Granted

APPENDIX V PROPERTY VALUATION OF THE ENLARGED GROUP

- (vii) Land Use Term : 70 years for residential use from 25 July 2001
40 years for commercial, tourism and entertainment uses from 25 July 2001
50 years for other uses from 25 July 2001
- (viii) Excursus : Contract for Transfer of State-owned Land Use Right No. (2004)28 of this site has been signed.
Land use term commenced on 25 July 2001. The land use fee has been fully settled.
Source of land use right: Purchased from Guangzhou City Construction & Development Holdings Limited (廣州市城市建設開發集團有限公司) on 6 November 2003.
- (2) According to the copy of “Contract for Transfer of State-owned Land Use Right” Sui Guo Di Chu He No. (2004) 28 (穗國地出合【2004】28號) entered into between the Bureau of Land Resources and Housing Management of Guangzhou Municipality and Guangzhou Cheng Jian Tianyu Real Estate Development Company Limited (廣州市城建天譽房地產開發有限公司) on 11 February 2004, the details are summarized as follows:
- (i) Location : West of Linhe Dong Road, Zone 7 of Tianhe Shanglü, Tianhe District, Guangzhou
- (ii) Site Area : 7,672 sq.m.
- (iii) Land Use : Commercial, office and hotel
- (iv) Land Use Term : 70 years for residential use, 40 years for commercial and tourism uses, 50 years for composite use or other use
- (v) Plot Ratio : 13.2
- (vi) Planned total Gross Floor Area (GFA) : 120,358 sq.m.
- (vii) Storey of construction : 36-storey
- (viii) Total Land Premium : RMB30,652,866
- (3) According to the copy of “Modification Agreement for Transfer Contract of State-owned Land Use Right” Sui Guo Di Chu He No. (2004)28-1 (穗國地出合【2004】28號的變更協議之一號) entered into between Bureau of Land Resources and Housing Management of Guangzhou Municipality and Guangzhou Cheng Jian Tianyu Real Estate Development Company Limited (廣州市城建天譽房地產開發有限公司) on 15 February 2006, due to the adjustment of total gross floor area for planning reason, the following items have been changed while others remain unchanged:
- Planned total Gross Floor Area (GFA) : 137,315 sq.m.
Storey of construction : 36-storey (Office), 40-storey (Hotel)
Total Land Premium : RMB30,333,243

APPENDIX V PROPERTY VALUATION OF THE ENLARGED GROUP

- (4) According to the copy of “Planning Permit for Construction Use of Land” Sui Gui Di Zheng No. (2002)87 (穗規地證(2002)87號) issued by Guangzhou Urban Planning Bureau dated 2 July 2002, the details are summarized as follows:

Constructor : Guangzhou City Construction & Development Holdings Limited
(廣州市城市建設開發集團有限公司)

Construction Name : Commercial use (C21), Residential use (R1), Office use (C13)

Location : West of Linhe Dong Road, Zone 7 of Tianhe Shanglü, Tianhe District, Guangzhou

Site Area : 9,121 sq.m., among which net site area is 7,672 sq.m. and road area is 1,449 sq.m.

- (5) According to the copy of “Planning Permit for Construction Works” Sui Gui Jian Zheng No. (2005)367 (穗規建證(2005)367號) issued by Guangzhou Urban Planning Bureau dated 14 April 2005, the details are summarized as follows:

Constructor : Guangzhou Cheng Jian Tianyu Real Estate Development Company Limited (廣州市城建天譽房地產開發有限公司)

Construction Name : One block of office/hotel building

Location : Linhe Zhong Road, Tianhe District, Guangzhou

Construction Scale : 40-storey aboveground (Portion of 7-storey, 33-storey, 35-storey and 36-storey respectively) with a total gross floor area of 109,336 sq.m.

6-storey underground with a total gross floor area of 27,979 sq.m.

- (6) According to the copy of “Commencement Permit for Construction Works” No. 440101200504280101 issued by the Construction Council of Guangzhou dated 28 April 2005, the details are summarized as follows:

Constructor : Guangzhou Cheng Jian Tianyu Real Estate Development Company Limited (廣州市城建天譽房地產開發有限公司)

Construction Name : One block of office/hotel building

Location : Linhe Zhong Road, Tianhe District, Guangzhou

Construction Scale : Total gross floor area is 137,315 sq.m.

40-storey aboveground (Portion of 7-storey, 33-storey, 35-storey and 36-storey respectively)

6-storey underground

APPENDIX V PROPERTY VALUATION OF THE ENLARGED GROUP

- (7) According to the copy of “The Reply about Specify the Gross Floor Area for Commercial Use” Sui Gui Han No. (2005)4315 (穗規函(2005) 4315號) issued by the Guangzhou Urban Planning Bureau dated 14 November 2005, the total gross floor area of the hotel section of the property is 63,397 sq.m., among which the gross floor area of 56,202 sq.m. is for hotel rooms and 7,195 sq.m. is for relevant commercial use.
- (8) According to the copy of “Commodity Housing Pre-sale Permit of Guangzhou, Guangdong Province” Sui Fang Yu (Wang) Zi No. 20060008-1 (穗房預(網)字第20060008號-1) issued by the Bureau of Land Resources and Housing Management of Guangzhou Municipality dated 15 May 2006, the details are summarized as follows:
- | | | |
|--|---|--|
| Developer | : | Guangzhou Cheng Jian Tianyu Real Estate Development Company Limited (廣州市城建天譽房地產開發有限公司) |
| Certificate No. of Development Qualification | : | 1320193-11 |
| Project Name | : | Tian Yu Mansion |
| Location | : | West of Linhe Dong Road, Zone 7 Tianhe Shanglü, Tianhe District, Guangzhou |
| Pre-sale GFA/Units | : | 100,507.56 sq.m./666 Units
Including:
Commercial 63,297.95 sq.m./439 Units
Office 37,209.61 sq.m./227 Units |
| Certificate No. for the Use of State-owned Land | : | No. (2005)127 (穗國用(2005)第127號)
For commercial and service use |
| Pre-sale Block | : | Block A (Office) 36-Storey. Portion of 33-storey and 35-storey.
Block B (Hotel) 40-storey. |
| Completion status when the Pre-sale Permit is issued | : | Block A (Office) 36-Storey.
Block B (Hotel) 40-storey. |
- (9) According to the information provided by Guangzhou Cheng Jian Tianyu, the total construction costs to complete the development is approximately RMB1,138 million and the total expanded construction costs up to 31 January 2007 is approximately RMB766.6 million. In the course of our valuation, we have taken into account such construction costs.
- (10) According to Business Licence No. 006918 dated 11 July 2005, Guangzhou Cheng Jian Tianyu Real Estate Development Company Limited (廣州市城建天譽房地產開發有限公司) was established as a cooperation enterprise in the PRC with a registered capital of USD27.5 million for a valid operation period from 24 September 2002 to 24 September 2018.

APPENDIX V PROPERTY VALUATION OF THE ENLARGED GROUP

- (11) According to the PRC legal opinion prepared by Guang Dong Fair Strategy Law Firm (廣東正大方略律師事務所):
- (i) According to State-owned Land Use Rights Certificate No. (2005)127 (穗國用【2005】字第127號) issued by the People's Government of Guangzhou and the Bureau of Land Resources and Housing Management of Guangzhou Municipality on 9 May 2005, the land use right with a site area of 7,672 sq.m. has been granted to Guangzhou Cheng Jian Tianyu Real Estate Development Company Limited (廣州市城建天譽房地產開發有限公司) (Refer to Note (1) (vii));
 - (ii) the Westin Guangzhou Project comprises an office building and a hotel building with a total gross floor area of 137,315 sq.m.;
 - (iii) Guangzhou Cheng Jian Tianyu is in possession of a proper legal title to the property and is entitled to transfer the property with the residual term of its land use rights at no extra land premium or other onerous payment payable to the government;
 - (iv) all land premium and other costs of ancillary utilities services have been settled in full;
 - (v) the proposed design and construction of the development are in compliance with the local planning regulations and have been approved by the relevant authorities; and
 - (vi) According to the Guangzhou Real Estate Mortgage Registered Certificate (廣州市房地產抵押登記證明書) dated 9 March 2007, Guangzhou Cheng Jian Tianyu has mortgaged the land use right of the land and portion of the building of the property with a gross floor area of 100,507.56 sq.m. to Agriculture Bank of China Guangzhou Yangcheng Sub-branch (中國農業銀行廣州市羊城支行) to an extent of RMB1,733,439,000.

As confirmed by Guangzhou Cheng Jian Tianyu, as far as we aware, and subject to the aforesaid mortgages, such land use right is free from and clear of encumbrance and Guangzhou Cheng Jian Tianyu is entitled to transfer, mortgage or lease the land use right during the aforesaid period.

- (12) The status of title and grant of major approvals and licences in accordance with the PRC legal opinion and the information provided by the Company are as follows:

State-owned Land Use Rights Certificate	Yes
Contract for Grant of State-owned Land Use Rights	Yes
Modification Agreement for Grant of State-owned Land Use Right	Yes
Planning Permit for Construction	Yes
Planning Permit for Construction Works	Yes
Commencement Permit for Construction Works	Yes
Commodity Housing Pre-sale Permit	Yes
Business Licence	Yes

VALUATION CERTIFICATE**Group II — Property interest leased to the Yue Tian Group in the PRC**

Property	Description and tenancy particulars	Capital value in existing state as at 31 January 2007
2. Whole of Level 12, Block 3, Dongjun Plaza, No. 836 Dongfeng East Road, Yuexiu District, Guangzhou, Guangdong Province, the PRC	<p>Dongjun Plaza comprises 2 blocks of 34-storey office building and 2 blocks of 36-storey office building. The Levels 1 to 4 of each of the buildings are devoted for commercial use, while Level 5 and the levels above are devoted for office use. Dongjun Plaza was completed in 1996.</p> <p>The property comprises the whole of Level 12, Block 3 of Dongjun Plaza. Block 3 is a 36-storey office building. The property has a total gross floor area of approximately 675.12 sq.m. (7,267 sq.ft.) as stated in the tenancy agreement.</p> <p>The property is leased to Guangzhou Cheng Jian Tianyu Real Estate Development Company Limited (廣州市城建天譽房地產開發有限公司), for a term of 1 year from 11 April 2006 to 10 April 2007 at a monthly rent of RMB32,380.40 (exclusive of management fees and utilities charges but inclusive of 2 car parking spaces monthly fees).</p> <p>According to the PRC legal opinion, the lease agreement is legal and valid.</p>	No commercial value

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other matters the omission of which would make any statement in this circular misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date were, immediately upon full conversion of the Notes at the Initial Conversion Price and upon full conversion of the Westin CPS will be, as follows:

HK\$

Authorised share capital as at the Latest Practicable Date:

<u>30,000,000,000</u>	Shares	<u>300,000,000</u>
-----------------------	--------	--------------------

Authorised share capital upon creation of the Convertible Preference Shares:

29,000,000,000	Shares	290,000,000
1,000,000,000	Convertible Preference Shares	10,000,000
		<u>300,000,000</u>

Issued and to be issued share capital:

1,090,343,286	Shares as at the Latest Practicable Date	10,903,433
1,157,318,518	Conversion Shares to be issued upon full conversion of the Notes at the Initial Conversion Price (<i>Note 1</i>)	11,573,185
190,447,209	New Shares to be issued upon full conversion of the Westin CPS (<i>Note 1</i>)	1,904,472
<u>2,438,109,013</u>		<u>24,381,090</u>

All the issued Shares rank pari passu with each other in all respects including the rights as to voting, dividends and return of capital. The Conversion Shares and the New Shares to be issued upon conversion of the Notes and the Westin CPS respectively will, when issued and fully paid, rank pari passu in all respects with the Shares then in issue on their respective date of allotment and issue.

Notes:

1. The maximum number of Shares to be issued upon conversion of the Notes at the Minimum Reset Reference Price of HK\$1.00 would be 1,562,380,000 Shares and the maximum number of Shares to be issued upon conversion based on the corresponding adjustment to the conversion ratio to 1 Westin CPS to 1.35 New Shares would be 257,103,733 Shares.
2. Upon completion of the 29% Acquisition and prior to any conversion of the Westin CPS and the Notes and exercise of share option and subscription rights attaching to the 2006 Warrants, the issued share capital of the Company will comprise 1,090,343,286 Shares and 190,447,209 Convertible Preference Shares.
3. The above issued and to be issued share capital has not taken into account any exercise of the subscription rights attaching to the 2006 Warrants and the share options granted under the share option scheme adopted by the Company on 4 August 2005.

3. DISCLOSURE OF DIRECTORS' INTERESTS

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

(a) Interests in the Shares

Name of Director	Company/ Associated corporation	Capacity	Number of shares (long position)	Approximate shareholding percentage
Mr. YU Pan	Company	Interest of controlled corporation	927,630,718 shares (<i>note 1</i>)	85.1% (<i>note 2</i>)
Mr. YU Pan	Grand Cosmos	Interest of controlled corporation	10,000 shares of US\$1 each	100%
Mr. YU Pan	Sharp Bright	Beneficial owner	10,000 shares of US\$1 each	100%

Notes:

1. These Shares comprise (i) 627,791,985 existing Shares held by Grand Cosmos; (ii) 42,735,000 2006 Warrants issued to Grand Cosmos after completion of the open offer of the Company on 3 August 2006; and 257,103,733 underlying Shares to be issued upon exercise of the conversion rights attaching to the Westin CPS at the conversion ratio of 1 Westin CPS to 1.35 New Shares. The entire issued share capital of Grand Cosmos is indirectly held by Mr. YU.

2. For the purposes of this section, the shareholding percentage in the Company is calculated on the basis of 1,090,343,286 Shares in issue as at the Latest Practicable Date.

(b) Interests in underlying Shares

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

Name of Director	Exercise Price (HK\$)	Exercise Period	Number of underlying Shares (under share options of the Company)	Approximate shareholding percentage (note 1)
Mr. WEN Xiao Bing	1.31	13 March 2007 to 31 July 2015	5,000,000	0.46%
Mr. LAU Yat Tung, Derrick	1.31	13 March 2007 to 31 July 2015	3,000,000	0.28%
Mr. CHOY Shu Kwan	1.31	13 March 2007 to 31 July 2015	600,000	0.06%
Mr. CHENG Wing Keung, Raymond	1.31	13 March 2007 to 31 July 2015	600,000	0.06%
Ms. CHUNG Lai Fong	1.31	13 March 2007 to 31 July 2015	600,000	0.06%

Note:

1. For the purpose of this section, the shareholding percentage in the Company is calculated on the basis of 1,090,343,286 Shares in issue as at the Latest Practicable Date.

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

4. SUBSTANTIAL SHAREHOLDERS' INTERESTS

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

(a) Interests in the Shares or underlying Shares

Name of Shareholder	Capacity	Number of Shares or underlying Shares (long position)	Approximate shareholding percentage (note 8)
Sharp Bright	Interest of controlled corporation	927,630,718 (note 1)	85.1%
Grand Cosmos	Beneficial owner	927,630,718 (note 1)	85.1%
Merrill Lynch & Co., Inc.	Interests of controlled corporation	546,833,000 (note 2)	50.15%
Lehman Brothers Holdings Inc.	Beneficial owner	390,595,000 (note 3)	35.82%
DKR Capital Inc.	Interests of controlled corporation	289,329,633 (note 4)	26.54%
DKR Management Co, Inc.	Interests of controlled corporation	289,329,633 (note 4)	26.54%
DKR Capital Partners LP	Interests of controlled corporation	289,329,633 (note 4)	26.54%
DKR Oasis Management Co. LP	Investment manager	289,329,633 (note 4)	26.54%

Name of Shareholder	Capacity	Number of Shares or underlying Shares (long position)	Approximate shareholding percentage <i>(note 8)</i>
DKR SoundShore Oasis Holding Fund Ltd	Beneficial owner	289,329,633 <i>(note 4)</i>	26.54%
Oasis Management Holdings LLC	Beneficial owner	289,329,633 <i>(note 4)</i>	26.54%
Deutsche Bank Aktiengesellschaft	Person having a security interest in shares	170,494,000	15.64%
PMA Capital Management Limited	Investment manager	357,306,450 <i>(note 5)</i>	32.77%
PMA Prospect Fund	Investment manager	120,303,260 <i>(note 5)</i>	11.03%
Diversified Asian Strategies Fund	Beneficial owner	109,958,068 <i>(note 5)</i>	10.08%
PMA Asian Opportunities Fund	Beneficial owner	70,576,000 <i>(note 5)</i>	6.47%
PMA Focus Fund	Investment manager	35,934,740 <i>(note 5)</i>	3.30%
Mr. Luo Dong Liang	Beneficial owner	88,262,000 <i>(note 6)</i>	8.09%
Leader Gain Limited	Beneficial owner	66,666,666 <i>(note 7)</i>	6.11%
Ms. Azuma Sarina	Interest of controlled corporation	66,666,666 <i>(note 7)</i>	6.11%

Notes:

1. These Shares comprise (i) 627,791,985 existing Shares held by Grand Cosmos; (ii) 42,735,000 underlying Shares which would be issued pursuant to the exercise of the subscription rights attaching to 42,735,000 2006 Warrants; and 257,103,733 underlying Shares to be issued upon exercise of the conversion rights attaching to the Westin CPS at the conversion ratio of 1 Westin CPS to 1.35 New Shares. The entire issued share capital of Grand Cosmos is indirectly held by Mr. YU. As the entire issued share capital of Grand Cosmos is held by Sharp Bright, Sharp Bright is deemed to be interested in the Shares in which Grand Cosmos is interested by virtue of the SFO. Mr. YU is the sole director of Grand Cosmos and Sharp Bright.
2. These Shares comprise an aggregate of 546,833,000 underlying Shares to be issued upon exercise of the conversion rights attaching to the Notes at the Minimum Reset Reference Price of HK\$1.00 held directly or indirectly by Merrill Lynch Group, Inc, Merrill Lynch L.P., Indopark Holdings Ltd, Merrill Lynch International Incorporated, Merrill Lynch International Holdings Inc., Merrill Lynch Europe PLC, Merrill Lynch Europe Intermediate Holdings, Merrill Lynch Holdings Limited, ML UK Capital Holdings and Merrill Lynch International. All of these entities are controlled by Merrill Lynch & Co., Inc.
3. These Shares comprise 390,595,000 underlying Shares to be issued upon exercise of the conversion rights attaching to the Notes at the Minimum Reset Reference Price of HK\$1.00 held directly or indirectly by Lehman Brothers Commercial Corporation Asia Limited, LBCCA Holdings I LLC. and LBCCA Holdings II LLC. All these entitled are controlled by Lehman Brothers Holdings Inc.
4. These Shares comprise 289,329,633 underlying Shares to be issued upon exercise of the conversion rights attaching to the Notes at the Initial Conversion Price.
5. These Shares comprise 181,530,000 existing Shares and 19,538,450 underlying Shares which would be issued upon exercise of the subscription rights attaching to 19,538,450 2006 Warrants held by Asian Diversified Total Return Limited Duration Company, Diversified Asian Strategies Fund and PMA Asian Opportunities Fund and 156,238,000 underlying Shares to be issued upon exercise of the conversion rights attaching to the Notes at the Minimum Reset Reference Price of HK\$1.00 by PMA Prospect Funds (as to 120,303,260 Shares) and PMA Focus Fund (as to 35,934,740 underlying Shares). All of these funds are controlled by PMA Capital Management Limited.
6. These Shares comprise 11,990,000 existing Shares and 76,272,000 underlying Shares which would be issued upon exercise of the subscription rights attaching to 76,272,000 2006 Warrants.
7. These Shares are existing Shares held by Leader Gain Limited of which the entire issued Share capital is held by Ms. AZUMA Sarina.
8. For the purpose of this section, the shareholding percentage in the Company is calculated on the basis of 1,090,343,286 Shares in issue as at the Latest Practicable Date.

(b) Interests in the shares in other member of the Enlarged Group

Name of member of the Enlarged Group	Name of substantial shareholder	Shareholding percentage
Loyal Way	Bright Able (<i>Note 1</i>)	49%
Poly Tianyu (Guangzhou) Limited	Absolute Best Limited (<i>Note 1</i>)	29%
	Double Treasure Limited (<i>Note 2</i>)	10%
	Wise Gain (<i>Note 3</i>)	10%

Notes:

1. Bright Able and Absolute Best Limited are subsidiaries of Poly Hong Kong.
2. Double Treasure Limited is a fellow subsidiary of Poly Hong Kong.
3. Wise Gain is wholly owned by Mr. YU.

Save as disclosed above, as at the Latest Practicable Date and so far as known to the Directors or chief executive of the Company, no other person (not being a Director or chief executive of the Company) had any interests or short positions in Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange, under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other member of the Enlarged Group.

Save that Mr. YU is the sole director of Sharp Bright and Grand Cosmos and that he is also the sole shareholder of Sharp Bright which in turn is the sole shareholder of Grand Cosmos as at the Latest Practicable Date, none of the Directors held any directorship or employment in a company which has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

5. DIRECTORS' INTERESTS IN ASSETS/CONTRACTS AND OTHER INTERESTS

Save and except for the counter-indemnity (being material contract no. 6 as referred to below) granted by Mr. YU in favour of the Company and Nicco against any of their liabilities under the deed of appointment and Mr. YU's interest in the Note Purchase Agreement and the Wise Gain Westin Agreement as set out in the letter from the Board in this circular, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Enlarged Group subsisting at the Latest Practicable Date which was significant in relation to the business of the Enlarged Group.

None of the Directors has any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Enlarged Group or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since 31 December 2005, being the date to which the latest published audited consolidated accounts of the Group were made up.

6. MATERIAL CONTRACTS

The following contracts, not being contracts entered into in the ordinary course of business, were entered into by the Enlarged Group during the period commencing two years preceding the Latest Practicable Date and are or may be material:

1. the placing agreement dated 17 May 2005 entered into between the Company and Taifook Securities Company Limited (“Taifook Securities”), a then Independent Third Party, pursuant to which the Company appointed Taifook Securities as placing agent of the placing of 1,355,000,000 new shares of HK\$0.01 each in the share capital of the Company at the issue price of HK\$0.016 per placing share for a commission of 2% of the issue price of the placing shares successfully taken up and fully paid;
2. the settlement agreement dated 9 August 2005 entered into between Ms. CHENG Siu Ying Pinky, a then Independent Third Party, and the Company in relation to the settlement of the sum outstanding under a convertible bond in the amount of HK\$480,000 for a consideration of HK\$430,000;
3. the settlement agreement dated 26 August 2005 entered into between Mr. TSANG Ching Bui, a then Independent Third Party, and the Company in relation to the settlement of the sum outstanding under a convertible bond in the amount of HK\$480,000 for a consideration of HK\$430,000;
4. the sale and purchase agreement dated 27 September 2005 entered into between Yue Tai Group Limited (“Yue Tai”), City Key Investments Limited (“City Key”) as vendors (both of which are then Independent Third Parties) and Fortunate Start and Ace Billion as purchasers pursuant to which Fortunate Start and Ace Billion agreed to purchase 90% and 10% issued shares of Guangzhou Zhoutouzui and the shareholders’ loans due by Guangzhou Zhoutouzui for a total consideration of RMB231,800,890;
5. the underwriting agreement entered into between the Company, Grand Cosmos and Taifook Securities (as underwriters) and Mr. YU on 5 October 2005 in relation to the underwriting of 302,487,048 rights Shares at a commission of 2.5% of the aggregate subscription price of the shares underwritten by Taifook Securities;

6. the counter-indemnity dated 5 October 2005 executed by Mr. YU in favour of the Company and Nicco (a wholly-owned subsidiary of the Company) pursuant to which Mr. YU agreed to indemnify the Company and Nicco against any of their liabilities under the deed of appointment executed by Yaubond, Sunny Billion Holdings Limited (“Sunny Billion”), a then Independent Third Party and the Company in relation to the appointment of Yaubond as the project manager of the development of a piece of land located at Tianhe Bei Road, Tianhe District in the PRC;
7. the agreement dated 5 October 2005 entered into between Sunny Billion and Nicco in relation to the proposed acquisition of 49 shares of US\$1.00 each in the issued share capital of Yaubond, a shareholder’s loan due by Yaubond to Sunny Billion of HK\$45,073,721.04 and an additional amount of not more than HK\$77.4 million at an aggregate consideration of not more than HK\$204.4 million;
8. the deed of tax indemnity dated 25 October 2005 executed by Fortunate Start, Ace Billion, Yue Tai and City Key pursuant to the agreement referred to in item 4 above whereby Yue Tai and City Key covenanted to indemnify Fortunate Start and Ace Billion against certain tax liability of Guangzhou Zhoutouzui arising before completion of the said agreement;
9. the shareholders agreement in respect of Yaubond dated 16 December 2005 entered into between Nicco, Sunny Billion, the Company and Poly Hong Kong pursuant to which the parties thereto regulate the management of Yaubond;
10. the deed of appointment dated 16 December 2005 entered into between Yaubond, Sunny Billion, United Prime Limited (a wholly-owned subsidiary of the Company), the Company and Nicco pursuant to which Yaubond appointed United Prime Limited as the project manager to undertake and supervise the construction and development of a piece of land located at Tianhe Bei Road, Tianhe District, Guangzhou, the PRC;
11. the deed of indemnity dated 16 December 2005 executed by Sunny Billion, Yaubond and Nicco pursuant to the agreement referred to in item 7 above whereby Sunny Billion covenanted with and undertook to indemnify Nicco for itself and as trustee for its successors in title and Yaubond against certain taxation liability of Yaubond arising before completion of the said agreement;
12. the assignment of debt dated 16 December 2005 executed by Sunny Billion, Nicco and Yaubond pursuant to which Sunny Billion assigned a debt in the principal sum of HK\$82,892,297.96 to Nicco;

13. the underwriting agreement dated 2 June 2006 entered into between the Company, Taifook Securities and Grand Cosmos in relation to the open offer of 267,324,486 offer shares at the subscription price of HK\$0.90 per Share (in the proportion of 13 offer shares for every 40 Shares held with 10 2006 Warrants for every 13 offer shares taken up) at a commission of 2% of the aggregate subscription price of the underwritten Shares as varied by a supplemental agreement dated 7 June 2006 made between the Company, Taifook Securities and Grand Cosmos;
14. the agreement dated 6 July 2006 entered into between Mr. LUO Dong Liang, a then Independent Third Party, and Smartford (an indirectly wholly-owned subsidiary of the Company) in relation to the acquisition of 51% shareholding in and shareholder's loan due by Loyal Way (with consideration in aggregate not more than HK\$400 million) by Smartford from Mr. LUO Dong Liang;
15. the supplemental agreement dated 6 October 2006 entered into between Mr. LUO Dong Liang and Smartford pursuant to which the parties agreed to proceed to completion of acquisition of 51% shareholding in and shareholder's loan due by Loyal Way by 16 October 2006, with outstanding consideration of approximately HK\$63.6 million to be settled after the obtaining of the land use rights certificate by廣州市譽城房地產開發有限公司 (Guangzhou Yucheng Real Estate Development Company Limited);
16. the Note Purchase Agreement;
17. the Poly/Shell Westin Agreement;
18. the Wise Gain Westin Agreement;
19. the private placement agency agreement dated 2 March 2007 entered into by the Company and Merrill Lynch Far East Limited in respect of the appointment by the Company of Merrill Lynch Far East Limited as the placing agent of the Notes; and
20. the shareholders loan agreement dated 5 March 2007 entered into between Allright, Wise Gain, Red Empire and Yue Tian in relation to a HK\$560 million bridging loan facility given to Yue Tian for the repayment of loan due to KW Bank and the financing of development costs of the Westin Project.

7. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with the Company or any member of the Enlarged Group other than contracts expiring or determinable by the Company or the relevant member of the Enlarged Group within one year without payment of compensation (other than statutory compensation).

8. COMPETING INTERESTS

As at the Latest Practicable Date, save for Mr. YU, the chairman of the Company, being a director and substantial shareholder of a company listed on the Shenzhen Stock Exchange which is engaged in the residential real estate development business, and Mr. YU and his associates have personal interest in certain properties including residential buildings, commercial buildings, and hotel, in the PRC, none of the Directors and his/her respective associates had any interests in any business, which competes or is likely to compete, either directly or indirectly, with the Company's business (as would be required to be disclosed under rule 8.10 of the Listing Rules if each of them were a controlling Shareholder).

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

9. LITIGATION

As at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Enlarged Group.

10. EXPERTS AND CONSENTS

The followings are the qualifications of the experts who have been named in this circular or have given opinions, letters or advice contained in this circular:

Name	Qualification
BDO McCabe Lo Limited (“BDO”)	Certified Public Accountants
Greater China Appraisal Limited (“GCA”)	Property valuer, chartered surveyor
DTZ Debenham Tie Leung Limited (“DTZ”)	Property valuer, chartered surveyor
廣東正大方略律師事務所 (Guang Dong Fair Strategy Law Firm) (“Fair Strategy”)	PRC legal adviser
Shenyin Wanguo Capital	a licensed corporation to carry on type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO

BDO, GCA, DTZ, Fair Strategy and Shenyin Wanguo Capital have given and have not withdrawn their written consents to the issue of this circular with the inclusion therein of their letters or references to their names in the form and context in which they respectively appear.

None of BDO, GCA, DTZ, Fair Strategy and Shenyin Wanguo Capital has any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group.

None of BDO, GCA, DTZ, Fair Strategy and Shenyin Wanguo Capital has any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Enlarged Group since 31 December 2005 (being the date to which the latest published audited consolidated accounts of the Company were made up), or which are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

11. MISCELLANEOUS

- (a) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

- (b) The head office and principal place of business of the Company in Hong Kong is at 2502B, Tower 1, Admiralty Centre, 18 Harcourt Road, Hong Kong.
- (c) The company secretary and qualified accountant of the Company is Ms. CHEUNG Lin Shun, who is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.
- (d) The Hong Kong branch share registrars and transfer office of the Company is Abacus Share Registrars Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (e) This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the shares in the Company.
- (f) The English text of this circular shall prevail over the Chinese text.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours from 9:00 a.m. to 5:00 p.m. (except Saturdays and public holidays) at the head office and principal place of business of the Company in Hong Kong from the date of this circular up to and including the date of the SGM:

- (a) the memorandum of association and the Bye-laws;
- (b) the material contracts referred to in the section headed "Material Contracts" in this Appendix;
- (c) the annual reports of the Company for the two years ended 31 December 2005 and the interim report of the Company for the six months ended 30 June 2006;
- (d) the letter of advice from Shenyin Wanguo Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 59 to 96 of this circular;
- (e) the report of BDO in respect of the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular;
- (f) the valuation reports prepared by each of GCA and DTZ included in Appendix V to this circular;
- (g) the accountants' report on the Red Empire Group included in Appendix II to this circular;

- (h) the accountant's report on Allright included in Appendix III to this circular;
- (i) the accountant's report on the Yue Tian Group included in Appendix II to this circular;
- (j) the accountants' report on Loyal Way included in Appendix I to this circular;
- (k) the report of BDO in respect of the audited proforma financial information of the Group as enlarged by Loyal Way and its subsidiaries as set out in Appendix I to this circular;
- (l) the written consents referred to under the section headed "Experts and consents" in this Appendix;
- (m) the circulars of the Company dated 27 June 2006 and 2 August 2006; and
- (n) the prospectus of the Company dated 13 July 2006.

NOTICE OF THE SGM



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

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

NOTICE IS HEREBY GIVEN that a special general meeting of Skyfame Realty (Holdings) Limited (the “**Company**”) will be held at Luk Kwok Hotel, Basement, 72 Gloucester Road, Wanchai, Hong Kong on Thursday, 26 April 2007 at 3:00 p.m. for the purpose of considering and, if thought fit, passing with or without modifications, the following resolutions:

ORDINARY RESOLUTION NO. 1

“**THAT**, the note purchase agreement dated 2 March 2007 (the “**Note Purchase Agreement**”, a copy of which has been produced to the meeting and marked “A” and signed by the Chairman of the meeting for the purpose of identification) entered into between certain wholly-owned subsidiaries of the Company, being Fine Luck Group Limited, Great Elegant Investment Limited, Smartford Limited and Nicco Limited as chargors, DKR SoundShore Oasis Holding Fund Ltd., Indopark Holdings Limited, Lehman Brothers Commercial Corporation Asia Limited, Merrill Lynch International, PMA Investment Advisors Ltd. and Standard Bank Asia Limited as purchasers, the Company, Sharp Bright International Limited and Grand Cosmos Holdings Limited and the transactions contemplated thereunder, including:

- (a) the creation and issue of 4 percent secured convertible notes in the aggregate principal amount of US\$200 million due 2013 by the Company (the “**Notes**”) having the terms and conditions as set out in the Terms and Conditions annexed to the Note Purchase Agreement;
- (b) conditional on the Listing Committee of The Stock Exchange of Hong Kong Limited approving the listing of, and granting permission to deal in, new ordinary shares in the Company to be issued upon exercise of the conversion rights attaching to the Notes (the “**Conversion Shares**”), the allotment and issue of the Conversion Shares upon exercise of the conversion rights attaching to the Notes and which Conversion Shares shall, when allotted and issued, rank pari passu in all respect with all other ordinary shares of the Company in issue at the date of the conversion notice; and
- (c) the subscription by PMA Investment Advisors Ltd. of a principal amount of US\$20 million of the Notes,

* *For identification purposes only*

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be and are hereby generally and unconditionally approved in all respects and that the directors of the Company (“**Directors**”) be and are hereby authorized to do all things and acts and sign all documents which they consider necessary, desirable or expedient in connection with or to implement and/or give effect to the Note Purchase Agreement and the transactions contemplated thereunder and to agree to such variation, amendment or waiver as are, in the opinion of the Directors, in the interest of the Company.”

ORDINARY RESOLUTION NO. 2

“**THAT**, the sale and purchase agreement dated 2 March 2007 (the “**Poly/Shell Westin Agreement**”, a copy of which has been produced to the meeting and marked “B” and signed by the Chairman of the meeting for the purpose of identification) entered into between Great Elegant Investment Limited (“**Great Elegant**”), a wholly-owned subsidiary of the Company, as purchaser and CMIC Property (China) Limited (“**Poly**”) and SMC Property Investment Limited (“**Shell**”) as vendors whereby, inter alia,

- (a) Great Elegant conditionally agrees to purchase from Poly and Poly conditionally agrees to sell to Great Elegant, the entire issued share capital of and certain loans due by Red Empire Limited to Poly;
- (b) Great Elegant conditionally agrees to purchase from Shell and Shell conditionally agrees to sell to Great Elegant, the entire issued share capital of and certain loans due by Allright Investments Limited to Shell;

and the transactions contemplated thereunder, be and are hereby generally and unconditionally approved in all respects and that the directors of the Company (“**Directors**”) be and are hereby authorized to do all things and acts and sign all documents which they consider necessary, desirable or expedient in connection with or to implement and/or give effect to the Poly/Shell Westin Agreement and the transactions contemplated thereunder and to agree to such variation, amendment or waiver as are, in the opinion of the Directors, in the interest of the Company.”

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ORDINARY RESOLUTION NO. 3

“**THAT**, conditional on the passing of the special resolution no. 4 below, the sale and purchase agreement dated 2 March 2007 (the “**Wise Gain Westin Agreement**”, a copy of which has been produced to the meeting and marked “C” and signed by the Chairman of the meeting for the purpose of identification) entered into between Great Elegant Investment Limited (“**Great Elegant**”), a wholly-owned subsidiary of the Company, as purchaser and Wise Gain Investment Limited (“**Wise Gain**”) as vendor whereby, inter alia, Great Elegant conditionally agrees to purchase from Wise Gain and Wise Gain conditionally agrees to sell to Great Elegant, 29% of the issued share capital of and certain loans due by Yue Tian Development Limited to Wise Gain at a consideration of HK\$257,103,733 (the “**Consideration**”) and the transactions contemplated thereunder, including:

- (a) the issue and allotment of 190,447,209 convertible preference shares of HK\$0.01 each in the share capital of the Company (the “**Westin CPS**”), having the terms and conditions set out in the bye-laws of the Company (as amended by the special resolution No. 4 below) to Grand Cosmos Holdings Limited, as directed by Wise Gain, for settlement of the Consideration;
- (b) conditional on the Listing Committee of The Stock Exchange of Hong Kong Limited approving the listing of, and granting permission to deal in, new ordinary shares in the Company to be issued upon exercise of the conversion rights attaching to the Westin CPS (“**New Shares**”), the issue and allotment of the New Shares upon exercise of the conversion rights attaching to the Westin CPS which New Shares shall, when allotted and issued, rank pari passu in all respect with all other ordinary shares of the Company in issue at the date of the conversion notice,

be and is hereby generally and unconditionally approved in all respects, and that the directors of the Company (“**Directors**”) be and are hereby authorized to do all things and acts and sign all documents which they consider necessary, desirable or expedient in connection with or to implement and/or give effect to the Wise Gain Westin Agreement and the transactions contemplated thereunder and to agree to such variation, amendment or waiver as are, in the opinion of the Directors, in the interest of the Company.”

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SPECIAL RESOLUTION NO. 4

“THAT,

- (a) the existing bye-laws of the Company (“**Bye-laws**”) be altered by (i) the insertion of a new definition of “share(s)” in Bye-law 1 as follows: “shares” shall mean, unless the context otherwise requires and subject to the rights, privileges and restrictions of the Preference Shares as set out in Bye-law 169, the Ordinary Shares and Preference Shares; (ii) the insertion of a new definition of “Preference Share(s)” in Bye-law 1 as follows: “Preference Shares” shall mean convertible non-voting preference shares of par value HK\$0.01 each in the share capital of the Company, which have the rights and are subject to the limitations and restrictions as set out in Bye-law 169 of these Bye-laws; (iii) the insertion of a new definition of “Ordinary Share(s)” in Bye-law 1 as follows: “Ordinary Shares” shall mean ordinary shares of par value HK\$0.01 each in the share capital of the Company; (iv) the deletion of the existing Bye-law 3(1) in its entirety and substituting therefore a new Bye-law 3(1) as follows: “The share capital of the Company shall be divided into 29,000,000,000 ordinary shares of par value HK\$0.01 each and 1,000,000,000 preference shares of par value HK\$0.01 each; and (v) the insertion of new Bye-law 169 in the Bye-laws as follows:

“Preference Shares

169. Notwithstanding any provision to the contrary in these Bye-laws and subject to the Act, each Preference Share shall have attached thereto the following rights, privileges and restrictions:

(A) As to Income

The Preference Shares do not confer on the holders of the Preference Shares (the “**Preference Shareholders**”) any right to profits, income, dividend or distribution other than upon a return of capital as provided below of the Company.

(B) As to Capital

On a return of capital on liquidation or winding up or transaction with a similar effect, the assets of the Company available for distribution among the members of the Company shall be applied as follows:

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firstly, in paying to the holders of the US\$200,000,000 aggregate principal amount of 4 per cent. Secured Convertible Notes due 2013 issued by the Company (the “**Notes**”), pari passu as between themselves, the principal amount, accrued and unpaid interest, if any, and premium (including the Early Redemption Amount (as defined in the terms and conditions of the Notes)) outstanding under such Notes;

secondly, in paying to the holders of the Ordinary Shares of the Company and the holders of any other pari passu shares of the Company, pari passu as between themselves, a sum equal to any arrears of the dividend payable respectively on such Ordinary Shares and any such other pari passu shares to be calculated down to and inclusive of the date of the return of capital and to be payable whether or not the Company has sufficient distributable reserves;

thirdly, in paying to the holders of the Ordinary Shares (the “**Ordinary Shareholders**”), pari passu as between themselves and the holders of any other shares in the capital of the Company ranking pari passu with the Ordinary Shares as regards repayment of amounts paid up or credited as paid up on such shares, an amount equal to the amounts paid up or credited as paid up on such shares;

fourthly, in paying to the Preference Shareholders, pari passu as between themselves and the holders of any other shares in the capital of the Company ranking pari passu with the Preference Shares as regards repayment of amounts paid up or credited as paid up on such shares, an amount equal to the amounts paid up or credited as paid up on such shares; and

fifthly, the balance of such assets shall belong to and be distributed among the Ordinary Shareholders and the Preference Shareholders.

(C) As to Ranking

The Preference Shares shall be subordinate, in terms of repayment, to the Notes.

(D) As to Conversion

(A) Each Preference Shareholder shall have the right, subject to the provisions mentioned below, (the “**Conversion Right**”) to convert all or any of his Preference Shares into fully paid Ordinary Shares at the ratio of one Preference Share for each Ordinary Share.

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- (B) The Conversion Right shall be exercisable in whole or in part at any time that the aggregate holdings of Ordinary Shares by the Preference Shareholder and its Connected Parties (as defined below) is less than 75% of the total issued and outstanding Ordinary Shares of the Company, subject to all applicable fiscal or other laws or regulations, by delivering a duly signed and completed notice of conversion in such form as may from time to time be specified by the directors of the Company (the “**Directors**”) in respect of the Preference Shares to be converted (a “**Conversion Notice**”) together with the certificates for such Preference Shares and such other evidence (if any) as the Directors may reasonably require to prove the title of the person exercising such right and payment of all taxes and stamp, issue and registration duties (if any) arising in any jurisdiction on conversion to the Company’s registrar in Hong Kong in respect of the Preference Shares. A Conversion Notice once given may not be withdrawn without the consent in writing of the Company.

Conversion shall take place at 12 noon (Hong Kong time) on the next business day in Hong Kong (the “**Conversion Date**”) immediately after delivery of the Conversion Notice (together with the share certificates, evidence and payments referred to above) to the registrar in respect of the Preference Shares provided that if the Conversion Notice is so delivered during a period when the register of the Ordinary Shareholders is closed then the Conversion Notice shall be deemed to have been delivered on the last day before such register re-opens. The person or persons entitled to the issue of Ordinary Shares on the exercise of a Conversion Right will be deemed for all purposes to be the holder of record of the number of Ordinary Shares issuable on conversion with effect from the relevant Conversion Date. A holder of Ordinary Shares issued on conversion of Preference Shares shall not be entitled to any distribution or other rights the record date for which precedes the relevant Conversion Date. The address of the Company’s registrar in Hong Kong in respect of the Preference Shares as at the date hereof is set out on the last page of this document.

“**Connected Parties**” means:

- (i) connected persons of the Company as determined in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“**Connected Persons**”);

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- (ii) persons whose acquisition of securities has been financed directly or indirectly by a Connected Person; and
 - (iii) persons who are accustomed to take instructions from a Connected Person in relation to the acquisition, disposal, voting or other disposition of securities of the Company registered in his/her name or otherwise held by him/her.
- (C) Any Preference Shares which are to be converted (the “**Relevant Shares**”) shall be converted in such manner as determined by the board of directors of the Company to be appropriate including, without limitation, by redemption on the relevant Conversion Date out of the capital (including share premium) paid up on the Relevant Shares, and each Conversion Notice shall be deemed to authorise and instruct the Directors to retain any redemption moneys otherwise payable to the Preference Shareholder giving such notice and to apply the same in the subscription on such holder’s behalf of the appropriate number of Ordinary Shares at the ratio of one Preference Share for each Ordinary Share.

Adjustments to Conversion Ratio

The conversion ratio of one Preference Share for each Ordinary Share shall be adjusted by increasing the number of Ordinary Shares a converting Preference Shareholder shall receive, by the following fractions, in respect of the following events:

(1) Consolidation, Subdivision or Reclassification:

If and whenever there shall be an alteration to the nominal value of the Ordinary Shares as a result of consolidation, subdivision or reclassification, the following fraction:

$$\frac{A}{B}$$

Where:

A is the nominal amount of one Ordinary Share immediately after such alteration; and

B is the nominal amount of one Ordinary Share immediately before such alteration.

Such adjustment shall become effective on the date the alteration takes effect.

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(2) *Capitalisation of Profits or Reserves:*

- (i) If and whenever the Company shall issue any Ordinary Shares credited as fully paid to the Ordinary Shareholders by way of capitalisation of profits or reserves (including any share premium account) including, Ordinary Shares paid up out of distributable profits or reserves and/or share premium account issued (except any Scrip Dividend) and which would not have constituted a Distribution, the following fraction:

$$\frac{A}{B}$$

Where:

- A is the aggregate nominal amount of the issued Ordinary Shares immediately before such issue; and
- B is the aggregate nominal amount of the issued Ordinary Shares immediately after such issue.

- (ii) In the case of an issue of Ordinary Shares by way of a Scrip Dividend where the Current Market Price of such Ordinary Shares on the date of issue of such Ordinary Shares or if a record date is fixed for such Scrip Dividend, on such record date exceeds 110 per cent. of the amount of the Relevant Cash Dividend or the relevant part thereof and which would not have constituted a Distribution, the following fraction:

$$\frac{A + B}{A + C}$$

Where:

- A is the aggregate nominal amount of the issued Ordinary Shares immediately before such issue;
- B is the aggregate nominal amount of Ordinary Shares issued by way of such Scrip Dividend multiplied by a fraction of which (i) the numerator is the amount of the whole, or the relevant part, of the Relevant Cash Dividend and (ii) the denominator is the Current Market Price of the Ordinary Shares issued by way of Scrip Dividend in respect of each existing Share in lieu of the whole, or the relevant part, of the Relevant Cash Dividend on the date of issue of such Ordinary Shares or if a record date is fixed for such Scrip Dividend, on such record date; and

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C is the aggregate nominal amount of Ordinary Shares issued by way of such Scrip Dividend;

or by making such other adjustment as an Independent Investment Bank shall certify as fair and reasonable.

Such adjustment shall become effective on the date of issue of such Ordinary Shares or if a record date is fixed therefor, immediately after such record date.

(3) Distributions:

If and whenever the Company shall pay or make any Distribution to the Ordinary Shareholders (except to the extent that there is an adjustment under item (2)(i) above), by the following fraction:

$$\frac{A - B}{A}$$

Where:

A is the Current Market Price of one Share on the last Trading Day preceding the date on which the Distribution is publicly announced; and

B is the Fair Market Value on the date of such announcement of the portion of the Distribution attributable to one Share.

Such adjustment shall become effective on the date that such Distribution is actually made.

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(4) *Rights Issues of Ordinary Shares or Options over Ordinary Shares:*

If and whenever the Company shall issue Ordinary Shares to all or substantially all Ordinary Shareholders as a class by way of rights, or issue or grant to all or substantially all Ordinary Shareholders as a class by way of rights, of options, warrants or other rights to subscribe for or purchase any Ordinary Shares, in each case at less than 90 per cent. of the Current Market Price per Share on the last Trading Day preceding the date of the announcement of the terms of the issue or grant, the following fraction:

$$\frac{A + B}{A + C}$$

Where:

- A is the number of Ordinary Shares in issue immediately before such announcement;
- B is the number of Ordinary Shares which the aggregate amount (if any) payable for the Ordinary Shares issued by way of rights or for the options or warrants or other rights issued by way of rights and for the total number of Ordinary Shares comprised therein would purchase at such Current Market Price per Share; and
- C is the aggregate number of Ordinary Shares issued or, as the case may be, comprised in the grant.

Such adjustment shall become effective on the date of issue of such Ordinary Shares or issue or grant of such rights, options, warrants or other rights (as the case may be).

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(5) *Rights Issues of Other Securities:*

If and whenever the Company shall issue any securities (other than Ordinary Shares or options, warrants or other rights to subscribe or purchase Ordinary Shares) to all or substantially all Ordinary Shareholders as a class by way of rights or grant to all or substantially all Ordinary Shareholders as a class by way of rights, of options, warrants or other rights to subscribe for or purchase any securities (other than Ordinary Shares or options, warrants or other rights to subscribe or purchase Ordinary Shares), the following fraction:

$$\frac{A - B}{A}$$

Where:

A is the Current Market Price of one Share on the last Trading Day preceding the date on which such issue or grant is publicly announced; and

B is the Fair Market Value on the date of such announcement of the portion of the rights attributable to one Share.

Such adjustment shall become effective on the date of issue of the securities or grant of such rights, options or warrants (as the case may be).

(6) *Issues at less than Current Market Price:*

If and whenever the Company shall issue any Ordinary Shares (other than Ordinary Shares issued on the exercise of Conversion Rights or on the exercise of any other rights of conversion into, or exchange or subscription for, Ordinary Shares) or the issue or grant of options, warrants or other rights to subscribe or purchase Ordinary Shares in each case at a price per Share which is less than 90 per cent. of the Current Market Price on the last Trading Day preceding the date of announcement of the terms of such issue, the following fraction:

$$\frac{A + B}{C}$$

Where:

A is the number of Ordinary Shares in issue immediately before the issue of such additional Ordinary Shares or the grant of such options, warrants or other rights to subscribe for or purchase any Ordinary Shares;

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B is the number of Ordinary Shares which the aggregate consideration receivable for the issue of such additional Ordinary Shares would purchase at such Current Market Price per Share; and

C is the number of Ordinary Shares in issue immediately after the issue of such additional Ordinary Shares.

References to additional Ordinary Shares in the above formula shall, in the case of an issue by the Company of options, warrants or other rights to subscribe or purchase Ordinary Shares, mean such Ordinary Shares to be issued assuming that such options, warrants or other rights are exercised in full at the initial exercise price on the date of issue of such options, warrants or other rights.

Such adjustment shall become effective on the date of issue of such additional Ordinary Shares or, as the case may be, the issue of such options, warrants or other rights.

(7) *Other Issues at less than Current Market Price:*

Save in the case of an issue of securities arising from a conversion or exchange of other securities in accordance with the terms applicable to such securities themselves falling within this Item (7), if and whenever the Company or any of its Subsidiaries (otherwise than as mentioned in Items (4), (5) or (6)), or (at the direction or request of or pursuant to any arrangements with the Company or any of its Subsidiaries) any other company, person or entity shall issue any securities (other than the Notes) which by their terms of issue carry rights of conversion into, or exchange or subscription for, Ordinary Shares to be issued by the Company on conversion, exchange or subscription at a consideration per Share which is less than 90 per cent. of the Current Market Price on the last Trading Day preceding the date of announcement of the terms of issue of such securities, the following fraction:

$$\frac{A + B}{A + C}$$

Where:

A is the number of Ordinary Shares in issue immediately before such issue;

B is the number of Ordinary Shares which the aggregate consideration (if any) receivable by the Company for the Ordinary Shares to be issued on conversion or exchange or on exercise of the right of subscription attached to such securities would purchase at such Current Market Price per Share; and

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C is the maximum number of Ordinary Shares to be issued on conversion or exchange of such securities or on the exercise of such rights of subscription attached thereto at the initial conversion, exchange or subscription price or rate.

Such adjustment shall become effective on the date of issue of such securities.

(8) *Modification of Rights of Conversion etc.:*

If and whenever there shall be any modification of the rights of conversion, exchange or subscription attaching to any such securities as are mentioned in Item (7) (other than in accordance with the terms of such securities) so that the consideration per Share (for the number of Ordinary Shares available on conversion, exchange or subscription following the modification) is less than 90 per cent. of the Current Market Price on the last Trading Day preceding the date of announcement of the proposals for such modification, the following fraction:

$$\frac{A + B}{A + C}$$

Where:

A is the number of Ordinary Shares in issue immediately before such modification;

B is the number of Ordinary Shares which the aggregate consideration (if any) receivable by the Company for the Ordinary Shares to be issued on conversion or exchange or on exercise of the right of subscription attached to the securities so modified would purchase at such Current Market Price per Share or, if lower, the existing conversion, exchange or subscription price; and

C is the maximum number of Ordinary Shares to be issued on conversion or exchange of such securities or on the exercise of such rights of subscription attached thereto at the modified conversion, exchange or subscription price or rate but giving credit in such manner as an Independent Investment Bank considers appropriate (if at all) for any previous adjustment under this Item (8) or Item (7).

Such adjustment shall become effective on the date of modification of the rights of conversion, exchange or subscription attaching to such securities.

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(9) Other Offers to Ordinary Shareholders:

If and whenever the Company or any of its Subsidiaries or (at the direction or request of or pursuant to any arrangements with the Company or any of its Subsidiaries) any other company, person or entity issues, sells or distributes any securities in connection with which an offer to which the Ordinary Shareholders generally are entitled to participate in arrangements whereby such securities may be acquired by them, the following fraction:

$$\frac{A - B}{A}$$

Where:

- A is the Current Market Price of one Share on the last Trading Day preceding the date on which such issue is publicly announced; and
- B is the Fair Market Value on the date of such announcement of the portion of the rights attributable to one Share.

Such adjustment shall become effective on the date of issue of the securities.

(10) Other Events:

If the Company determines that an adjustment should be made to the Conversion Price of the Notes as a result of condition 6(C)(10) of the terms and conditions of the Notes, the following fraction:

$$\frac{A - B}{A}$$

Where:

- A is the old Conversion Price; and
- B is the new Conversion Price.

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(11) In the event of a Conversion Price Reset pursuant to condition 6(D)(iv) of the terms and conditions of the Notes, the following fraction:

$$\frac{A - B}{A}$$

Where:

A is the old Conversion Price; and

B is the new Conversion Price.

(12) Terms used herein, unless otherwise defined, shall have the meanings given to them in the terms and conditions of the Notes.

(E) As to Undertakings

So long as any Preference Share remains capable of being converted into Ordinary Shares:

- (iii) the Company will use its best endeavours (a) to maintain a listing for all the issued Ordinary Shares on The Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**”) and (b) to obtain and maintain a listing on the Hong Kong Stock Exchange for the Ordinary Shares which will arise on the exercise of the Conversion Rights;
- (iv) if an offer is made to the Ordinary Shareholders (or all such shareholders other than the offeror and/or any company controlled by the offeror and/or any persons acting in concert with the offeror) to acquire the whole or any part of the issued ordinary share capital of the Company and the Company becomes aware that the right to cast more than 50 per cent. of the votes which may ordinarily be cast on a poll at a general meeting of the Company has or will become vested in the offeror and/or such companies or persons aforesaid, the Company shall give notice to all Preference Shareholders of such vesting or future vesting within 7 days of its becoming so aware;
- (v) the Company will send to each Preference Shareholder, by way of information, one copy of every circular, notice or other document sent to any other shareholders in the Company in their capacity as shareholders, at the same time as it is sent to such other shareholders;

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- (vi) the Company shall procure that there shall be sufficient authorised but unissued ordinary share capital available for the purposes of satisfying the requirements of any Conversion Notice as may be given and the terms of any other securities for the time being in issue which are convertible into or have the right to subscribe Ordinary Shares in the Company; and
- (vii) the Company shall pay all fees, capital and stamp duties payable in Bermuda or Hong Kong, if any, in respect of the issue of Ordinary Shares upon conversion of any Preference Shares.

(F) *As to Meetings and Voting*

Subject to the provisions regarding notices to the holders of the Preference Shares above, the Preference Shares shall not confer on the holders thereof the right to receive notice of, or to attend and vote at, a general meeting of the Company (excluding class meetings where rights of the holders of the Preference Shares are to be varied, modified or abrogated).

(G) *As to Redemption and Purchase*

The Company shall not, as long as any Notes are outstanding, redeem or repurchase any Preference Shares.

(H) *As to Payments*

All payments in respect of the Preference Shares shall be made by the Company posting a cheque in Hong Kong dollars at the risk of the Preference Shareholder concerned to the registered address of such Preference Shareholder as at the relevant record date, unless another manner of payment is agreed between the Company and such Preference Shareholder.

(I) *As to Notices*

Notices to Preference Shareholders will be given in accordance with the Bye-laws.

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(J) *As to Transfers*

Transfers of the Preference Shares shall be effected on the register of the Preference Shares of the Company by transfer in writing in any usual or common form or in any other form acceptable to the Directors and transfers need not be under seal nor signed by or on behalf of the transferee. For an instrument of transfer to be registered it must be left at the registration office of the Company's registrar in Hong Kong in respect of the Preference Shares, accompanied by the relevant share certificate(s) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer and, if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do.

(K) *As to Pre-emption*

The Preference Shares shall not confer on the holders thereof any preemptive subscription rights in relation to issues of further shares in the Company.

(L) *As to Prescription*

Any Preference Shareholder who has failed to claim distributions or other property or rights within six years of their having been made available to him will not thereafter be able to claim such distributions or other property or rights, which shall be forfeited and shall revert to the Company. The Company shall retain such distributions or other property or rights but shall not at any time be a trustee in respect of any such distributions or other property or rights nor accountable for any income or other benefits derived therefrom.

(M) *As to Replacement*

If a certificate in respect of any Preference Shares shall be damaged or defaced or alleged to have been lost, stolen or destroyed, a new certificate representing the same Preference Share may be issued to the holder upon request, subject to delivery up of the old certificate or, if alleged to have been lost, stolen or destroyed, to compliance with such conditions as to evidence and indemnity and the payment of out-of-pocket expenses of the Company in connection with the request as the Directors may think fit."

- (b) all of the existing shares of par value HK\$0.01 each of the Company in issue be and are hereby designated as ordinary shares of par value HK\$0.01 each of the Company; and

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- (c) any two directors of the Company be authorised to take all such actions, execute all such documents and do all such other things on behalf of the Company as they may, in their absolute discretion, consider necessary, desirable or expedient to give effect to this Special Resolution No. 4 including without limitation the implementation of the amendments to the Bye-laws and the issue and allotment of the Preference Shares.”

By Order of the Board
CHEUNG Lin Shun
Company Secretary

Hong Kong, 4 April 2007

Principal place of business in Hong Kong:

2502B, Tower 1
Admiralty Centre
18 Harcourt Road
Hong Kong

Notes:

1. Any member of the Company entitled to attend and vote at the meeting by the above notice shall be entitled to appoint another person as his/her proxy to attend and vote instead of such member and such proxy need not be a member of the Company. A form of proxy for use at the meeting is enclosed.
2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his/her attorney duly authorized in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person authorized to sign the same.
3. In order to be valid, the form of proxy and the power of attorney or other authority (if any) under which it is signed or a notorially certified copy of that power or authority, must be deposited at the Company's branch share registrar in Hong Kong, Abacus Share Registrars Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.
4. Completion and delivery of the form of proxy will not preclude a shareholder of the Company from attending and voting in person at the meeting convened or any adjournment thereof and in such event, the authority of the proxy shall be deemed to be revoked.
5. In case of joint holders of any share, if more than one of such joint holders be present at any meeting, the vote of the senior who tenders a vote, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register in respect of the joint holding.
6. As at the date of this notice, the Board comprises four executive Directors, being Mr. YU Pan, Mr. LAU Yat Tung, Derrick, Mr. WONG Lok, and Mr. WEN Xiao Bing and three independent non-executive Directors, being Mr. CHOY Shu Kwan, Mr. CHENG Wing Keung, Raymond and Ms. CHUNG Lai Fong.