



2005 ANNUAL REPORT



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

(formerly known as "renren Holdings Limited" 前稱「人人控股有限公司」*)
(incorporated in Bermuda with limited liability)
(Stock Code : 59)

** for identification purposes only*

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CORPORATE INFORMATION

02

DIRECTORS

Executive Directors:

Yu Pan, *Chairman*
Lau Yat Tung, Derrick, *Deputy Chairman*
Wong Lok
Zheng Jian Wei

Independent Non-executive Directors:

Choy Shu Kwan
Cheng Wing Keung, Raymond
Chung Lai Fong

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Cheung Lin Shun

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

SHARE LISTING

Main Board of The Stock Exchange of
Hong Kong Limited, Stock Code: 59

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE

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

BRANCH SHARE REGISTRARS AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

CITIC Ka Wah Bank Limited
The Hongkong and Shanghai Banking
Corporation Limited

AUDITORS

BDO McCabe Lo Limited
Certified Public Accountants

LEGAL ADVISERS

Hong Kong Laws:
Robert C.C. Ip & Co.
Vincent T.K. Cheung, Yap & Co.

Bermuda Laws:
Conyers Dill & Pearman

On behalf of the Board of Directors (“the Directors”), I am pleased to announce the annual results of Skyfame Realty (Holdings) Limited (“Skyfame Realty” or “the Group”) for the year ended 31 December 2005.

The year 2005 saw dynamic changes in the Group’s business development directions and strategies. Subsequent to the change in the Group’s substantial shareholders and directorship at the end of 2004, the Group sold all its non-profitable businesses and directed strategic focus on property development in the PRC, especially premium grade property projects in Guangzhou.

The Chinese economy is booming with GDP and disposable income of the population rising. These phenomena have been breeding demand for different kinds of property, including niche prime property much sought-after in particular in Guangzhou, the economic hub of the Pan-Pearl River Delta Region. Given the rise in demand for quality property exceeds supply, we have strong confidence in our prospects in the city’s property market. In the next couple of years, the Group will concentrate on seizing the premiere grade property market in Guangzhou. The Group will be prudent in considering acquisition of premium quality land in the city.

The Group’s first project in Guangzhou is a top-notch residential and commercial complex tower located on North Tianhe Road. It is among the few prime sites still available for development in the heart of the central business district of the city. The complex is expected to become a major landmark in Guangzhou. In the long term, borrowing the experience of this successful project, 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.

The new management team of Skyfame Realty comprises all veterans in the property development field. They have extensive understanding of and experience in developing high quality, large scale and award-winning property projects. Riding on our previous success and adhering to our proven management philosophy, the Group will adopt a prudent land reserve strategy to create a quality reserve by acquiring prime sites for building properties that appeal to the high-end market. We will also seek to fortify our reputation and brand image by exercising stringent quality control on our projects.

The Group announced in February 2006 its new name — Skyfame Realty (Holdings) Limited. Our Chinese name “天譽” speaks to our credibility and our belief that integrity and prudence are essential attributes of a successful property developer. The name also reflects the primary business focus of the Group. The management’s business development strategies and blueprints are clear and forward looking. The team is dedicated to enhancing the Group’s development and to bringing fruitful returns to shareholders in the near future.

Finally, on behalf of the Directors, I would like to pay tributes to the management team and all our staff for their hard work and contributions in the past year. I wish to thank all our business partners and shareholders for their full confidence and continuous support for the Group.

Yu Pan
Chairman

Hong Kong, 28 March 2006

MANAGEMENT DISCUSSION AND ANALYSIS AND BUSINESS OUTLOOK

BUSINESS REVIEW AND OUTLOOK

The management has completed its program to restructure the Group's business activities during the year with an aim to enhance the Group's earning potential. As a result, the online and telecommunication operations, general trading, financial advisory services, securities and property investment activities were discontinued. Starting from the year, the management puts the Group's resources in the property development operations. The change of name of the Company signals the primary business focus of the Group into the property development and related businesses.

During the year, the Group has recorded a loss from operation of HK\$4.8 million which was narrowed down from the loss of HK\$47.5 million in the year 2004. The streamlining program undertaken by the directors in the year has put an end to the loss-producing operations which had led to a loss of HK\$2.2 million. During the year, the Group was contracted as a project manager in two property development projects in Guangzhou. Yet the operation of this new business has not reflected a full year extent in the profit and loss account of the year, the management believes the operating performance in the coming year will turn around.

The Company's investment in the development project in the North Tianhe District of Guangzhou in December 2005 marks the commencement of the new business focus. The Group keeps aggressively looking for business opportunities in property development. The Group will focus on developing properties mainly in the premiere grade property niche market in Guangzhou. Adhering to a prudent land reserve strategy emphasizing quality, the management will consider purchasing premium quality land in the Guangzhou city or, if appropriate, other suitable regions in the PRC.

LIQUIDITY AND FINANCIAL RESOURCES

Capital structure and liquidity

Due to the placing and rights issue of shares during the year which has brought about a net proceed of HK\$165 million in cash, the Group's liquidity position has been strengthened with a bank balance of HK\$83.7 million at the balance sheet date. The current assets and current liabilities of the Group were HK\$84.2 million and HK\$1.8 million respectively such that the current ratio rose from 1.2:1 as at 31 December 2004 to 45.8:1 at the current year-end date. 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 subsequent to the balance sheet date on 20 February 2006. The conversion leads the Group virtually with a minimal liability position. Taking into the effect of the conversion, the proforma gearing ratio becomes 0.74%.

Bank borrowings and pledge of assets

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

MANAGEMENT DISCUSSION AND ANALYSIS AND BUSINESS OUTLOOK

FOREIGN CURRENCY MANAGEMENT

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.

CONTINGENT LIABILITIES

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

MATERIAL ACQUISITION DURING THE YEAR UNDER REVIEW

On 16 December 2005, the Group completed a transaction to acquire a 49% equity interest in a company, Yaubond Limited ("Yaubond"), together with the shareholders' loan advanced to Yaubond (the "Acquisition") for a total consideration of approximately HK\$166 million. The terms of the Acquisition were determined after arm's length negotiations and were concluded on normal commercial terms. Yaubond's subsidiary owns a piece of land which has a site area of approximately 7,217 square metres and is engaged in property project development in Guangzhou, the PRC. The Group is obliged to provide shareholder loan for Yaubond and its subsidiary to finance the need for the property development project. Full details of the Acquisition are contained in the Company's announcement dated 5 October 2005 and the Company's circular dated 8 November 2005.

EMPLOYEES

As at 31 December 2005, including 4 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 for the year ended 31 December 2005. Employees are remunerated according to qualifications and experience, job nature and performance, with pay scale aligned with market conditions.

BRIEF BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

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EXECUTIVE DIRECTORS

Mr. Yu Pan (*Chairman*)

Aged 41, has over 16 years of experience in the development high-end residential, commercial and hotel projects in the PRC. Mr. Yu is a founder of the prestigious real estate company — Guangzhou Chen Jian Tian Yu Real Estate Development Company Limited and oversees the strategic planning and corporate development of the Group.

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

Aged 40, holds a Master degree in Business Administration awarded by The Northeast Louisiana University in the USA. Mr. Lau has over 12 years of working experience in the senior management of corporations engaged in property agency and development in Hong Kong and the PRC.

Mr. Wong Lok

Aged 48, has over 20 years working experience in senior management of corporations engaged in property and general trading in Hong Kong and the PRC.

Mr. Zheng Jian Wei

Aged 33, was a graduate of Guangzhou Jinan University and is a professionally qualified quantity surveyor and an economist specialized in property development in the PRC. He has over 14 years working experience in quantity surveying and managerial positions in corporations engaged in construction and property development in the PRC.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Choy Shu Kwan

Aged 51, holds a Master degree in Business Administration and has over 25 years extensive experience in financial business and investment management. Mr. Choy is the managing director of CITIC Capital Markets Limited. He is also an independent non-executive director of Shenyang Public Utility Holdings Company Limited and Poly (Hong Kong) Investments Limited.

Mr. Cheng Wing Keung, Raymond

Aged 46, is a practicing solicitor in Hong Kong. Mr. Cheng holds a honours degree in laws in The University of London and a Master degree of Business Administration awarded by The University of Strathclyde, Scotland. He is an associate member of Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries in both United Kingdom and Hong Kong. Mr. Cheng also holds a Diploma in Chinese Professional Laws in the Chinese University of Political Science and Law, PRC. Mr. Cheng has over 19 years experience in corporate, taxation, trust and listing affairs. At present, Mr. Cheng is an independent non-executive director in two listed companies in Hong Kong, namely China Investment Fund Company Limited and Fortuna International Holdings Limited.

BRIEF BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS *(Continued)*

Ms. Chung Lai Fong

Aged 38, is a practicing barrister in Hong Kong. Ms. Chung holds a Bachelor of Laws (Honours) degree, a Bachelor of Arts (Honours) Degree in Accountancy and a Master of Laws in Chinese Law. She is also a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants, the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries. She has over 10 years professional experience in accounting, taxation, administration, company secretarial and corporate development.

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Ms. Cheung Lin Shun

Aged 43, is a professional qualified accountant in Hong Kong. Ms. Cheung holds a Master degree in Professional Accountancy awarded by The Hong Kong Polytechnic University. Ms. Cheung is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants in the United Kingdom. She has over 20 years experience in auditing, corporate secretarial, accounting and corporate finance in an international accounting firm and a number of listed companies in Hong Kong.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to enhance its corporate governance standards by emphasizing transparency, independence, accountability, responsibility and fairness. The Company exercises corporate governance through the Board of Directors (“Board”) and various committees with designated functions. The Company has consistently complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules. In January 2005, the Code of Best Practice was replaced by the Code on Corporate Governance Practice. During the year, the Company has taken a series of steps to promote the level of corporate governance according to the requirement and recommendation guidance set out in the Code on Corporate Governance Practice, which include the establishment of Audit Committee, Remuneration Committee and Nomination Committee and the amendments of the bye-laws of the Company to take effect of the necessary improvements of the governance of the Company. The major responsibilities of the Board and these committees are set out below.

BOARD OF DIRECTORS

The Board is responsible for formulating and reviewing of the long-term business directions and strategies, and monitoring the operating and financial performance of the Group. The management is delegated by the Board with the authority to make decisions on daily operations.

The Board consists of four executive directors, Mr. Yu Pan, the chairman, Mr. Lau Yat Tung, Derrick, the deputy chairman, Mr. Wong Lok, and Mr. Zheng Jian Wei and three independent non-executive directors, namely Mr. Choy Shu Kwan, Mr. Cheng Wing Keung, Raymond and Ms. Chung Lai Fong.

According to the bye-laws 87 (1) and (2) of the Company, at each annual general meeting of the Company, one-third of the Directors for the time being (or, if their number is not a multiple of three, then the number nearest to but not less than one-third) shall retire from office by rotation such that each Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years at the annual general meeting. A retiring director shall be eligible for re-election and shall continue to act as Director throughout the meeting at which he retires.

All directors are closely involved and participate in the management of the Company. During the year, five full board meetings were held and attended by all directors.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

REMUNERATION COMMITTEE

The Remuneration Committee of the Company comprises the Chairman of the Company, Mr. Yu Pan and all three independent non-executive directors, namely, Mr. Choy Shu Kwan, Mr. Cheng Wing Keung, Raymond and Ms. Chung Lai Fong.

REMUNERATION COMMITTEE *(Continued)*

The Remuneration Committee was formed in July 2005. One meeting was held and attended by all members in 2005.

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

1. to make recommendations to the Board on the remuneration policy and structure of the Board, all committees members and senior management;
2. to determine the remuneration packages of the directors, all committee members and senior management. The remuneration packages include basic salary, annual bonus, retirement and compensation packages;
3. to review and approve the compensation to executive directors and senior management on termination or dismissal;
4. to review and approve the performance target, appraisal system, remuneration terms and conditions, amount and distribution basis of the year-ended bonus; and
5. to review the expenses reimbursement policy.

NOMINATION COMMITTEE

The Nomination Committee of the Company comprises three executive directors, namely, Mr. Yu Pan, Mr. Wong Lok and Mr. Lau Yat Tung, Derrick and one independent non-executive director, Mr. Choy Shu Kwan.

The Nomination Committee was formed in July 2005. One meeting was held and attended by all members in 2005.

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

1. to propose the basic requirements and objective entry standard for directors;
2. to review and approve the selection, nomination and appointment procedures for directors, all committee members and senior management;
3. to review the structure, size and composition of the Board on a regular basis and make recommendations to the Board in all such aspects;
4. to ensure the fixed employment period for the directors and fulfillment of the re-election requirements set under the bye-laws of the Company and related regulatory bodies;
5. to assess the independence of independent non-executive directors; and
6. to review and approve the part-time policy for the directors and senior management; and oversee the establishment of appropriate succession planning for directors in particular the chairman and the chief executive officer.

AUDIT COMMITTEE

The Audit Committee of the Company comprises three independent non-executive directors, Mr. Choy Shu Kwan, Mr. Cheng Wing Keung, Raymond and Ms. Chung Lai Fong.

Two meetings were held and attended by all members in 2005.

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

1. review the integrity of accounts and financial reporting process;
2. review and oversee the effectiveness of internal control systems;
3. appointment of external auditors and assessment of their qualifications, independence and performance; and
4. periodic review of the Company's and the Group's accounts to check for compliance with applicable accounting standards and legal and regulatory requirements on financial disclosures.

The Audit Committee has reviewed the audited results for the year ended 31 December 2005.

AUDITORS' REMUNERATION

Messrs. Albert Lam & Co. was the former auditors of the Company. Messrs. BDO McCabe Lo Limited ("BDO") was appointed by the shareholders on 25 November 2005 to replace Messrs. Albert Lam & Co. as Company's auditors. Their engagement of the audit for 2005 has been reviewed and approved by the audit committee.

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

Services rendered	Albert Lam & Co. <i>HK\$</i>	BDO <i>HK\$</i>
Under-provision of audit services for 2004	120,000	—
Interim results review services	51,500	—
Audit services for 2005	—	400,000
Non-audit services		
— Taxation services	38,530	—
— Reporting accountant's service for an acquisition transaction	—	325,000
— Disbursements	30,000	—
TOTAL	240,030	725,000

DIRECTORS' SECURITIES TRANSACTIONS

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

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

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

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

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

The 2006 annual general meeting will be held at the office of Strategic Public Relations Group Limited, Room 3203, Tower 1, Admiralty Centre, 18 Harcourt Road, Hong Kong on Wednesday, 26 April 2006 at 3:00 p.m..

REPORT OF THE DIRECTORS

The directors have pleasure in presenting their annual report together with the audited financial statements for the year ended 31 December 2005.

CHANGE OF COMPANY NAME

Pursuant to a special resolution passed on 15 February 2006 and with the approval of the Registrar of Companies in Bermuda on 17 February 2006, the name of the Company was changed from “renren Holdings Limited” to “Skyfame Realty (Holdings) Limited” in English and for identification purpose, “天譽置業(控股)有限公司” in Chinese.

PRINCIPAL ACTIVITIES

The principal activity of the Company continues to be investment holding. The principal activities of its subsidiaries during the year are property development, provision of property development project management services and rendering of web-design and development services.

During the year, the Group started in its new business activities in the rendering property project management services and property development whilst discontinued the businesses of web design and development services, general trading, financial advisory services, securities and property investment activities. Details are set out in note 1 to the financial statements.

SEGMENT INFORMATION

An analysis of the Group’s performance for the year by business and geographical segments is set out in note 5 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2005 are set out in the consolidated income statement on page 23.

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2005.

SHARE CAPITAL

On 7 June 2005, 1,355,000,000 new shares were issued by way of a placing of shares to a number of placees at HK\$0.016 each, raising a total gross proceed of approximately HK\$21,680,000 for general working capital.

On 5 August 2005, the Company underwent a capital re-organisation scheme involving a consolidation of 8,202,373,585 shares on the basis on 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 canceling paid-up capital to the extent of HK\$0.99 on each of the consolidated shares, a sub-division of each consolidated share of HK\$1.00 each in the authorised but unissued share capital into one hundred ordinary shares of HK\$0.01 each, and the cancellation of the entire amount of the share premium account of the Company (the “Capital Re-organisation”). The credit arising from the share reduction and cancellation of share premium eliminated the entire accumulated deficit of the Company on the date of the Capital Re-organisation.

SHARE CAPITAL *(Continued)*

On 9 November 2005, the Company cancelled 16,299 shares, those number of shares as adjusted by the Capital Re-organisation as referred in above and the capital re-organisation in August 2002, as a result of the rectification of the register of members of the Company as detailed in note 29 to the financial statements upon the approval of the Supreme Court of Bermuda.

On 16 December 2005, the Company issued 492,044,616 shares by way of a rights issue of shares 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 consideration shares at an issue price of HK\$0.30 per share to satisfy partly the consideration for the acquisition of an associate.

Details of movements in the Company's share capital during the year are set out in note 29 to the financial statements.

SHARE OPTIONS

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").

During the year, the Company did not grant any options to subscribe for the Company's shares under the 2005 Scheme.

Details of the share option scheme are set out in note 29 to the financial statements.

RESERVES/(DEFICIT)

Details of the movements in reserves/(deficit) of the Group and the Company during the year are set out in note 30 to the financial statements.

DISTRIBUTABLE RESERVES

The Company's contributed surplus is distributable to shareholders in accordance with the Companies Act 1981 of Bermuda. At 31 December 2005, the Company's reserves available for cash distribution and/or distribution in specie amounted to approximately HK\$25,387,000 (inclusive of the Company's contributed surplus) as computed in accordance with generally accepted accounting principles of Hong Kong. In addition, the Company's share premium account in the amount of approximately HK\$156,007,000 may be distributed in the form of fully paid bonus shares.

FIXED ASSETS AND INVESTMENT PROPERTY

Details of movements in fixed assets and investment property of the Group are set out in notes 17 and 18 to the financial statements respectively.

INTEREST IN ASSOCIATE

Details of the interest in associate of the Group are set out in note 20 to the financial statements.

REPORT OF THE DIRECTORS

CONVERTIBLE NOTE

The 3% convertible note in the principal amount of HK\$60,000,000 was issued to satisfy partly the consideration for the acquisition of an associate.

Details of the convertible note of the Group are set out in note 27 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's largest customer and five largest customers accounted for approximately 66% and 100%, respectively, of the Group's total sales for the year.

The aggregate purchases attributable to the Group's largest supplier and five largest suppliers accounted for approximately 82% and 100%, respectively, of the Group's total purchases for the year.

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

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 80.

RETIREMENT BENEFITS SCHEMES

Particulars of the retirement benefits schemes of the Group are set out in note 32 to the financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

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

DIRECTORS AND SERVICE CONTRACTS

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

Executive Directors

Mr. Yu Pan	
Mr. Mai Zhi Hui	(resigned on 1 January 2006)
Mr. Lau Yat Tung, Derrick	(appointed on 6 May 2005)
Mr. Wong Lok	(appointed on 29 August 2005)
Mr. Zheng Jian Wei	(appointed on 11 January 2006)

Independent Non-executive Directors

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

In accordance with clause 86(2) of the Company's bye-laws, Mr. Lau Yat Tung, Derrick, Mr. Wong Lok and Mr. Zheng Jian Wei, being appointed by the Board during the year and up to the date of this report, shall retire at the forthcoming annual general meeting ("AGM").

Pursuant to clause 87(1) of the Company's bye-laws and the Code on Corporate Governance Practices, Mr. Yu Pan and Mr. Choy Shu Kwan will retire at the AGM by rotation. All retiring directors, being eligible, will retire and, being eligible, will offer themselves for re-election for the forthcoming annual general meeting.

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

DIRECTORS' INTERESTS IN CONTRACTS

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

MANAGEMENT CONTRACTS

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

REPORT OF THE DIRECTORS

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

As at 31 December 2005, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required, (i) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (ii) pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (iii), pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") of the Listing Rules, to be notified to the Company and the Stock Exchange of Hong Kong Limited, are as follows:

Name of director	Nature of interest	Number of ordinary shares (Long position)	Approximate shareholding percentage
Mr. Yu Pan ("Mr. Yu")	Interest of controlled corporation (<i>Note</i>)	390,418,304	60.93%

Note: These shares comprised 390,418,304 shares of the Company held by Grand Cosmos Holdings Limited ("Grand Cosmos"), of which the entire issued shares are held by Mr. Yu.

Save as disclosed above, as at 31 December 2005, none of the directors or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO) which were required, (i) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (ii) pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (iii) pursuant to the Model Code of the Listing Rules to be notified to the Company and the Stock Exchange of Hong Kong Limited.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse or minor children to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or in any other body corporate.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

None of the directors, the controlling shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that compete or may compete with the businesses of the Group or has any other conflict of interests with the Group.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2005, the Company has been notified that the long position and short position of the following substantial shareholders or other persons in the shares and/or underlying shares of the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under section 336 of Part XV of the SFO were as follows:

(a) Long position in the Shares

Name of shareholders	Capacity	Number of issued ordinary shares held	Approximate shareholding percentage
Grand Cosmos	Beneficial owner	390,418,304 <i>(Note 1)</i>	60.93%
Leader Gain Limited	Beneficial owner	66,666,666 <i>(Note 2)</i>	10.40%
Ms. Azuma Sarina (“Ms. Azuma”)	Held by controlled corporation	66,666,666 <i>(Note 2)</i>	10.40%
Sunny Billion Holdings Limited (“Sunny Billion”)	Person having a security	66,666,666 <i>(Note 3)</i>	10.40%

(b) Long position in the underlying shares of the Company — Convertible note

Name of shareholders	Capacity	Number of issued ordinary shares held	Approximate shareholding percentage
Ableway Group Limited	Beneficial owner	181,818,181 <i>(Note 2)</i>	22.10%
Ms. Azuma	Held by controlled corporation	181,818,181 <i>(Note 2)</i>	22.10%
Sunny Billion	Person having a security	181,818,181 <i>(Note 3)</i>	22.10%

Notes:

- Mr. Yu is interested in the 390,418,304 shares in the Company held by Grand Cosmos by virtue of his 100% beneficial interest in the issued share capital of Grand Cosmos. Details of the interest are disclosed under the section headed “DIRECTORS’ AND CHIEF EXECUTIVES’ INTERESTS IN SHARES AND UNDERLYING SHARES” above.
- Ms. Azuma beneficially owns the entire interest in Leader Gain Limited and Ableway Group Limited which respectively owns 66,666,666 shares of the Company and a 3% convertible note in the principal amount of HK\$60,000,000. The underlying shares of 181,818,181 shares represent the new shares to be issued at a conversion price of HK\$0.33 per share upon the exercise of the full conversion right pursuant to the rights attached to the 3% convertible note.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS *(Continued)*

(b) Long position in the underlying shares of the Company — Convertible note *(Continued)*

Notes: (Continued)

3. The 66,666,666 shares and the convertible note were pledged in favour of Sunny Billion by Leader Gain Limited and Ableway Group Limited to secure for the performance of obligations of Ms. Azuma under an agreement entered into by Ms. Azuma with Sunny Billion pursuant to which Ms. Azuma disposed of the entire interest in the associate of the Company to Sunny Billion.

Save as disclosed above, as at 31 December 2005, the Company had not been notified by any persons or corporations who had any long or short position in the shares and/or underlying shares of the Company, which were required to be recorded in the register required to be kept by the Company pursuant to section 336 of Part XV of the SFO.

CONNECTED TRANSACTIONS

Save as the transactions stated below, none of the directors, substantial shareholders or controlling shareholders of the Company and their respective associates was materially interested in any contract or arrangement entered into by any member of the Group subsisting as at 31 December 2005 which was significant in relation to the business of either the Group or has any material personal interest.

1. Pursuant to a deed of appointment entered into by the Company and its subsidiary, United Prime Limited, with an associate of the Company whereas the performance of United Prime Limited as the project manager was guaranteed by the Company which was in turn counter-indemnified by Mr. Yu in favour of the Company.
2. During the year, the director of the Company, Mr. Yu, 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.
3. An underwriting agreement was entered into between the Company and Grand Cosmos to underwrite up to 169,153,715 right shares of the Company. As a result, the underwriting commission of rights issue of HK\$1,269,000 was paid to Grand Cosmos.
4. 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 on normal commercial terms 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”) charged Yu Jun for building management and air-conditioning expenses. Mr. Yu, being a director of the Company, is a major shareholder of Chuang Yu and Tian Yu Property. Rental of RMB84,000 and management fee and air-conditioning charges of RMB114,000 respectively were charged to Yu Jun during the year.
5. 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.

CONNECTED TRANSACTIONS *(Continued)*

- 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.

CORPORATE GOVERNANCE

None of the directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by the 2005 final financial statements, in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules except for code provision A2.1, where the roles of chairman and chief executive officer of the Company is not separated as required but is currently performed by the same individual.

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

COMPLIANCE WITH THE MODEL CODE OF THE LISTING RULES

During the year, the Company has adopted stringent procedures governing Directors’ securities transactions in compliance with the Model Code as set out in Appendix 10 of the Listing Rules. Specific confirmation has been obtained from all Directors to confirm compliance with the Model Code throughout the year ended 31 December 2005.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

CONTINUING OBLIGATIONS UNDER THE LISTING RULES — ADVANCE TO AN ENTITY

In accordance with rule 13.16 of the Listing Rules, an announcement was made on 29 December 2005 disclosing the details of the loan advance to an associate (the “Advance”), Yaubond Limited (“Yaubond”) made by the members of the Group as at 16 December 2005 which exceeded 8% of the total market capitalization of the Company as stated in The Stock Exchange of Hong Kong Limited’s daily quotation sheets for the five trading days from 21 December 2005 to 29 December 2005.

As at 31 December 2005, the circumstances giving rise to the disclosure under rule 13.16 continued to exist. In accordance with rule 13.20 of the Listing Rules, details of the Advance to Yaubond from the Group as at 31 December 2005 are as follows:

REPORT OF THE DIRECTORS

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CONTINUING OBLIGATIONS UNDER THE LISTING RULES — ADVANCE TO AN ENTITY (Continued)

As at 31 December 2005, there were 640,718,718 shares of the Company in issue. Based on the average closing price of the Company's shares of HK\$0.34 per share as stated in the Stock Exchange's daily quotation sheets for the trading days from 22 December 2005 to 30 December 2005 (both days inclusive), being the five business days immediately preceding 31 December 2005, the market capitalisation of the Company was approximately HK\$217,844,000 as at 31 December 2005 (the "Total Market Capitalisation"). The Advance to Yaubond amounted to approximately HK\$82,892,000 as at 31 December 2005. The Advance is unsecured, interest free and repayable on demand, and represented approximately 38.05% of the Total Market Capitalisation.

SUFFICIENCY OF PUBLIC FLOAT

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

POST BALANCE SHEET EVENTS

On 16 February 2006, a sale and purchase agreement was entered into between Ableway Group Limited, a company beneficially owned by Ms Azuma, and Grand Cosmos, for the transfer of a convertible note in the principal amount of HK\$60,000,000 with the right of conversion into ordinary shares of HK\$0.01 per share at a price of HK\$0.33 per share. On 20 February 2006, Grand Cosmos exercised the conversion right and was allotted a total of 181,818,181 shares of the Company.

AUDITORS

Albert Lam & Co. has been acting as the auditors of the Company to perform audits for the years ended 31 December 2002 to 2004. During the year, Albert Lam & Co. resigned and BDO McCabe Lo Limited were appointed auditors of the Company. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint BDO McCabe Lo Limited as auditors of the Company.

On behalf of the Board

Yu Pan
Chairman

Hong Kong, 28 March 2006



BDO McCabe Lo Limited
Certified Public Accountants
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**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:

BASIS OF OPINION *(continued)*

(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

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2005

	Notes	2005 HK\$'000	2004 HK\$'000
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		(4,847)	(47,488)
Attributable to:			
— Equity holders of the Company		(4,847)	(47,487)
— Minority interests		—	(1)
		(4,847)	(47,488)
Dividends	13	Nil	Nil
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		(HK\$0.047)	(HK\$0.762)

CONSOLIDATED BALANCE SHEET

As at 31 December 2005

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SKYFAME REALTY (HOLDINGS) LIMITED

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

On behalf of the Board

Yu Pan
Director

Lau Yat Tung, Derrick
Director

BALANCE SHEET

As at 31 December 2005

	Notes	2005 HK\$'000	2004 HK\$'000 (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)

On behalf of the Board

Yu Pan
Director

Lau Yat Tung, Derrick
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2005

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2004	Notes	Attributable to equity holders of the Company			Minority interests	Total
		Share capital	Share premium	Accumulated losses		
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	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)
— As restated		13,068	534,294	(545,562)	—	1,800
Expenses incurred on issue of shares and recognised directly in equity	30	—	(2,833)	—	—	(2,833)
Loss for the year		—	—	(47,487)	(1)	(47,488)
Total recognised expenses for the year		—	(2,833)	(47,487)	(1)	(50,321)
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		—	—	—	1	1
		55,406	1,148	—	1	56,555
At 31 December 2004, as restated		68,474	532,609	(593,049)	—	8,034

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2005

		Attributable to equity holders of the Company						
		Share capital	Share premium	Contributed surplus reserve	Convertible note equity reserve	Foreign exchange reserve	(Accumulated losses)/ retained profits	Total
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
2005	<i>Notes</i>							
At 1 January 2005								
		68,338	534,185	—	—	—	(593,049)	9,474
	36	136	(1,576)	—	—	—	—	(1,440)
		68,474	532,609	—	—	—	(593,049)	8,034
Expenses incurred on issue of shares 30								
Exchange differences arising on consolidation of overseas subsidiary 30								
		—	(4,354)	—	—	—	—	(4,354)
		—	—	—	—	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:								
	29, 30	(81,204)	—	81,204	—	—	—	—
	30	—	(542,404)	542,404	—	—	—	—
	30	—	—	(608,111)	—	—	608,111	—
Cancellation of paid-up ordinary share capital 29, 30								
		—	—	—	—	—	—	—
Issue of shares:								
	29, 30	667	19,333	—	—	—	—	20,000
	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

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SKYFAME REALTY (HOLDINGS) LIMITED

	Notes	2005 HK\$'000	2004 HK\$'000 (Restated)
Net cash generated from/(used in) operating activities	34(a)	2,270	(17,523)
Investing activities			
Interest received		240	65
Dividend received from listed investment		—	36
Acquisitions of subsidiary	34(b)	—	(4,000)
Disposal of subsidiaries, net of cash disposed of	34(c)	2,300	124
Purchase of other investments		—	(53,634)
Proceeds from sale of other investments		949	25,008
Acquisition of associate	34(d)	(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

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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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

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2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Basis of preparation (Continued)

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Basis of preparation (Continued)

HKFRS 2 “Share-based Payment” (Continued)

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.

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2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Basis of preparation (Continued)

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.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Basis of preparation (Continued)

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.

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2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Basis of preparation (Continued)

HKAS 32 “Financial Instruments: Disclosure and Presentation”

HKAS 39 “Financial Instruments: Recognition and Measurement” (Continued)

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

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).

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2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(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.

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2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(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.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(h) Foreign currency (Continued)

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.

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2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(i) Financial instruments (Continued)

(i) Financial assets (Continued)

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.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(i) Financial instruments (Continued)

(iii) Convertible debt (Continued)

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.

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2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(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;

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2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

- 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.

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2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(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.

NOTES TO THE FINANCIAL STATEMENTS

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2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(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.

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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.

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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
	457	9,709
	5,214	9,709

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;

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5. SEGMENT INFORMATION (Continued)

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									
	Project management		Online and telecommunication		Trading and financial advisory		Investment holding		Total		Consolidated	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 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)

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5. SEGMENT INFORMATION (Continued)

Business segments (Continued)

	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
												(Restated)
Balance sheet												
<u>Assets</u>												
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
<u>Liabilities</u>												
Segment liabilities	—	—	170	—	—	56	—	2,013	—	—	170	2,069
Unallocated liabilities											57,616	3,733
Total liabilities											57,786	5,802

	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

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5. SEGMENT INFORMATION (Continued)

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

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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

NOTES TO THE FINANCIAL STATEMENTS

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8. STAFF COSTS

Staff costs (including directors) comprise:

Basic salaries and other benefits
Bonuses
Retirement scheme contributions

2005 HK\$'000	2004 HK\$'000
3,388	5,555
436	—
70	35
3,894	5,590

9. FINANCE COSTS AND INCOME

	Continuing operations		Discontinued operations <i>(note 11(b))</i>		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 <i>(note 27)</i>	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
	220	306	—	90	220	396
Finance income:						
Bank interest income	240	65	—	—	240	65

NOTES TO THE FINANCIAL STATEMENTS

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10. INCOME TAX EXPENSE

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

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 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Loss before income tax from <i>(note 34(a))</i> :		
Continuing operations	(2,580)	(7,425)
Discontinued operations	(2,234)	(38,704)
	(4,814)	(46,129)
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	(10)	—
Income tax expense	33	1,359

NOTES TO THE FINANCIAL STATEMENTS

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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:

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

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

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

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

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11. DISCONTINUED OPERATIONS (Continued)

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

	2005 HK\$'000	2004 HK\$'000
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	—	(90)
Increase/(decrease) in cash and cash equivalents	5,963	(42,927)

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.

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15. DIRECTORS' EMOLUMENTS

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

Notes	Fees HK\$'000	Salaries and other benefits (note (i)) HK\$'000	Bonuses HK\$'000	Compensation for loss of office HK\$'000	Retirement scheme contributions HK\$'000	Total 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
	368	4,304	—	—	12	4,684
2005						
Executive directors						
	—	1,200	200	—	12	1,412
	—	100	19	—	—	119
	—	235	50	—	8	293
	—	82	27	—	4	113
	—	—	—	—	—	—
	—	—	—	—	—	—
	—	—	—	—	—	—
	—	—	—	—	—	—
	—	—	—	50	—	50
	300	1,617	320	50	24	2,311

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.

NOTES TO THE FINANCIAL STATEMENTS

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

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	3	1

NOTES TO THE FINANCIAL STATEMENTS

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17. PLANT AND EQUIPMENT

Group

	Computer equipment and software	Furniture and fixtures	Leasehold improvements	Motor vehicles	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<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

NOTES TO THE FINANCIAL STATEMENTS

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18. INVESTMENT PROPERTY

	Group	
	2005 HK\$'000	2004 HK\$'000
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).

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19. GOODWILL

	Group	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Cost		
At beginning of year	12,824	122,144
Opening balance adjustment to eliminate accumulated amortisation	(1,078)	—
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)
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)	—
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)
At end of year	—	12,816
Net book value		
At end of year	—	8

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20. INTEREST IN ASSOCIATE

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

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	429,913	—
Total liabilities	(268,234)	—

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.

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21. INVESTMENTS IN SECURITIES

	Group	
	2005 HK\$'000	2004 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 HK\$'000	2004 HK\$'000 (Restated)
Account receivable, as previously reported	—	—
— reclassification (<i>note 23</i>)	—	7,800
Account receivable, as restated	—	7,800
Less: 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

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22. ACCOUNT RECEIVABLE (Continued)

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 (note 22)	—	(7,800)
Promissory note receivable, as restated	—	2,844
Less: Provision for doubtful debt		
— as previously reported	—	(5,322)
— reclassification (note 22)	—	3,900
— as restated	—	(1,422)
Amount due after one year	—	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.

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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	—	—
	403	6,311	206	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 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Short-term bank deposits	75,331	—	74,029	—
Cash at bank and in hand	8,416	347	3,143	306
	83,747	347	77,172	306

Included in cash and cash equivalents 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 ("RMB")	RMB1,434	RMB Nil	RMB Nil	RMB Nil

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.

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26. TRADE AND OTHER PAYABLES

	Group		Company	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> (Restated)	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> (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
	1,773	4,443	2,090	9,912

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 <i>'000</i>	2004 <i>'000</i>	2005 <i>'000</i>	2004 <i>'000</i>
Renminbi	RMB153	RMB Nil	RMB Nil	RMB Nil

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

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.

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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 HK\$'000
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)
At 31 December 2005	860

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.

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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		30,000,000	30,000,000	300,000	300,000
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		6,847,373	1,306,815	68,474	13,068
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
		(6,206,654)	5,540,558	(62,067)	55,406
At end of year, ordinary shares of HK\$0.01 each		640,719	6,847,373	6,407	68,474

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29. SHARE CAPITAL (*Continued*)

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.

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29. SHARE CAPITAL *(Continued)*

Share option schemes *(Continued)*

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.

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30. RESERVES/(DEFICIT)

Group

		Share premium HK\$'000	Contributed surplus reserve HK\$'000	Convertible note equity reserve HK\$'000	Foreign exchange reserve HK\$'000	(Accumulated losses)/ retained profits HK\$'000	Total HK\$'000
	<i>Notes</i>						
2004							
At 1 January 2004							
— As previously reported		536,454	—	—	—	(545,562)	(9,108)
— Prior period adjustment	36	(2,160)	—	—	—	—	(2,160)
— As restated		534,294	—	—	—	(545,562)	(11,268)
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		—	—	—	—	(47,487)	(47,487)
At 31 December 2004, as restated		532,609	—	—	—	(593,049)	(60,440)
2005							
At 1 January 2005							
— As previously reported		534,185	—	—	—	(593,049)	(58,864)
— Prior period adjustment	36	(1,576)	—	—	—	—	(1,576)
— As restated		532,609	—	—	—	(593,049)	(60,440)
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)
Loss for the year		—	—	—	—	(4,847)	(4,847)
Exchange differences arising on consolidation of overseas subsidiary		—	—	—	1	—	1
At 31 December 2005		156,007	15,497	4,207	1	10,215	185,927

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

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30. RESERVES/(DEFICIT) (Continued)

Company

	Notes	Share premium HK\$'000	Contributed surplus reserve HK\$'000	Convertible note equity reserve HK\$'000	(Accumulated losses)/retained profits HK\$'000	Total 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		532,609	—	—	(608,111)	(75,502)
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		156,007	15,497	4,207	9,890	185,601

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30. RESERVES/(DEFICIT) (Continued)

(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).

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31. INTERESTS IN SUBSIDIARIES

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

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

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31. INTERESTS IN SUBSIDIARIES (Continued)

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 HK\$'000	2004 HK\$'000
Rentals on office premises — minimum lease payments	80	282

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

	Group	
	2005 HK\$'000	2004 HK\$'000
Within one year	40	—

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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		2,270	(17,523)

NOTES TO THE FINANCIAL STATEMENTS

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34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Acquisition of subsidiary

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

(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)
	(655)	(1,960)
Unamortised goodwill	8	6,421
Gain on disposal of subsidiaries (note 11(a))	2,990	3,703
	2,343	8,164
Satisfied by:		
Cash	2,343	130
Other receivables	—	8,034
	2,343	8,164
Net cash inflow arising from disposal of subsidiaries		
Cash consideration	2,343	130
Cash and cash equivalents disposed of	(43)	(6)
	2,300	124

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34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(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:

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

	<u>Fair value</u>	<u>Acquiree's</u>
	<u>HK\$'000</u>	<u>carrying</u>
		<u>amount</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
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	<u>(98,920)</u>	<u>(65,027)</u>
Net assets	161,679	92,865
49% share of net assets acquired	<u>79,223</u>	
Net cash outflow arising from acquisition of associate		
Cash consideration		84,819
Direct costs relating to the acquisition		<u>988</u>
		<u>85,807</u>

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

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

(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.

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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.

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38. FINANCIAL INSTRUMENTS — RISK MANAGEMENT *(Continued)*

(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.

FIVE YEAR FINANCIAL SUMMARY

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

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> (Restated)	2003 <i>HK\$'000</i> (Restated)	2002 <i>HK\$'000</i> (Restated)	2001 <i>HK\$'000</i> (Restated)
RESULTS					
<i>For the year ended 31 December</i>					
Turnover					
— Continuing operations	4,757	—	—	—	—
— Discontinued operations	457	9,709	672	16,649	17,612
	5,214	9,709	672	16,649	17,612
Loss before income tax					
— Continuing operations	(2,580)	(7,425)	—	—	—
— Discontinued operations (<i>notes</i>)	(2,234)	(38,704)	(100,777)	(89,333)	(84,830)
	(4,814)	(46,129)	(100,777)	(89,333)	(84,830)
Income tax expense					
— Continuing operations	(33)	—	—	—	—
— Discontinued operations	—	(1,359)	(8)	—	—
	(33)	(1,359)	(8)	—	—
Loss for the year					
— Continuing operations	(2,613)	(7,425)	—	—	—
— Discontinued operations	(2,234)	(40,063)	(100,785)	(89,333)	(84,830)
	(4,847)	(47,488)	(100,785)	(89,333)	(84,830)
Attributable to					
— Equity holders of the Company	(4,847)	(47,487)	(100,785)	(89,333)	(84,825)
— Minority interests	—	(1)	—	—	(5)
	(4,847)	(47,488)	(100,785)	(89,333)	(84,830)
FINANCIAL POSITION					
<i>At 31 December</i>					
Total assets	250,120	13,836	16,041	109,438	88,338
Total liabilities	(57,786)	(5,802)	(14,241)	(22,054)	(32,587)
Total equity attributable to equity holders of the Company	192,334	8,034	1,800	87,384	55,751

Notes:

- Save as the prior period adjustment set out in note 36 to the financial statements, no other adjustment is made to the results as summarised above for the three years ended 31 December 2003, 2002 and 2001 to take into effect of the adoption of the new/ revised HKFRS that are effective from 1 January 2005 as it is considered not practicable.
- Due to the foregoing reason mentioned in note 1, the results from continuing operations for the years 2001 to 2003 have not been segregated.