# THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of GFT Holdings Limited.



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GFT HOLDINGS LIMITED

真樂發控股有限公司*

*(incorporated in Bermuda with limited liability)*

**(stock code: 1003)**

# (1) SHARE CONSOLIDATION;
# (2) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION;
# AND
# (3) PLACING OF CONVERTIBLE NOTES AND SHARES

**Independent financial adviser to the Independent Board Committee and the Independent Shareholders**

VEDA | CAPITAL
智略資本

A notice convening a special general meeting of GFT Holdings Limited to be held at Tang Room II, 3/F., Sheraton Hong Kong Hotel & Towers, 20 Nathan Road, Kowloon, Hong Kong on Monday, 14 July 2008 at 10:00 a.m. is set out on pages 327 to 328 of this circular.

A proxy form for use at the special general meeting is enclosed with this circular. Whether or not you intend to attend the meeting in person, you are requested to complete the proxy form in accordance with the instructions printed thereon and return the same to the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1806-1807, 18/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not later than 48 hours before the time appointed for holding of the special general meeting or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the special general meeting or any adjournment thereof should you so wish.

28 June 2008

** for identification purpose only*

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# EXPECTED TIMETABLE

*The expected timetable for the implementation of the Share Consolidation is set out below.*

| | *2008* |
|---|---|
| Latest time for lodging the proxy form for the SGM | 10:00 a.m., Saturday, 12 July |
| SGM | 10:00 a.m., Monday, 14 July |

The following events are conditional on the fulfillment of the conditions for the implementation of the Share Consolidation:

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| Effective date of the Share Consolidation | Tuesday, 15 July |
| Dealings in the New Shares commence | 9:30 a.m., Tuesday, 15 July |
| Original counter for trading in Existing Shares in board lots of 20,000 Existing Shares (in the form of existing share certificates in light green) temporarily closes | 9:30 a.m., Tuesday, 15 July |
| Temporary counter for trading in board lots of 4,000 New Shares (in the form of existing share certificates in light green) opens | 9:30 a.m., Tuesday, 15 July |
| First day for free exchange of existing share certificates in light green for new share certificates in light blue | Tuesday, 15 July |
| Original counter for trading in New Shares in board lots of 20,000 New Shares (in the form of new share certificates in light blue) reopens | 9:30 a.m., Tuesday, 29 July |
| Parallel trading in Existing Shares and New Shares commences | 9:30 a.m., Tuesday, 29 July |
| Temporary counter for trading in New Shares in board lots of 4,000 New Shares (in the form of existing share certificates in light green) closes | 4:10 p.m., Monday, 18 August |
| Parallel trading in Existing Shares and New Shares (in the form of new share certificates and existing share certificates) ends | 4:10 p.m., Monday, 18 August |
| Last day for free exchange of existing share certificates in light green for new share certificates in light blue | Tuesday, 26 August |

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

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|---|---|
| "Acquisition" | the proposed acquisition by Kingbox of equity interests in the Targets pursuant to the Agreement |
| "Agreement" | the conditional sale and purchase agreement dated 30 April 2008 (as supplemented on 6 May 2008) entered into between Kingbox, the Company and the Vendor in respect of the Acquisition |
| "associate(s)" | has the meaning ascribed to it in the Listing Rules |
| "Board" | the board of Directors |
| "BVI" | the British Virgin Islands |
| "Century 21 AP" | Overseas Venture Management Ltd., an international business company organized under the laws of BVI trading as "Century 21 Asia Pacific", being the ultimate assignee of the rights of the franchisor under the Subfranchise Agreement as at the Latest Practicable Date |
| "Century 21 HK" | Century 21 Hong Kong Limited (formerly known as "Century 21 Holdings Limited"), a company incorporated in Hong Kong, the issued share capital of which is owned as to 5% by the Vendor and 95% directly and indirectly by Consecutive Profits |
| "Century 21 Macau" | Century 21 Limited, a company incorporated in Macau, the issued share capital of which is owned as to 33.3% by the Vendor and 66.7% directly and indirectly by Century 21 HK |
| "Century 21 Property Agency" | Century 21 Property Agency Limited, a company incorporated in Hong Kong, the issued share capital of which is held as to 50% by each of Pacific Pointer and Real Clever |
| "Century 21 Surveyors" | Century 21 Surveyors Limited, a company incorporated in Hong Kong, the issued share capital of which is held as to 20% by Pacific Pointer and 80% by Real Clever |
| "Century 21 US" | Century 21 Real Estate Corporation, a Delaware corporation and the original franchisor under the Subfranchise Agreement |
| "Century Profit" | Century Profit Investments Limited, a company incorporated in the BVI and a wholly-owned subsidiary of Consecutive Profits |

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| "Company" | GFT Holdings Limited, a company incorporated in Bermuda with limited liability, and the shares of which are listed on the Main Board of the Stock Exchange |
| "Completion" | completion of the Agreement |
| "Completion Date" | the date of Completion, which is the 7th business day immediately after all the conditions of the Agreement have been duly fulfilled (or waived as the case may be), or such other date as the Vendor and Kingbox may mutually agree in writing |
| "connected person(s)" | has the meaning ascribed to it under the Listing Rules |
| "Consecutive Profits" | Consecutive Profits Limited, a company incorporated in the BVI and wholly-owned by the Vendor |
| "Consideration" | the consideration of HK$430,000,000 payable by the Company for the equity interests in the Targets under the Agreement |
| "Director(s)" | director(s) of the Company |
| "Enlarged Group" | the Group together with the Target Group |
| "Existing Share(s)" | ordinary share(s) of HK$0.025 each in the existing share capital of the Company |
| "Grand Rich" | Grand Rich Resource Limited, a company incorporated in the BVI and wholly-owned by the Vendor, which holds the franchise right to use the brand name "Century 21" in Singapore similar to the Subfranchise Agreement |
| "Group" | the Company and its subsidiaries |
| "Hong Kong" | the Hong Kong Special Administrative Region of the People's Republic of China |
| "Independent Board Committee" | a committee of the Board comprising all the independent non-executive Directors to be formed for the purpose of advising and giving recommendation to the Independent Shareholders regarding the Agreement |
| "Independent Shareholders" | Shareholders other than the Vendor and its associates |
| "Kingbox" | Kingbox Investments Limited, a company incorporated in the BVI and a wholly-owned subsidiary of the Company |

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| "Latest Practicable Date" | 25 June 2008, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange |
| "Macau" | the Macau Special Administrative Region of the People's Republic of China |
| "Mr. Ng" | Mr. Ng Kai Lok, Paul, a director and substantial shareholder of Yanyan Force Limited which is a non-wholly owned subsidiary of the Company |
| "New Share(s)" | ordinary share(s) of HK$0.125 each in the share capital of the Company upon the Share Consolidation becoming effective |
| "Pacific Pointer" | Pacific Pointer Limited, a company incorporated in the BVI and wholly owned by the Vendor |
| "Placing" | the proposed placing of the Placing CN with aggregate principal value of up to HK$100,000,000 and up to 400,000,000 Placing Shares by the Placing Agent on a best effort basis |
| "Placing Agent" | Get Nice Securities Limited, the placing agent for the Placing |
| "Placing Agreement" | the conditional placing agreement dated 30 April 2008 (as supplemented on 6 May 2008) entered into between the Company and the Placing Agent in respect of the Placing |
| "Placing CN(s) " | the convertible note(s) with aggregate principal amount of up to HK$100,000,000 to be placed by the Placing Agent on a best effort basis |
| "Placing CN Conversion Shares" | up to 727,272,727 New Shares to be issued by the Company upon exercise in full of the conversion rights attaching to the Placing CN at the initial conversion price of HK$0.1375 per New Share (subject to adjustments) |
| "Placing Shares" | up to 400,000,000 New Shares to be issued by the Company under the Placing |
| "PRC" | the People's Republic of China which, for the purposes of this circular, excludes Hong Kong, Macau and Taiwan |

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| "Promissory Note" | the promissory note in the principal amount of HK$100,000,000 to be issued by Kingbox and guaranteed by the Company to the Vendor on Completion |
| "Real Clever" | Real Clever Profits Limited, a company incorporated in the BVI and wholly owned by the Vendor |
| "SFO" | Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| "SGM" | the special general meeting of the Company to be convened to approve the Share Consolidation, the Agreement, the Placing Agreement and transactions contemplated therein |
| "Share Consolidation" | the proposed consolidation of every five Existing Shares into one New Share |
| "Shareholder(s)" | holder(s) of Existing Shares or the New Shares (as the case may be) |
| "Shares" | the Existing Shares prior to, or the New Shares after, the Share Consolidation becoming effective (as the case may be) |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "Subfranchise Agreement" | the subfranchise agreement dated 12 August 1993 entered into between Century 21 HK as subfranchisor and Century 21 US as franchisor and the assignment of the rights of the franchisor thereunder resulting in the vesting of the same in Century 21 AP as at the Latest Practicable Date |
| "Takeovers Code" | the Hong Kong Code on Takeovers and Mergers |
| "Targets" | together, Consecutive Profits, Pacific Pointer, Real Clever, Century 21 HK and Century 21 Macau |
| "Target Group" | the Targets, their subsidiaries (if any), Century Profit, Century 21 Property Agency and Century 21 Surveyors |
| "Veda Capital" | Veda Capital Limited, a licensed corporation to carry on type 6 regulated activity (advising on corporate finance) under the SFO, and which is the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition |

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| "Vendor" | Mr. Ng Kai Man |
| "Vendor CN(s)" | the convertible note(s) with aggregate principal value of HK$130,000,000 to be issued by the Company to the Vendor as part of the Consideration |
| "Vendor CN Conversion Shares" | the 945,454,545 New Shares to be issued by the Company upon exercise in full by the holders of the Vendor CN(s) of the conversion rights attaching to the Vendor CN(s) at the initial conversion price of HK$0.1375 per New Share (subject to adjustments) |
| "HK$" | Hong Kong dollars, the lawful currency of Hong Kong |
| "MOP" | Patacas, the lawful currency of Macau |
| "US$" | United States dollars, the lawful currency of the United States of America |
| "%" | per cent. |

**GFT HOLDINGS LIMITED**
**真樂發控股有限公司***
*(incorporated in Bermuda with limited liability)*
**(stock code: 1003)**

*Executive Directors:*
Mr. Ha Kee Choy, Eugene
Ms. Ma Wai Man, Catherine

*Independent Non-executive Directors:*
Mr. Cheng Yuk Wo
Mr. Chui Chi Yun, Robert
Ms. Leung Sau Fan, Sylvia

*Registered office:*
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

*Head office and principal place of business in Hong Kong:*
Unit 707, Tower II
Admiralty Centre
18 Harcourt Road
Hong Kong

28 June 2008

*To the Shareholders*

Dear Sir or Madam,

## (1) SHARE CONSOLIDATION; (2) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION; AND (3) PLACING OF CONVERTIBLE NOTES AND SHARES

On 6 May 2008, the Board announced that the Directors proposed to implement the Share Consolidation involving the consolidation of every five Existing Shares of HK$0.025 each into one New Share of HK$0.125. The Share Consolidation is conditional upon, among other things, the approval of the Shareholders at the SGM.

On 30 April 2008, Kingbox and the Company entered into the Agreement with the Vendor, pursuant to which Kingbox conditionally agreed to acquire and the Vendor conditionally agreed to sell the equity interests in the Targets for a total consideration of HK$430,000,000. The Consideration shall be satisfied as to HK$200,000,000 in cash, HK$100,000,000 by the issue of the Promissory Note and HK$130,000,000 by the issue of the Vendor CN.

** for identification purpose only*

The Acquisition constitutes a very substantial acquisition of the Company under the Listing Rules. The Vendor is a brother of Mr. Ng who is a director and substantial shareholder of Yanyan Force Limited, a non-wholly owned subsidiary of the Company. Accordingly, the Vendor is a connected person of the Company and the Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. The Agreement and the transactions contemplated therein are conditional upon, among other things, the approval of the Independent Shareholders at the SGM by poll.

On 30 April 2008, the Company and the Placing Agent entered into the Placing Agreement pursuant to which the Placing Agent has agreed to place the Placing CN with aggregate principal value up to HK$100,000,000 and the Placing Shares on a best effort basis.

The Placing is conditional upon, among other things, the approval of the Placing by the Shareholders at the SGM.

The SGM will be convened and held for the Shareholders to consider and, if thought fit, to approve the Share Consolidation, the Agreement, the Placing Agreement and the transactions contemplated thereunder.

The purpose of this circular is to provide you with, among other things, (i) further details of the Share Consolidation, the Agreement and the Placing Agreement; (ii) the letter of recommendation from the Independent Board Committee in relation to the Acquisition; (iii) the letter of advice from Veda Capital to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition; (iv) the financial information relating to the Group and the Target Group; (v) the notice of the SGM; and (vi) other information as required under the Listing Rules.

## THE SHARE CONSOLIDATION

The Directors proposed to consolidate the ordinary share capital of the Company on the basis of every five Existing Shares into one New Share. As at the Latest Practicable Date, the authorised share capital of the Company was HK$500,000,000 divided into 20,000,000,000 Existing Shares, of which 6,258,230,400 Existing Shares were in issue. Upon the Share Consolidation becoming effective, the authorised share capital of the Company will remain at HK$500,000,000 divided into 4,000,000,000 New Shares, of which 1,251,646,080 New Shares will be in issue.

Fractional New Shares will be disregarded and not issued to the Shareholders but all such fractional New Shares will be aggregated and, if possible, sold for the benefits of the Company. Fractional New Shares will only arise in respect of the entire shareholding of a holder of the Existing Shares regardless of the number of share certificates held by such holder.

Other than the expenses incurred in relation to the Share Consolidation, the implementation thereof will not alter the underlying assets, business operations, management or financial position of the Company or the interests of the Shareholders. The Directors believe that the Share Consolidation will not have any material adverse effect on the financial position of the Group.

**Conditions of the Share Consolidation**

The Share Consolidation is conditional on:

(a) the passing by the Shareholders at the SGM of an ordinary resolution approving the Share Consolidation; and

(b) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the New Shares.

Application will be made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the New Shares, and arrangement will be made to enable the New Shares to be admitted to the Central Clearing and Settlement System for securities clearing and settlement purpose.

The New Shares will rank pari passu in all respects with each other.

**Board lot size and trading arrangement**

The existing board lot size of 20,000 shares of the Company will remain unchanged upon the Share Consolidation becoming effective. The value of the current board lot, based on the closing price of HK$0.022 per Existing Share on 29 April 2008 (being the last trading day for the Existing Shares prior to the date of the Agreement), is HK$440. Upon the Share Consolidation becoming effective, the expected value of each board lot of 20,000 New Shares, based on the closing price of HK$0.022 per Existing Share on 29 April 2008, is HK$2,200. Parallel trading arrangements at the Stock Exchange will be arranged to deal in the New Shares in board lot size of 4,000 New Shares before the New Shares are dealt in board lot size of 20,000 New Shares.

**Certificates for New Shares**

Subject to the Share Consolidation becoming effective, Shareholders may submit their existing certificates (in the colour of light green) for the Existing Shares to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, in exchange for new certificates (in the colour of light blue) for New Shares (on the basis of five Existing Shares for one New Share). New share certificates are expected to be available for collection from the Company's branch share registrar in Hong Kong at the aforesaid address by the Shareholders within 10 business days (i.e. any day on which the Stock Exchange is open for the business of dealing in securities) after delivery of the existing share certificates to the Company's branch share registrar in Hong Kong for exchange purposes.

Unless otherwise instructed, certificates for the New Shares will be issued in board lots of 20,000 New Shares each. All existing certificates for Existing Shares will cease to be valid for trading and settlement purpose after the parallel trading of the Existing Shares and the New Shares ends but will continue to be evidence of title to such equivalent number of New Shares and may be exchanged for certificates for New Shares at any time.

**Odd lot arrangements**

In order to facilitate the trading of odd lots of New Shares as a result of the Share Consolidation, the Company will appoint Get Nice Securities Limited to provide "matching service" on a best-effort basis from 29 July 2008 to 18 August 2008, to Shareholders who wish to buy or sell their holding of odd lots. Shareholders who hold odd lots of New Shares may contact Mr. Lau Shek Ki of Get Nice Securities Limited at telephone number 2526 7738 for the purchase or disposal of their odd lot holdings. Shareholders should note that the matching of the sale and purchase of odd lots of the New Shares is not guaranteed.

Shareholders are recommended to consult their licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser if they are in doubt about the facility described above.

The expected timetable for the implementation of the Share Consolidation is set out in the section headed "Expected Timetable" in this circular.

**THE ACQUISITION**

On 30 April 2008, Kingbox, the Company and the Vendor entered into the Agreement pursuant to which Kingbox has conditionally agreed to purchase and the Vendor has conditionally agreed to sell the equity interests in the Targets. The principal terms of the Agreement and the information on the Targets are set out below.

**Date**

30 April 2008 (as supplemented on 6 May 2008)

**Parties**

(i) Mr. Ng Kai Man (as vendor);

(ii) Kingbox (as purchaser); and

(iii) the Company (as guarantor).

The Vendor is the brother of Mr. Ng who is a director and a substantial shareholder of Yanyan Force Limited, a non-wholly owned subsidiary of the Company. As at the date of the Agreement, Yanyan Force Limited is owned as to 40% by Mr. Ng and as to 60% by the Group. Save as aforesaid, to the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, the Vendor (i) is a third party independent of the Company and its connected persons; and (ii) has no relationship, business or otherwise, with the Company at present or in the past which may otherwise require aggregation under Rule 14.22 of the Listing Rules.

**Assets to be acquired**

(i) 10 ordinary shares of US$1 each in the share capital of Consecutive Profits, representing the entire issued share capital of Consecutive Profits;

(ii) 1 ordinary share of US$1 in the share capital of Pacific Pointer, representing the entire issued share capital of Pacific Pointer;

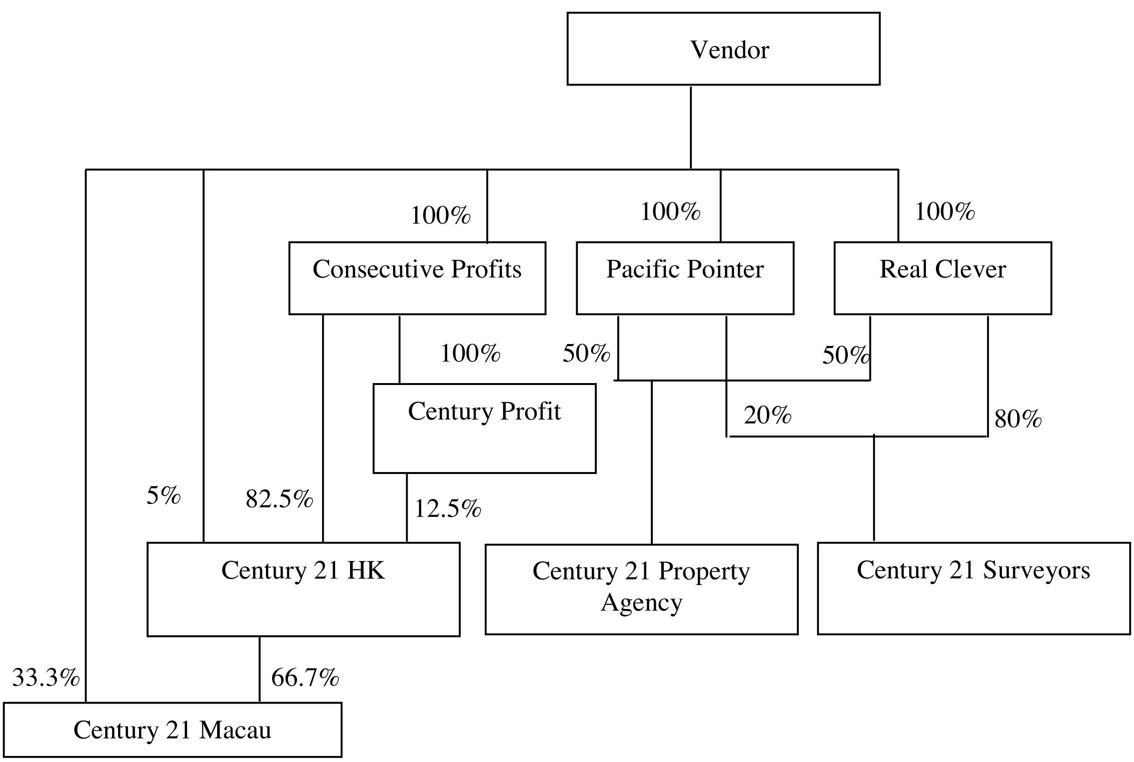
(iii) 1 ordinary share of US$1 in the share capital of Real Clever, representing the entire issued share capital of Real Clever;

(iv) 194,000 ordinary shares of HK$1 each in the share capital of Century 21 HK, representing 5% of the issued share capital of Century 21 HK; and

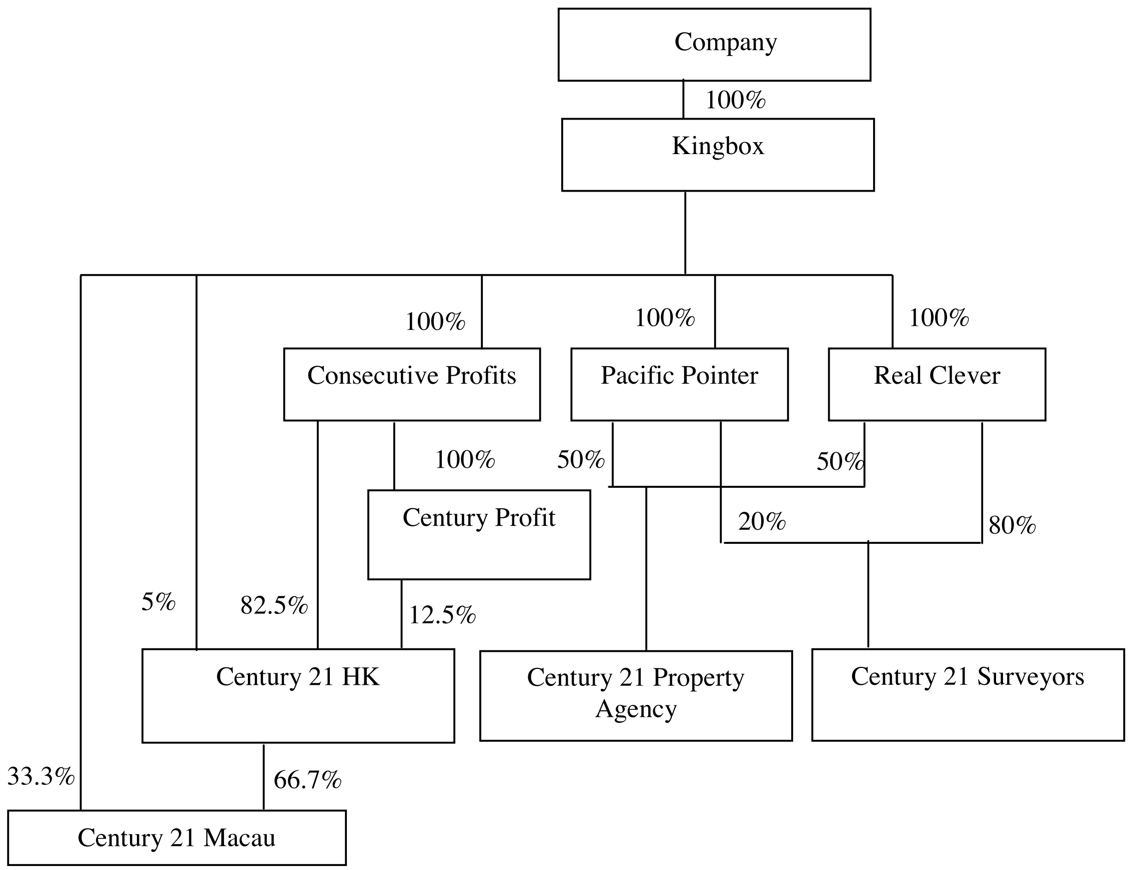
(v) 1 quota (i.e. share) of MOP10,000 in the share capital of Century 21 Macau, representing 33.3% of the issued share capital of Century 21 Macau.

Set out below is the shareholding structure of the Targets:

*Before Completion*



*Immediately upon Completion*




**Consideration**

The Consideration for the Acquisition is HK$430,000,000 which shall be satisfied as follows:

(i) as to HK$10,000,000, has been paid by Kingbox in cash to the Vendor's solicitors as a deposit on signing of the Agreement, which shall be released to the Vendor on Completion;

(ii) as to HK$100,000,000, by Kingbox issuing the Promissory Note to the Vendor or its nominee(s) at 100% of its face value at Completion;

(iii) as to HK$130,000,000, by the Company issuing the Vendor CN to the Vendor or its nominee(s) at 100% of its face value at Completion; and

(iv) as to the balance of HK$190,000,000, shall be paid by Kingbox in cash to the Vendor on Completion.

The Consideration is subject to the two adjusting events as detailed in the paragraphs headed "Profit guarantee" and "Adjustment to the Consideration" below.

The Consideration has been arrived at after arm's length negotiations between the Company and the Vendor with reference to the historical financial performance of the Target Group, the prospects and growth potential of the business of the Target Group and the profit guarantee as referred to below. The Directors have made reference to the positive property market environment of Hong Kong and Macau in the first quarter of 2008 as evidenced by a number of residential estates being or scheduled to be put to the market in 2008. In view of the growing population and hence demand for residential properties as well as economic growth in Hong Kong and Macau, the Directors are confident that the property market in Hong Kong and Macau will remain prosperous in the coming future. Details of the industry and the business potential of the Target Group are further elaborated in the paragraph headed "Reasons for the Share Consolidation, the Acquisition and the Placing" below.

In determining the Consideration, the Directors have also taken into account the fact that (i) less than half of the Consideration (being HK$200 million) is to be settled in cash by the Group; (ii) the Promissory Note of HK$100 million is to be repaid 18 months after Completion; and (iii) the Vendor CN will mature in the third anniversary of the date of issue. Such payment arrangement will avoid putting immediate pressure on the Group's liquidity. Furthermore, as stated in the paragraph headed "Lock-up" below, the Vendor CN and Vendor CN Conversion Shares are subject to lock-up period of one year.

Based on the above, the Board considers the Consideration to be fair and reasonable.

**Profit guarantee**

The Vendor warrants and guarantees to Kingbox that the aggregate profits before tax of the Target Group for the year ended 31 March 2008 as reflected in the audited financial statements of Century 21 HK, Century 21 Property Agency and Century 21 Surveyors prepared in accordance with Hong Kong Financial Reporting Standards shall not be less than HK$23 million (the "Guaranteed Profit").

The Vendor covenants with Kingbox that, in the event that the aggregate profits before tax of the Target Group for the year ended 31 March 2008 as reflected in the audited financial statement (the "Audited Profit") is less than HK$23 million, the Vendor shall compensate Kingbox by an amount equivalent to a percentage of the Consideration calculated as follows:

$$A = \frac{B}{HK\$23\ million}$$

where:

"A" is the percentage of the Consideration to be compensated by the Vendor to Kingbox; and

"B" is the amount by which the Audited Profit falls short of the Guaranteed Profit.

The amount of the compensation shall first be deducted from the face value of the Promissory Note and if the face value of the Promissory Note is to be reduced to nil, the balance shall be deducted from the cash balance payable by Kingbox to the Vendor at Completion. Should the cash balance be reduced to nil, the balance shall be deducted from the principal amount of the Vendor CN. It is a term of the Agreement that the Vendor shall deliver the audited financial statements of Century 21 HK, Century 21 Property Agency and Century 21 Surveyors to Kingbox on or before 31 May 2008.

Based on the accountants' reports on Century 21 HK, Century 21 Property Agency and Century 21 Surveyors as set out in Appendix V, VI and VII to this circular respectively, the aggregate profit before tax of the Target Group as reflected in the audited financial statements of Century 21 HK, Century 21 Property Agency and Century 21 Surveyors for the year ended 31 March 2008 is approximately HK$24.98 million. Accordingly, the Guaranteed Profit has been met and no compensation is required to be made by the Vendor to Kingbox.

**Conditions of the Agreement**

Completion of the Agreement is conditional upon fulfilment or waiver of the following conditions:—

(i) Kingbox being satisfied with the results of the due diligence review on the assets, liabilities, contracts, commitments and business, financial, legal and taxation aspects of the Target Group;

(ii) the warranties, representations and undertakings given by the Vendor under the Agreement remaining true and accurate and not misleading in any material respect as if repeated at Completion and at all times between the date of the Agreement and Completion;

(iii) (a) the written consent from Century 21 AP to the sale of the shares of Consecutive Profits and Century 21 HK to Kingbox having been obtained pursuant to the Subfranchise Agreement;

(b) the option/right of Century 21 AP to purchase Century 21 HK's rights under the Subfranchise Agreement having been unconditionally withdrawn, waived and/or cancelled by Century 21 AP in writing; and

(c) Kingbox having (at its own cost) obtained a legal opinion issued by a law firm from the United States of America acceptable to Kingbox on the legality, validity and enforceability of the Subfranchise Agreement,

all in such form and substance to the satisfaction of Kingbox, and the uninterrupted continuation of the current business of the Target Group and the current rights and business of the Target Group after Completion;

(iv) the delivery by the Vendor to Kingbox of a legal opinion issued by a BVI law firm acceptable to Kingbox and addressed to Kingbox confirming that Consecutive Profits, Pacific Pointer, Real Clever and Century Profit have been duly incorporated and is in good standing and certifying that the Vendor is the only shareholder and director of each companies as mentioned above together with certificates of incumbency and certificates of good standing, such legal opinion to be in form and substance to the satisfaction of Kingbox and to be dated no earlier than seven business days prior to the Completion Date;

(v) the approval by the Shareholders (other than those who are required to abstain from voting under the Listing Rules and the applicable laws, rules and regulations) of the Share Consolidation and the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the New Shares;

(vi) the approval by the Shareholders (other than those who are required to abstain from voting under the Listing Rules and the applicable laws, rules and regulations) of (a) the Acquisition; (b) the issue of the Vendor CN; (c) the allotment and issue of the Vendor CN Conversion Shares; (d) the issue of the Promissory Note by Kingbox (and the Company as guarantor); and (e) all other transactions contemplated under the Agreement at a general meeting of the Company, in compliance with the requirements of the Listing Rules;

(vii) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Vendor CN Conversion Shares;

(viii) approval by the Shareholders (other than those who are required to abstain from voting under the Listing Rules and the applicable laws, rules and regulations) of the Placing Agreement and the issue of the Placing CN and the Placing Shares and the allotment and issue of the Placing CN Conversion Shares;

(ix) the Placing Agreement becoming unconditional (other than any requirement of the Agreement becoming unconditional) and not being terminated;

(x) the compliance of any other requirements under the Listing Rules or otherwise of the Stock Exchange or other regulatory authorities which requires compliance at any time prior to Completion in relation to the transactions contemplated under the Agreement; and

(xi) if applicable, the Bermuda Monetary Authority granting its permission to the issue of the Vendor CN and the Vendor CN Conversion Shares.

Kingbox may at its absolute discretion at any time waive any of the conditions, other than the conditions (v), (vi), (vii), (x) and (xi) above. Conditions (v), (vi), (vii), (x) and (xi) are not capable to being waived. If the conditions above are not fulfilled or waived (as the case may be) on or before the date falling 90 days after the date of the SGM (but in any event within 6 months after the date of the Agreement) or such other date as the Company and the Vendor may agree in writing, the rights and obligations of the parties under the Agreement shall lapse and be of no further effect except for antecedent breach.

As at the Latest Practicable Date, none of the conditions above has been fulfilled or waived.

If after fulfillment (or waiver, as the case may be) of all the above conditions, Kingbox shall fail to complete the Acquisition in accordance with the terms and conditions of the Agreement, the deposit of HK$10 million paid by Kingbox and the interest accrued thereon shall be released to the Vendor and the Vendor shall have no further claim against Kingbox under the Agreement whatsoever.

If the Vendor shall fail to complete the Acquisition in accordance with the terms and conditions of the Agreement notwithstanding fulfillment (or waiver, as the case may be) of the above conditions, or if the Vendor shall be in breach of any terms, conditions or warranties of the Agreement entitling Kingbox to rescind or terminate the Agreement and Kingbox does by notice in writing to the Vendor rescind or terminate the Agreement, the deposit of HK$10 million paid by Kingbox shall be returned to Kingbox together with all interests accrued thereon forthwith without prejudice to any other claims and remedies Kingbox may have under the Agreement whatsoever.

**Adjustment to the Consideration**

In the event that the condition referred to in (iii) above cannot be fulfilled and Kingbox shall in its absolute discretion decide to waive such condition, the Consideration shall be reduced by the following percentage:

$$A = \frac{B}{C}$$

where:

"A" is the percentage by which the Consideration is to be reduced;

"B" is the amount of the audited profits after tax of Century 21 HK for the year ended 31 March 2008; and

"C" is the aggregate amount of the audited profits after tax of each of Century 21 HK, Century 21 Property Agency and Century 21 Surveyors for the year ended 31 March 2008.

The amount of Consideration to be reduced as calculated above shall first be deducted from the face value of the Promissory Note and if the face value of the Promissory Note is to be reduced to nil, the balance shall be deducted from the cash balance payable by Kingbox to the Vendor at Completion. Should the cash balance be reduced to nil, the balance shall be deducted from the principal amount of the Vendor CN.

**Right of first refusal**

The Vendor warranted that he is the sole legal and beneficial owner of Grand Rich, a company incorporated in the BVI, which holds the franchise right to use the brand name "Century 21" in Singapore (the "Singapore Franchise") similar to the arrangement under the Subfranchise Agreement, and that company(ies) wholly-owned or controlled by the Vendor is/are operating a property agency and related business under such brand name in Singapore (collectively, the "Singapore Business"). In consideration of Kingbox entering into the Agreement, the Vendor has granted Kingbox (which right may be exercisable by any nominee of Kingbox) the right of first refusal to purchase the same in the event that at any time within 5 years from the Completion Date, the Vendor decides or intends to dispose of his interest or shareholding in Grand Rich and/or any of the companies that operate the Singapore Business and/or Grand Rich decides or intends to dispose of the Singapore Franchise and/or any of the said companies decides or intends to dispose of the Singapore Business or any part thereof, such interest or shareholding shall be first offered to Kingbox on terms to be agreed. Kingbox shall have the right but not the obligation to accept such offer. Further announcement will be made by the Company where applicable in accordance with the requirements of the Listing Rules in the event the right of first refusal is exercised.

**Completion**

Completion shall take place on the Completion Date or at such other time or date as the Company and the Vendor may agree in writing.

Upon Completion, the Target Group will become wholly-owned subsidiaries of the Company and the financial results of the Target Group will be consolidated in the accounts of the Group. The Vendor will be appointed as an executive Director. The Company will make further announcement as regards the appointment of executive Director according to the Listing Rules as and when appropriate.

**Principal terms of the Vendor CN**

| | |
|---|---|
| Aggregate principal amount: | HK$130,000,000 |
| Conversion price: | HK$0.1375 per New Share, subject to usual anti-dilution adjustments in certain events such as share consolidation, share subdivision, capitalisation issue, capital distribution, rights issue and other equity or equity derivatives issues.<br><br>The initial conversion price of HK$0.1375 represents:<br><br>(i) a 25% premium over the theoretical price of HK$0.11 per New Share (based on the closing price of the Existing Shares of HK$0.022 on 29 April 2008 (being the last trading day for the Existing Shares prior to the date of the Agreement) and assuming the Share Consolidation has taken effect);<br><br>(ii) a 25% premium over the theoretical average price of HK$0.11 per New Share (based on the average closing price of the Existing Shares of HK$0.022 for the five trading days up to and including 29 April 2008 and assuming the Share Consolidation has taken effect);<br><br>(iii) an approximately 21.15% premium over the theoretical average price of HK$0.1135 per New Share (based on the average closing price of the Existing Shares of HK$0.0227 for the ten trading days up to and including 29 April 2008 and assuming the Share Consolidation has taken effect); and<br><br>(iv) 10% premium over the theoretical price of HK$0.125 per New Share (based on the closing price of the Existing Share of HK$0.025 on the Latest Practicable Date and assuming the Share Consolidation has taken effect). |
| Interest rate: | 2% per annum on the principal amount of the Vendor CN outstanding from time to time payable on the anniversaries of the date of issue of the Vendor CN and on the maturity date of the Vendor CN. |
| Maturity date: | The date falling on the day being the third anniversary of the date of issue of the Vendor CN or if that is not a business day, the first business day thereafter. |

| | |
|---|---|
| Redemption: | Unless previously converted, the Vendor CN shall be redeemed by the Company at its principal amount outstanding on the maturity date. |
| Transferability: | The Vendor CN or any part(s) thereof (in amount of HK$1,000,000 or integral multiples thereof) may be assigned or transferred to any third party, but may not be assigned or transferred to any company or other person which is a connected person of the Company without the prior written consent of the Company. Any assignment and transfer of the Vendor CN is subject to (i) (where required) the approvals, requirements and any other provisions of or under the Stock Exchange or the Listing Rules and all applicable laws and regulations; and (ii) the approval of the Independent Shareholders in a general meeting of the Company (if so required under the Listing Rules) if such assignment or transfer is made to the connected person of the Company. |
| Conversion rights and conversion period: | The holders of the Vendor CN shall have the right to convert the whole or any part of the outstanding principal amount of the Vendor CN into New Shares at any time from the 15th day after the date of issue up to and including the date which is 15 days prior to the maturity date of the Vendor CN at the initial conversion price of HK$0.1375 per New Share, subject to adjustment. |
| Conversion shares and restriction on conversion: | Upon full conversion of the Vendor CN at the initial conversion price of HK$0.1375 per New Share (subject to adjustment), an aggregate of 945,454,545 New Shares will be issued, representing approximately (i) 75.54% of the existing issued share capital of Company (assuming the Share Consolidation has taken effect); (ii) 43.03% of the issued share capital of Company as enlarged by the issue of the Vendor CN Conversion Shares; and (iii) 28.44% of the issued share capital of Company as enlarged by the issue of the Vendor CN Conversion Shares, the Placing CN Conversion Shares and the Placing Shares (assuming Placing CN with total principal value of HK$100,000,000 and 400,000,000 Placing Shares are issued).<br><br>The holders of the Vendor CN shall not exercise any conversion right attaching to the Vendor CN or to such an extent that results or will result in (i) the holder of the Vendor CN and parties acting in concert with it (within the meaning under the Takeovers Code) beneficially holding more than 29% (or such percentage as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer) of the then enlarged issued share capital of the Company at the relevant date of conversion of the relevant Vendor CN; or (ii) the Company in breach of any provision of the Listing Rules, including the requirement to maintain the prescribed minimum percentage (currently being 25%) of the issued share capital of the Company held by the public (as defined in the Listing Rules), unless prior approval or waiver has been obtained from the Stock Exchange. |

| | |
|---|---|
| Voting: | Holder(s) of the Vendor CN shall not be entitled to receive notices of, attend or vote at any meetings of the Company by reason only of it being the holders of the Vendor CN. |
| Listing: | No application will be made for the listing of the Vendor CN on the Stock Exchange or any other stock exchange. An application will be made for the listing of and permission to deal in the Vendor CN Conversion Shares to be issued as a result of the exercise of the conversion rights attaching to the Vendor CN. |
| Ranking: | The Vendor CN Conversion Shares will rank pari passu in all respects with all the New Shares in issue at the date on which the conversion rights attaching to the Vendor CN are exercised. |

**Lock-up**

The Vendor will at Completion undertake to the Company that he (or his nominee(s)) will not, without the prior consent of the Company, transfer, sell, assign, charge, mortgage or otherwise encumber or dispose of or in any other way deal with the Vendor CN or the Vendor CN Conversion Shares (should the Vendor CN be converted), any part thereof or any interest therein or enter into any agreement to do any of the aforesaid within one year from Completion.

**Principal terms of the Promissory Note**

The Promissory Note shall be issued by Kingbox to the Vendor or its nominee at Completion as part of the Consideration and the Company shall join in to execute the Promissory Note as the guarantor of Kingbox. The principal terms of the Promissory Note are as follows:—

| | |
|---|---|
| Principal sum: | HK$100,000,000 |
| Repayment: | The principal sum shall be repaid in full on the last day of the eighteenth (18) month immediately after the date of issue of the Promissory Note |
| Interest: | 3% per annum, commencing from the date of issue of the Promissory Note and shall be paid annually and on its maturity |
| Prepayment: | The Company may prepay all or part (amount of any partial prepayment shall be at least HK$500,000 and all other sums, if any, then due and payable under the Promissory Note shall have been paid) of the principal sum on or before the due date for repayment by giving not less than 7 days' prior written notice to the holder of the Promissory Note specifying the amount and the date of prepayment |
| Listing: | No application will be made for a listing of the Promissory Note on the Stock Exchange or any other stock exchange |

| | |
|---|---|
| Transfer: | Holders of the Promissory Note may at any time assign or transfer all or any part (in an integral multiple of HK$500,000 or, where the outstanding principal amount of the Promissory Note is less than HK$500,000, the entirety) of its rights, title, benefits and interest in, to or under the Promissory Note to a third party (whether the third party is a connected person (as that term is defined in the Listing Rules) of the Company or not). Any assignment and transfer of the Promissory Note is subject to (where required) the approvals, requirements and any other provisions of or under the Stock Exchange or the Listing Rules and all applicable laws and regulations. |

In the event that the Promissory Note is transferred to a connected person of the Company, the Company shall comply with the applicable requirements of Chapter 14A of the Listing Rules.

The terms of the Promissory Note have been arrived at based on arm's length negotiations between the Company and the Vendor. The Directors consider that the terms of the Promissory Note, including the interest rate, are fair and reasonable.

**Information on the Target Group**

The business of the Target Group was founded by the Vendor in 1993. Under the Subfranchise Agreement, Century 21 HK has been granted the exclusive perpetual right to sublicense certain Century 21 marks and to grant Century 21 franchises to licensed real estate brokers and to use the Century 21 system developed by Century 21 US for the establishment, development and operation of real estate brokerages offices in Hong Kong and Macau. Century 21 HK has entered into agreement with Century 21 Agency and Century 21 Surveyors respectively for franchise operation in Hong Kong. Century 21 US is the original franchisor of the world's largest residential real estate sales organisation, with more than 8,400 independently owned and operated franchised broker offices in over 58 countries and territories worldwide. Century 21 US has designed and developed standardised signs, making use of a logo type insignia, business cards, stationery, business forms, office procedure manuals, centralised advertising programs, sales training programs and personnel management and control system. Century 21 HK has been granted the right of use in Hong Kong and Macau of the said system under the Subfranchise Agreement. Century 21 AP (being the ultimate assignee of the rights of the franchisor under the Subfranchise Agreement as at the Latest Practicable Date) has the option/right to purchase Century 21 HK's rights under the Subfranchise Agreement during the last 12 months of the 15th year of the Subfranchise Agreement. It is a condition precedent to Completion that the aforesaid option/right be unconditionally withdrawn, waived or cancelled by Century 21 AP in writing. Please refer to the paragraphs headed "Conditions of the Agreement" and "Adjustment to the Consideration" above.

Century 21 AP is entitled to exercise its right to repurchase Century 21 HK if there is any change in control of Century 21 HK.

In the event that Century 21 AP has decided to exercise its option/rights to purchase Century 21 HK, like other franchisees in the region, Century 21 Agency and Century 21 Surveyors, are entitled to continue to operate under their respective franchise arrangement with Century 21 HK and renegotiate the such arrangement with Century 21 HK or its successor upon expiry of the existing franchise term in year 2013 to 2027 (subject to renewal).

The management of the Company believe that the exercise of such right by Century 21 AP could not be foreseen. Even noted that there is the risk of the exercise of such right by Century 21 AP, the management of the Company believe that given the business experience and track record of the Vendor and the Century 21 Agency and Century 21 Surveyors, the business of Century 21 Agency and Century 21 Surveyors would not be affected adversely.

Consecutive Profits, Pacific Pointer, Real Clever and Century Profit are investment holding companies and are neither engaged in any business nor holding any assets other than the shares in Century 21 HK, Century 21 Property Agency and Century 21 Surveyors which are the three principal operating subsidiaries of the Target Group. Century 21 Macau is currently dormant and has not commenced any operations.

Century 21 HK is principally engaged in the provision of franchise, consultancy and property agency services in Hong Kong and Macau. Century 21 Property Agency is principally engaged in the provision of property agency services in Hong Kong and Macau and Century 21 Surveyors is principally engaged in the provision of surveying, property project consulting service, property valuation, property agency services, aution and tendering in Hong Kong, Macau, Mainland China and other Asian Countries, namely Singapore. Century 21 Surveyors has established its China division in 2000 with a dedicated team of staff to provide real estate relating services namely project planning, consultancy, investment and corporate relocation services in Guangzhou and Beijing. The Target Group at present operates over 120 (including 4 owned by the Target Group) licensed estate agencies in Hong Kong and Macau. The Target Group is in its early expansion stage and is building up critical number of franchisees and self-owned agency in Hong Kong and Macau. The table below sets out the financial information of Century 21 HK, Century 21 Property Agency, Century 21 Surveyors, Consecutive Profits, Century Profit, Real Clever, Pacific Pointer and Century 21 Macau:

| | **Century 21 HK** | **Century 21 Property Agency** | **Century 21 Surveyors** | **Consecutive Profits** | **Century Profit** | **Real Clever** | **Pacific Pointer** | **Century 21 Macau** |
|---|---|---|---|---|---|---|---|---|
| | *(HK$'000)* | *(HK$'000)* | *(HK$'000)* | *(HK$)* | *(HK$)* | *(HK$)* | *(HK$'000)* | *(MOP'000)* |
| | *(Audited)* | *(Audited)* | *(Audited)* | *(Audited)* | *(Audited)* | *(Audited)* | *(Audited)* | *(Audited)* |
| Profits before tax | | | | | | | | |
| — year ended 31 March 2006 | 369.6 | 1,508.1 | 2,096.9 | — | — | — | 800.0 | — |
| — year ended 31 March 2007 | 378.0 | 963.5 | 839.0 | — | — | — | — | — |
| — year ended 31 March 2008 | 2,457.0 | 11,641.7 | 10,881.6 | — | — | — | — | — |
| Profits after tax | | | | | | | | |
| — year ended 31 March 2006 | 305.0 | 1,245.2 | 1,973.3 | — | — | — | 800.0 | — |
| — year ended 31 March 2007 | 311.0 | 805.8 | 190.5 | — | — | — | — | — |
| — year ended 31 March 2008 | 2,024.0 | 9,640.6 | 8,978.0 | — | — | — | — | — |
| Net asset (liabilities) value | | | | | | | | |
| — as at 31 March 2007 | 3,816.4 | 2,161.9 | (2,211.4) | 78 | 7.8 | 7.8 | 800.0 | 30.0 |
| — as at 31 March 2008 | 5,850.0 | 11,802.5 | 6,766.6 | 78 | 7.8 | 7.8 | 800.0 | 30.0 |

As part of its due diligence on the Target Group, the Company has engaged an independent professional valuer, BMI Appraisals Limited, to perform a valuation on the Target Group. The valuation of the Target Group based on market approach as at 30 April 2008 as valued by BMI Appraisals Limited was HK$465 million. The valuation is set out in Appendix X to this circular.

**Information on Century 21 HK**

Set out below is the summary of the financial data of Century 21 HK extracted from the accountants' report contained in Appendix V to this circular.

***Financial and business performance***

| | Year ended 31 March | | |
|---|---|---|---|
| | **2006** | **2007** | **2008** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| | *(audited)* | *(audited)* | *(audited)* |
| **Results** | | | |
| Revenue | 7,207 | 6,201 | 5,856 |
| Profit before tax | 370 | 378 | 2,457 |
| Profit for the year | 305 | 311 | 2,024 |

| | As at 31 March | | |
|---|---|---|---|
| | **2006** | **2007** | **2008** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| | *(audited)* | *(audited)* | *(audited)* |
| **Assets and liabilities** | | | |
| Non-current assets | 837 | 485 | 184 |
| Current assets | 6,043 | 6,501 | 8,648 |
| Current liabilities | 3,358 | 3,165 | 2,992 |
| Non-current liabilities | 17 | 5 | — |
| Net assets | 3,505 | 3,816 | 5,840 |

*Year ended 31 March 2006*

Turnover for the year reached approximately HK$7,207,000 with profit before tax of approximately HK$370,000. The turnover combined primarily the project management fee income and franchise service fee income. Other income included the consultancy fee income, training fee income, advertising fee income, referral fee income and sundry income. The operating expenses amounted to approximately HK$9,897,000. Century 21 HK achieved net profit of approximately HK$305,000 for the year.

*Year ended 31 March 2007*

Turnover for the year reached approximately HK$6,201,000, representing a decrease of approximately 14.0% compared to 2006. The decrease in turnover was attributed to decrease in project management fee which was due to the shift of business to Century 21 Surveyors for the primary market segment. As a result, the project management fee income shrank by approximately 29.2% for the year. The other income also decreased by approximately 29.8% compared to 2006 as a result of the significant decrease of referral fee income during the year. The referral fee represents the income received from the referral of mortgage loans to relevant licensed financial institutions and such income has decreased by approximately 44.4% compared to 2006. The referral business was highly related to the business volume of Century 21 Property Agency.

As a result of the decrease in turnover and other income, the other operating expenses which included project management expenses and referral fee expenses dropped by approximately HK$1,529,000 compared to 2006. In summary, Century 21 HK achieved profit before tax of approximately HK$378,000 and net profit of approximately HK$311,000 for the year, representing an increase of approximately 2.2% and 2.0% respectively over the previous year.

*Year ended 31 March 2008*

Turnover for the year reached approximately HK$5,856,000, representing a decrease of approximately 5.6% compared to 2007. During the year, the project management fee income continued to decrease and amounted to approximately HK$2,059,000, representing a decrease of approximately 25.3% compared with the same period in 2007. However, the other income recorded a significant growth during the period and amounted to approximately HK$3,522,000 in 2007, representing an increase of approximately 64.0% compared to 2007. The increase in other income was due to the increase in the referral business which recorded a growth rate of approximately 111.1% over 2007 as a result of the rebound of the real estate market in 2007.

As a result of better allocation of resources and costs control, the other operating expenses amounted to approximately HK$4,924,000, representing a decrease of approximately 6.7% compared to 2007. The employee benefit expenses also decreased from approximately HK$2,277,000 in 2007 to approximately HK$1,643,000 in 2008, representing a decrease of approximately 27.8% compared to 2007. For better costs control, Century 21 HK also leased another office which saved approximately HK$500,000 for the company during the year. For the financial year ended 2008, Century 21 HK achieved profit before tax of approximately HK$2,457,000 and net profit of approximately HK$2,024,000, representing an increase of approximately 550.0% and 550.8% respectively over the previous year.

***Financial resources and liquidity***

Century 21 HK's capital structure as at 31 March 2008 consisted of shareholders' equity of approximately HK$5,840,000, compared to shareholders' equity of approximately HK$3,816,000 as at 31 March 2007 and shareholders' equity of approximately HK$3,505,000 as at 31 March 2006. The trade and other payables, which primarily comprised deposits received, amounted to approximately HK$2,483,000, HK$2,475,000 and HK$2,599,000 as at 31 March 2006, 2007 and 2008, respectively. There was no bank borrowings as at 31 March 2006, 2007 and 2008. As at 31 March 2006, 2007 and 2008, the obligation under finance lease was approximately HK$29,000, HK$17,000 and HK$5,000 respectively which was secured by Century 21 HK's equipments. As at 31 March 2006, 2007 and 2008, the gearing ratios (calculated as total borrowings divided by total equity) were approximately 0.8%, 0.4% and 0.1% respectively.

As at 31 March 2006 and 2007, Century 21 HK's current assets were approximately HK$6,043,000 and HK$6,501,000 respectively. As at 31 March 2008, Century 21 HK's current assets amounted to approximately HK$8,648,000, representing an increase of approximately 33.0% over those as at 31 March 2007. The growth was due to the increase in turnover, which resulted in an increase in ending cash balance. During the period, Century 21 HK generated cash from operating activities of approximately HK$3,077,000.

As at 31 March 2006 and 2007, Century 21 HK's current liabilities were approximately HK$3,358,000 and HK$3,165,000 respectively. As at 31 March 2008, Century 21 HK's current liabilities amounted to approximately HK$2,992,000, representing a decrease of approximately 5.5% compared to those as at 31 March 2007. The decrease was due to the repayment of amount due to a director. Century 21 HK had no contingent liabilities as at 31 March 2006, 2007 and 2008. As at 31 March 2006, 2007 and 2008, the current ratios (calculated as current assets divided by current liabilities) of Century 21 HK were approximately 1.8, 2.1 and 2.9 and were considered to be healthy.

***Cash and cash equivalents***

As at 31 March 2008, Century 21 HK had cash and cash equivalents of approximately HK$3,377,000.

***Investments***

As at 31 March 2008, Century 21 HK did not have any material investments.

***Foreign currency exposure***

Century 21 HK's businesses are primarily transacted in Hong Kong dollars and there is no foreign currency risk exposure.

***Number of employees and remuneration policies***

As at each of 31 March 2006, 2007 and 2008, Century 21 HK had headcounts of 14, 13 and 11 respectively. Total salaries and allowances incurred during the years ended 31 March 2006, 2007 and 2008 were approximately HK$2,647,000, HK$2,277,000 and HK$1,643,000 respectively.

***Material acquisitions and disposals of subsidiaries and associated companies***

During the financial years as discussed above, there were no material acquisitions and disposals of subsidiaries and associated companies by Century 21 HK.

***Prospects of Century 21 HK***

Given the brand name of Century 21 HK, established presence in the market, strong international customer network, the Directors consider that the prospects of Century 21 HK is positive. It is expected that Century 21 HK will continue to increase the number of sub-franchisees in Hong Kong and expand its presence in Macau.

**Information on Century 21 Property Agency**

Set out below is the summary of the financial data of Century 21 Property Agency extracted from the accountants' report contained in Appendix VI to this circular.

*Financial and business performance*

| | Year ended 31 March | | |
|---|---|---|---|
| | **2006** | **2007** | **2008** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| | *(audited)* | *(audited)* | *(audited)* |
| **Results** | | | |
| Revenue | 29,171 | 17,240 | 28,435 |
| Profit before tax | 1,508 | 964 | 11,642 |
| Profit for the year | 1,245 | 806 | 9,641 |

| | As at 31 March | | |
|---|---|---|---|
| | **2006** | **2007** | **2008** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| | *(audited)* | *(audited)* | *(audited)* |
| **Assets and liabilities** | | | |
| Non-current assets | 586 | 192 | 532 |
| Current assets | 6,955 | 8,798 | 17,763 |
| Current liabilities | 6,175 | 6,828 | 6,492 |
| Non-current liabilities | 10 | — | — |
| Net assets | 1,356 | 2,162 | 11,803 |

*Year ended 31 March 2006*

Turnover for the year reached approximately HK$29,171,000 with profit before tax of approximately HK$1,508,000. The turnover represents income from the provision of property agency services in Hong Kong. The operating expenses amounted to approximately HK$29,115,000. Century 21 Property Agency achieved net profit of approximately HK$1,245,000 for the year.

*Year ended 31 March 2007*

Turnover for the year reached approximately HK$17,240,000, representing a decrease of approximately 40.9% compared to the same period in 2006. The decrease in turnover was attributed to the decrease of branches from 8 in 2006 to 4 in 2007. The other income remained stable and recorded a slight increase of approximately 5.6% over 2006.

As a result of the decrease in turnover, the commission expenses dropped from approximately HK$8,817,000 to approximately HK$3,759,000 in 2007, representing a decrease of approximately 57.4%. As a result of the decrease in number of branches, other operating expenses also decreased and amounted to approximately HK$7,176,000, representing a decrease of approximately 33.2% compared to the same period in 2006. During the year, Century 21 Property Agency achieved profit before tax of approximately HK$964,000 and net profit of approximately HK$806,000, representing a decrease of approximately 36.1% and 35.3% respectively compared to the same period in 2006.

*Year ended 31 March 2008*

Turnover for the year reached approximately HK$28,435,000, representing an increase of approximately 64.9% compared to the same period in 2007. The surge in turnover was primarily due to the boom of the secondary property market in Hong Kong during the period. However, other income has recorded a decrease and amounted to approximately HK$492,000, representing a decrease of 68.0% compared to the same period in 2007.

As a result of more direct dial-in customers, less commission was paid to the agents from Century 21 Property Agency and commission expenses recorded a less significant growth relative to the increase in turnover and amounted to approximately HK$4,577,000, representing an increase of 21.8% compared to the same period in 2007. The other operating expenses amounted to approximately HK$6,460,000, representing a decrease of 10.0% compared to the same period in 2007. This was due to the decrease in the number of branches during the previous period.

***Financial resources and liquidity***

Century 21 Property Agency's capital structure as at 31 March 2008 consisted of shareholders' equity of approximately HK$11,803,000, compared to shareholders' equity of approximately HK$2,162,000 as at 31 March 2007 and shareholders' equity of approximately HK$1,356,000 as at 31 March 2006. The bank overdrafts as at 31 March 2006, 2007 and 2008 were approximately HK$627,000, HK$84,000 and nil; and the bank loans (short term bearing interest rates of 1% below prime rate of the lending bank) as at 31 March 2006, 2007 and 2008 were approximately nil, HK$2,000,000 and HK$2,000,000. As at 31 March 2006, no gearing ratio was applicable as there was no borrowing. The gearing ratios (calculated as total borrowings divided by total equity) as at 31 March 2007 and 2008 were approximately 92.5% and 16.9% respectively. As at 31 March 2006, 2007 and 2008, Century 21 Property Agency did not have any charge on assets.

As at 31 March 2006 and 2007, Century 21 Property Agency's current assets were approximately HK$6,955,000 and HK$8,798,000, respectively. As at 31 March 2008, Century 21 Property Agency's current assets amounted to approximately HK$17,763,000, representing an increase of approximately 101.9% over those as at 31 March 2007. The growth was due to the significant increase in turnover, which also resulted in an increase in ending cash balance. During the period, Century 21 Property Agency generated cash from operating activities of approximately HK$8,502,000.

As at 31 March 2006 and 2007, Century 21 Property Agency's current liabilities were approximately HK$6,175,000 and HK$6,828,000 respectively. As at 31 March 2008, Century 21 Property Agency's current liabilities amounted to approximately HK$6,492,000, representing a decrease of approximately 4.9% compared to those as at 31 March 2007. The decrease was due to the repayment of amount due to a related party. Century 21 Property Agency had no contingent liabilities as at 31 March 2006, 2007 and 2008. As at 31 March 2006, 2007 and 2008, the current ratios (calculated as current assets divided by current liabilities) of Century 21 Property Agency were approximately 1.1, 1.3 and 2.7 which were considered healthy.

***Cash and cash equivalents***

As at 31 March 2008, Century 21 Property Agency had cash and cash equivalents of approximately HK$1,121,000.

***Investments***

As at 31 March 2008, Century 21 Property Agency did not have any material investments.

***Foreign currency exposure***

Century 21 Property Agency's businesses are primarily transacted in Hong Kong dollars and there is no foreign currency risk exposure.

***Number of employees and remuneration policies***

As at each of 31 March 2006, 2007 and 2008, Century 21 Property Agency had headcounts of 107, 58 and 52 respectively. Total staff costs incurred during the years ended 31 March 2006, 2007 and 2008 were approximately HK$9,325,000, HK$6,620,000 and HK$6,022,000 respectively.

***Material acquisitions and disposals of subsidiaries and associated companies***

During the financial years as discussed above, there were no material acquisitions and disposals of subsidiaries and associated companies by Century 21 Property Agency.

***Prospects of Century 21 Property Agency***

Given that the property market sentiment in Hong Kong has improved significantly since the second half of 2007, Century 21 Property Agency believes that direct dial-in customers will increase constantly. In this regard, Century 21 Property Agency will actively seek good locations to open new branches in Hong Kong to capture market growth potential.

**Information on Century 21 Surveyors**

Set out below is the summary of the financial data of Century 21 Surveyors extracted from the accountants' report contained in Appendix VII to this circular.

***Financial and business performance***

| | Year ended 31 March | | |
|---|---|---|---|
| | **2006** | **2007** | **2008** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| | *(audited)* | *(audited)* | *(audited)* |
| **Results** | | | |
| Revenue | 28,120 | 42,489 | 54,629 |
| Profit before tax | 2,097 | 839 | 10,882 |
| Profit for the year | 1,973 | 191 | 8,978 |

| | As at 31 March | | |
|---|---|---|---|
| | **2006** | **2007** | **2008** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| | *(audited)* | *(audited)* | *(audited)* |
| **Assets and liabilities** | | | |
| Non-current assets | 12 | 3 | 53 |
| Current assets | 7,306 | 23,248 | 34,450 |
| Current liabilities | 9,720 | 25,462 | 27,736 |
| Non-current liabilities | — | — | — |
| Net assets/(liabilities) | (2,402) | (2,211) | 6,767 |

*Year ended 31 March 2006*

Turnover for the year reached approximately HK$28,120,000 with profit before tax of approximately HK$2,097,000. The turnover combined provision of surveying fee income and property agency service fee income. Other income included consultancy fee income, referral fee income, bank interest income, administrative fee income and sundry income. The operating expenses amounted to approximately HK$26,926,000. Century 21 Surveyors achieved net profit of approximately HK$1,973,000 for the year.

*Year ended 31 March 2007*

Turnover for the year reached approximately HK$42,489,000, representing an increase of approximately 51.1% compared to 2006. The increase in turnover was attributed to the increase in rendering of service which was due to the shift of business from Century 21 HK in the primary market segment and additional business secured from the major developers. The other income recorded a slight increase of approximately 1.4% compared to 2006.

As a result of the increase in turnover and other income, the operating expenses which included commission expenses, employee benefit expenses, depreciation and other operating expenses increased by approximately HK$15,640,000 compared to 2006. In particular, commission expenses in 2007 recorded an enormous increase of approximately 90.6% compared to 2006. Such increase was due to more incentive in the form of rebate was given to the customers while Century 21 Surveyors expanded its presence in the primary market. In summary, Century 21 Surveyors achieved profit before tax of approximately HK$839,000 and net profit of approximately HK$191,000 for the year, representing a decrease of approximately 60.0% and 90.3% respectively over the previous year.

*Year ended 31 March 2008*

Turnover for the year reached approximately HK$54,629,000, representing an increase of approximately 28.6% compared to 2007. The increase in turnover was due to the additional businesses secured from the major developers compared with the same period in 2007. The other income recorded a slight decrease of approximately 1.3% compared to 2007.

As a result of the increase in turnover and other income, the operating expenses which included commission expenses, employee benefit expenses, depreciation and other operating expenses increased by approximately HK$2,085,000, representing an increase of approximately 4.9% compared to 2007. For the financial year ended 2008, Century 21 Surveyors achieved profit before tax of approximately HK$10,882,000 and net profit of approximately HK$8,978,000, representing an increase of approximately 1,197.0% and 4,600.5% respectively over the previous year.

***Financial resources and liquidity***

Century 21 Surveyors's capital structure as at 31 March 2008 consisted of shareholders' equity of approximately HK$6,767,000, compared to shareholders' equity of approximately HK$2,211,000 as at 31 March 2007 and shareholders' equity of approximately HK$2,402,000 as at 31 March 2006. The trade and other payables, which primarily comprised commission payable, amounted to approximately HK$5,349,000, HK$18,642,000 and HK$20,097,000 as at 31 March 2006, 2007 and 2008 respectively. There were no bank borrowings as at 31 March 2006, 2007 and 2008 and therefore no gearing ratios were applicable. The amount due to directors amounted to approximately HK$48,000, HK$60,000 and HK$87,000 as at 31 March 2006, 2007 and 2008 respectively and the amount due to related companies amounted to approximately HK$4,163,000, HK$6,440,000 and HK$5,753,000 respectively. As at 31 March 2006, 2007 and 2008, Century 21 Surveyors did not have any charge on assets.

As at 31 March 2006 and 2007, Century 21 Surveyors's current assets were approximately HK$7,306,000 and HK$23,248,000 respectively. As at 31 March 2008, Century 21 Surveyors's current assets amounted to approximately HK$34,450,000, representing an increase of approximately 48.2% over those as at 31 March 2007. The growth was due to the increase in turnover, which resulted in an increase in ending cash balance. During the period, Century 21 Surveyors generated cash from operating activities of approximately HK$7,950,000.

As at 31 March 2006 and 2007, Century 21 Surveyors's current liabilities were approximately HK$9,720,000 and HK$25,462,000 respectively. As at 31 March 2008, Century 21 Surveyors's current liabilities amounted to approximately HK$27,736,000, representing an increase of approximately 8.9% compared to those as at 31 March 2007. The increase was due to the increase in the trade and other payables. Century 21 Surveyors had no contingent liabilities as at 31 March 2006, 2007 and 2008. As at 31 March 2006, 2007 and 2008, the current ratios (calculated as current assets divided by current liabilities) of Century 21 Surveyors were approximately 0.8, 0.9 and 1.2 and are considered to be maintained at healthy levels.

***Cash and cash equivalents***

As at 31 March 2008, Century 21 Surveyors had cash and cash equivalents of approximately HK$8,366,000.

***Investments***

As at 31 March 2008, Century 21 Surveyors did not have any material investments.

***Foreign currency exposure***

Century 21 Surveyors' businesses are primarily transacted in Hong Kong dollars and there is no foreign currency risk exposure.

***Number of employees and remuneration policies***

As at each of 31 March 2006, 2007 and 2008, Century 21 Surveyors had head counts of 61, 44 and 43 respectively. Total staff costs incurred during the years ended 31 March 2006, 2007 and 2008 were approximately HK$5,554,000, HK$4,995,000 and HK$4,840,000 respectively.

***Material acquisitions and disposals of subsidiaries and associated companies***

During the financial years as discussed above, there were no material acquisitions and disposals of subsidiaries and associated companies by Century 21 Surveyors.

***Prospect of Century 21 Surveyors***

Leveraged on the close relationship with developers and its strategic partners, Century 21 China Real Estate and other regional Century 21 franchises, Century 21 Surveyors has and will continue to be benefited from this close alliance and gain buoyance in the fast growing China economy.

In the future, Century 21 Surveyors will continue its existing business on the provision of surveying, property project consulting service, property valuation, property agency services, aution and tendering.

**Information on Consecutive Profits**

Consecutive Profits is a limited liability company incorporated in the British Virgin Islands on 18 May 2001 with an authorized share capital of 50,000 ordinary shares of US$1 each.

Consecutive Profits is an investment holding company and has not carried on any business and has no material asset or material liability save for its holding of the entire equity interest in Century Profit and 82.5% equity interest in Century 21 HK. In the future, Consecutive Profits will continue its investment on holding interests in Century Profit and Century 21 HK. Please refer to the paragraphs headed "Information on Century Profit" below and "Information on Century 21 HK" above for more details on Century Profit and Century 21 HK, respectively.

**Information on Century Profit**

Century Profit is a limited liability company incorporated in the British Virgin Islands on 26 July 2001 with an authorized share capital of 50,000 ordinary shares of US$1 each.

Century Profit is an investment holding company and has not carried on any business and has no material asset or material liability save for its holding of 12.5% equity interest in Century 21 HK. In the future, Century Profit will continue its investment on holding interests in Century 21 HK. Please refer to the paragraph headed "Information on Century 21 HK" above for more detail on Century 21 HK.

**Information on Real Clever**

Real Clever is a limited liability company incorporated in the British Virgin Islands on 2 January 2002 with an authorized share capital of 50,000 ordinary shares of US$1 each.

Real Clever is an investment holding company and has not carried on any business and has no material asset or material liability save for its holding of 80% equity interest in Century 21 Surveyors and 50% equity interest in Century 21 Property Agency. In the future, Real Clever will continue its investment on holding interests in Century 21 Surveyors and Century 21 Property Agency. Please refer to the paragraphs headed "Information on Century 21 Surveyors" and "Information on Century 21 Property Agency" above for more details on Century 21 Surveyors and Century 21 Property Agency, respectively.

**Information on Pacific Pointer**

Pacific Pointer is a limited liability company incorporated in the British Virgin Islands on 8 April 1998 with an authorized share capital of 50,000 ordinary shares of US$1 each.

Pacific Pointer is an investment holding company. As at 31 March 2006, 2007 and 2008, the amounts due from a shareholder were HK$800,000. Save for the above and its holding of 50% equity interest in Century 21 Property Agency and 20% equity interest in Century 21 Surveyors, Pacific Pointer has not carried on any business and has no material asset or material liability. In the future, Pacific Pointer will continue its investment on holding interests in Century 21 Property Agency and Century 21 Surveyors. Please refer to the paragraphs headed "Information on Century 21 Property Agency" and "Information on Century 21 Surveyors" above for more details on Century 21 Property Agency and Century 21 Surveyors, respectively.

**Information on Century 21 Macau**

Century 21 Macau is a limited liability company incorporated in Macau on 11 August 2005 with an authorized share capital of MOP 30,000 comprising 2 shares.

Century 21 Macau has not commenced operations since its date of incorporation to 31 March 2008, and its sole asset at 31 March 2006, 2007 and 2008 represented cash balance of MOP 30,000.

## THE PLACING

On 30 April 2008, the Company and the Placing Agent entered into the Placing Agreement pursuant to which the Placing Agent shall procure, on a best effort basis, subscribers for (i) the Placing CNs with aggregate principal amount up to HK$100,000,000; and (ii) up to 400,000,000 Placing Shares.

### Date of the Placing Agreement

30 April 2008 (as supplemented on 6 May 2008)

### Parties

(i) the Company, as issuer; and

(ii) the Placing Agent.

The Placing Agent is a corporation deemed licensed to carry on regulated activities 1, 4, 6 and 9 of the SFO. To the best of the Directors' knowledge, information and belief, the Placing Agent and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

### Securities to be placed

Subject to fulfilment of the conditions precedent to the Placing Agreement, the Placing Agent agrees to procure, on a best effort basis, subscribers to subscribe (i) up to HK$100,000,000 principal amount of the Placing CN; and (ii) up to 400,000,000 Placing Shares at a price of HK$0.125 per Placing Share.

### Placees

The Placing Agent undertakes to use its best endeavours to procure not less than 6 individual, institutional and/or other professional investors for each of the Placing Shares and the Placing CN. The Placing Agent shall use all reasonable endeavours to ensure that the placees for the Placing Shares or the Placing CN and their respective ultimate beneficial owners shall be third parties independent of and not connected with or acting in concert with the Company or its connected persons. None of the placees for the Placing Shares or Placing CN and their respective concert parties shall become a substantial shareholder of the Company as a result of the subscription of the Placing Shares and/or the exercise of the conversion rights attached to the Placing CN.

### Placing commission

2.5% of the aggregate principal amount of the Placing CN and subscription price for the Placing Shares for which the Placing Agent has procured subscribers to subscribe.

**Conditions of the Placing Agreement**

The obligations of the parties in relation to the Placing of the Placing CN and the Placing Shares under the Placing Agreement are conditional upon:

(i) the passing of the ordinary resolutions by the Shareholders at the SGM approving (a) the Share Consolidation; and (b) the Placing, the issue and allotment of the Placing Shares and the creation and issue of the Placing CN under the Placing and the issue and allotment of the Placing CN Conversion Shares pursuant to the terms of the Placing Agreement;

(ii) the Listing Committee of the Stock Exchange agreeing to grant the listing of, and permission to deal in, the New Shares, the Placing CN Conversion Shares and the Placing Shares;

(iii) the compliance of any other requirements under the Listing Rules and the Takeovers Code or otherwise of the Stock Exchange and the Securities and Futures Commission of Hong Kong which requires compliance in relation to the Placing, the issue of the Placing Shares, the issue of the Placing CN and the Placing CN Conversion Shares;

(iv) the Share Consolidation becoming effective in all respects in accordance with the Companies Act of Bermuda;

(v) the Agreement becoming unconditional (other than any requirement of the Placing Agreement becoming unconditional) and not being terminated;

(vi) (where required) the Bermuda Monetary Authority granting its permission to the issue of the Placing Shares and the Placing CN and the issue and allotment of the Placing CN Conversion Shares; and

(vii) the obtaining of all consents from any relevant persons which are necessary or desirable in connection with the Placing and the issue of the Placing Shares and the Placing CN (and, where such consents are given subject to conditions, such conditions are on terms as may be reasonably acceptable to the Placing Agent and the Company).

If the above conditions precedent are not fulfilled within 90 days after the date of the SGM or 180 days of the date of the Placing Agreement, whichever is earlier, the Placing Agreement shall lapse and be terminated and all rights, obligations and liabilities of all parties hereunder in relation to the Placing shall cease and determine and no party shall have any claim against the other under the Placing Agreement except for antecedent breaches.

Completion of the Placing shall take place on the 5th business day after the date of fulfillment of the conditions of the Placing Agreement.

**Principal terms of the Placing CN**

Except for the aggregate principal amount to be issued, the Placing CNs and the Vendor CNs have identical terms and constitute securities within the same class.

Assuming Placing CNs with aggregate principal amount of HK$100,000,000 are issued and upon exercise in full of the conversion rights attaching to the Placing CNs at the initial conversion price of HK$0.1375 per New Share, a total of 727,272,727 New Shares will fall to be issued. Assuming the Share Consolidation has taken effect, the Placing CN Conversion Shares represent 58.11% of the existing issued share capital of the Company, 36.75% of the issued share capital of the Company as enlarged by the issue of the Placing CN Conversion Shares, and 21.88% of the issued share capital of the Company as enlarged by the issue of the Vendor CN Conversion Shares, the Placing CN Conversion Shares and the Placing Shares.

**Comparison of the subscription price for the Placing Shares**

The subscription price of HK$0.125 per Placing Share:

(i) represents an approximately 13.64% premium over the theoretical price of HK$0.11 per New Share (based on the closing price of the Existing Shares of HK$0.022 on 29 April 2008 (being the last trading day for the Existing Shares prior to the date of the Agreement) and assuming the Share Consolidation has taken effect);

(ii) represents an approximately 13.64% premium over the theoretical average price of HK$0.11 per New Share (based on the average closing price of the Existing Shares of HK$0.022 for the five trading days up to and including 29 April 2008 and assuming the Share Consolidation has taken effect);

(iii) represents an approximately 10.13% premium over the theoretical average price of HK$0.1135 per New Share (based on the average closing price of the Existing Shares of HK$0.0227 for the ten trading days up to and including 29 April 2008 and assuming the Share Consolidation has taken effect); and

(iv) equal to the theoretical price of HK$0.125 per New Share (based on the closing price of the Existing Shares of HK$0.025 on the Latest Practicable Date and assuming the Share Consolidation has taken effect).

**APPLICATION FOR LISTING**

Application will be made by the Company to the Stock Exchange for the granting of the listing of and permission to deal in the Vendor CN Conversion Shares, the Placing CN Conversion Shares and the Placing Shares.

## SHAREHOLDING STRUCTURES

The following chart depicts the effects of (i) the Share Consolidation; (ii) completion of the Placing of 400,000,000 Placing Shares; (iii) the exercise in full of the conversion rights attached to the Vendor CN and the completion of the Placing of 400,000,000 Placing Shares; (iv) the exercise in part of the conversion rights attached to the Vendor CN and the completion of the Placing of 400,000,000 Placing Shares; and (v) the exercise in full of the conversion rights attached to the Vendor CNs and the Placing CNs assuming an aggregate principal value of HK$100,000,000 of Placing CNs are successfully placed and 400,000,000 Placing Shares are successfully placed, based on the issued share capital and shareholding structure of the Company as at the Latest Practicable Date:

| | **As at the Latest Practicable Date** | | **Upon the Share Consolidation taking effect** | | **Upon successful completion of the placing of 400,000,000 Placing Shares** | | **Upon successful completion of the placing of 400,000,000 Placing Shares and full conversion of the Vendor CN** *(Note 1)* | | **Upon successful completion of the placing of 400,000,000 Placing Shares and part conversion of the Vendor CN** *(Note 2)* | | **Upon successful completion of the placing of 400,000,000 Placing Shares, and full conversion of the Vendor CN and the Placing CN** | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Existing Shares* | *%* | *New Shares* | *%* | *New Shares* | *%* | *New Shares* | *%* | *New Share* | *%* | *New Shares* | *%* |
| Mr. Ng | 6,616,992 | 0.11 | 1,323,398 | 0.11 | 1,323,398 | 0.08 | 1,323,398 | 0.05 | 1,323,398 | 0.06 | 1,323,398 | 0.04 |
| Vendor | — | — | — | — | — | — | 945,454,545 | 36.41 | 672,752,063 | 28.94 | 945,454,545 | 28.44 |
| *Subtotal* | *6,616,992* | *0.11* | *1,323,398* | *0.11* | *1,323,398* | *0.08* | *946,777,943* | *36.46* | *674,075,461* | *29.00* | *946,777,943* | *28.48* |
| Holders of Placing Shares | — | — | — | — | 400,000,000 | 24.22 | 400,000,000 | 15.40 | 400,000,000 | 17.21 | 400,000,000 | 12.03 |
| Holders of Placing CN Conversion Shares | — | — | — | — | — | — | — | — | — | — | 727,272,727 | 21.88 |
| Other public Shareholders | 6,251,613,408 | 99.89 | 1,250,322,682 | 99.89 | 1,250,322,682 | 75.70 | 1,250,322,682 | 48.14 | 1,250,322,682 | 53.79 | 1,250,322,682 | 37.61 |
| | 6,258,230,400 | 100.00 | 1,251,646,080 | 100.00 | 1,651,646,080 | 100.00 | 2,597,100,625 | 100.00 | 2,324,398,143 | 100.00 | 3,324,373,352 | 100.00 |

*Notes:*

1. It is a term of the Vendor CN that the holders of the Vendor CN shall not exercise any conversion right attaching to the Vendor CN or to such an extent that results or will result in the holder of the Vendor CN and parties acting in concert with it (within the meaning under the Takeovers Code) beneficially holding more than 29% (or such percentage as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer) of the then enlarged issued share capital of the Company at the relevant date of conversion of the relevant Vendor CN. Accordingly, there will be no change in control of the Company (within the meanings under the Takeovers Code) and this column is shown for illustration purpose only.

2. This column is shown to illustrate the shareholding structure if the Vendor, in accordance with the terms of the Vendor CN as described in note 1 above, exercises the conversion rights attaching to the Vendor CN which result in the Vendor and parties acting in concert with it (within the meanings under the Takeovers Code) beneficially holding up to 29% of the then issued share capital of the Company.

As at the Latest Practicable Date, the Company has no outstanding share options, warrants or other securities which carry rights to subscribe for or be converted into Shares.

## DILUTION EFFECT ON SHAREHOLDING

In view of the future dilution to existing Shareholders on the exercise of the conversion rights attached to the Vendor CN and the Placing CN, the Company will keep the Shareholders informed of the level of dilution and details of conversion as follows:

(i) the Company will make a monthly announcement (the "Monthly Announcement") on the websites of the Stock Exchange and the Company after the issue of the Vendor CN and the Placing CN. Such announcement will be made on or before the fifth business day following the end of each calendar month and will include the following details in a table form:

   (a) whether there is any conversion of the Vendor CN or the Placing CN during the relevant month. If there is a conversion, details thereof including the conversion date, number of Vendor CN Conversion Shares and Placing CN Conversion Shares issued and conversion price for each conversion. If there is no conversion during the relevant month, a negative statement to the effect;

   (b) the amount of outstanding Vendor CN and Placing CN after the conversion, if any;

   (c) the total number of New Shares issued pursuant to other transactions during the relevant month, including any New Shares issued pursuant to exercise of options under any share options scheme(s) of the Company; and

   (d) the total issued share capital of the Company as the commencement and the last day of the relevant month.

(ii) In addition to the Monthly Announcement, if the cumulative amount of the Vendor CN Conversion Shares and the Placing CN Conversion Shares issued pursuant to the conversion of the Vendor CN and the Placing CN respectively reaches 5% of the issued share capital of the Company as disclosed in the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Vendor CN and Placing CN (and thereafter in a multiple of such 5% threshold), the Company will make an announcement on the websites of the Stock Exchange and the Company including details stated in (i) above for the period commencing from the date of the last Monthly Announcement or any subsequent announcement made by he Company in respect of the Vendor CN and the Placing CN up to the date on which the total number of the Vendor CN Conversion Shares and the Placing CN Conversion Shares issued pursuant to the conversion amounted to 5% of the issued share capital of the Company as disclosed in the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Vendor CN and the Placing CN; and

(iii) if the Company forms the view that any issue of the Vendor CN Conversion Shares and the Placing CN Conversion Shares will trigger the disclosure requirements under Rule 13.09 of the Listing Rules, then the Company is obliged to make such disclosure regardless of the issue of any announcements in relation to the Vendor CN and the Placing CN as mentioned in (i) and (ii) above.

**REASONS FOR THE SHARE CONSOLIDATION, THE ACQUISITION AND THE PLACING**

The Company is an investment holding company and its subsidiaries are principally engaged in trading of toy, gift and premium products, and securities trading and investments.

The Share Consolidation will reduce the number of board lots in the market and will reduce the transaction costs for dealing in the shares of the Company. Based on the closing price of HK$0.022 on 29 April 2008 (being the last trading day of the Shares prior to the date of the Agreement), the value per board lot of 20,000 Existing Shares was HK$440. Upon the Share Consolidation taking effect, the market price of the shares in the Company will increase by 5 times theoretically and therefore the value per board lot of 20,000 New Shares will be HK$2,200. Any trading costs or handling charges, which are calculated on per board lot basis, will therefore be lower.

The property market in Hong Kong in general has recovered from the trough since 2003. Despite there were periods during 2005 and 2006 when the market had turned a bit quiet, the sentiment since 2007 has been positive, with total number and value of property transactions both recording strong growth from those of 2006. According to data published by the Land Registry in Hong Kong, the number of residential property transactions in 2007 was 123,575, representing a nearly 50% increase over that of 2006, while the total transaction value in 2007 was about HK$434 billion, representing an increase of over 80% from that of 2006. The growth was likewise seen in the non-residential property sector. Total number and value of non-residential property transactions in 2007 were 22,116 and approximately HK$92 billion, compared to 16,615 and approximately HK$83 billion in 2006. The Directors are optimistic about the property market in Hong Kong and believe the low interest rate environment, declining property supply and strong demand for residential properties will continue to support the property market and in turn benefit the business of the Target Group.

As stated in the final results announcement for the year ended 31 December 2007 of the Company dated 21 April 2008, it is the Company's primary ambition to seek prosperous and lucrative investments that will benefit the Group. The Target Group has been operating in Hong Kong since 1993 and has since established its brand recognition and local network in real estate market in Hong Kong and achieved a satisfactory track record in terms of profitability and number of completed transactions. The Directors consider the Target Group is well posed to capture market growth and increase its market share by expanding its network in Hong Kong through organic growth as well as acquisition of independent real estate agencies in area that the Target Group does not have presence at the moment. The property market in Macau also presents substantial potential for the Target Group. At present, Century 21 Macau has been established to engage in property agency related business in Macau. The Directors intend that after Completion, efforts will be made on building up the marketing and sales team in Macau with a view to boosting contribution to the Target Group. The management of the Company believe that the expansion plan of the Target Group is in line with the market trend. The Directors believe that the Acquisition presents a promising opportunity for the Group to broaden its business undertakings and to generate lucrative revenue from the real estate market in Hong Kong and Macau. The Directors also expect that with the recognition of the Century 21 brand name in worldwide property market, the integration of the Target Group into the Group would enhance the popularity of the Company among international investors. As at the Latest Practicable Date, the Directors had no intention to change the Company name after completion of the Agreement.

To facilitate the management of the acquired business, apart from relying on the existing team of the Target Group, the Vendor, who has extensive experience in the real estate sector, will be appointed as an executive Director on Completion. The Company will make further announcement as regards the appointment of executive Director according to the Listing Rules as and when appropriate.

Assuming the maximum principal value of HK$100 million of the Placing CN and 400,000,000 Placing Shares are issued, the proceeds from the Placing would amount to approximately HK$150 million. Based on the estimated expenses of approximately HK$6 million in relation to the Placing, net proceeds from the Placing would amount to approximately HK$144 million, and net placing price per New Share (including the Placing CN Conversion Shares and Placing Shares) would then amount to approximately HK$0.128. The proceeds from the Placing will be used to partially fund the payment of the cash portion of the Consideration. The remaining balance of the cash portion of the Consideration shall be funded by the internal resources of the Group (including the proceeds raised from the rights issue of the Company completed in December 2007).

In light of the above, the Directors consider the terms of the Agreement (including the Consideration, the terms of the Vendor CN and the terms of the Promissory Note) are fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole. The Directors also consider the Share Consolidation and the Placing are in the interests of the Company and the Shareholders as a whole.

## FINANCIAL EFFECT OF THE ACQUISITION ON THE GROUP

Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IX to this circular, the pro forma net assets of the Enlarged Group following the Acquisition would increase by approximately HK$7.8 million, comprising an increase of total assets and total liabilities of approximately HK$255.6 million and HK$247.8 million respectively. The respective unaudited pro forma net loss of the Enlarged Group following the Acquisition would decrease by approximately HK$9.1 million. Given the historical financial performances of Century 21 HK, Century 21 Property Agency and Century 21 Surveyor, the Acquisition is expected to have positive effects on the revenue and earnings of the Enlarged Group.

## FUND RAISING EXERCISE OF THE COMPANY IN THE PAST 12 MONTHS

Set out below are information on the fund raising exercises of the Company conducted in the past 12 months:

| Date of announcement | Transaction | Date of completion of the transaction | Net proceeds (approximate) | Intended use of proceeds | Actual use of proceeds |
|---|---|---|---|---|---|
| 26 January 2007 | Placing of convertible notes with aggregate principal amount of HK$34 million | 23 July 2007 | HK$33.6 million | (i) HK$10 million as general working capital of the Group; and (ii) HK$23.6 million for future investment opportunities | Approximately HK$10 million has been used as general working capital. Approximately HK$17.9 million has been used for the acquisition of property. The remaining balance of approximately HK$5.7 million has been used as part of the deposit for the Acquisition |
| 14 August 2007 | Placing of 70,000,000 new Existing Shares | 20 August 2007 | HK$8.6 million | As general working capital of the Group | As general working capital of the Group |
| 10 October 2007 | Rights issue of 4,693,672,800 new Existing Shares | 13 December 2007 | HK$172.65 million | (i) HK$20 million as general working capital of the Group; and (ii) HK$152.65 million for future investment opportunities | HK$20 million has been used as general working capital. Approximately HK$4.3 million has been used as part of the deposit for the Acquisition The remaining balance of approximately HK$148.35 million has not been utilized and will be applied in funding the Acquisition as intended. |

## LISTING RULES IMPLICATIONS

The Acquisition constitutes a very substantial acquisition for the Company pursuant to Rule 14.06(5) of the Listing Rules. The Vendor, who is also a brother of Mr. Ng, is a connected person of the Company for the purposes of Chapter 14A of the Listing Rules. Accordingly, the Acquisition also constitutes a connected transaction of the Company pursuant to Chapter 14A of the Listing Rules and is subject to the approval by Independent Shareholders at the SGM by poll. As at the date of the Agreement and as at the Latest Practicable Date, Mr. Ng and his associates were interested in 6,616,992 Existing Shares, representing 0.11% of the total issued Existing Shares. They are required to abstain from voting in respect of the proposed ordinary resolution to approve the Agreement and the transactions contemplated therein at the SGM under the Listing Rules.

The Share Consolidation and the Placing are also subject to the approval of the Shareholders.

## PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS

Pursuant to bye-law 70 of the existing bye-laws of the Company, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is duly demanded:

(a) by the chairman of such meeting; or

(b) by at least three members present in person (or in the case of a member being a corporation by its duly authorized representative) or by proxy entitled to vote at the meeting; or

(c) by any member or members present in person (or in the case of a member being a corporation by its duly authorized representative) or by proxy and representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting; or

(d) by any member or members present in person (or in the case of a member being a corporation by its duly authorized representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

## RECOMMENDATION

In relation to the Acquisition, your attention is drawn to the letter from the Independent Board Committee on page 41 and the letter from Veda Capital set out on pages 42 to 66 of this circular. The Directors believe that the proposed Share Consolidation and the Placing are in the interests of the Company and the Shareholders as a whole and, accordingly, the Directors recommend the Shareholders to vote in favour of the aforesaid resolutions to be proposed at the SGM.

The Independent Board Committee, having taken into account the advice of Veda Capital, considers that the terms of the Agreement are fair and reasonable so far as the Independent Shareholders are concerned and the Acquisition is in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the Agreement and the transactions contemplated therein. The full text of the letter from the Independent Board Committee is set out on page 41 of this circular.

**GENERAL**

Your attention is drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of
**GFT Holdings Limited**
**Ma Wai Man, Catherine**
*Executive Director*

*The following is the text of the letter of recommendation, prepared for the purpose of incorporation in this circular, from the Independent Board Committee to the Independent Shareholders in connection with the Acquisition:*

**GFT HOLDINGS LIMITED**
**真樂發控股有限公司***
*(incorporated in Bermuda with limited liability)*
**(stock code: 1003)**

28 June 2008

*To the Independent Shareholders*

Dear Sir or Madam,

**VERY SUBSTANTIAL ACQUISITION**
**AND**
**CONNECTED TRANSACTION**

We refer to the circular of the Company dated 28 June 2008 (the "Circular") of which this letter forms part. Unless the context specifies otherwise, capitalized terms used herein have the same meanings as defined in the Circular.

We have been appointed by the Board to advise the Independent Shareholders as to whether the terms of the Agreement are fair and reasonable insofar as the Independent Shareholders are concerned and whether the Acquisition is in the interests of the Company and the Shareholders as a whole. Veda Capital has been appointed as the independent financial adviser to advise you and us in this respect.

Having taken into account the principal reasons and factors considered by, and the advice of, Veda Capital as set out in its letter of advice to you and us on pages 42 to 66 of the Circular, we are of the opinion that the terms of the Agreement are fair and reasonable so far as the Independent Shareholders are concerned and the Acquisition is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Acquisition and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
**Independent Board Committee**
**Cheng Yuk Wo, Chui Chi Yun, Robert, Leung Sau Fan, Sylvia**
*Independent non-executive Directors*

* *for identification purpose only*

*The following is the full text of a letter of advice from Veda Capital to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition prepared for the purpose of inclusion in this circular.*

VEDA | CAPITAL
智略資本

**Veda Capital Limited**
Suite 1302, 13/F, Takshing House
20 Des Voeux Road Central
Hong Kong

28 June 2008

*To the Independent Board Committee*
*and the Independent Shareholders of*
*GFT Holdings Limited*

Dear Sirs,

## VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION

### INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition, details of which are set out in the letter from the Board (the "**Board Letter**") contained in this circular (the "**Circular**") dated 28 June 2008 issued by the Company, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 30 April 2008, Kingbox and the Company entered into the Agreement with the Vendor, pursuant to which Kingbox conditionally agreed to acquire and the Vendor conditionally agreed to sell the equity interests in the Targets for a total consideration of HK$430 million. The Consideration shall be satisfied as to HK$200 million in cash, as to HK$130 million by the issue of the Vendor CN and as to HK$100 million by the issue of the Promissory Note.

The Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules and will be subject to the approval of the Shareholders at the SGM. Since the Vendor is a brother of Mr. Ng who is a director and substantial shareholder of a non-wholly owned subsidiary of the Company, the Vendor is considered as a connected person of the Company and the Acquisition also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and will be subject to, amongst other things, the approval of the Independent Shareholders by poll at the SGM. To the best of the knowledge of the Directors, Mr. Ng and his associates are interested in 6,616,992 Existing Shares as at the Latest Practicable Date. Mr. Ng and his associates are required to abstain from voting for the approval of the Acquisition and the transactions contemplated therein at the SGM under the Listing Rules.

The Independent Board Committee has been established to advise whether the terms of the Acquisition are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole. The Independent Board Committee (comprising the independent non-executive Directors, namely Mr. Cheng Yuk Wo, Mr. Chui Chi Yun, Robert and Ms. Leung Sau Fan, Sylvia) which is not involved in nor has any interest in the Acquisition and thus being independent has been established. Veda Capital has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders as to (i) whether the terms of the Acquisition are on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole; and (ii) whether the Independent Shareholders should vote in favour of the resolution to approve the Acquisition.

## BASIS OF OUR ADVICE

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Company, Directors and management of the Company. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have assumed that all information, representations and opinions contained or referred to in the Circular, which have been provided by the Company, Directors and management of the Company and for which they are solely and wholly responsible, were true and accurate at the time they were made and continue to be true at the date of the SGM.

We have not made an independent evaluation or appraisal of the assets and liabilities of the Group and the Target Group and we have not been furnished with any such evaluation or appraisal, save and except for the valuation report (the "**Valuation Report**") on the market value of the entire equity interests in Century 21 HK, Century 21 Property Agency and Century 21 Surveyors prepared by BMI Appraisals Limited ("**BMI**"), an independent professional valuer. We are not experts in the valuation of companies and assets in all businesses and therefore have relied upon the Valuation Report for the market value of the entire equity interests in Century 21 HK, Century 21 Property Agency and Century 21 Surveyors as at 30 April 2008. Nevertheless, in order for us to form a better understanding on the Acquisition, we have taken various steps for our due diligence purpose, including but not limited to (i) conducting interviews with BMI regarding the methodology, basis and assumptions with regards to the valuation of the market value of the entire equity interests in Century 21 HK, Century 21 Property Agency and Century 21 Surveyors; and (ii) requesting for and obtained the supporting documents in relation to the valuation of the market value of the entire equity interests in Century 21 HK, Century 21 Property Agency and Century 21 Surveyors. We have also enquired into the Directors regarding the future expansion plans of the Enlarged Group in the number of franchisees and self-owned agencies in Hong Kong and Macau. We consider that we have no reason to believe any of the following information is not true or omits a material fact (i) the information relied on by us in forming our opinion; or (ii) any information relied on by BMI whose opinion we relied on in forming our opinion. We consider that we have taken sufficient and necessary steps to form a reasonable basis and an informed view for our recommendation and are in compliance with Rule 13.80(2) of the Listing Rules.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, the Targets or their respective subsidiaries and associated companies.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

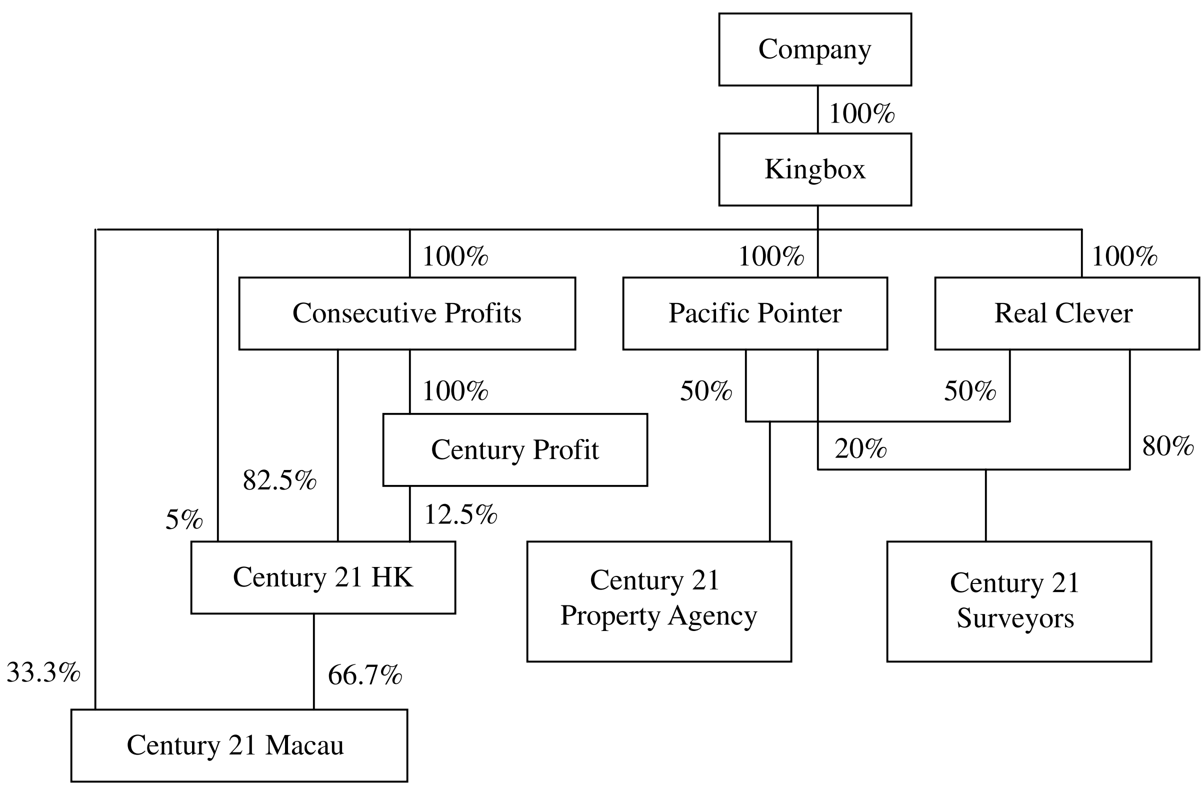
In assessing the Acquisition and in giving our recommendation to the Independent Board Committee and the Independent Shareholders, we have taken into account the following principal factors and reasons:

### Background of and reasons for the Acquisition

The Company is an investment holding company and its subsidiaries are principally engaged in trading of toy, gift and premium products, and the securities trading and investments.

On 30 April 2008, Kingbox, the Company and the Vendor entered into the Agreement pursuant to which Kingbox has conditionally agreed to purchase and the Vendor has conditionally agreed to sell the equity interests in the Targets. The Target Group is principally engaged in the provision of franchise, consultancy, property agency services, surveying, property project consulting service, property valuation, auction and tendering in Hong Kong, Macau, Mainland China and other Asian Countries, namely Singapore.

Immediately upon Completion, the shareholding structure of the Target Group will become as follows:



Consecutive Profits, Pacific Pointer, Real Clever and Century Profit are investment holding companies and are neither engaged in any business nor holding any assets other than the shares in Century 21 HK, Century 21 Property Agency and Century 21 Surveyors. Century 21 Macau is currently dormant and has not commenced any operations and it has been established to engage in property agency related business in Macau. Since Century 21 HK, Century 21 Property Agency and Century 21 Surveyors are the three principal operating subsidiaries of the Target Group, we will focus our financial analysis on these three companies. Though immaterial, Independent Shareholders are reminded to also refer to the pro forma adjustments for elimination of inter-companies balances of the Target Group as stated in the unaudited pro forma financial information of the Enlarged Group as contained in Appendix IX to the Circular.

*Historical financial performance of Century 21 HK*

Century 21 HK is principally engaged in the provision of franchise, consultancy and property agency services in Hong Kong and Macau. The audited consolidated income statements of Century 21 HK for the three years ended 31 March 2006, 2007 and 2008 respectively, which were extracted from Appendix V to the Circular were summarised as follows:

| | For the year ended 31 March | | |
|---|---|---|---|
| | **2006** | **2007** | **2008** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Revenue | 7,207 | 6,201 | 5,856 |
| Other income | 3,060 | 2,147 | 3,522 |
| Employee benefit expenses | (2,647) | (2,277) | (1,643) |
| Depreciation | (431) | (416) | (354) |
| Other operating expenses | (6,806) | (5,277) | (4,924) |
| Finance costs | (13) | — | — |
| Profit before income tax | 370 | 378 | 2,457 |
| Income tax expense | (65) | (67) | (433) |
| Profit for the year | 305 | 311 | 2,024 |

Revenue for the year ended 31 March 2007 was approximately HK$6.20 million, representing a decrease of approximately 14.0% from that for the year ended 31 March 2006 of approximately HK$7.21 million, mainly because of the decrease in project management fee income in the amount of approximately HK$1.14 million from the financial year 2006, which was due to the shift of business to Century 21 Surveyors in the primary market segment. Other income also decreased from approximately HK$3.06 million for the year ended 31 March 2006 by approximately 29.8% to approximately HK$2.15 million as a result of the significant decrease of referral fee income during the year ended 31 March 2007. Referral fee represents the income received from the referral of mortgage loans to relevant licensed financial institutions and such income has decreased by approximately 44.4% during the year ended 31 March 2007 from that for the year ended 31 March 2006. The referral business was highly related to the business volume of Century 21 Property Agency.

Century 21 HK recorded revenue of approximately HK$5.9 million for the year ended 31 March 2008, representing a further decrease of approximately 5.56% from that of the previous financial year, mainly because of further decrease in project management fee income in the amount of approximately HK$0.7 million. On the other hand, other income recorded a significant growth during the period and amounted to approximately HK$3.52 million for the year ended 31 March 2008, representing an increase of approximately 64.0% from that for the year ended 31 March 2007. The increase in other income was due to the increase in the referral business which recorded a growth rate of approximately 111.1% for the year ended 31 March 2008 over that for the year ended 31 March 2007. The increase in the referral business benefited from the rebound of the real estate market in 2007.

Despite the decreasing revenues of Century 21 HK for the three years ended 31 March 2006, 2007 and 2008, as a result of better allocation of resources and costs control, the total operating expenses of Century 21 HK also decreased from approximately HK$9.9 million for the year ended 31 March 2006 to approximately HK$8.0 million for the year ended 31 March 2007 and to approximately HK$6.9 million for the year ended 31 March 2008. Net profit for the three years ended 31 March 2006, 2007 and 2008 was on an increasing trend of approximately HK$0.3 million, approximately HK$0.3 million and approximately HK$2.0 million respectively.

*Historical financial performance of Century 21 Property Agency*

Century 21 Property Agency is principally engaged in the provision of property agency services in Hong Kong and Macau. The audited consolidated income statements of Century 21 Property Agency for the three years ended 31 March 2006, 2007 and 2008 respectively, which were extracted from Appendix VI to the Circular were summarised as follows:

| | **For the year ended 31 March** | | |
|---|---|---|---|
| | **2006** | **2007** | **2008** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Revenue | 29,171 | 17,240 | 28,435 |
| Other income | 1,455 | 1,537 | 492 |
| Commission expenses | (8,817) | (3,759) | (4,577) |
| Employee benefit expenses | (9,325) | (6,620) | (6,022) |
| Depreciation | (233) | (163) | (115) |
| Other operating expenses | (10,740) | (7,176) | (6,460) |
| Finance costs | (3) | (95) | (111) |
| Profit before income tax | 1,508 | 964 | 11,642 |
| Income tax expense | (263) | (158) | (2,001) |
| Profit for the year | 1,245 | 806 | 9,641 |

Revenue for the year ended 31 March 2007 was approximately HK$17.24 million, representing a decrease of approximately 40.9% from that for the year ended 31 March 2006 of approximately HK$29.17 million, mainly attributed to the decrease of branches from 8 during the year ended 31 March 2006 to 4 during the year ended 31 March 2007. Other income remained stable for the year ended 31 March 2007 and recorded an increase of approximately 5.6% over that for the year ended 31 March 2006. Century 21 Property Agency recorded revenue of approximately HK$28.44 million for the year ended 31 March 2008, representing a strong increase of approximately 64.9% from that of the previous financial year, primarily due to the boom of the secondary property market for the year ended 31 March 2008. However, other income decreased by approximately 68.0% and amounted to approximately HK$0.49 million for the year ended 31 March 2008.

As a result of the decrease in turnover, the commission expenses dropped from approximately HK$8.82 million for the year ended 31 March 2006 to approximately HK$3.76 million for the year ended 31 March 2007, representing a decrease of approximately 57.4%. As a result of decrease in number of branches, other operating expenses was also decreased and amounted to approximately HK$7.18 million for the year ended 31 March 2007, representing a decrease of approximately 33.1% when compared to financial year 2006. As a result of more direct dial-in customers during the year ended 31 March 2008, less commission is paid to the agents from Century 21 Property Agency, the commission expenses recorded a less significant growth relative to the increase in turnover and amounted to approximately HK$4.58 million for the year ended 31 March 2008, representing an increase of 21.8% when compared to financial year 2007. The other operating expenses amounted to approximately HK$6.46 million, representing a decrease of approximately 9% from financial year 2007 mainly due to the decrease of branches during the previous period. Although net profit of Century 21 Property Agency for the year ended 31 March 2007 of approximately HK$0.8 million decreased by approximately 35.3% from the net profit of approximately HK$1.2 million for the year ended 31 March 2006, net profit for the year ended 31 March 2008 increased significantly by approximately 11 times from the previous financial year to approximately HK$9.6 million.

*Historical financial performance of Century 21 Surveyors*

Century 21 Surveyors is principally engaged in the provision of surveying and property agency services in Hong Kong. Century 21 Surveyors has established its China division in 2000 with a dedicated team of staff to provide real estate relating services namely project planning, consultancy, investment and corporate relocation services in Guangzhou and Beijing. The audited consolidated income statements of Century 21 Surveyors for the three years ended 31 March 2006, 2007 and 2008 respectively, which were extracted from Appendix VII to the Circular were summarised as follows:

| | **For the year ended 31 March** | | |
|---|---|---|---|
| | **2006** | **2007** | **2008** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Revenue | 28,120 | 42,489 | 54,629 |
| Other income | 903 | 916 | 904 |
| Commission expenses | (17,326) | (33,021) | (35,434) |
| Employee benefit expenses | (5,554) | (4,995) | (4,840) |
| Depreciation | (33) | (9) | (7) |
| Other operating expenses | (4,013) | (4,541) | (4,370) |
| Profit before income tax | 2,097 | 839 | 10,882 |
| Income tax expense | (124) | (648) | (1,904) |
| Profit for the year | 1,973 | 191 | 8,978 |

Revenue for the year ended 31 March 2007 was approximately HK$42.49 million, representing an increase of approximately 51.1% from that for the year ended 31 March 2006 of approximately HK$28.12 million, was mainly attributed to increase in the rendering of service which was due to the shift of business from Century 21 HK in the primary market segment. The other income for the year ended 31 March 2007 has a slight increase of approximately 1.4% when compared to that for the year ended 31 March 2006. Century 21 Surveyors recorded revenue of approximately HK$54.63 million for the year ended 31 March 2008, representing a further increase of approximately 28.6% from that of the previous financial year, mainly due to additional secured businesses from major property developers for primary property segment during the year ended 31 March 2008. Other income for the year ended 31 March 2008 has a slight decrease of approximately 1.3% from that for the financial year 2007.

As a result of the increase in turnover and other income for the year ended 31 March 2007, the other operating expenses which include commission expenses, employee benefit expenses, depreciation and other operating expenses increased by approximately HK$15.64 million when compared with the aggregate for the year ended 31 March 2006. In particular, the commission expenses for the year ended 31 March 2007 had an enormous increase of approximately 90.6% when compared to that for the year ended 31 March 2006. Such increase was due to more incentive in the form of rebate was given to the customers while Century 21 Surveyors also expanded its presence in the primary property market. Since turnover and other income increased for the year ended 31 March 2008, the other operating expenses which include commission expenses, employee benefit expenses, depreciation and other operating expenses also increased by approximately HK$2.09 million, representing an increase of approximately 4.9% when compared to the aggregate for the year ended 31 March 2007. Although net profit for the year ended 31 March 2007 of approximately HK$0.19 million decreased by approximately 90.32% from the net profit of approximately HK$1.97 million for the year ended 31 March 2006, net profit for the year ended 31 March 2008 increased significantly by approximately 46 times from the previous financial year to approximately HK$8.98 million.

Given the increasing trends of the aggregate of revenues and earnings for Century 21 HK, Century 21 Property Agency and Century 21 Surveyors for the three years ended 31 March 2006, 2007 and 2008 respectively and in particular, high rate of growth in earnings for Century 21 HK, Century 21 Property Agency and Century 21 Surveyors for the year ended 31 March 2008, we consider the Acquisition is beneficial to the Group in regard to the expected positive contribution to the results of the Group upon Completion.

*Reasons for and prospect of the Acquisition*

After the discontinuation of the secondary consumer products business during the year ended 31 December 2006, the Company made headway in the streamlining process by disposing its idle assets and underperformed manufacturing operation during the year ended 31 December 2007. The disposals caused the Group suffering from notable loss and substantial downsizing. On the other hand, the Company, with fund raised from the placements and the rights issue executed during the year ended 31 December 2007 with an aggregate net proceeds of approximately HK$214.85 million, is relatively sufficient in resources and is ready to make the critical move when the opportunities emerge. As mentioned in the annual report of the Company for the year ended 31 December 2007, the Company's primary ambition is to seek prosperous and lucrative investments that will benefit the Group, especially after the above two disposals and the prevailing market conditions indicate that toy industry players are inevitably facing with difficult years.

The property market in Hong Kong in general has recovered from the bottom since the mid of 2003. Despite there were periods during 2005 and 2006 when the market had turned a bit quiet, the sentiment since 2007 has been positive, with total number and value of property transactions both recording strong growth from those of 2006. According to data published by the Land Registry in Hong Kong, the number of residential property transactions in 2007 was 123,575, representing a nearly 50% increase over that of 2006, while the total transaction value in 2007 was above HK$434 billion, representing an increase of over 80% from that of 2006. The growth was likewise seen in the non-residential property sector. Total number and value of non-residential property transactions in 2007 were 22,116 and approximately HK$92 billion, compared to 16,615 and approximately HK$83 billion in 2006. Transaction volume rose across the board, be it properties in the primary or secondary market, luxury homes or mass residential estates. Given that the savings ratio is high and gearing ratio is low among Hong Kong people, the Directors consider that a low interest rate environment will stimulate desire to buy homes. The Directors are optimistic about the property market in Hong Kong and believe the low interest rate environment, declining property supply and strong demand for residential properties will continue to support the property market and in turn benefit the business of the Target Group.

The Target Group has been operating in Hong Kong since 1993 and has since established its brand recognition and local network in real estate market in Hong Kong and achieved a satisfactory track record in terms of profitability and number of completed transactions. The Target Group at present operates over 120 (including 4 owned by the Target Group) licensed estate agencies in Hong Kong and Macau. The Directors consider the Target Group is well posed to capture market growth and increase its market share by expanding its network in Hong Kong through organic growth as well as acquisition of independent real estate agencies in Hong Kong and Macau that the Target Group does not have presence at the moment. Under the Subfranchise Agreement, Century 21 HK has been granted the exclusive perpetual right to sublicense certain Century 21 marks and to grant Century 21 franchises to licensed real estate brokers and to use the Century 21 system developed by Century 21 US for the establishment, development and operation of real estate brokerages offices in Hong Kong and Macau. Century 21 US is the original franchisor of the world's largest residential real estate sales organization, with more than 8,400 independently owned and operated franchised broker offices in over 58 countries and territories worldwide. Century 21 US has designed and developed standardized signs, making use of a logo type insignia, business cards, stationery, business forms, office procedure manuals, centralized advertising programs, sales training programs and personnel management and control system. Leveraged on the close relationship with property developers and its strategic partnership with Century 21 China Real Estate and other regional Century 21 franchises, the Directors expected that the Target Group has been and will continue to be benefited from this close alliance and gain buoyance in the fast growing economy in the PRC. Given the internationally recognised brand name of Century 21, its established presence in the property market and its strong international customer network, the Directors consider that the prospect of the Target Group is positive. The Directors expected that the Target Group will continue to increase the number of sub-franchises in Hong Kong and expand its presence in Macau.

We concur with the Directors that the Acquisition is in line with the business strategy of the Group to invest in prosperous and lucrative investments as mentioned in the annual report of the Company for the year ended 31 December 2007. Taking into account the positive prospects of the property market since mid-2003 leveraging on the growing in demand for all types of housing and the low level of interest rates, we concur with the Directors that the Acquisition is in the interests of the Company and the Independent Shareholders as a whole.

**Consideration for the Acquisition**

The Consideration for the Acquisition of HK$430 million has been paid/shall be payable in the following manner:

(a) as to HK$10 million, has been paid by Kingbox in cash to the Vendor's solicitors as a deposit on signing of the Agreement, which shall be released to the Vendor on Completion;

(b) as to HK$190 million, shall be paid by Kingbox in cash to the Vendor on Completion;

(c) as to HK$100 million, by Kingbox issuing the Promissory Note to the Vendor or its nominee(s) at 100% of its face value at Completion; and

(d) as to HK$130 million, by the Company issuing the Vendor CN to the Vendor or its nominee(s) at 100% of its face value at Completion.

We consider that the issue of the Promissory Note and Vendor CN to Vendor for settling part of the Consideration is in the interests of the Company as it will not draw on the existing cash resources of the Group for the Acquisition and has no immediate dilution effect on the existing Shareholders. Please also refer to the sections headed "Vendor CN" and "Promissory Note" below for our evaluation of fairness and reasonableness of the terms of the Vendor CN and the Promissory Note.

As stated in the Board Letter, the Consideration has been arrived at after arm's length negotiation between the Company and the Vendor with reference to (i) the historical financial performance of the Target Group; (ii) the prospects and growth potential of the business of the Target Group; and (iii) the Guaranteed Profit (as defined below in the section headed "Profit guarantee").

The Consideration is subject to two adjusting events as detailed below:

*(a) Profit Guarantee*

The Vendor warrants and guarantees to Kingbox that the aggregate profits before tax of the Target Group for the year ended 31 March 2008 as reflected in the audited financial statements of Century 21 HK, Century 21 Property Agency and Century 21 Surveyors prepared in accordance with Hong Kong Financial Reporting Standards shall not be less than HK$23 million (the "**Guaranteed Profit**").

The Vendor covenants with Kingbox that, in the event that the aggregate profits before tax of the Target Group for the year ended 31 March 2008 as reflected in the audited financial statement (the "**Audited Profit**") is less than HK$23 million the Vendor shall compensate Kingbox by an amount equivalent to a percentage of the Consideration calculated as follows:

$$\text{Percentage of the Consideration to be compensated by the Vendor to Kingbox} = \frac{\text{Guaranteed Profit - Audited Profit}}{\text{HK\$23 million}}$$

Since the aggregate of the audited profits before tax of Century 21 HK, Century 21 Property Agency and Century 21 Surveyors of approximately HK$25.0 million for the year ended 31 March 2008 (being the Audited Profit) has exceeded the Guaranteed Profit, such adjustment mechanism will not take effect.

*(b) Adjustment pursuant to a condition of the Agreement*

Condition (iii) as disclosed in the section headed "Conditions of the Agreement" in the Board Letter stated that:

"(iii) (a) the written consent from Century 21 AP to the sale of the shares of Consecutive Profits and Century 21 HK to Kingbox having been obtained pursuant to the Subfranchise Agreement;

(b) the option/right of Century 21 AP to purchase Century 21 HK's right under the Subfranchise Agreement having been unconditionally withdrawn, waived and/or cancelled by Century 21 AP in writing; and

(c) Kingbox having (as its own cost) obtained a legal opinion issued by a law firm from the United States of America acceptable to Kingbox on the legality, validity and enforceability of the Subfranchise Agreement,

all in such form and substance to the satisfaction of Kingbox, and the uninterrupted continuation of the current business of the Target Group and the current rights and business of the Target Group after Completion".

In the event that the condition referred to above cannot be fulfilled and Kingbox shall in its absolute discretion decide to waive such condition, the Consideration shall be reduced by the following percentage:

$$A = \frac{B}{C}$$

where:

“A” = percentage by which the Consideration is to be reduced

“B” = amount of the audited profit after tax of Century 21 HK for the year ended 31 March 2008

“C” = aggregate amount of the audited profits after tax of each of Century 21 HK, Century 21 Property Agency and Century 21 Surveyors for the year ended 31 March 2008

Based on the audited profits after tax of each of Century 21 HK, Century 21 Property Agency and Century 21 Surveyors for the year ended 31 March 2008 as contained in Appendix V, VI and VII in the amount of approximately HK$2.02 million, approximately HK$9.64 million and approximately HK$8.98 million respectively, the percentage by which the Consideration is to be reduced is approximately 9.8%. In other words, should the above condition cannot be fulfilled and Kingbox shall in its discretion decide to waive such condition, the Consideration will be reduced by approximately HK$42.14 million and adjusted to approximately HK$387.86 million.

As stated in the Board Letter, Century 21 US has designed and developed standardized signs, making use of a logo type insignia, business cards, stationery, business forms, office procedure manuals, centralized advertising programs, sales training programs and personnel management and control system. Century 21 HK has been granted the right of use in Hong Kong and Macau of the said system under the Subfranchise Agreement. Century 21 HK has entered into agreements with both Century 21 Property Agency and Century 21 Surveyors respectively for franchise operation in Hong Kong. Century 21 AP (being the ultimate assignee of the rights of the franchisor under the Subfranchise Agreement as at the Latest Practicable Date) has the option/right to purchase Century 21 HK’s rights under the Subfranchise Agreement during the last 12 months of the 15th year of the Subfranchise Agreement, i.e. from 12 August 2007 to 11 August 2008. As stated in the Board Letter, Century 21 AP is also entitled to exercise its right to repurchase Century 21 HK if there is any change in control of Century 21 HK. As advised by the Directors, Century 21 AP has not indicated that whether it will exercise its option/right to purchase Century 21 HK’s rights under the Subfranchise Agreement or its right to repurchase Century 21 HK as at the Latest Practicable Date and the Directors believe that there is a very low possibility to foresee such exercises of rights by Century 21 AP. As stated in the Letter from the Board, in the event that Century 21 AP has decided to exercise its option/rights to purchase Century 21 HK’s rights under the Subfranchise Agreement, like other franchisees in the region, Century 21 Property Agency and Century 21 Surveyors are entitled to continue to operate under their respective franchise arrangements with Century 21 HK and renegotiate such arrangements with Century 21 HK or its successor upon expiry of the existing franchise term which will end from year 2013 to year 2027 (subject to renewal) and the management of the Company also believes that given the business experience and track record of the Vendor, Century 21 Property Agency and Century 21 Surveyors in the property agency business, the business of Century 21 Property Agency and Century 21 Surveyors would not be affected adversely. However, Independent Shareholders should note that there is no provision in the Agreement to adjust the Consideration for such effect when the changes are materialized.

As advised by the Directors, condition (iii) of the Agreement has not been fulfilled or waived as at the Latest Practicable Date. Given that the Consideration will be reduced in proportion to the amount of audited profits after tax of Century 21 HK for the year ended 31 March 2008 as a percentage of the aggregate amount of the audited profits after tax of Century 21 HK, Century 21 Property Agency and Century 21 Surveyors for the year ended 31 March 2008, we consider that the adjustment to the Consideration pursuant to condition (iii) of the Agreement is fair and reasonable to the Independent Shareholders and the Company.

**Valuation of Century 21 HK, Century 21 Property Agency and Century 21 Surveyors**

As stated in the Board Letter, BMI has prepared the Valuation Report on the market value of the entire interests in Century 21 HK, Century 21 Property Agency and Century 21 Surveyors as at 30 April 2008, we consider it relevant and appropriate, for the purpose of evaluating the fairness and reasonableness of the Consideration, to compare the Consideration to such valuation. We have reviewed the Valuation Report and enquired into BMI on the methodology adopted and the assumptions used in arriving at the market value of the entire interests in Century 21 HK, Century 21 Property Agency and Century 21 Surveyors. We were advised by BMI that there are three classical appraisal approaches available for determining the value of different assets, namely the income approach, cost approach and market approach. We have enquired into BMI regarding the reasons for the adoption of market approach for the valuation of the market value of Century 21 HK, Century 21 Property Agency and Century 21 Surveyors and BMI explained to us that, (i) the income approach involves much more assumptions compared to the other two approaches; and (ii) the cost approach does not take future growth potential of Century 21 HK, Century 21 Property Agency and Century 21 Surveyors into consideration. Thus, BMI considered that the market approach is the most appropriate valuation approach for the subject valuation.

BMI adopted the market approach which provides indications of value by comparing Century 21 HK, Century 21 Property Agency and Century 21 Surveyors to similar businesses, business ownership interests, and securities that have been sold in the market. In addition, BMI were also of the view that the market approach is the best valuation method given that it involves less assumptions and uncertainty in the valuation. During the valuation process, BMI had selected three recent acquisitions that are related to companies which had similar business operation with Century 21 HK, Century 21 Property Agency and Century 21 Surveyors and determined their price to sales multiples.

| Date of transaction | Name of target company | Country | Business description | Acquisition price | Latest published sales before the acquisition | Price to sales ratio |
|---|---|---|---|---|---|---|
| May 07 | Foxtons Limited *(Source 1)* | United Kingdom | London's leading estate agency and independent mortgage broker group | GBP390 million | GBP100 million | 3.90 |
| May 07 | Countrywide plc *(Source 2)* | United Kingdom | Largest estate agency group in the United Kingdom | GBP1,050 million | GBP654 million | 1.61 |
| Feb 06 | Grand Panorama Limited *(Source 3)* | PRC | Engaged in real estate broking of properties and provision of property-related services in China | RMB30 million | RMB13.5 million | 2.22 |

*Sources:*

1. http://business.timesonline.co.uk
2. http://www.hkexnews.hk
3. http://business.timesonline.co.uk

Then BMI had applied these price multiples to the sales data of Century 21 HK, Century 21 Property Agency and Century 21 Surveyors and determined the indicated value of Century 21 HK, Century 21 Property Agency and Century 21 Surveyors. Regarding the use of price to sales multiple in the valuation process, we have enquired into BMI such basis versus the use of price to earnings multiple or price to book value multiple which are other commonly used benchmarks in valuation. BMI considered that (i) first of all, the volatile and transitory nature of earnings makes the price to earnings multiple rather difficult to interpret; (ii) secondly, price to book value multiple was considered an inappropriate measure as the business of real estate agency is highly related to human capital, which is not reflected in the book value; (iii) price to sales multiple is not as volatile as the price to earnings multiple because the volatility of earnings is magnified by the effect of fixed costs because by definition, change in earnings equals to change in sales multiplied by the operating leverage, which is greater than 1 if there is any fixed cost involved; and (iv) price to sales multiple is particularly appropriate for valuing companies in the early expansion stage. As stated in the Board Letter, the Target Group is in its early expansion stage and is building up a critical number of franchisees and self-owned agencies in Hong Kong and Macau. The management of the Company also believes that such expansion plan of the Target Group is in line with the market trend. Regarding the selection of the three comparable transactions, we were advised by BMI that during the selection period between 1 January 2006 and the date of the Agreement, based on publicly available information, the three comparable transactions represented the only successfully completed transactions of real estate agencies. Given the three comparable transactions are all leading property agency companies in the relevant cities, BMI considered that they are representative as comparable basis in the Valuation Report.

Afterwards, BMI applied a discount rate to the indicated value based on price to sales multiple to determine the valuation as at the date of valuation. Such value was deducted with the expected capital expenditure based on the expansion plans provided by the senior management of the Company after the application of the same discount rate. Such discount rate is the sum of the risk-free rate and a related beta times the market risk premium with the formula stated as follows:

$$E(R_i) = R_f + \beta_{im}(E(R_m) - R_f)$$

where:

| | | |
|---|---|---|
| $E(R_i)$ | = | the expected return on capital |
| $R_f$ | = | the risk-free rate of interest |
| $\beta_{im}$ | = | the sensitivity of the asset returns to the market returns (“**beta**”) |
| $E(R_m)$ | = | the expected return of the market |
| $E(R_m) - R_f$ | = | the market premium or risk premium |

We were advised by BMI that the yield rate of the 10-year Hong Kong Exchange Fund Notes as at the date of valuation was adopted as the risk-free rate. The beta has been determined as the median of betas of all listed companies in Hong Kong on the Stock Exchange (and four companies had been identified) which had similar business operation with Century 21 HK, Century 21 Property Agency and Century 21 Surveyors. In addition, since Century 21 HK, Century 21 Property Agency and Century 21 Surveyors are still at their early stage of expansion, an early stage risk premium is added. Lastly, in respect of non-systematic risks, BMI had considered the size difference, which is a company-specific risk between Century 21 HK, Century 21 Property Agency and Century 21 Surveyors and the underlying companies of the comparable transactions and thus had made an adjustment in the valuation of the market value of Century 21 HK, Century 21 Property Agency and Century 21 Surveyors with a discount rate to reflect the effect of size difference.

According to the Valuation Report, the market value of the entire equity interests in Century 21 HK, Century 21 Property Agency and Century 21 Surveyors was HK$465 million. In light of that the Consideration represents a discount of approximately 7.52% to the valuation stated in the Valuation Report, we concur with the Directors that the Consideration is in the interests of the Company and the Independent Shareholders as a whole.

**Conditions of the Agreement**

Completion of the Agreement is conditional upon fulfillment of the conditions of the Agreement as set out in the section headed "Conditions of the Agreement" in the Board Letter. Given the conditions of the Agreement are for compliance of the relevant provisions of the Listing Rules, enabling due diligence on the Target Group, fulfilling the requirements under the Subfranchise Agreement and other regulatory authorities, keeping warranties true and correct in any material respect and obtaining relevant legal opinions on the Subfranchise Agreement and the Target Group, we concur with the Directors that the conditions of the Agreement are in normal commercial terms and fair and reasonable to the Company and the Independent Shareholders.

As stated in the Board Letter, if after fulfillment (or waiver, as the case may be) of all the conditions of the Agreement, Kingbox shall fail to complete the Acquisition in accordance with the terms and conditions of the Agreement, the deposit of HK$10 million paid by Kingbox and the interest accrued thereon shall be released to the Vendor and the Vendor shall have no further claim against Kingbox under the Agreement whatsoever. If the Vendor shall fail to complete the Acquisition in accordance with the terms and conditions of the Agreement notwithstanding fulfillment (or waiver, as the case may be) of the conditions of the Agreement, or if the Vendor shall be in breach of any terms, conditions or warranties of the Agreement entitling Kingbox to rescind or terminate the Agreement and Kingbox does by notice in writing to the Vendor rescind or terminate the Agreement, the deposit of HK$10 million paid by Kingbox shall be returned to Kingbox together with all interests accrued thereon forthwith without prejudice to any other claims and remedies Kingbox may have under the Agreement whatsoever. Given the Vendor may have forgone the possibility of negotiating the sale of the Target Group with other potential investors during the time pending for the completion of the Agreement, we share the view of the Directors that the terms of the refund are on normal commercial terms and fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

**Right of first refusal**

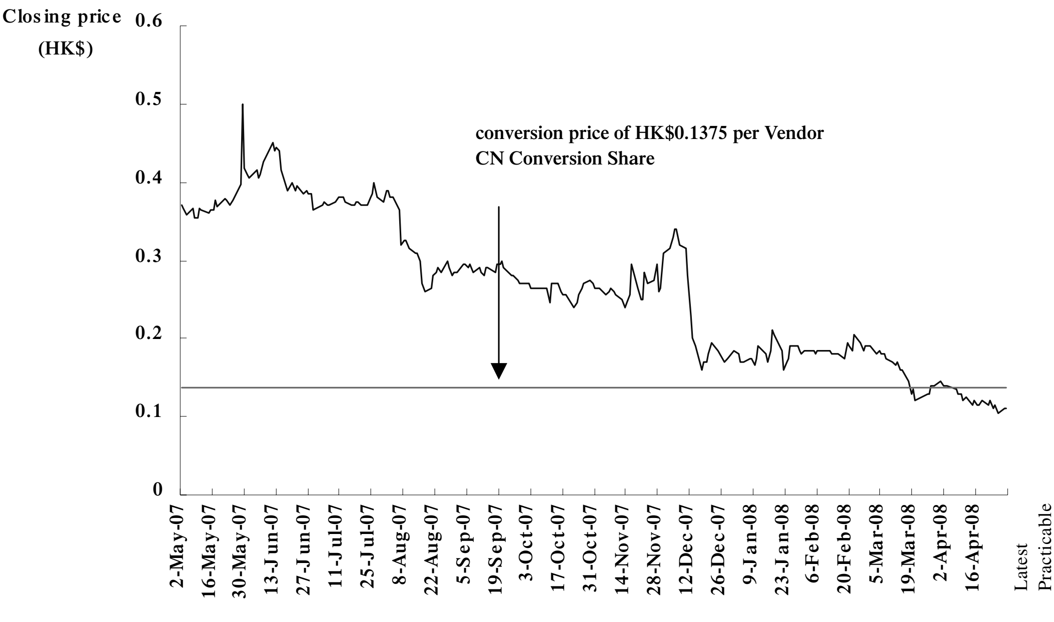
Under the Agreement, the Vendor warranted that he is the sole legal and beneficial owner of Grand Rich, a company incorporated in the BVI, which holds the franchise right to use the brand name "Century 21" in Singapore (the "**Singapore Franchise**") similar to the arrangement under the Subfranchise Agreement, and that company(ies) wholly-owned or controlled by the Vendor is/are operating a property agency and related business under such brand name in Singapore (collectively, the "**Singapore Business**"). In consideration of Kingbox entering into the Agreement, the Vendor has granted Kingbox (which the right may be exercisable by any nominee of Kingbox) the right of first refusal to purchase the same in the event that at any time within 5 years from the Completion Date, the Vendor decides or intends to dispose of his interest or shareholding in Grand Rich and/or any of the companies that operate the Singapore Business and/or Grand Rich decides or intends to dispose of the Singapore Franchise and/or any of the said companies decides or intends to dispose of the Singapore Business or any part thereof, such interest or shareholding shall be first offered to Kingbox on terms to be agreed. Given that Kingbox shall have the right but not the obligation to accept such offer under the Agreement, we consider such first right of refusal is in the interests of the Company and the Independent Shareholders.

**Vendor CN**

The Consideration will be partly satisfied by way of the issue of the Vendor CN in the amount of HK$130 million to the Vendor or its nominee(s).

*(i) Conversion price of the Vendor CN Conversion Shares*

The closing price of the New Shares (assuming the Share Consolidation has become unconditional since 2 May 2007 in the context of this letter) during the last 12 months since 2 May 2007 up to and including the Latest Practicable Date were plotted against the conversion price of HK$0.1375 per Vendor CN Conversion Share in the following graph:



*Notes:*

1. The closing prices of the New Shares (assuming the Share Consolidation becoming unconditional since 2 May 2007) were plotted in the above chart.

2. Trading of the New Shares was suspended on 14 August 2007, and 4 to 10 October 2007.

3. Closing price of the New Shares on or before 15 November 2007 had also been adjusted in relation to the rights issue of the Company as detailed in the announcement of the Company dated 10 October 2007.

As illustrated in the graph above, during the review period, the closing price of the New Shares dropped from the maximum at HK$0.4988 on 29 May 2007 to the minimum at HK$0.105 on 25 April 2008. The premium of the conversion price of each Vendor CN Conversion Share of HK$0.1375 over the closing price of the New Shares for different periods are set out in the following table:

| **Date/period** | **Closing price/ average closing price per New Share for the period** *(HK$)* | **Premium of the issue price over the closing price/average closing price per New Share in the respective period** *(%)* |
|---|---|---|
| One month up to and including the Last Trading Day | 0.1226 | 12.15 |
| 10 days up to and including the Last Trading Day | 0.1135 | 21.15 |
| 5 days up to and including the Last Trading Day | 0.11 | 25 |
| As at the Last Trading Day | 0.11 | 25 |

The above table shows that the premium of the conversion price over the closing price/average closing price per New Share in the respective period ranges from a premium of approximately 12.15% to a premium of 25%. Given the conversion price of the Vendor CN Conversion Shares represents premium over the recent closing price around the Last Trading Day, we consider the conversion price of the Vendor CN Conversion Shares is fair and reasonable.

*(ii) Other principal terms of the Vendor CN*

In order to assess the fairness and reasonableness of the terms of the Vendor CN, we have looked into all the recent issues in 2008 until the Latest Practicable Date of convertible bonds/ notes (the "**CB Comparables**") denominated in Hong Kong dollars by listed companies in Hong Kong on the main board or the growth enterprise market of the Stock Exchange with the principal amount of the convertible bond/note being issued to be more than HK$100 million and less than HK$500 million for reference. We believe that the CB Comparables may reflect the recent trend of the terms of convertible bonds/notes with similar size of the Vendor CN in the market. Set out below is a summary of the CB Comparables:

| **Date of announcement** | **Company (Stock code)** | **Principal amount of convertible bond/note** *(HK$ million)* | **Maturity** *(Years)* | **Interest rate per annum** | **Premium/ (discount) of the initial conversion price over/to the closing price of shares on the last trading day prior to the date of the corresponding announcement** *(%)* | **Transferability** |
|---|---|---|---|---|---|---|
| 23 Jun 08 | United Metals Holdings Limited (2302) | 106.2 | 3 | 2 | (63.51) | Freely transferable |
| 3 Jun 08 | Fulbond Holdings Limited (1041) | 160.9 | 5 | 6 | 7.5 | Upon prior written approval given by the company |
| 27 May 08 | Kai Yuan Holdings Limited (1215) | 265.5 | 2 | 3.5 | 1.72 | Upon prior written approval given by the company |
| 22 May 08 | Grandtop International Holdings Limited (2309) | 200 | 3 | 0 | (10.00) | Not transferable |
| 21 May 08 | Emcom International Limited (8220) | 150 | 3 | 0 | (88.60) | Upon prior consent given by the company |
| 3 Apr 08 | Shougang Concord Technology Holdings Limited (521) | 385 | 3 | 3 | 15.80 | Upon prior consent given by the company |
| 25 Mar 08 | Wang Sing International Holdings Group Limited (2389) | 195.5 | 2 | 0 | (8.00) | Upon prior written consent given by the company |

| Date of announcement | Company (Stock code) | Principal amount of convertible bond/note *(HK$ million)* | Maturity *(Years)* | Interest rate per annum | Premium/ (discount) of the initial conversion price over/to the closing price of shares on the last trading day prior to the date of the corresponding announcement *(%)* | Transferability |
|---|---|---|---|---|---|---|
| 10 Mar 08 | Kai Yuan Holdings Limited (1215) | 170.28 | 2 | 3.5 | 9.32 | Upon prior written consent given by the company |
| 5 Mar 08 | Smart Rich Energy Finance (Holdings) Limited (1051) | 117 | 3 | 1 | 12.32 | Freely transferable |
| 4 Mar 08 | Riche Multi-Media Holdings Limited (764) | 144 | 10 | 5 | 3.23 | Upon prior consent given by the company |
| 12 Feb 08 | Wah Nam International Holdings Limited (159) | 406.5 | 5 | 0 | (45.45) | Freely transferable |
| 12 Feb 08 | Dickson Group Holdings Limited (in liquidation) (313) | 225 | 2 | 0 | (52.38) | Freely transferable |
| 6 Feb 08 | Sun Man Tai Holdings Company Limited (433) | 444.696 | 3 | 0 | 0 | Upon prior written consent given by the company |
| 15 Jan 08 | Artel Solutions Group Holdings Limited (931) | 358 | 5 | 0 | 4.32 | Upon prior written consent given by the company |
| | | **Highest** | **10.00** | **6.00** | **15.8** | |
| | | **Lowest** | **2.00** | **0.00** | **(88.60)** | |
| | **The Vendor CN** | **130** | **3** | **2** | **25** | **Not transferable for 1st year** |

*Source: Website of the Stock Exchange (www.hkex.com.hk)* *(a) Conversion and conversion price*

The holder(s) of the Vendor CN may convert the whole or any part of the principal amount of the Vendor CN outstanding into New Shares at the price of HK$0.1375 per Vendor CN Conversion Share. The holder(s) of the Vendor CN is/are restricted to exercise the conversion rights attaching on the Vendor CN to the extent that following such exercise, (i) the holder of the Vendor CN and parties acting in concert with it, taken together, will directly or indirectly, control or be interested in more than 29% (or such percentage as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer) of the entire issued Shares, or (ii) the Company will be in breach of the minimum public float requirement (currently being 25%) under the Listing Rules. The conversion price of the Vendor CN of HK$0.1375 per Vendor CN Conversion Share represents a premium of 25% over the closing price of HK$0.11 per New Share (assuming the Share Consolidation has become unconditional) on the Last Trading Day.

As indicated in the above table setting out the CB Comparables, the premium of 25% represented by the conversion price of the Vendor CN to the closing price of HK$0.11 per New Share (assuming the Share Consolidation has become unconditional) on the Last Trading Day is even more than the highest premium of approximately 15.8% represented by the CB Comparables on the relevant last trading days (which ranges between a discount of approximately 88.60% and a premium of approximately 15.8%). In this respect, we concur with the view of the Directors that the conversion price of the Vendor CN is fair and reasonable so far as the interests of the Company and the Independent Shareholders are considered.

*(b) Interest rate*

The Vendor CN carries an interest rate of 2% per annum on the principal amount of the Vendor CN outstanding from time to time payable on the anniversaries of the date of issue of the Vendor CN and on the maturity date of the Vendor CN. We also looked into the interest rates of the CB Comparables to assess the fairness and reasonableness of the Vendor CN. The CB Comparables carry annual interest rates ranging from 0% to 6% (the "**Interest Range**"). Thus, the 2% interest rate of the Vendor CN lies within the Interest Range.

Based on the above analysis, we consider that the interest rate of the Vendor CN is fair and reasonable so far as the interests of the Company and the Independent Shareholders are concerned.

*(c) Maturity and transferability*

The Vendor CN has a maturity period of three years from the date of issue, which lies on the lower end of the range of maturity period of the CB Comparables from 2 to 10 years.

The Vendor CN is not transferable within one year from Completion (please also refer to the section headed "Lock-up arrangement for Vendor CN and Vendor CN Conversion Shares" below in this letter) and may be assigned or transferred to any third party (but may not be assigned or transferred to any company or other person which is a connected person of the Company) with the prior written consent of the Company after one year from Completion. As noted from the comparison table above, 9 out of the 14 CB Comparables are transferable upon prior consent given by the relevant companies.

Consequently, we consider that the terms of the Vendor CN in relation to maturity and transferability are normal for convertible debt securities of similar kind.

Having considered the above, we are of the view that the principal terms of the Vendor CN are fair and reasonable and the issue of the Vendor CN as a whole is on normal commercial terms and in the interests of the Company and the Independent Shareholders as a whole.

**Lock-up arrangement for Vendor CN and Vendor CN Conversion Shares**

The Vendor will at Completion undertake to the Company that he (or his nominee(s)) will not, without the prior consent of the Purchaser, transfer, sell, assign, charge, mortgage or otherwise encumber or dispose of or in any other way deal with the Vendor CN or the Vendor CN Conversion Shares (should the Vendor CN be converted), any part thereof or any interest therein or enter into any agreement to do any of the aforesaid within one year from Completion. We consider that such restriction arrangement on the Vendor CN and the Vendor CN Conversion Shares (should the Vendor CN be converted) is fair and reasonable to the Company and the Independent Shareholders so that the Vendor (or its nominee(s)) would remain as long-term financier(s)/investor(s) of the Company, which may minimize the negative impact on the short term volatility of the New Shares.

**Promissory Note**

The Promissory Note in the principal sum of HK$100 million shall be issued by Kingbox to the Vendor or its nominee(s) at Completion to partly satisfy the Consideration and the Company shall join in to execute the Promissory Note as the guarantor of Kingbox.

*(i) Interest rate*

The interest rate of the Promissory Note is 3% per annum, commencing from the date of issue of the Promissory Note and shall be paid annually and on its maturity. We concur with the Directors that the interest rate of 3% for the Promissory Note is consistent with those offered by the commercial banks in Hong Kong nowadays.

*(ii) Prepayment and repayment*

The outstanding principal sum of the Promissory Note shall be repaid in full on the last day of the 18 months after the date of issue of the Promissory Note. The Promissory Note may be prepaid all or part on or before the due date for repayment by giving not less than 7 days' prior written notice. We considered that the flexibility associated with the early prepayment feature of the Promissory Note so that the finance cost of the Group in association of the Promissory Note could be controlled with respect to the financing requirement of the Group is fair and reasonable and is in the interests of the Company and the Independent Shareholders as a whole.

*(iii) Other terms of the Promissory Note*

No application will be made for a listing of the Promissory Note on the Stock Exchange or any other stock exchange.

Holders of the Promissory Note may at any time assign or transfer all or any part of the Promissory Note to a third party not connected to the Company or connected persons of the Company.

As advised by the Directors, in view of the lack of a sustainable profit trend, the Group has experienced difficulties in obtaining sizable bank loans and thus bank financing is considered not the appropriate course to take for the Company to finance part of the Consideration under the present circumstances and the provision of "vendor-financing" by issue of the Promissory Note to the Vendor is in the interests of the Independent Shareholders and the Company. In addition, given the interest rate of the Promissory Note is consistent with those offered by the commercial banks in Hong Kong nowadays and the flexibility associated with the early prepayment feature of the Promissory Note so that the finance cost of the Group in association of the Promissory Note could be controlled with respect to the financing requirement of the Group, we consider that the terms of the Promissory Note, including the interest rate, are fair and reasonable.

**Financial effects of the Acquisition**

*(i) Accounting effect*

Following Completion, the financial results of the Target Group will be consolidated into the Group's financial results. In addition, the implementation of the Acquisition is expected to give rise to goodwill. Goodwill represents the excess of the cost of investments (i.e. the Consideration of HK$430 million) over the fair value of the net identifiable assets of the Target Group to be acquired at Completion. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. The extent to which any goodwill impairment provision may be required in the Group's future financial statement would depend on the assessment as to whether any impairment on goodwill may be necessary.

*(ii) Earnings*

According to the unaudited pro forma consolidated income statement of the Enlarged Group as set out in Appendix IX to the Circular, net loss attributable to the Shareholders of approximately HK$73.58 million for the year ended 31 December 2007 would be improved by approximately HK$9.07 million to approximately HK$64.51 million upon completion of the Acquisition for the Enlarged Group.

*(iii) Net assets*

The audited net asset value of the Group attributable to the Shareholders was approximately HK$247.63 million as at 31 December 2007. According to the unaudited pro forma consolidated balance sheet of the Enlarged Group after the Acquisition as set out in Appendix IX to the Circular, upon completion of the Acquisition, the unaudited pro forma net asset value of the Enlarged Group attributable to the Shareholders would be increased by approximately HK$7.78 million to approximately HK$255.41 million.

*(iv) Gearing*

The gearing ratio of the Group, calculated as total liabilities divided by total assets, was approximately 5.74% as at 31 December 2007. Based on the unaudited pro forma consolidated balance sheet of the Enlarged Group after the Acquisition as set out in Appendix IX to the Circular, the gearing ratio of the Group upon Completion would be approximately 50.72% as at 31 December 2007.

*(v) Cashflow*

The issue of the Vendor CN to the Vendor is in the interests of the Company as it will not draw on the existing cash resources of the Group for the Acquisition and has no immediate dilution effect on the existing Shareholders. In addition, management of the Company advised that the Company will look for suitable financing methods to cover the shortfall, if any, of the Vendor CN and Promissory Note upon their respective maturities.

The substantial increase in gearing ratio is mainly because of the issue of the Vendor CN and the Promissory Note. We consider that the issue of the Promissory Note and Vendor CN to Vendor for settling part of the Consideration is in the interests of the Company as it will not draw on the existing cash resources of the Group for the Acquisition and has no immediate dilution effect on the existing Shareholders. On the other hand, having considered the benefits of improving the net assets and earnings of the Enlarged Group attributable to the Shareholders upon Completion, we consider that the Acquisition is fair and reasonable in so far as the Company and the Independent Shareholders are concerned. However, it should be noted that the aforementioned analyses based on the unaudited pro forma financial information of the Enlarged Group are for illustrative purpose only and does not purport to represent how the actual results or financial position of the Enlarged Group will be upon Completion.

**Dilution effect on the shareholding interests of the Independent Shareholders**

The changes in shareholdings of the Company upon Completion under different scenarios are illustrated in the following table:

| | **As at the Latest Practicable Date** | | **Upon Share Consolidation taking effect** | | **Upon full conversion of the Vendor CN** *(Note 1)* | | **Upon partial conversion of the Vendor CN** *(Note 2)* | |
|---|---|---|---|---|---|---|---|---|
| | *Existing Shares* | *%* | *New Shares* | *%* | *New Shares* | *%* | *New Shares* | *%* |
| Mr. Ng | 6,616,992 | 0.11 | 1,323,398 | 0.11 | 1,323,398 | 0.06 | 1,323,398 | 0.08 |
| Vendor | — | — | — | — | 945,454,545 | 43.03 | 509,371,782 | 28.92 |
| Subtotal | 6,616,992 | 0.11 | 1,323,398 | 0.11 | 946,777,943 | 43.09 | 510,695,180 | 29.00 |
| Independent Shareholders | 6,251,613,408 | 99.89 | 1,250,322,682 | 99.89 | 1,250,322,682 | 56.91 | 1,250,322,682 | 71.00 |
| Total | 6,258,230,400 | 100.00 | 1,251,646,080 | 100.00 | 2,197,100,625 | 100.00 | 1,761,017,862 | 100.00 |

*Notes:*

1. It is a term of the Vendor CN that the holders of the Vendor CN shall not exercise any conversion right attaching to the Vendor CN or to such an extent that results or will result in the holder of the Vendor CN and parties acting in concert with it (within the meaning under the Takeovers Code) beneficially holding more than 29% (or such percentage as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer) of the then enlarged issued share capital of the Company at the relevant date of conversion of the relevant Vendor CN. Accordingly, this column is shown for illustration purpose only.

2. This column is shown to illustrate the shareholding structure if the Vendor, in accordance with the terms of the Vendor CN as described in note 1 above, exercises the conversion rights attaching to the Vendor CN which result in the Vendor and parties acting in concert with it (within the meanings under the Takeovers Code) beneficially holding up to 29% of the then issued share capital of the Company.

Based on the shareholding structure of the Company as set out in the above table, 6,251,613,408 Existing Shares (or 1,250,322,682 New Shares) were held by the Independent Shareholders, representing approximately 99.89% of the issued share capital of the Company as at the Latest Practicable Date. Immediately upon Completion and after full conversion of the Vendor CN, the Independent Shareholders will hold 1,250,322,682 New Shares, representing approximately 56.91% of the enlarged issued share capital of the Company. However, it is a term of the Vendor CN that the holders of the Vendor CN shall not exercise any conversion right attaching to the Vendor CN or to such an extent that results or will result in the holder of the Vendor CN and parties acting in concert with it (within the meaning under the Takeovers Code) beneficially holding more than 29% (or such percentage as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer) of the then enlarged issued share capital of the Company at the relevant date of conversion of the relevant Vendor CN. Accordingly, this scenario is for illustration purpose only. Immediately upon Completion and after partial conversion of the Vendor CN Conversion Shares so that the Vendor and parties acting in concert with it (within the meanings under the Takeovers Code) beneficially holding up to 29% of the then issued share capital of the Company, Independent Shareholders will still hold 1,250,322,682 New Shares, representing approximately 71% of the enlarged issued share capital of the Company. Independent Shareholder should also note the dilution effect from the issue of the Placing Shares and the conversion of the Placing CN as stated under the section headed "Shareholding structures" in the Board Letter.

## RECOMMENDATION

Taking into consideration of the above mentioned principal factors and reasons, in particular:

(i) the Acquisition is in line with the business strategy of the Group to seek prosperous and lucrative investments that will benefit the Group;

(ii) the property market in Hong Kong in general has recovered from the bottom since the mid of 2003;

(iii) the low interest rate environment, declining property supply and strong demand for residential properties will continue to support the property market and in turn benefit the business of the Target Group;

(iv) the increasing trends of the aggregate of revenues and earnings for Century 21 HK, Century 21 Property Agency and Century 21 Surveyors for the three years ended 31 March 2008 respectively and in particular, high rate of growth in earnings for Century 21 HK, Century 21 Property Agency and Century 21 Surveyors for the year ended 31 March 2008;

(v) the Consideration represents a discount of approximately 7.52% to the valuation stated in the Valuation Report;

(vi) the conditions of the Agreement are in normal commercial terms and fair and reasonable to the Company and the Independent Shareholders;

(vii) the issue of the Vendor CN to the Vendor is in the interests of the Company as it will not draw on the existing cash resources of the Group for the Acquisition and has no immediate dilution effect on the existing Shareholders and management of the Company advised that the Company will look for suitable financing methods to cover the shortfall, if any, of the Vendor CN and Promissory Note upon their respective maturities;

(viii) the premium of 25% represented by the conversion price of the Vendor CN to the closing price of HK$0.11 per New Share (assuming the Share Consolidation has become unconditional) on the Last Trading Day is even more than the highest premium of approximately 15.8% represented by the CB Comparables on the relevant last trading days (which ranges between a discount of approximately 88.60% and a premium of approximately 15.8%);

(ix) the 2% interest rate of the Vendor CN lies within the Interest Range;

(x) the terms of the Vendor CN in relation to maturity and transferability are normal for convertible debt securities of similar kind;

(xi) the lock-up arrangement on the Vendor CN and the Vendor CN Conversion Shares (should the Vendor CN be converted) is fair and reasonable to the Company and the Independent Shareholders so that the Vendor (or its nominee(s)) would remain as long-term financier(s)/investor(s) of the Company, which may minimize the negative impact on the short term volatility of the New Shares;

(xii) with the lack of a sustainable profit trend, the Group has experienced difficulties in obtaining sizable bank loans and thus bank financing is considered not the appropriate course to take for the Company to finance part of the Consideration under the present circumstances and the provision of "vendor-financing" by issue of the Promissory Note to the Vendor is in the interests of the Independent Shareholders and the Company;

(xiii) the interest rate of 3% for the Promissory Note is consistent with those offered by the commercial banks in Hong Kong nowadays;

(xiv) the flexibility associated with the early prepayment feature of the Promissory Note so that the finance cost of the Group in association of the Promissory Note could be controlled with respect to the financing requirement of the Group; and

(xv) the improvement in net assets and earnings of the Enlarged Group attributable to the Shareholders upon Completion,

we consider that, the terms of the Acquisition (including the issue of Vendor CN) are fair and reasonable so far as the Independent Shareholders are concerned and the Acquisition (including the issue of Vendor CN) is in the interests of the Company and the Independent Shareholders as a whole. We also consider that the terms of the Agreement were entered into upon normal commercial terms and in the ordinary and usual course of business of the Group. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Acquisition (including the issue of Vendor CN).

Yours faithfully,
For and on behalf of
**Veda Capital Limited**

| **Hans Wong** | **Julisa Fong** |
|---|---|
| *Managing Director* | *Executive Director* |

## 1. SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and the assets, liabilities and minority interests of the Group for the last three financial years ended 31 December 2007 are set out below. This summary does not form part of the audited financial statements.

### Results

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2005** | **2006** | **2007** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| **Turnover** | 179,128 | 132,632 | 132,987 |
| (Loss) Profit before taxation | 12,044 | (36,457) | (74,799) |
| Taxation | (873) | (76) | (171) |
| **(Loss) Profit for the year** | 11,171 | (36,533) | (74,970) |
| **Attributable to:** | | | |
| Equity holders of the Company | 10,056 | (36,610) | (73,579) |
| Minority interests | 1,115 | 77 | (1,391) |
| | 11,171 | (36,533) | (74,970) |

### Assets, liabilities and minority interests

| | At 31 December | | |
|---|---|---|---|
| | **2005** | **2006** | **2007** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Total assets | 140,282 | 126,653 | 262,708 |
| Total liabilities | (53,090) | (57,039) | (15,074) |
| **Net Assets** | 87,192 | 69,614 | 247,634 |
| Equity attributable to equity holders of the Company | 85,646 | 68,152 | 247,634 |
| Minority interests | 1,546 | 1,462 | — |
| **Total Equity** | 87,192 | 69,614 | 247,634 |

## 2. AUDITED FINANCIAL INFORMATION ON THE GROUP

Set out below is a reporduction of the text of the audited financial statements of the Group together with the notes to the financial statements contained on pages 27 to 111 of the annual report of the Company for the year ended 31 December 2007.

**CONSOLIDATED INCOME STATEMENT**
*For the year ended 31 December 2007*

| | Notes | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| **Turnover and revenue** | 5 | 132,987 | 130,085 |
| Cost of sales | | (129,977) | (129,847) |
| Gross profit | | 3,010 | 238 |
| Other income | 6 | 2,061 | 1,178 |
| Distribution costs | | (3,379) | (2,258) |
| Administrative expenses | | (21,985) | (28,465) |
| Loss on assignment of an amount due from a subsidiary upon disposal | | (68,559) | — |
| Other expenses | | (5,420) | (6,152) |
| Gain on disposal of subsidiaries | 33(a) | 20,413 | — |
| Finance costs | 8(a) | (940) | (930) |
| **Loss before taxation** | 8 | (74,799) | (36,389) |
| Taxation | 11 | (171) | (76) |
| Loss for the year from continuing operations | | (74,970) | (36,465) |
| **Discontinued operation** | | | |
| Loss for the year from discontinued operation | 12 | — | (68) |
| **Loss for the year** | | (74,970) | (36,533) |
| **Attributable to:** | | | |
| Equity holders of the Company | 14 | (73,579) | (36,610) |
| Minority interests | | (1,391) | 77 |
| **Loss for the year** | | (74,970) | (36,533) |
| | | HK cents | HK cents *(restated)* |
| **Loss per share** | 15 | | |
| From continuing and discontinued operations | | | |
| Basic | | (3.30) | (3.15) |
| Diluted | | N/A | N/A |
| From continuing operations | | | |
| Basic | | (3.30) | (3.14) |
| Diluted | | N/A | N/A |

## CONSOLIDATED BALANCE SHEET

*As at 31 December 2007*

| | Notes | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 16 | 155 | 52,551 |
| Goodwill | 17 | — | 4,201 |
| Prepaid lease payments | 18 | — | 3,327 |
| Club debenture | | — | 220 |
| | | 155 | 60,299 |
| **Current assets** | | | |
| Inventories | 20 | — | 7,175 |
| Trade and other receivables | 21 | 15,546 | 32,648 |
| Financial assets at fair value through profit or loss | 22 | 11,339 | — |
| Current portion of prepaid lease payments | 18 | — | 72 |
| Bank balances and cash | 23 | 235,437 | 7,136 |
| Tax recoverable | | 231 | 196 |
| | | 262,553 | 47,227 |
| Non-current assets classified as held for sale | 13 | — | 19,127 |
| | | 262,553 | 66,354 |
| **Current liabilities** | | | |
| Trade and other payables | 24 | 15,074 | 42,532 |
| Current portion of interest-bearing borrowings | 25 | — | 8,800 |
| Current portion of obligations under finance leases | 26 | — | 1,813 |
| | | 15,074 | 53,145 |
| Liabilities associated with non-current assets classified as held for sale | 13 | — | 2,093 |
| | | 15,074 | 55,238 |
| **Net current assets** | | 247,479 | 11,116 |
| **Total assets less current liabilities** | | 247,634 | 71,415 |

| | Notes | 2007<br>*HK$'000* | 2006<br>*HK$'000* |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Long-term obligations under finance leases | *26* | — | 1,801 |
| | | — | 1,801 |
| **NET ASSETS** | | 247,634 | 69,614 |
| **Capital and Reserves** | | | |
| Share capital | *29* | 156,456 | 19,536 |
| Reserves | | 91,178 | 48,616 |
| **Equity attributable to equity holders of the Company** | | 247,634 | 68,152 |
| Minority interests | | — | 1,462 |
| **TOTAL EQUITY** | | 247,634 | 69,614 |

**BALANCE SHEET**
*As at 31 December 2007*

| | Notes | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **Non-current asset** | | | |
| Interest in subsidiaries | 19 | 1 | 1 |
| **Current assets** | | | |
| Other receivables | 21 | 242,988 | 69,604 |
| Bank balances and cash | 23 | 19,307 | 1,947 |
| | | 262,295 | 71,551 |
| **Current liabilities** | | | |
| Other payables | 24 | 1,745 | 2,941 |
| **Net current assets** | | 260,550 | 68,610 |
| **NET ASSETS** | | 260,551 | 68,611 |
| **Capital and reserves** | | | |
| Share capital | 29 | 156,456 | 19,536 |
| Reserves | 30 | 104,095 | 49,075 |
| **TOTAL EQUITY** | | 260,551 | 68,611 |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 31 December 2007*

| | Attributable to equity holders of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Capital reserve | Share options reserve | Convertible notes equity reserve | Translation reserve | Accumulated profits (losses) | Total | Minority interests | Total equity |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **At 1 January 2006** | 15,785 | 35,193 | 2,099 | — | — | 1,399 | 31,170 | 85,646 | 1,546 | 87,192 |
| Exchange difference on translation of financial statements of overseas subsidiaries recognised directly in equity | — | — | — | — | — | 1,710 | — | 1,710 | — | 1,710 |
| Released on disposal of subsidiaries | — | — | — | — | — | — | — | — | (161) | (161) |
| (Loss) Profit for the year | — | — | — | — | — | — | (36,610) | (36,610) | 77 | (36,533) |
| **Total recognised income and expenses for the year** | — | — | — | — | — | 1,710 | (36,610) | (34,900) | (84) | (34,984) |
| Issue of shares upon placement of shares | 3,000 | 9,000 | — | — | — | — | — | 12,000 | — | 12,000 |
| Equity settled share-based payment transactions | — | — | — | 1,868 | — | — | — | 1,868 | — | 1,868 |
| Issue of shares upon exercise of share options | 751 | 4,799 | — | (1,868) | — | — | — | 3,682 | — | 3,682 |
| Share issue expense | — | (144) | — | — | — | — | — | (144) | — | (144) |
| **At 31 December 2006** | 19,536 | 48,848 | 2,099 | — | — | 3,109 | (5,440) | 68,152 | 1,462 | 69,614 |

| | Attributable to equity holders of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Capital reserve | Share options reserve | Convertible notes equity reserve | Translation reserve | Accumulated losses | Total | Minority interests | Total equity |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **At 1 January 2007** | 19,536 | 48,848 | 2,099 | — | — | 3,109 | (5,440) | 68,152 | 1,462 | 69,614 |
| Released on disposal of subsidiaries | — | — | — | — | — | (3,109) | — | (3,109) | (71) | (3,180) |
| Loss for the year | — | — | — | — | — | — | (73,579) | (73,579) | (1,391) | (74,970) |
| **Total recognised income and expenses for the year** | — | — | — | — | — | (3,109) | (73,579) | (76,688) | (1,462) | (78,150) |
| Issue of shares upon placement of shares | 10,250 | 32,710 | — | — | — | — | — | 42,960 | — | 42,960 |
| Equity settled share-based payment transactions | — | — | — | 2,282 | — | — | — | 2,282 | — | 2,282 |
| Issue of shares upon exercise of share options | 828 | 6,086 | — | (2,282) | — | — | — | 4,632 | — | 4,632 |
| Issue of convertible notes | — | — | — | — | 4,361 | — | — | 4,361 | — | 4,361 |
| Issue of shares upon conversion of convertible notes | 8,500 | 26,032 | — | — | (4,361) | — | — | 30,171 | — | 30,171 |
| Rights issue | 117,342 | 61,017 | — | — | — | — | — | 178,359 | — | 178,359 |
| Share issue expense | — | (6,595) | — | — | — | — | — | (6,595) | — | (6,595) |
| **At 31 December 2007** | 156,456 | 168,098 | 2,099 | — | — | — | (79,019) | 247,634 | — | 247,634 |

## CONSOLIDATED CASH FLOW STATEMENT

*For the year ended 31 December 2007*

| | 2007<br>*HK$'000* | 2006<br>*HK$'000* |
|---|---|---|
| **Cash flows from operating activities** | | |
| Loss before taxation | (74,799) | (36,457) |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | 1,901 | 5,336 |
| Impairment loss recognised in respect of trade receivables | — | 1,451 |
| Impairment loss on goodwill | 4,201 | 1,136 |
| Provision for obsolete inventories | — | 1,516 |
| Loss on assignment of an amount due from a subsidiary upon disposal | 68,559 | — |
| Equity settled share-based transactions | 2,282 | 1,868 |
| Loss on disposal of property, plant and equipment | 62 | 42 |
| Gain on disposal of subsidiaries | (20,413) | (355) |
| Amortisation of prepaid lease payments | 63 | 182 |
| Net exchange gain | — | (398) |
| Finance costs | 940 | 930 |
| Interest income | (1,470) | (71) |
| Operating loss before working capital changes | (18,674) | (24,820) |
| (Increase) Decrease in inventories | (2,289) | 16 |
| Increase in financial assets at fair value through profit or loss | (11,339) | — |
| Decrease in trade and other receivables | 3,285 | 9,666 |
| Increase in trade and other payables | 1,082 | 4,047 |
| Cash used in operations | (27,935) | (11,091) |
| Income taxes refund (paid) | 114 | (2,006) |
| Net cash used in operating activities | (27,821) | (13,097) |
| **Cash flows from investing activities** | | |
| Interest received | 1,470 | 71 |
| Purchase of property, plant and equipment | (44) | (4,194) |
| Deposit paid for acquisition of property, plant and equipment | (2,657) | — |
| Net cash outflow from disposal of subsidiaries | (4,279) | (242) |
| Net cash used in investing activities | (5,510) | (4,365) |

| | 2007<br>*HK$'000* | 2006<br>*HK$'000* |
|---|---|---|
| **Cash flows from financing activities** | | |
| Net proceeds from issue of new shares | 221,319 | 11,856 |
| Issue of shares on exercise of share options | 4,632 | 3,682 |
| Proceeds from issue of convertible notes | 34,000 | — |
| Shares issue expenses | (6,595) | — |
| Interest paid | (314) | (543) |
| Proceeds from new interest-bearing borrowings | 9,200 | 10,000 |
| Repayment of interest-bearing borrowings | — | (4,262) |
| Interest element paid on obligations under finance leases | (94) | (387) |
| Repayment of obligations under finance leases | (587) | (1,656) |
| Net cash generated from financing activities | 261,561 | 18,690 |
| **Net increase in cash and cash equivalents** | 228,230 | 1,228 |
| **Cash and cash equivalents at beginning of year** | 7,207 | 6,044 |
| Effect on exchange rate changes | — | (65) |
| **Cash and cash equivalents at end of year, represented by bank balances and cash** | 235,437 | 7,207 |
| **Analysis of the balances of cash and cash equivalents** | | |
| Bank balances and cash | 235,437 | 7,136 |
| Cash and cash equivalents attributable to the non-current assets held for sale | — | 71 |
| | 235,437 | 7,207 |

## NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2007*

### 1. GENERAL INFORMATION

GFT Holdings Limited (the "Company") is a limited liability company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the Company's registered office and principal place of business are disclosed in the Corporate Information section on page 2 of this annual report.

The principal activities of the Company and its subsidiaries (the "Group") are trading of toy, gift and premium products and securities trading and investments.

The financial statements on pages 27 to 111 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). These financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The financial statements for the year ended 31 December 2007 were approved by the board of directors on 21 April 2008.

### 2. ADOPTION OF NEW OR AMENDED HKFRSS

From 1 January 2007, the Group has applied, for the first time, the following new standards, amendment and interpretations (the "new HKFRSs") issued by the HKICPA, which are first effective for the Group's accounting period beginning on 1 January 2007 and are relevant to the Group.

| | |
|---|---|
| HKAS 1 (Amendment) | Capital Disclosures |
| HKFRS 7 | Financial Instruments : Disclosures |

The adoption of HKAS 1 (Amendment) and HKFRS 7 has had no material financial impact on the Group's results and financial position in the current and prior accounting periods but gives rise to additional disclosures in the consolidated financial statements:

#### 2.1 HKAS 1 (Amendment) – Capital Disclosures

HKAS 1 (Amendment) introduces additional disclosure requirements to provide information about the level of capital and the Group's capital management objectives, policies and procedures. The new disclosures that become necessary due to this change are set out in note 35.

## 2. ADOPTION OF NEW OR AMENDED HKFRSS *(Continued)*

### 2.2 HKFRS 7 – Financial Instruments : Disclosures

HKFRS 7 is mandatory for accounting period beginning on or after 1 January 2007. It replaces and amends the disclosure requirements previously set out in HKAS 32 -Financial Instruments : Presentation and Disclosures. As a result of the adoption of HKFRS 7, the Group's financial statements for the year ended 31 December 2007 include expanded disclosure about the significance of the Group's financial instruments and the nature and the extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32.

### 2.3 New and amended HKFRSs that have been issued but are not yet effective

The Group has not early adopted the following standards or interpretations that have been issued but are not yet effective as at 31 December 2007.

| | |
|---|---|
| HKAS 1 (Revised) | Presentation of Financial Statements[1] |
| HKAS 23 (Revised) | Borrowing Costs[1] |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements[5] |
| HKFRS 2 (Amendment) | Share-based Payment - Vesting Conditions and Concellations[1] |
| HKFRS 3 (Revised) | Business Combinations[5] |
| HKFRS 8 | Operating Segments[1] |
| HK(IFRIC) – Int 11 | HKFRS 2 - Group and Treasury Share Transactions[2] |
| HK(IFRIC) – Int 12 | Service Concession Arrangements[3] |
| HK(IFRIC) – Int 13 | Customer Loyalty Programmes[4] |
| HK(IFRIC) – Int 14 | HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[3] |

*Notes :*

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 March 2007
3 Effective for annual periods beginning on or after 1 January 2008
4 Effective for annual periods beginning on or after 1 July 2008
5 Effective for annual periods beginning on or after 1 July 2009

## 2. ADOPTION OF NEW OR AMENDED HKFRSS *(Continued)*

### 2.3 New and amended HKFRSs that have been issued but are not yet effective *(Continued)*

Among these new standards and interpretations, HKAS 1 (Revised) is expected to be relevant to the Group's financial statements.

Amendment to HKAS 1 - Presentation of Financial Statements

This amendment affects the presentation of owner changes in equity and introduces a statement of comprehensive income. Preparers will have the option of presenting items of income and expense and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of other comprehensive income). This amendment does not affect the financial position or results of the Group but will give rise to additional disclosures. Management is currently assessing the detailed impact of this amendment on the Group's consolidated financial statements.

The directors of the Company are currently assessing the impact of the other new standards and interpretations but are not yet in a position to state whether they would have material impact on the Group's financial statements.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Basis of preparation

The measurement basis used in the preparation of these financial statements is historical cost, except for (1) certain financial instruments, which are measured at fair value as explained in note 22 to the financial statements; and (2) non-current assets held for sales, which are stated at lower of carrying amount and fair value less costs to sell as explained in note 13 to the financial statements.

### 3.2 Basis of consolidation

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

### 3.3 Subsidiaries

A subsidiary is an entity, in which the Company, directly or indirectly, has the power to govern the financial and operating policies so as to obtain benefits from its activities.

Investment in subsidiaries is included in the Company's balance sheet at cost less impairment losses. The carrying amount of investment is reduced to its recoverable amount on an individual basis. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

All intra-group transactions and balances, income and expenses are eliminated on consolidation. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised profits but only to the extent that there is no evidence of impairment.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.3 Subsidiaries *(Continued)*

Minority interest represents the portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned by the Group and are not the Group's financial liabilities.

Minority interests are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the Company. Profit or loss attributable to the minority interests are presented separately in the consolidated income statement as an allocation of the Group's results. Where losses applicable to the minority exceeds the minority interests in the subsidiary's equity, the excess and further losses applicable to the minority are allocated against the minority interest to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. Otherwise, the losses are charged against the Group's interests. If the subsidiary subsequently reports profits, such profits are allocated to the minority interest only after the minority's share of losses previously absorbed by the Group has been recovered.

### 3.4 Goodwill

Goodwill represents the excess of the cost of a business combination or an investment over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment, see note 17 to the financial statements.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in profit or loss.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of gain or loss on disposal.

### 3.5 Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Repairs and maintenance are charged to the income statement during the year in which they are incurred.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

**3.5 Property, plant and equipment** *(Continued)*

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment, other than construction in progress, over their estimated useful lives as set out below from the date on which they are available for use and after taking into account their estimated residual values, using the straight-line method. Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis and depreciated separately at the following rate per annum:

| | |
|---|---|
| Buildings | Over the shorter of the term of the prepaid land lease or 50 years |
| Leasehold improvements | Over the shorter of the term of the prepaid land lease or 5 years |
| Plant and machinery | 20% - 33.33% |
| Furniture, fixtures and equipment | 20% - 33.33% |
| Motor vehicles | 20% - 33.33% |

Assets held under finance leases are depreciated over the shorter of their expected useful lives or the term of the leases.

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

**3.6 Construction in progress**

Construction in progress is stated at cost less accumulated impairment losses. Cost includes all construction expenditure and other direct costs, including interest costs, attributable to such projects. Costs on completed construction works are transferred to the appropriate asset category. No depreciation is provided in respect of construction in progress until it is completed and available for use.

**3.7 Prepaid lease payments**

Prepaid lease payments are up-front payments to acquire fixed term interests in lessee-occupied land. The premiums are stated at cost and are amortised over the period of the lease on a straight-line basis to the income statement.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

**3.8 Financial assets**

The Group's financial assets include trade and other receivables, financial assets at fair value through profit or loss, cash and cash equivalents and investments in subsidiaries.

The Group's accounting policy for financial assets other than investments in subsidiaries is set out below:

***(i) Financial assets at fair value through profit or loss***

Finance assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivative financial instruments, including equity linked investments are also classified as held for trading unless they are designated upon initial recognition as at fair value through profit or loss.

At balance sheet date, the financial assets are measured at fair value by reference to price quotations for equivalent instruments in an active market provided by financial institutions. Any changes in fair value are recognised in the income statement.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met:

— the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or

— the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the group of financial assets is provided internally on that basis to the key management personnel; or

— the financial asset contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in income statement.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

**3.8 Financial assets** *(Continued)*

***(ii) Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fee that are an integral part of the effective interest rate and transaction cost.

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets are recognised on trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the financial assets expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. At each balance sheet date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

***Impairment of financial assets***

At each balance sheet date, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment. If any such evidence exists, the impairment loss is measured and recognised as follows:

*Loans and receivables*

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in income statement for the period in which the impairment occurs.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

**3.8 Financial assets** *(Continued)*

***Impairment of financial assets*** *(Continued)*

*Loans and receivables (Continued)*

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in income statement for the period in which the reversal occurs.

**3.9 Financial liabilities**

The Group's financial liabilities include trade and other payables, borrowings, finance leases obligations and convertible notes.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised as an expense in finance costs in the income statement. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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

***(i) Trade and other payables***

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

***(ii) Borrowings***

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

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

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

**3.9 Financial liabilities** *(Continued)*

***(iii) Finance lease liabilities***

Finance lease liabilities are measured at initial value less the capital element of lease repayments. (See note 3.16)

***(iv) Convertible notes that contain an equity component***

Convertible notes that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

Convertible note issued by the Company that contain both financial liability and equity components are classified separately into respective liability and equity components on initial recognition. On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate for similar non-convertible debts. The difference between the proceeds of the issue of the convertible note and the fair value assigned to the liability component, representing the call option for conversion of the note into equity, is included in equity as convertible note equity reserve.

The liability component is subsequently carried at amortised cost using the effective interest method. The equity component will remain in equity until conversion or redemption of the note.

When the note is converted, the convertible note equity reserve and the carrying value of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, the convertible note equity reserve is released directly to retained profits.

**3.10 Cash equivalents**

For the purpose of the cash flow statement, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, net of bank overdrafts.

**3.11 Revenue recognition**

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

Sale of goods is recognised on transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title is passed.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.11 Revenue recognition *(Continued)*

Interest income from financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Rental income is recognised when the properties are let out and on the straight-line basis over the lease terms.

### 3.12 Foreign currency translation

Items included in the financial statements of each of the group entities, including subsidiaries are measured using the currency of the primary economic environment in which the group entities operate ("functional currency"). The consolidated financial statements are presented in Hong Kong Dollars (HK$), which is the Company's functional and presentation currency.

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

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

On consolidation, the results and financial position of all the group entities that have a functional currency different from the presentation currency are translated as follows:

(a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet;

(b) income and expenses for each income statement are translated at average exchange rates;

(c) all resulting exchange differences are recognised as a separate component of equity;

(d) upon disposal of a group entity, exchange differences relating thereto and previously recognised in reserves are recognised in the income statement as part of the gain or loss on disposal; and

(e) goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign entity are treated as assets and liabilities of that foreign entity and translated at the closing rates. Exchange differences arising are recognised in the translation reserve.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

**3.13 Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, cost of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

**3.14 Club debenture**

Club debenture has indefinite useful life and is measured at cost less accumulated impairment losses.

**3.15 Impairment of other assets**

At each balance sheet date, the Group reviews internal and external sources of information to determine whether its property, plant and equipment, prepaid lease payments, club debenture and investment in subsidiaries have suffered an impairment loss or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs to sell and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

A reversal of impairment loss is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment loss is recognised in income statement.

**3.16 Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.16 Leases *(Continued)*

Assets held under finance leases are recognised as assets of the Group at the lower of the fair value of the leased assets and the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as finance lease obligation. Finance charges, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Lease incentives are recognised in the income statement as an integral part of the net consideration agreed for the use of the leased asset. Contingent rentals are recognised as expenses in the accounting period in which they are incurred.

### 3.17 Employee benefits

***Defined contribution plans***

The obligations for contributions to defined contribution retirement scheme are recognised as an expense in the income statement as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the scheme are held separately from those of the Group in an independently administered fund.

### 3.18 Share-based payment transactions

***Equity-settled transactions***

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a reserve within equity. The fair value is measured at grant date using the Black-Scholes pricing model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

**3.18 Share-based payment transactions** *(Continued)*

***Equity-settled transactions*** *(Continued)*

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the income statement for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share options reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Group's shares. The equity amount is recognised in the share options reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to accumulated profits). Share-based payment transactions in which the Company grants share options to subsidiaries' employees are accounted for as an increase in value of investments in subsidiaries in the Company's balance sheet which is eliminated on consolidation.

**3.19 Taxation**

The charge for current income tax is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit nor taxable profit or loss, it is not accounted for.

The deferred tax liabilities and assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.20 Related parties

A party is related to the Group if

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

(b) the party is an associate of the Group;

(c) the party is a joint venture in which the Group is a venturer;

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

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

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

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

### 3.21 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 consolidation process, except to the extent that such intra-group balances and transactions are between Group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.21 Segment reporting *(Continued)*

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

### 3.22 Assets held for sale

Assets and disposal group are classified as held for sale if their carrying amount is recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Those assets (and disposal group), other than financial assets, classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

### 3.23 Discontinued operation

A discontinued operation is a clearly distinguishable component of the Group's business that has been disposed of or is classified as held for sale, which represents a separate major line of business or geographical area of operations of the Group.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

**Estimated useful life and depreciation of property, plant and equipment**

The Group depreciates the property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual values, using the straight line method. The estimated useful life reflects the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment. The residual values reflect the directors' estimated amount that the Group would currently obtain from disposal of the assets, after deducting the estimated costs of disposal, if the assets were already of the age and in the condition expected at the end of its useful life.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

**Estimated impairment of goodwill**

Determining whether goodwill is impaired required an estimated of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value. Where the actual cash flows are less than expected, a material impairment loss may arise. During the year, the directors determined that goodwill has impaired and such impairment has been recognised in the consolidated income statement.

**Estimated impairment of receivables and other receivables**

The policy for the impairment of receivables and other receivables of the Group is based on, where appropriate, the evaluation and ageing analysis of accounts. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history for each debtor. If the financial conditions of debtors of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional provision for impairment may be required.

## 5. TURNOVER AND REVENUE

Turnover and revenue represent sale of goods at invoiced value to customers net of return and discounts.

| | **2007** | **2006** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Continuing operations | 132,987 | 130,085 |
| Discontinued operation *(Note 12)* | — | 2,547 |
| | 132,987 | 132,632 |

## 6. OTHER INCOME

| | **2007** | **2006** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Interest income on financial assets carried at amortised cost | 1,631 | 71 |
| Rental income | — | 159 |
| Sundry income | 430 | 948 |
| | 2,061 | 1,178 |

## 7. SEGMENT INFORMATION

Segment information is presented in respect of the Group's business and geographical segments. Business segments information is chosen as the primary reporting format because it is more relevant to the Group's internal financial reporting.

An analysis of the Group's turnover, operating results, assets, liabilities and other information by business segment is presented as below:

**Business segments**

The Group comprises the following main business segments:

| **Business Segment** | **Nature of business activities** |
|---|---|
| 1. Toy products trading and manufacturing | Sourcing, manufacturing and distribution of toy, gift and premium products |
| 2. Securities trading and investments | Trading and investing of marketable securities |
| 3. Consumer products trading and manufacturing *(note)* | Sourcing, manufacturing and distribution of consumer products |

*Note :* The disposal transactions of this business segment have been completed on 22 June 2006, no discontinued operation presented in the business segments for the year ended 31 December 2007.

7. **SEGMENT INFORMATION** *(Continued)*

**Business segments** *(Continued)*

**For the year ended 31 December 2007**

| | Continuing operations | | |
|---|---|---|---|
| | **Toy products trading and manufacturing** | **Securities trading and investments** | **Consolidated** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| **Turnover** | | | |
| Revenue from external customers | 132,987 | — | 132,987 |
| **Segment results** | (14,343) | (746) | (15,089) |
| Unallocated other income | | | 1,177 |
| Unallocated operating expenses | | | (11,801) |
| Loss on assignment of an amount due from a subsidiary upon disposal | | | (68,559) |
| Gain on disposal of subsidiaries | | | 20,413 |
| Finance costs | | | (940) |
| **Loss before taxation** | | | (74,799) |
| Taxation | | | (171) |
| **Loss for the year** | | | (74,970) |

**7. SEGMENT INFORMATION** *(Continued)*

**Business segments** *(Continued)*

**For the year ended 31 December 2007**

| | Continuing operations | | |
|---|---|---|---|
| | **Toy products trading and manufacturing** | **Securities trading and investments** | **Consolidated** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| **ASSETS** | | | |
| Segment assets | 15,606 | 26,574 | 42,180 |
| Unallocated corporate assets | | | 220,528 |
| Total assets | | | 262,708 |
| **Liabilities** | | | |
| Segment liabilities | 13,269 | — | 13,269 |
| Unallocated corporate liabilities | | | 1,805 |
| Total liabilities | | | 15,074 |
| **Other information** | | | |
| Capital expenditure: | | | |
| Business segment | 12 | — | 12 |
| Unallocated items | | | 32 |
| Depreciation: | | | |
| Business segment | 1,878 | — | 1,878 |
| Unallocated items | | | 23 |
| Amortisation on prepaid lease payments | 63 | — | 63 |
| Significant non-cash expenses (other than depreciation and amortisation): | | | |
| Business segment | 2,282 | 1,218 | 3,500 |
| Unallocated items | | | 4,263 |

## 7. SEGMENT INFORMATION *(Continued)*

**Business segments** *(Continued)*

**For the year ended 31 December 2006**

| | Continuing operations | | | Discontinued operation | |
|---|---|---|---|---|---|
| | **Toy products trading and manufacturing** | **Securities trading and investments** | **Total** | **Consumer products trading and manufacturing** | **Consolidated** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Turnover** | | | | | |
| Revenue from external customers | 130,085 | — | 130,085 | 2,547 | 132,632 |
| **Segment results** | (26,285) | (18) | (26,303) | (423) | (26,726) |
| Unallocated other income | | | 113 | — | 113 |
| Unallocated operating expenses | | | (9,269) | — | (9,269) |
| Gain on disposal of subsidiaries | | | — | 355 | 355 |
| Finance costs | | | (930) | — | (930) |
| **Loss before taxation** | | | (36,389) | (68) | (36,457) |
| Taxation | | | (76) | — | (76) |
| **Loss for the year** | | | (36,465) | (68) | (36,533) |

## 7. SEGMENT INFORMATION *(Continued)*

**Business segments** *(Continued)*

**For the year ended 31 December 2006**

| | Continuing operations | | | Discontinued operation | |
|---|---|---|---|---|---|
| | Toy products trading and manufacturing | Securities trading and investments | Total | Consumer products trading and manufacturing | Consolidated |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **ASSETS** | | | | | |
| Segment assets | 119,556 | 408 | 119,964 | — | 119,964 |
| Unallocated corporate assets | | | 6,689 | — | 6,689 |
| Total assets | | | 126,653 | — | 126,653 |
| **Liabilities** | | | | | |
| Segment liabilities | 53,684 | — | 53,684 | — | 53,684 |
| Unallocated corporate liabilities | | | 3,355 | — | 3,355 |
| Total liabilities | | | 57,039 | — | 57,039 |
| **Other information** | | | | | |
| Capital expenditure | 4,194 | — | 4,194 | — | 4,194 |
| Depreciation: | | | | | |
| Business segment | 5,112 | 12 | 5,124 | — | 5,124 |
| Unallocated items | | | 212 | — | 212 |
| Amortisation on prepaid lease payments | 182 | — | 182 | — | 182 |
| Significant non-cash expenses (other than depreciation and amortisation): | | | | | |
| Business segment | 4,851 | — | 4,851 | 26 | 4,877 |
| Unallocated items | | | 1,136 | — | 1,136 |

7. **SEGMENT INFORMATION** *(Continued)*

**Geographical segments**

The Group's business is managed on a worldwide basis, but participates in the principal economic environments as shown in the table below. Japan and Hong Kong are the major markets for all of the Group's businesses. The location of the toy products manufacturing was in the People's Republic of China (the "PRC") prior to disposal of the toy manufacturing business.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

| 2007 | Revenue HK$'000 | Total assets HK$'000 | Capital expenditure HK$'000 |
|---|---|---|---|
| Japan | 84,570 | 3,189 | — |
| PRC | 22,043 | 1,568 | — |
| Hong Kong | 11,081 | 235,175 | 44 |
| Canada | 7,589 | 313 | — |
| Europe | 2,376 | 325 | — |
| Taiwan | 2,304 | 1,104 | — |
| Singapore | 1,631 | 19,646 | — |
| Others | 1,393 | 1,388 | — |
| | 132,987 | 262,708 | 44 |

| 2006 | Revenue HK$'000 | Total assets HK$'000 | Capital expenditure HK$'000 |
|---|---|---|---|
| Japan | 52,623 | 5,534 | — |
| PRC | 32,426 | 100,722 | 4,189 |
| Hong Kong | 35,531 | 19,136 | 5 |
| Europe | 4,408 | 390 | — |
| Taiwan | 4,915 | — | — |
| Singapore | 1,834 | — | — |
| Others | 895 | 871 | — |
| | 132,632 | 126,653 | 4,194 |

## 8. LOSS BEFORE TAXATION

| | 2007 | 2006 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Loss before taxation is arrived at after charging (crediting): | | |
| **(a) Finance costs** | | |
| Interest on bank loans and other borrowings wholly repayable within five years | 314 | 543 |
| Finance charges on obligations under finance leases | 94 | 387 |
| Interest on convertible notes | 532 | — |
| Total interest expenses on financial liabilities at amortised cost | 940 | 930 |
| **(b) Other items** | | |
| Staff costs (include directors' emoluments): | | |
| Salaries, wages and other benefits | 9,144 | 17,444 |
| Share-based payment in respect of share options granted | 1,369 | 1,868 |
| Contribution to defined contribution plans | 135 | 2,362 |
| | 10,648 | 21,674 |
| Cost of inventories | 127,924 | 131,923 |
| Auditors' remuneration | 475 | 897 |
| Depreciation on property, plant and equipment | 1,901 | 5,336 |
| Amortisation on prepaid lease payments | 63 | 182 |
| Provision for obsolete inventories | — | 1,516 |
| Provision for impairment losses | | |
| — Goodwill (included in other expenses) | 4,201 | 1,136 |
| — Trade receivables (included in administrative expenses) | — | 1,451 |
| Loss on change in fair value of financial assets at fair value through profit or loss (included in other expenses) | 1,218 | — |
| Net exchange losses | 1,834 | 152 |
| Loss on disposal of property, plant and equipment | 62 | 42 |
| Operating lease payments for premises | 185 | 463 |

**9. DIRECTORS' REMUNERATION**

The emoluments paid or payable to every director for the years ended 31 December 2007 and 2006 are set out below:

| **2007** | **Directors' fees** *HK$'000* | **Salaries, allowances and benefits in kinds** *HK$'000* | **Retirement scheme contribution** *HK$'000* | **Total** *HK$'000* |
|---|---|---|---|---|
| Executive directors: | | | | |
| Ha Kee Choy, Eugene | 200 | — | — | 200 |
| Leung Wai Ho (resigned on 1 October 2007) | — | 300 | 6 | 306 |
| Wong Chung Shun (resigned on 1 October 2007) | — | 270 | 6 | 276 |
| Ma Wai Man, Catherine (appointed on 1 October 2007) | — | 455 | 3 | 458 |
| Non-executive directors: | | | | |
| Chui Chi Yun, Robert | 120 | — | — | 120 |
| Lai Wing Leung, Peter | 120 | — | — | 120 |
| Lam Kwok Cheong (resigned on 12 October 2007) | 100 | — | — | 100 |
| Cheng Yuk Wo (appointed on 1 October 2007) | 25 | — | — | 25 |
| | 565 | 1,025 | 15 | 1,605 |

### 9. DIRECTORS' REMUNERATION *(Continued)*

| 2006 | Directors' fees *HK$'000* | Salaries, allowances and benefits in kinds *HK$'000* | Retirement scheme contribution *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|
| Executive directors: | | | | |
| Ha Kee Choy, Eugene | 200 | — | — | 200 |
| Leung Wai Ho (resigned on 1 October 2007) | — | 650 | 12 | 662 |
| Wong Chung Shun (resigned on 1 October 2007) | — | 585 | 12 | 597 |
| Non-executive directors: | | | | |
| Chui Chi Yun, Robert | 120 | — | — | 120 |
| Lai Wing Leung, Peter | 120 | — | — | 120 |
| Lam Kwok Cheong (resigned on 12 October 2007) | 120 | — | — | 120 |
| | 560 | 1,235 | 24 | 1,819 |

No directors have waived emoluments in respect of the years ended 31 December 2007 and 2006.

### 10. FIVE HIGHEST PAID INDIVIDUALS

Of the five individuals with the highest emoluments in the Group, one (2006: two) are directors of the Company whose emoluments are included in the disclosures in note 9 above. The emoluments of the remaining four (2006: three) individuals were as follows:

| | 2007 *HK$'000* | 2006 *HK$'000* |
|---|---|---|
| Salaries, allowances and benefits in kinds | 1,687 | 1,723 |
| Retirement schemes contributions | 40 | 41 |
| Share-based payments | 1,369 | 934 |
| | 3,096 | 2,698 |

**10. FIVE HIGHEST PAID INDIVIDUALS** *(Continued)*

The emoluments of the four (2006: three) individuals with the highest emoluments are within following bands:

| | 2007 Number of individuals | 2006 Number of Individuals |
|---|---|---|
| Nil - HK$1,000,000 | 4 | 2 |
| HK$1,000,001 - HK$1,500,000 | — | 1 |
| | 4 | 3 |

## 11. TAXATION

Hong Kong Profits Tax has been provided at the rate of 17.5% (2006: 17.5%) on the Group's estimated assessable profits arising from Hong Kong during the year.

| | **2007** | **2006** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Current tax | | |
| Hong Kong | — | 59 |
| Under provision in prior years | 171 | 17 |
| Tax charge for the year | 171 | 76 |

**Reconciliation of tax expense:**

| | **2007** | **2006** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Loss before taxation | | |
| Continuing operations | (74,779) | (36,389) |
| Discontinued operation *(Note 12)* | — | (68) |
| | (74,779) | (36,457) |
| Income tax at applicable tax rate of 17.5% (2006 : 17.5%) | (13,090) | (6,380) |
| Non-deductible expenses | 12,150 | 902 |
| Tax exempt revenue | (420) | (353) |
| Unrecognised tax losses | 1,344 | 5,240 |
| Unrecognised temporary differences | 16 | 13 |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | — | 637 |
| Under provision in prior years | 171 | 17 |
| Tax charge for the year | 171 | 76 |

**12. DISCONTINUED OPERATION**

On 22 June 2006, the Group disposed two non-wholly owned subsidiaries, which manufacture and trade electronic components and were a separate business segment of the Group. The disposal transactions have been completed on 22 June 2006, details of the assets and liabilities disposed of are disclosed in note 33(b) to the financial statements.

An analysis of the results and cash flows of the discontinued operations included in the consolidated income statement and the consolidated cash flow statement is as follows:

| | **2006** |
|---|---|
| | *HK$'000* |
| **Loss for the year from discontinued operation** | |
| Revenue | 2,547 |
| Gain on disposal of subsidiaries *(Note 33(b))* | 355 |
| Expenses | (2,970) |
| Loss before taxation | (68) |
| Taxation | — |
| Loss for the year from discontinued operation | (68) |
| **Cash flows used in discontinued operation** | |
| Net cash flows used in operating activities | (114) |
| Net cash flows | (114) |

**13. NON-CURRENT ASSETS HELD FOR SALE**

On 24 November 2006, the directors announced that the Company entered into an agreement with a third party on 23 November 2006 to dispose of all its interest in Good Prosper Trading Limited ("GPTL") and its subsidiaries ("GPTL Group") for an aggregate consideration of HK$20,000,000. The principal assets held by GPTL Group are land use rights in respect of parcels of land situated in the PRC. The assets and liabilities of GPTL Group were classified as held for sale as at 31 December 2006. The disposal was completed on 28 June 2007 and details of the assets and liabilities disposed of are set out in note 33(a) to the financial statements.

**13. NON-CURRENT ASSETS HELD FOR SALE** *(Continued)*

The major classes of assets and liabilities of the GPTL Group classified as held for sale at the balance sheet date are as follows:

| | **2006** |
|---|---|
| | *HK$'000* |
| **Non-current assets classified as held for sale** | |
| Goodwill | 396 |
| Property, plant and equipment | 13,060 |
| Prepaid lease payments | 5,600 |
| Bank balance and cash | 71 |
| | 19,127 |
| **Liabilities associated with non-current assets classified as held for sale** | |
| Due to a related company *(note)* | (2,093) |
| **Net assets classified as held for sale** | 17,034 |

*Note :* The amount due was unsecured, interest-free and repayable on demand. The related company is owned and controlled by Mr. Leung Wai Ho and Mr. Wong Chung Shun, former directors and substantial shareholders of the Company.

**14. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY**

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of loss of HK$64,230,000 (2006: HK$18,165,000).

## 15. LOSS PER SHARE

### (a) For continuing and discontinued operations

The calculation of the basic loss per share attributable to the equity holders of the Company are based on the following data:

**Loss**

| | **2007** | **2006** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Loss for the year attributable to equity holders of the Company for the purpose of basic loss per share | (73,579) | (36,610) |

**Number of shares**

| | **Number of shares** | **Number of shares** |
|---|---|---|
| | *'000* | *'000* |
| | | (restated) |
| Weighted average number of ordinary shares for the purpose of basic loss per share | 2,230,179 | 1,161,941 |

*Note :* The number of shares in 2007 and 2006 were adjusted to reflect the share consolidation of every five shares of HK$0.01 each of the Company into two shares of HK$0.025 each and the rights issue on the basis of three rights shares for every one share, which became effective on 6 March 2007 and 13 December 2007 respectively.

Diluted loss per share for the years ended 31 December 2007 and 2006 have not been presented because the impact of the exercise of share options and conversion of convertible notes were anti-dilutive.

**15. LOSS PER SHARE** *(Continued)*

**(b) For continuing operations**

The calculation of the basic loss per share from continuing operations attributable to the equity holders of the Company are based on the following data:

**Loss**

| | **2007** | **2006** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Loss for the year attributable to equity holders of the Company | (73,579) | (36,610) |
| Adjust: | | |
| Loss for the year from discontinued operation | — | 67 |
| Loss for the purpose of basic loss per share from continuing operations | (73,579) | (36,543) |

The denominators used are the same as those detailed above for basic loss per share.

Diluted loss per share from continuing operations for the years ended 31 December 2007 and 2006 have not been presented because the impact of the exercise of share options and conversion of convertible notes were anti-dilutive.

**(c) For discontinued operation**

Basic and diluted loss per share for the discontinued operation is not applicable for the year ended 31 December 2007.

Basic loss per share for the discontinued operation is HK0.01 cent per share for the year ended 31 December 2006 and diluted loss per share for the discontinued operation is not applicable for 2006, based on the loss for the year ended 31 December 2006 from the discontinued operation of HK$67,000 and the denominator detailed above for the basic loss per share.

## 16. PROPERTY, PLANT AND EQUIPMENT

| | Group | | | | | | |
|---|---|---|---|---|---|---|---|
| | Buildings | Leasehold improvements | Plan and machinery | Furniture, fixtures and equipment | Motor vehicles | Construction in progress | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **COST** | | | | | | | |
| At 1 January 2006 | 44,649 | 170 | 19,181 | 2,221 | 480 | 3,410 | 70,111 |
| Exchange adjustments | 1,563 | — | 441 | 60 | 2 | 119 | 2,185 |
| Additions | 3,570 | — | 570 | 47 | 7 | — | 4,194 |
| Transfer | 3,200 | — | 295 | — | — | (3,495) | — |
| Disposals | — | (43) | — | (22) | — | — | (65) |
| Eliminated on disposal of a subsidiary | — | (74) | (49) | (75) | — | — | (198) |
| Reclassified as held for sale | (13,576) | — | — | — | — | — | (13,576) |
| At 31 December 2006 | 39,406 | 53 | 20,438 | 2,231 | 489 | 34 | 62,651 |
| Additions | — | — | — | 44 | — | — | 44 |
| Disposals | — | (53) | — | (246) | — | — | (299) |
| Eliminated on disposal of subsidiaries | (39,406) | — | (20,438) | (1,816) | (71) | (34) | (61,765) |
| **At 31 December 2007** | **—** | **—** | **—** | **213** | **418** | **—** | **631** |
| **DEPRECIATION** | | | | | | | |
| At 1 January 2006 | 929 | 85 | 3,310 | 569 | 197 | — | 5,090 |
| Exchange adjustments | 70 | — | 219 | 25 | 1 | — | 315 |
| Charged for the year | 931 | 15 | 3,880 | 410 | 100 | — | 5,336 |
| Disposals | — | (16) | — | (7) | — | — | (23) |
| Eliminated on disposal of a subsidiary | — | (48) | (26) | (28) | — | — | (102) |
| Reclassified as held for sale | (516) | — | — | — | — | — | (516) |
| At 31 December 2006 | 1,414 | 36 | 7,383 | 969 | 298 | — | 10,100 |
| Charged for the year | 268 | 4 | 1,364 | 175 | 90 | — | 1,901 |
| Disposals | — | (40) | — | (195) | — | — | (235) |
| Eliminated on disposal of subsidiaries | (1,682) | — | (8,747) | (821) | (40) | — | (11,290) |
| **At 31 December 2007** | **—** | **—** | **—** | **128** | **348** | **—** | **476** |
| **NET BOOK VALUE** | | | | | | | |
| **At 31 December 2007** | **—** | **—** | **—** | **85** | **70** | **—** | **155** |
| **At 31 December 2006** | **37,992** | **17** | **13,055** | **1,262** | **191** | **34** | **52,551** |

As at 31 December 2006, the net book value of the Group's property, plant and equipment included an amount of HK$4,800,000 in respect of assets held under finance leases; as at 31 December 2007, no property, plant and equipment in respect of assets held under finance leases were included.

## 16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Property, plant and equipment with an aggregate net book value of HK$42,792,000 were pledged to secure banking facilities granted to a subsidiary of the Group as at 31 December 2006; no property, plant and equipment were pledged as at 31 December 2007.

## 17. GOODWILL

| | **Group** |
|---|---|
| | *HK$'000* |
| **COST** | |
| At 1 January 2006 | 6,642 |
| Eliminated on disposal of a subsidiary | (909) |
| Reclassified as held for sale | (396) |
| At 31 December 2006 | 5,337 |
| Eliminated on disposal of subsidiaries | (1,136) |
| **At 31 December 2007** | **4,201** |
| **IMPAIRMENT** | |
| At 1 January 2006 | 909 |
| Eliminated on disposal of a subsidiary | (909) |
| Provided for the year | 1,136 |
| At 31 December 2006 | 1,136 |
| Eliminated on disposal of subsidiaries | (1,136) |
| Provided for the year | 4,201 |
| **At 31 December 2007** | **4,201** |
| **NET BOOK VALUE** | |
| **At 31 December 2007** | **—** |
| At 31 December 2006 | 4,201 |

**17. GOODWILL** *(Continued)*

**Impairment testing of goodwill**

Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to business segment and country of operation. The entire amount of goodwill has been allocated to the toy products trading segment located in Hong Kong.

The recoverable amount of the CGU is determined based on a value-in-use calculation. These calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 7.8% per annum (2006: 7.8%). In 2007, cash flows for the five-year period were extrapolated using a 4% growth rate (2006: 10%) in considering the economic conditions of the market. Another key assumption for the value in use calculations is the budgeted gross margin, which is determined based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of this CGU.

**18. PREPAID LEASE PAYMENTS**

Prepaid lease payments represent cost paid for medium term leasehold land outside Hong Kong. The cost is amortised over the leasehold period.

As a result of disposal of subsidiaries, no prepaid lease payments were recorded as at 31 December 2007. As at 31 December 2006, the amount to be amortised more than twelve months after the balance sheet date amounted to HK$3,327,000 while the amount to be amortised within the next twelve months after the balance sheet date of HK$72,000 is included in current assets.

As at 31 December 2006, all the leasehold lands were pledged to secure banking facilities granted to a subsidiary of the Group.

## 19. INTEREST IN SUBSIDIARIES

| | Company | |
|---|---|---|
| | **2007** | **2006** |
| | *HK$'000* | *HK$'000* |
| Unlisted shares, at cost | 1 | 1 |
| Equity share-based payment in subsidiaries | 3,215 | 1,868 |
| | 3,216 | 1,869 |
| Less: impairment losses | (3,215) | (1,868) |
| | 1 | 1 |

In accordance with HKFRS 2 Share-based payment, share-based payment transactions in which an entity receives services from its employees as consideration for equity instruments of the entity are accounted for as equity-settled transactions (see note 3.18). The Company recognises the grant of equity instruments to its subsidiaries' employees and eligible participants amounted to HK$2,282,000 (2006: HK$1,868,000) as capital contributions to its subsidiaries.

Particulars of the Company's subsidiaries at the balance sheet date, which in the opinion of the directors principally affected the results, assets or liabilities of the Group are set out in note 42 to the financial statements.

## 20. INVENTORIES

| | Group | |
|---|---|---|
| | **2007** | **2006** |
| | *HK$'000* | *HK$'000* |
| Raw material | — | 4,866 |
| Work in progress | — | 1,918 |
| Finished goods | — | 391 |
| | — | 7,175 |

All inventories, excluding those fully provided for with nil carrying value, are stated at cost.

## 21. TRADE AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Trade receivables *(Note 21 (b))* | 8,895 | 24,457 | — | — |
| Less: provision for impairment of receivables | — | (1,451) | — | — |
| | 8,895 | 23,006 | — | — |
| Deposits, prepayments and other receivables | 6,651 | 9,642 | 627 | 224 |
| Due from subsidiaries *(Note 21 (a))* | — | — | 242,361 | 69,380 |
| | 6,651 | 9,642 | 242,988 | 69,604 |
| | 15,546 | 32,648 | 242,988 | 69,604 |

### (a) Due from subsidiaries

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

### (b) Trade receivables

The Group allows an average credit period ranging from 30 to 90 days to its trade customers. The ageing analysis of trade receivables (net of impairment losses for bad and doubtful debts) as of the balance sheet date is as follows:

| | Group | |
|---|---|---|
| | **2007** | **2006** |
| | *HK$'000* | *HK$'000* |
| 0 to 60 days | 7,374 | 10,851 |
| 61 to 90 days | 535 | 3,803 |
| Over 90 days | 986 | 8,352 |
| | 8,895 | 23,006 |

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly. The movement in the provision for impairment of trade receivables is as follows:

**21. TRADE AND OTHER RECEIVABLES** *(Continued)*

**(b) Trade receivables** *(Continued)*

| | Group | |
|---|---|---|
| | **2007** | **2006** |
| | *HK$'000* | *HK$'000* |
| At 1 January | 1,451 | — |
| Amount written off | (899) | — |
| Eliminated on disposal of a subsidiary | (552) | — |
| Impairment loss charged to the income statement | — | 1,451 |
| At 31 December | — | 1,451 |

At each of the balance sheet date, the Group's trade receivables were individually determined to be impaired. The individually impaired receivables are recognised based on the credit history of its customers. Consequently, specific impairment was recognised.

The Group allows a credit period from 30 to 90 days to its trade customers. The ageing analysis of trade receivables that are past due but not impaired is as follows:

| | Group | |
|---|---|---|
| | **2007** | **2006** |
| | *HK$'000* | *HK$'000* |
| Neither past due nor impaired | 6,396 | 7,024 |
| 1 - 90 days past due | 1,837 | 10,113 |
| 91 - 180 days past due | 294 | 5,461 |
| Over 180 days past due | 368 | 408 |
| | 2,499 | 15,982 |
| | 8,895 | 23,006 |

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default. Receivables that were past due but not impaired related to a number of customers that have a good track record with the Group. Based on past experience, the management believes that no impalement allowance is necessary in respect of these balances as there has not been a significant change in credit qualify and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

## 22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | Group | |
|---|---|---|
| | **2007** | **2006** |
| | *HK$'000* | *HK$'000* |
| Analysis of financial assets at fair value through profit or loss: | | |
| *Held for trading, at market value* | | |
| Equity securities listed in Hong Kong | 7,308 | — |
| Derivative financial instruments | | |
| Equity linked investments | 4,031 | — |
| | 11,339 | — |

## 23. BANK BALANCES AND CASH

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Cash at banks and in hand | 6,270 | 7,136 | 2,912 | 1,947 |
| Short-term bank deposits | 229,167 | — | 16,395 | — |
| | 235,437 | 7,136 | 19,307 | 1,947 |

The effective interest rate at the balance sheet date of short-term bank deposits is charged on interest rates ranging from 1.35% to 3.95% per annum (2006: Nil). These deposits have maturity periods ranging from 1 day to 14 days depending on the immediate cash requirements of the Group.

## 24. TRADE AND OTHER PAYABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Trade payables *(Note 24 (a))* | 3,900 | 20,099 | — | — |
| Accrued charges and other creditors | 11,174 | 17,606 | 1,745 | 2,941 |
| Due to related companies *(Note 24 (b))* | — | 4,827 | — | — |
| | 11,174 | 22,433 | 1,745 | 2,941 |
| | 15,074 | 42,532 | 1,745 | 2,941 |

## 24. TRADE AND OTHER PAYABLES *(Continued)*

### (a) Trade payables

The ageing analysis of trade payables as at the balance sheet date is as follows:

| | Group | |
|---|---|---|
| | **2007** | **2006** |
| | *HK$'000* | *HK$'000* |
| 0 to 60 days | 3,900 | 5,540 |
| 61 to 90 days | — | 836 |
| Over 90 days | — | 13,723 |
| | 3,900 | 20,099 |

### (b) Due to related companies

The amounts due were unsecured, interest-free and repayable on demand. The related companies are owned and controlled by Mr. Leung Wai Ho and Mr. Wong Chung Shun, former directors and substantial shareholders of the Company.

## 25. INTEREST-BEARING BORROWINGS

| | Group | |
|---|---|---|
| | **2007** | **2006** |
| | *HK$'000* | *HK$'000* |
| Bank loans, secured | — | 8,800 |
| | — | 8,800 |
| Less: Current portion due within one year included under current liabilities | — | (8,800) |
| Non-current portion included under non-current liabilities | — | — |

The bank loan as at 31 December 2006 was interest-bearing at 7.254% per annum and repayable within 1 year. The loan was secured by certain leasehold land and buildings held by the Group in PRC and personal guarantee by Mr. Leung Wai Ho, a former director and substantial shareholder of the Company.

**26. OBLIGATIONS UNDER FINANCE LEASES**

| | Group | | | |
|---|---|---|---|---|
| | Minimum lease payments | | Present value of minimum lease payments | |
| | **2007** | **2006** | **2007** | **2006** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Amount payable: | | | | |
| Within one year | — | 2,043 | — | 1,813 |
| In the second to fifth years inclusive | — | 1,873 | — | 1,801 |
| | — | 3,916 | — | 3,614 |
| Future finance charges | — | (302) | — | — |
| Present value of lease obligations | — | 3,614 | — | 3,614 |

Interest rate underlying all obligations under finance leases as at 31 December 2006 was fixed at 8.4% per annum. No arrangements have been entered into for contingent rental payments.

**27. DEFERRED TAXATION**

As at 31 December 2007, the Group has unused tax losses of HK$27,763,000 (2006: HK$52,947,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. As at 31 December 2007, the tax losses will not expire; as at 31 December 2006, unused tax losses of HK$22,659,000 will expire if they were not utilised to set off against the income within five years from the year in which they arose under the current tax legislation.

**28. CONVERTIBLE NOTES**

On 23 July 2007, the Company issued convertible notes with aggregate principal amount of HK$34 million (the "Convertible Notes"), which were non-interest bearing and would mature on 23 July 2009 (the "Maturity Date"). The Convertible Notes were convertible into shares of the Company at conversion price of HK$0.10 per share (subject to anti-dilutive adjustments). Unless previously redeemed or converted, the Company would redeem the Convertible Notes on the Maturity Date at 105% of the outstanding principal amount.

**28. CONVERTIBLE NOTES** *(Continued)*

The convertible notes recognised in the balance sheet were calculated as follows:

| | Group and Company | |
|---|---|---|
| | **Liability component** | **Equity component** |
| | *HK$'000* | *HK$'000* |
| Net carrying amounts on initial recognition | 29,639 | 4,361 |
| Imputed interest expenses | 532 | — |
| Exercise of conversion rights | (30,171) | (4,361) |
| **Net carrying amounts at 31 December 2007** | — | — |

The fair value of the liability component, included in the Convertible Notes, 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 in convertible notes equity reserve.

During the year ended 31 December 2007, all Convertible Notes were converted into ordinary shares of the Company. Total number of ordinary shares converted was 340,000,000 (Note 29).

Interest expenses on the Convertible Notes are calculated using the effective interest method by applying the effective interest rate of 9.75% to the adjusted liability component.

## 29. SHARE CAPITAL

| | Numberof shares | Share capital |
|---|---|---|
| | *'000* | *HK$'000* |
| **Authorised :** | | |
| Ordinary shares | | |
| At 1 January 2006 and 31 December 2006, at HK$0.01 each | 50,000,000 | 500,000 |
| Share consolidation *(note a)* | (30,000,000) | — |
| **At 31 December 2007, at HK$0.025 each** | **20,000,000** | **500,000** |
| **Issued and fully paid:** | | |
| Ordinary shares | | |
| At 1 January 2006, at HK$0.01 each | 1,578,540 | 15,785 |
| Issue of shares upon placing of shares *(note b)* | 300,000 | 3,000 |
| Issue of shares upon exercise of share options *(note c)* | 75,142 | 751 |
| At 31 December 2006, at HK$0.01 each | 1,953,682 | 19,536 |
| Share consolidation *(note a)* | (1,172,210) | — |
| Issue of shares upon placing of shares *(note d & e)* | 410,000 | 10,250 |
| Issue of shares upon exercise of share options *(note f)* | 33,085 | 828 |
| Issue of shares upon conversion of convertible notes *(note g)* | 340,000 | 8,500 |
| Rights issue *(note h)* | 4,693,673 | 117,342 |
| **At 31 December 2007, at HK$0.025 each** | **6,258,230** | **156,456** |

**29. SHARE CAPITAL** *(Continued)*

*Notes:*

a. Pursuant to an ordinary resolution passed in a special general meeting of the Company on 5 March 2007, every five issued and unissued shares of HK$0.01 each in the capital of the Company were consolidated into two shares of HK$0.025 each (the "Shares") with effect from 6 March 2007.

b. Pursuant to a placing and subscription agreement dated 11 October 2006, the placing agent agreed to place 300,000,000 shares of the Company held by Charm Management Limited ("Charm"), a former substantial shareholder of the Company, at a placing price of HK$0.04 per share. The Company also agreed to allot and issue 300,000,000 shares of the Company to Charm at a subscription price of HK$0.04 per share. On 25 October 2006, 300,000,000 shares of HK$0.01 each were issued and allotted to Charm at a consideration of HK$0.04 per share.

c. During the year ended 31 December 2006, 75,141,600 shares of HK$0.01 each were issued and allotted at the exercise price of HK$0.049 per share pursuant to the options granted under the share option scheme of the Company.

d. Pursuant to a placing agreement dated 24 January 2007 (as amended by a supplemental agreement dated 9 February 2007), 220,000,000 Shares and 120,000,000 Shares were issued and allotted at a consideration of HK$0.10 per Share on 14 March 2007 and 11 April 2007 respectively.

e. Pursuant to a placing and subscription agreement dated 14 August 2007, the placing agent agreed to place 70,000,000 Shares held by Charm at a placing price of HK$0.128 per Share and the Company agreed to allot and issue 70,000,000 Shares to Charm at a subscription price of HK$0.128 per Share. On 20 August 2007, 70,000,000 Shares were issued and allotted to Charm at a consideration of HK$0.128 per Share.

f. During the year ended 31 December 2007, 33,084,960 Shares were issued and allotted at the exercise price of HK$0.14 per Share pursuant to the options granted under the share option scheme of the Company.

g. On 23 July 2007, the Company issued Convertible Notes with aggregate principal amount of HK$34,000,000, details of which is disclosed in note 28. Holders of the Convertibles Notes with principal amounts of HK$10,000,000 and HK$24,000,000 exercised their conversion rights on 9 August 2007 and 15 November 2007 respectively. Accordingly, a total of 340,000,000 Shares were issued and allotted during the year.

h. An ordinary resolution was passed in a special general meeting of the Company on 23 November 2007 to approve a rights issue on the basis of three rights shares for every one Share held by the shareholders on the register of members on 23 November 2007 at a subscription price of HK$0.038 per rights share (the "Rights Issue"). The Rights Issue became unconditional on 12 December 2007 and 4,693,672,800 Shares were issued and allotted on 13 December 2007 for a total cash consideration, before share issue expenses, of approximately HK$178,360,000.

All the Shares issued during the years ended 31 December 2007 and 2006 rank pari passu with the existing Shares in all respects.

## 30. RESERVES

**Company**

| | Share premium | Contribution surplus | Convertible notes equity reserve | Share options reserve | Accumulated losses | Total |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 January 2006 | 35,193 | 49,948 | — | — | (31,556) | 53,585 |
| Issue of shares upon placement of shares | 9,000 | — | — | — | — | 9,000 |
| Equity settled share-based payment transactions | — | — | — | 1,868 | — | 1,868 |
| Issue of shares upon exercise of share options | 4,799 | — | — | (1,868) | — | 2,931 |
| Share issue expense | (144) | — | — | — | — | (144) |
| Loss for the year | — | — | — | — | (18,165) | (18,165) |
| At 31 December 2006 | 48,848 | 49,948 | — | — | (49,721) | 49,075 |
| Issue of shares upon placement of shares | 32,710 | — | — | — | — | 32,710 |
| Equity settled share-based payment transactions | — | — | — | 2,282 | — | 2,282 |
| Issue of shares upon exercise of share options | 6,086 | — | — | (2,282) | — | 3,804 |
| Issue of convertible notes | — | — | 4,361 | — | — | 4,361 |
| Issue of shares upon conversion of convertible notes | 26,032 | — | (4,361) | — | — | 21,671 |
| Rights issue | 61,017 | — | — | — | — | 61,017 |
| Share issue expense | (6,595) | — | — | — | — | (6,595) |
| Loss for the year | — | — | — | — | (64,230) | (64,230) |
| **At 31 December 2007** | **168,098** | **49,948** | **—** | **—** | **(113,951)** | **104,095** |

The contribution surplus represented reduction in issued capital pursuant to a capital restructuring in 2004. Under the Company Law of Bermuda, the contributed surplus of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

a. it is, or would after the payment be, unable to pay its liabilities as they become due; or

b. the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

## 31. SHARE OPTIONS

Pursuant to the resolution passed at a special general meeting held on 17 September 2004, the Company adopted a new share option scheme (the "Scheme"). The Company operates the Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The eligible participants of the Scheme include the Company's or its subsidiaries' executive directors, non-executive directors and employees, and any business consultants, agents, financial or legal advisers and any other persons who the Board consider, at its sole discretion, will contribute or have contributed to the Group.

The grant of share options should be accepted within 30 days from the date of the grant, at a consideration of HK$1, being payable by the grantee upon the acceptance of grant. The options may be exercised at any time within the period commencing from the date of grant of the options and expiring on the date determined by the directors, but in any event such exercise period shall not exceed a period of ten years commencing on the date the relevant option is deemed to be granted.

The exercise price of the share options was determinable by the directors, but was not able to be less than the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of grant and (iii) the nominal value of the Company's share.

Pursuant to the Scheme, the maximum number of shares in the Company in respect of which options may be granted when aggregated with any other share option scheme of the Company is not permitted to exceed 127,854,000 shares, representing 10% of the issued share capital of the Company as at the date of adoption of the Scheme. Subject to the issue of a circular and the approval of the shareholders of the Company in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Board may refresh the limit at any time to 10% of the total number of shares in issue as at the date of approval by the shareholders of the Company in general meeting. Notwithstanding the foregoings, the shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company at any time shall not exceed 30% of the shares in issue from time to time.

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

## 31. SHARE OPTIONS *(Continued)*

### (a) Movements in share options

The following table discloses movements of the Company's share options during the year.

| | | | | Number of share options | | | |
|---|---|---|---|---|---|---|---|
| | Date of grant | Exercise period | Exercise price *(note)* *HK$* | At 1 January 2007 | Granted during the year *(note)* | Exercised during the year | At 31 December 2007 |
| Employees | 13 January 2007 | 13 January 2007 to 12 January 2009 | 0.140 | — | 19,850,976 | (19,850,976) | — |
| Others | 13 January 2007 | 13 January 2007 to 12 January 2009 | 0.140 | — | 13,233,984 | (13,233,984) | — |
| | | | | — | 33,084,960 | (33,084,960) | — |
| **Weighted average exercise prices (HK$)** | | | | N/A | 0.140 | 0.140 | N/A |

*Note :* The exercise price and number of share options granted during the year were adjusted to reflect the share consolidation of every five shares of HK$0.01 each of the Company into two shares of HK$0.025 each which became effective on 6 March 2007.

**31. SHARE OPTIONS** *(Continued)*

**(a) Movements in share options** *(Continued)*

The following table discloses movements of the Company's share options during the prior year.

| | Date of grant | Exercise period | Exercise price *HK$* | Number of share options: At 1 January 2006 | Granted during the year | Exercised during the year | Lapsed during the year | At 31 December 2006 |
|---|---|---|---|---|---|---|---|---|
| Directors | 1 December 2004 | 31 December 2004 to 30 December 2006 | 0.0676 | 7,671,240 | — | — | (7,671,240) | — |
| Employees | 1 December 2004 | 31 December 2004 to 30 December 2006 | 0.0676 | 51,141,600 | — | — | (51,141,600) | — |
| | 16 November 2006 | 16 November 2006 to 15 November 2008 | 0.0490 | — | 37,570,800 | (37,570,800) | — | — |
| other | 1 December 2004 | 31 December 2004 to 30 December 2006 | 0.0676 | 43,470,360 | — | — | (43,470,360) | — |
| | 16 November 2006 | 16 November 2006 to 15 November 2008 | 0.0490 | — | 37,570,800 | (37,570,800) | — | — |
| | | | | 102,283,200 | 75,141,600 | (75,141,600) | (102,283,200) | — |
| Weighted average exercise prices (HK$) | | | | 0.0676 | 0.0490 | 0.0490 | 0.0676 | N/A |

At the balance sheet date, the weighted average remaining contractual life of the Company's share options was zero year (2006: zero).

**31. SHARE OPTIONS** *(Continued)*

**(b) Share options exercised during the year**

All share options granted during the year ended 31 December 2007 were immediately exercisable and exercised at the exercise price of HK$0.140 per share. The weighted average closing price of the shares of the Company immediately before the dates on which the options were exercised was HK$0.191 per share.

**(c) Fair value of share options granted during the year and assumptions**

The fair value of the share options granted during the year is HK$0.0690 (2006: HK$0.0249). The estimate of the fair value of the share options granted is measured based on Black-Scholes pricing model. The inputs into the model were as follows:

| | |
|---|---|
| Closing price of the shares at the date of grant | HK$0.1450 |
| Exercise price | HK$0.1400 |
| Expected volatility | 78.55% |
| Risk-free interest rate | 7.75% per annum |
| Option life | 2 years |
| Expected dividend yield | 0.00% |

The expected volatility was determined by using the historical volatility of the share price of the Company over the previous one year.

The Black-Scholes pricing model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

**32. RETIREMENT BENEFIT SCHEME**

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

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

**32. RETIREMENT BENEFIT SCHEME** *(Continued)*

During the year, the total amounts contributed by the Group to the relevant retirement benefit schemes are as follows:

| | **2007** | **2006** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| MPF Scheme | 135 | 210 |
| State-management retirement benefit schemes | — | 2,152 |
| | 135 | 2,362 |

**33. DISPOSAL OF SUBSIDIARIES**

(a) During the year, the Group disposed of its entire interests in (i) GPTL Group; (ii) GFT Holding Limited and its subsidiaries (the "GFT Holding Group"); (iii) Capital Prosper Limited; and (iv) Prosper Services Limited. The details of assets and liabilities disposed of, total consideration and an analysis of the net inflow of cash and cash equivalents in respect of the disposals of the above subsidiaries are summarised as follows:

## 33. DISPOSAL OF SUBSIDIARIES *(Continued)*

(a) *(Continued)*

| | | | | | 2007 |
|---|---|---|---|---|---|
| | GPTL Group | GFT Holding Group | Capital Prosper Limited | Prosper Services Limited | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | *(Note i)* | *(Note ii)* | *(Note iii)* | *(Note iv)* | |
| Net liabilities disposed of by the Group: | | | | | |
| Property, plant and equipment | 12,970 | 50,477 | — | — | 63,447 |
| Prepaid lease payments | 5,561 | 3,375 | — | — | 8,936 |
| Club debenture | — | 220 | — | — | 220 |
| Inventories | — | 9,463 | — | — | 9,463 |
| Trade and other receivables | — | 34,215 | — | 28 | 34,243 |
| Bank balances and cash | 69 | 6,815 | — | 103 | 6,987 |
| Bank loans | — | (18,000) | — | — | (18,000) |
| Obligations under finance leases | — | (3,027) | — | — | (3,027) |
| Trade and other payables | — | (29,140) | — | (19) | (29,159) |
| Amount due to group companies | (17,309) | (67,248) | — | — | (84,557) |
| Amount due to related companies | (2,096) | (877) | (25) | (157) | (3,155) |
| Tax payable | — | (319) | — | — | (319) |
| | (805) | (14,046) | (25) | (45) | (14,921) |
| Minority interests | — | (71) | — | — | (71) |
| Translation reserve | (1,859) | (1,250) | — | — | (3,109) |
| Attributable goodwill | 396 | — | — | — | 396 |
| | (2,268) | (15,367) | (25) | (45) | (17,705) |
| Gain on disposal | 4,976 | 15,367 | 25 | 45 | 20,413 |
| Total consideration satisfied by cash | 2,708 | — | — | — | 2,708 |
| Net cash inflow (outflow) arising on disposal : | | | | | |
| Cash consideration | 2,708 | — | — | — | 2,708 |
| Bank balances and cash disposed of | (69) | (6,815) | — | (103) | (6,987) |
| | 2,639 | (6,815) | — | (103) | (4,279) |

**33. DISPOSAL OF SUBSIDIARIES** *(Continued)*

(a) *(Continued)*

*Notes:*

(i) The Company entered into an agreement in November 2006 to dispose of its entire equity interest in and the amount due from GPTL Group to the Group (the "Debt") to an independent third party, Sky Hawk International Limited ("Sky Hawk") for an aggregate consideration of HK$20 million, The principal assets of GPTL Group are the land use rights in respect of parcels of adjacent lands situated at Boluo, Huizhou and the infrastructure erected thereon. HK$2 million was paid by Sky Hawk upon signing of the agreement and the balance was to be settled on completion.

Pursuant to the deed of assignment dated 28 June 2007, the Group assigned the Debt to Sky Hawk. GPTL became indebted to Sky Hawk in amount of approximately HK$17 million.

Pursuant to the supplemental agreement dated 28 June 2007, Sky Hawk paid a further sum of HK$2 million and delivered to the Company a promissory note with a principal amount of HK$16 million which was interest free, due on 31 December 2007 and secured by the entire issued share capital of GPTL. Sky Hawk fully settled the amount before the balance sheet date.

(ii) On 16 April 2007, the Company entered into an agreement with Innovative Sonic International Limited ("Innovative Sonic"), a company beneficially owned by Mr. Leung Wai Ho, and Mr. Wong Chung Shun, former directors and substantial shareholders of the Company. Pursuant to the agreement, the Company agreed to sell and Innovative Sonic agreed to purchase the entire equity interest of and the amount from GFT Holding Group (the "Loan") at an aggregate consideration of HK$2. GFT Holding Group engages in toy manufacturing and toy trading.

Pursuant to the deed of assignment dated 28 June 2007, the Group assigned the Loan to Innovative Sonic. Great Force Technology Limited, a subsidiary of GFT Holding Limited became indebted to Innovative Sonic in amount of approximately HK$68.6 million.

(iii) On 28 December 2007, the Group disposed of its entire interest in Capital Prosper Limited, which was inactive, to independent third parties for an aggregate consideration of HK$2.

(iv) On 28 December 2007, the Group disposed of its entire interest in Prosper Services Limited which was principally engaged in the provision of management services to the Group, to independent third parties for an aggregate consideration of HK$2.

## 33. DISPOSAL OF SUBSIDIARIES *(Continued)*

(b) On 22 June 2006, the Group disposed of its entire interests in 51% owned subsidiaries, Thunder Force Limited and Thunder Tech Electronic Co., Limited. Thunder Force Limited was engaged in trading and manufacturing of electronic components while Thunder Tech Electronic Co., Limited was inactive. The disposals were completed on 22 June 2006.

| | **2006** |
|---|---|
| | *HK$'000* |
| Net liabilities disposed of by the Group: | |
| Property, plant and equipment | 96 |
| Inventories | 60 |
| Trade and other receivables | 1,854 |
| Bank balances and cash | 292 |
| Trade and other payables | (2,446) |
| | (144) |
| Minority interests | (161) |
| | (305) |
| Gain on disposal - Discontinued operation *(Note 12)* | 355 |
| Total consideration satisfied by cash | 50 |
| Net cash outflow arising on disposal : | |
| Cash consideration | 50 |
| Bank balances and cash disposed of | (292) |
| | (242) |

## 34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and other receivables, financial assets at fair value through profit or loss, bank balances and cash, trade and other payables, borrowings, finance lease obligations and details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

## 34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

**Foreign exchange risk**

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States Dollars ("US dollar") and Renminbi ("RMB"). Foreign exchange risk arises from commercial transactions and recognised assets and liabilities. In addition, the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

Substantial portion of the Group's revenue is derived in US dollar and substantial portion of costs are in RMB. Thus, when the RMB strengthens in value against the HK dollar, as has occurred in 2006 and 2007, the Group's operating margins are negatively impacted unless recovered from customers in the form of price increases. The HK dollar is pegged to US dollar and thus foreign exchange exposure is considered as minimal. The Group currently does not have a foreign currency hedging policy.

As at 31 December 2007, if HK dollar had weakened/strengthened by 5% against RMB, with all other variables held constant, loss after tax for the year and accumulated losses would have been HK$109,000 (2006: HK$132,000) lower/higher, mainly as a result of foreign exchange gains/losses on translation of RMB denominated trade receivables and trade payables.

**Interest rate risk**

The Group has no borrowings which bear fixed or floating interest rate except for the bank borrowing and finance leases of the former subsidiaries which have been disposed of by the Group in June 2007. The risk of change in interest rate in this respect is insignificant.

The Group has no significant interest-bearing assets except for deposits held in banks, the Group determined that the reasonably possible change in interest rates on bank deposits in the coming twelve months had been 0.5%. As at 31 December 2007, if interest rates on bank deposits had been 0.5% higher/lower, with all other variable held constant, the Group's loss after tax for the year and accumulated losses would decrease/increase by HK$1,177,000 (2006: HK$36,000).

**Equity price risk**

The Group is exposed to equity price risk arising from its investments in equity securities, equity linked investments which are classified as at fair value through profit or loss. The Group manages this exposure by maintaining a portfolio of investments with different risk and return profiles.

As at 31 December 2007, if equity prices had been 5% higher/lower, with all other variables held constant, the Group's loss after tax for the year and accumulated losses would have been HK$567,000 (2006: Nil) lower/higher. There will be no impact on other components of equity.

**34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES** *(Continued)*

**Credit risk**

Credit risk refers to the risk that debtors will default on their obligations to repay the amounts owing to the Group, resulting in a loss to the Group. The Group has adopted procedures in extending credit terms to customers and in monitoring its credit risk.

The Group's credit policy practices include assessment and valuation of customer's credit reliability and periodic review of their financial status to determine the credit limits to be granted.

As at the balance sheet date, the Group has no significant concentration of credit risk, with exposure spread over a number of customers and counter parties.

Trading of investment securities and derivative financial instruments, including equity linked investments, are mainly entered with counterparties with sound credit rating and the management does not expect any investment counterparty to fail to meet its obligations. In this regard, the Group does not expect to incur material credit losses on managing financial instruments.

There is no significant credit risk in relation to the Group's cash and cash equivalents as bank balances and cash are placed with reputable banks and financial institutions with good credit ratings.

The maximum exposure to credit risk at the balance date is the carrying amount of each class of financial assets.

**Liquidity risk**

In managing liquidity risk, the Group maintains sufficient cash and cash equivalents to finance its operations, investment opportunities and expansion. The Group finances its working capital requirements mainly by funds generated from operations and from fund raising activities such as placement and rights issue. The Group has net current assets of HK$247,479,000 and HK$11,116,000 as at 31 December 2007 and 2006 respectively. In the opinion of directors, the Group's exposure to liquidity risk is limited.

As at 31 December 2007, the Group's financial liabilities (including trade and other payables, current portion of interest-bearing borrowings and current portion of obligation under finance leases), amounted to HK$15,074,000 (2006: $53,145,000), will be settled within 12 months (2006: 12 months) from the balance sheet date. Non-current portion of obligation under fiance leases amounted to Nil (2006: HK$1,801,000) will be due in the second to fifth years inclusive. Based on the assessment of the Directors, liquidity risk encountered by the Group is minimal.

**Fair value risk**

The fair value of the Group's current financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short term maturity.

## 34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

**Summary of financial assets and liabilities by category**

The carrying amounts of the Group's financial assets and liabilities as recognised as at 31 December 2007 and 2006 may be categorised as follows. See notes 3.8 and 3.9 for explanations about how the category of financial instruments affects their subsequent measurement.

| | Group | |
|---|---|---|
| | **2007** | **2006** |
| | *HK$'000* | *HK$'000* |
| **Financial assets** | | |
| Club debenture | — | 220 |
| Bank balances and cash | 235,437 | 7,136 |
| Financial assets at fair value through profit or loss | 11,339 | — |
| Loans and receivables: | | |
| Trade and other receivables | 12,889 | 32,648 |
| | 259,665 | 40,004 |
| **Financial liabilities** | | |
| At amortised cost: | | |
| Current liabilities | | |
| Trade and other payables | 15,074 | 42,532 |
| Current portion of interest-bearing borrowings | — | 8,800 |
| Current portion of obligation under finance leases | — | 1,813 |
| | 15,074 | 53,145 |
| Non-current liabilities | | |
| Non-current portion of obligation under finance leases | — | 1,801 |

## 35. CAPITAL MANAGEMENT

The Group's objectives when managing capital are:

- to safeguard the Group's ability to continue as a going concern, so that it continues to provide returns for shareholders and benefits for other stakeholders;
- to support the Group's stability and growth; and
- to provide capital for the purpose of strengthening the Group's risk management capability.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability and projected operating cash flows. The Group currently has not adopted any formal dividend policy.

Management regards total equity as capital for capital management purpose. The amount of capital as at 31 December 2007 and 2006 amounted to approximately HK$247,634,000 and HK$69,614,000 respectively, which management considers as optimal having considered the projected capital expenditures and the projected strategic investment opportunities.

## 36. RELATED PARTY TRANSACTIONS

In addition to the transactions/information disclosed elsewhere in these financial statements, during the year, the Group had the following transactions with related parties.

| **Related party relationship** | **Nature of transactions** | **2007** *HK$'000* | **2006** *HK$'000* |
|---|---|---|---|
| Key management personnel, including directors *(note)* | Compensation | | |
| | Short-term benefits | 2,991 | 3,021 |
| | Post employment benefits | 31 | 48 |
| | | 3,022 | 3,069 |
| Companies under common control by executive directors and shareholders of the Company | Administrative expenses paid: | | |
| | — security | 155 | 403 |
| | — Staff welfare | 128 | 157 |
| | — transportation | 52 | 39 |
| | | 335 | 599 |
| | Sales of goods | — | 84 |

*Note :* The remuneration of directors and key executives is determined by the board of directors having regard to the performance of individuals and market trends.

## 37. CAPITAL COMMITMENT

As at 31 December 2007, the Group had capital commitment in respect of expenditure on property, plant and equipment of approximately HK$15,056,000 (2006: nil) contracted but not provided for in the financial statements.

## 38. OPERATING LEASES

**The Group as lessee**

Operating lease payments represent rentals payable by the Group for certain of its warehouses and office premises and photocopying machines. Leases are negotiated for an average term of two to five years (2006: two years) and rentals are fixed during the lease period.

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

| | **2007** | **2006** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Within one year | 466 | 300 |
| In the second to fifth year inclusive | 403 | 157 |
| | 869 | 457 |

**The Group as lessor**

The Group leases out part of its properties under operating leases with average lease terms of 2 to 3 years. The future aggregate minimum rental receivables under non-cancellable operating leases are as follows:

| | **2007** | **2006** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Within one year | — | 47 |
| In the second to fifth year inclusive | — | 43 |
| | — | 90 |

## 39. PLEDGE OF ASSETS

The banking facilities granted to a subsidiary are secured by cash deposits and marketable securities with aggregate net book value of HK$19,103,000 million (2006 : nil) of the subsidiary as at 31 December 2007.

**40. CONTINGENT LIABILITIES**

On 8 October 2004, Mr. Kwok Chin Wing ("Kwok"), a former director of the Company, commenced legal proceedings ("the Action") against the Company in respect of the loans due from two former subsidiaries of the Company, namely, Rockapetta Industrial Company Limited and Grand Extend Investment Limited, for a sum of approximately HK$44.5 million and accrued interest thereof.

The Action is still pending in the High Court of Hong Kong SAR. The Company had already completed discovery of all documentary evidence and exchange of witness statements as to the fact pursuant to the directions of the Court and also obtained Counsel's advice on the pleadings, evidence and merit of defence in the Action. The Company was ready to proceed with the trial of the Action since early 2006.

However, Kwok took out applications in the Action in July 2006 for substantial amendments to his Re-Re-Amended Statement of Claim ("the Amendment Application") and joinder of party to the Action ("the Joinder Application"). The Amendment Application and the Joinder Application had substantially delayed the setting down of the Action for trial.

The Amendment Application and the Joinder Application were granted by the Court on 19 April 2007. The newly joined Defendant had filed his Defence and the Company had also properly dealt with all consequential amendments to the pleadings. Discovery and inspection of documentary evidence between Kwok and the newly joined Defendant were completed and the Action is now pending the exchange of Witness Statements as to facts between Kwok and the newly joined Defendant. It is foreseeable that the Action will set down for trial after the completion of exchange of Witness Statements as to facts between Kwok and the newly joined Defendant.

Notwithstanding the substantial amendments made to the Re-Re-Amended Statement of Claim and the joining of a new party to the Action, the Solicitors and Counsel acting for the Company still hold good of their advice previously delivered to the Company. With the benefit of the advice of Solicitors and Counsel acting for the Company, the directors of the Company formed the opinion that Kwok does not have a valid claim against the Company and therefore it is unlikely to have any material adverse financial impact on the Group.

**41. POST BALANCE SHEET EVENTS**

On 3 October 2007, the Company entered into a conditional placing agreement (as amended by a supplemental agreement dated 9 October 2007, the "Placing Agreement") whereby the placing agent agreed to place on a best effort basis convertible bonds with aggregate principal amount of up to HK$300,000,000 to be issued by the Company (the "Convertible Bonds"). The Convertible Bonds would bear interest at 4% per annum, mature on the second anniversary of the issue date and entitle the holders to convert the principal amount into Shares at an initial conversion price of HK$0.041 per Share. The Placing Agreement, among others, was approved by the shareholders of the Company at a special general meeting held on 23 November 2007.

However, because of changes in market conditions after the approval, certain conditions set out in the Placing Agreement have not been fulfilled before the long stop date and the Placing Agreement has thus automatically lapsed on 21 February 2008.

## 42. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

| Name of company | Place of incorporation | Place of operation | Issued and fully paid up capital | Effective percentage holding | Principal activities |
|---|---|---|---|---|---|
| Elite Mind Holdings Limited | British Virgin Islands | Hong Kong | 1 ordinary share of US$1 | 100% | Investment holding |
| Jet Fame Limited | Hong Kong | Hong Kong | 1 ordinary share of HK$1 | 100% | Inactive |
| Kennex Investments Limited | Hong Kong | Hong Kong | 1 ordinary share of HK$1 | 100% | Property holding |
| Prosper Overseas Limited | Hong Kong | Hong Kong | 2 ordinary shares of HK$1 | 100% | Investment holding |
| Wellgain Glory Limited | British Virgin Islands | Hong Kong | 1 ordinary share of US$1 | 100% | Investment holding |
| Wiz Investments Limited | Hong Kong | Hong Kong | 1 ordinary share of HK$1 | 100% | Security trading and investment |
| Wiz Limited | Hong Kong | Hong Kong | 1 ordinary share of HK$1 | 100% | Provision of management services to the Group |
| Yanyan Force Limited | Hong Kong | Hong Kong | 100 ordinary shares of HK$1 | 60% | Trading of toy, gift and premium products |

## 3. MANAGEMENT DISCUSSION AND ANALYSIS

The following is the management discussion and analysis extracted from pages 3 to 9 of the annual report of the Company for the year ended 31 December 2007.

### BUSINESS AND OPERATION REVIEW

After the discontinuation of the secondary consumer products business in year 2006, the Company made headway in the streamlining process by disposing its idle assets and underperformed manufacturing operation during the year under review. The disposals caused the Group suffering from notable loss and substantial downsizing. Nevertheless, such decisive moves relieved the Group's financial and management resources from those detrimental businesses to more viable operations.

Despite that a significant part of assets was discarded in the first half of the year, the Group still maintained to record a turnover of HK$133.0 million for its toy segment in this year, being a marginal increase of 2.2% when compared with last year. However, competition in toy industry is getting more intensive and, in order to sustain market share, margin is unavoidably weakened. The persistent appreciation of Renminbi and increasing operation cost in mainland China that hampering the Group's suppliers have causal adverse impact on the Group's cost of supply. Loss for the toy segment in the year under review was HK$14.3 million.

The Group ceased to have any contribution from the disposed consumer products business in the year under review but it reactivated, in November 2007, the inactive securities trading and investments business. Since the securities market is becoming volatile, the Group is very cautious in its investing strategy and the market value of its portfolio was kept at HK$11.3 million only as at 31 December 2007. The Group recorded a mild loss of HK$0.7 million from this segment for the year, mainly attributable to the decrease in the fair value of the marketable securities.

#### Material disposal of subsidiaries

***Good Prosper Trading Limited***

The Company entered into an agreement in November 2006 to dispose of its entire equity interest in and the amount due from Good Prosper Trading Limited ("GPTL"), the principal assets of which are the land use rights in respect of parcels of adjacent lands situated at Boluo, Huizhou and the infrastructure erected thereon ("GPTL Disposal") to an independent third party, Sky Hawk International Limited ("Sky Hawk"), for an aggregate consideration of HK$20.0 million. HK$2.0 million was paid by Sky Hawk upon signing of the agreement and the balance would be settled on completion.

At the request of Sky Hawk, the payment terms for the outstanding consideration of HK$18.0 million were revised pursuant to a supplemental agreement entered into between the Company and Sky Hawk. According to the supplemental agreement, Sky Hawk paid a further sum of HK$2.0 million and delivered to the Company a promissory note with a principal amount of HK$16.0 million, which was interest free, due on 31 December 2007 and secured by the entire issued share capital of GPTL on 28 June 2007, the completion date of GPTL Disposal. The deferred consideration was fully settled in accordance with the terms of the promissory note.

As a result of GPTL Disposal, the Group recorded a gain on disposal of subsidiaries of approximately HK$5.0 million.

***GFT Holding Limited***

On 16 April 2007, Prosper Overseas Limited, a wholly owned subsidiary of the Company, entered into an agreement to dispose its entire interest in and amounts due from GFT Holding Limited and its subsidiaries (the "Disposed Group"), a sub-group of the Company engaged in toy manufacturing at Boluo, Huizhou and toy trading, to a company beneficially owned by Mr. Leung Wai Ho and Mr. Wong Chung Shun, both were the former directors and substantial shareholders of the Company, at an aggregate consideration of HK$2.0 ("GFT Disposal").

GFT Disposal constituted a major disposal and connected transaction for the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and was approved by the independent shareholders of the Company in a special general meeting held on 28 May 2007.

Completion of GFT Disposal took place on 28 June 2007, upon which the obligations of the Company as a corporate guarantor under the banking facilities granted to the Disposal Group has been released by the bank and the Company ceased its operation in manufacturing of toy products. As a result of GFT Disposal, the Group recorded a gain on disposal of subsidiaries of approximately HK$15.4 million and wrote off an amount due from a subsidiary in approximately HK$68.6 million.

**PROSPECTS**

It is the Company's primary ambition to seek prosperous and lucrative investments that will benefit the Group, especially after GPTL Disposal and GFT Disposal and the prevailing market conditions indicate that toy industry players are inevitably facing with difficult years. The Company, with fund raised from the placements and the rights issue executed in year 2007, is relatively sufficient in resources and is ready to make the critical move when the opportunities emerge.

However, the worldwide securities and capital markets step into downturn and become vulnerable after the peak at October 2007. Investment sentiment is shaky and hence the directors are paying extra caution on the Group's activity in securities investment and the identification of new investments / business for future expansion. No matter how difficult the situation is, the directors are ready to dedicate and work in utmost good faith for enhancing the betterment and value of the Group.

## FINANCIAL REVIEW

### Review of Results

The Group reported a turnover of HK$133.0 million for the year ended 31 December 2007, being a marginal increment of HK$2.9 million or 2.2% when compared with last year. Gross profits increased by HK$2.8 million from HK$0.2 million for last year to HK$3.0 million, mainly due to the fact that the Group ceased to bear the fixed cost incurred by the underutilized manufacturing plant after its disposal in the first half of the year. For the same reason, operation expenses of the Group declined during the year under review.

Despite that gain on disposal of subsidiaries of HK$20.4 million was recognized from the disposals discussed above, the Group, on the other side, has to write off an amount due from a disposed subsidiary in HK$68.6 million, which largely explained the substantial loss for the year incurred by the Group in HK$75.0 million.

### Capital Structure

On 23 July 2007, the Company issued convertible notes in an aggregate principal amount of HK$34.0 million to finance the working capital and future expansion of the Group. The convertible notes were non-interest bearing, would be matured on 23 July 2009 and were convertible into shares of the Company at conversion price of HK$0.10 per share (subject to anti-dilutive adjustments). All the convertible notes were converted during the year and 340,000,000 new shares of the Company were issued and allotted. The Group has no debt capital as at 31 December 2007.

### Liquidity and Financial Resources

The Group has no borrowings as at 31 December 2007. As at 31 December 2006, total borrowings of the Group amounted to HK$12.4 million, of which HK$10.6 million was repayable within one year.

The Group maintained sufficient working capital as at 31 December 2007 with net current assets of HK$247.5 million (31 December 2006: HK$11.1 million) and bank balances and cash of HK$235.4 million (31 December 2006: HK$7.1 million). As the Group has no borrowing as at 31 December 2007, gearing ratio, expressed as the percentage of total borrowings over total equity, of the Group was zero (31 December 2006: 17.8%).

### Charges on Assets

As at 31 December 2007, certain financial assets and bank deposits in HK$19.1 million were pledged to a bank to secure banking facilities of US$7.0 million, of which no bank loan has ever been drawn. As at 31 December 2006, certain building, land use right and plant and machinery with carrying value of HK$38.0 million, HK$3.4 million and HK$4.8 million respectively were pledged to banks to secure bank loans and finance leases granted to the Group.

**Exposure to Exchange Rates**

Most of the Group's business transactions, assets and liabilities are denominated in Hong Kong dollars, United States dollars and Renminbi. The Group's exposure to United States dollars currency risk is minimal as Hong Kong dollars is pegged to United States dollars. Nevertheless, as Renminbi is becoming more volatile, the Group's operations and performances might thus be affected. Presently, the Group does not have any currency hedging policy but will closely monitor the fluctuation of Renminbi exchange rate and take appropriate measures to minimize any adverse impact that may be caused by such fluctuation.

**Contingent Liabilities**

The Group has no material contingent liabilities save that a writ of summons dated 8 October 2004 was filed by Mr. Kwok Chin Wing, a former director of the Company, against the Company in respect of the loans due from two former subsidiaries of the Company for a sum of approximately HK$44.5 million together with accrued interests thereof (the "Action").

The Company had already completed discovery of all documentary evidence and exchange of witness statement and was ready to proceed with the trial since early 2006. However, Mr. Kwok took out applications in July 2006 for substantial amendments to his Re-Re-Amended Statement of Claim (the "Amendment Application") and joinder of party to the Action (the "Joinder Application"). The Amendment Application and the Joinder Application had substantially delayed the setting down of the Action for trial.

The Amendment Application and the Joinder Application were granted by the Court on 19 April 2007. The newly joined defendant had filed his defence and the Company had also properly dealt with all consequential amendments to the pleadings. Discovery and inspection of documentary evidence between Mr. Kwok and the newly joined defendant were completed and the Action is now pending the exchange of witness statements as to facts between Mr. Kwok and the newly joined defendant. It is foreseeable that the Action will set down for trial after the completion of exchange of witness statements as to the facts between Mr. Kwok and the newly joined defendant.

Notwithstanding the substantial amendments made to the Re-Re-Amended Statement of Claim and the joining of a new party to the Action, the solicitors and counsel acting for the Company still hold good for their advice previously delivered to the Company. With the benefit of the advice of the solicitors and counsel acting for the Company, the directors of the Company formed the opinion that Mr. Kwok does not have a valid claim against the Company and therefore it is unlikely to have any material adverse financial impact on the Group.

**EMPLOYEES**

As at 31 December 2007, the Group had 8 employees (31 December 2006: approximately 2,200). The substantial decrease in the number of staff during the year is attributable to the disposal of the Disposal Group (as detailed in the section under the heading "Material Disposal of Subsidiaries") which employs over 2,000 workers and staff in Hong Kong and the PRC.

To attract, retain and motivate its employees, the Group has developed effective remuneration policies that are subject to review on regular basis. The Group's employees are remunerated with competitive packages which are in line with prevailing industry practice and individual performance. Furthermore, share option and performance-based bonus scheme are also in place to recognize the outstanding employees.

## 4. STATEMENT OF INDEBTEDNESS

At the close of business on 30 April 2008, being the latest practicable date for this statement of indebtedness prior to the printing of the circular, the Enlarged Group had outstanding indebtedness of approximately HK2.8 million comprising secured short-term bank borrowings of approximately HK$2 million, amount due to a related company of approximately HK$414,000 and obligation under finance lease of approximately HK$4,000. As at 30 April 2008, the secured short-term bank borrowing were secured by the buildings of China Perfect Limited and were guaranteed by the Vendor, Ms. Hsia Bin and China Perfect Limited. The amount due to a related company was unsecured, interest free and repayable on demand. Obligation under finance lease was secured by the related leased asset with nil carrying amount as at 30 April 2008.

Save as aforesaid, at the close of business on 30 April 2008, the Enlarged Group did not have outstanding bankdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, finance lease commitments, guarantees or other material contingent liabilities.

The Directors confirmed that there is no material change in indebtedness and contingent liabilities since 30 April 2008 and up to the Latest Practicable Date.

## 5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2007, being the date of which the latest published audited financial statements of the Group were made up.

## 6. WORKING CAPITAL

Taking account of the Enlarged Group's internal resources and presently available banking and other facilities, the Directors are of the opinion that in the absence of unforeseen circumstances, the Enlarged Group shall have sufficient working capital for a period of twelve months from the date of this circular.

*The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong.*

HLB 國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

28 June 2008

The board of directors
GFT Holdings Limited
Unit 707, Tower II, Admiralty Centre
18 Harcourt Road
Hong Kong

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding Consecutive Profits Limited for each of the three years ended 31 March 2006, 2007 and 2008 (the "Relevant Periods"), for inclusion in the circular dated 28 June 2008 (the "Circular") issued by GFT Holdings Limited (the "Company") in connection with, *inter alia*, the very substantial acquisition and connected transaction whereby Kingbox Investments Limited (a wholly-owned subsidiary of the Company) conditionally agreed to acquire the entire equity interests in Consecutive Profits Limited.

Consecutive Profits Limited is a limited liability company incorporated in the British Virgin Islands on 18 May 2001 with an authorized share capital of 50,000 ordinary shares of US$1 each. The registered office of Consecutive Profits Limited is situated at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, the British Virgin Islands. As at the date of this report, the issued share capital of Consecutive Profits Limited amounted to HK$78 comprising 10 ordinary shares of US$1 each, which were held by Mr. Ng Kai Man. Consecutive Profits Limited is an investment holding company and has not carried on any business and has no material asset save for its holding of the entire equity interest in Century Profit Investments Limited and 82.5% equity interest in Century 21 Hong Kong Limited.

As at the date of this report, Consecutive Profits Limited had the following subsidiaries:

| Name | Form of business structure, place and date of incorporation | Issued and fully paid capital | Principal activities | Attributable interests held by Consecutive Profits Limited |
|---|---|---|---|---|
| Century Profit Investments Limited | Limited liability company incorporated in the British Virgin Islands on 26 July 2001 | 1 ordinary share of US$1 each | Investment holding | 100% (direct) |
| Century 21 Hong Kong Limited | Limited liability company incorporated in Hong Kong on 18 May 1993 | 3,880,000 ordinary shares of HK$1 each | Provision of franchise, consultancy and property agency services in Hong Kong | 82.5% (direct)<br>12.5% (indirect) |
| Century 21 Limited | Limited liability company incorporated in Macau on 11 August 2005 | MOP30,000 comprising 2 shares | Dormant and not yet commenced operations | 63.4% (indirect) |

No audited financial statements have been prepared for Consecutive Profits Limited, Century Profit Investments Limited and Century 21 Limited up to the date of this report as they were incorporated in jurisdictions where there were no statutory audit requirements.

The statutory financial statements of Century 21 Hong Kong Limited for each of the three years ended 31 March 2006, 2007 and 2008 were prepared in accordance with accounting principles generally accepted in Hong Kong. The statutory financial statements of Century 21 Hong Kong Limited for the years ended 31 March 2006 and 2007 were audited by Johnny Chan & Co. Limited and Robert Chui & Co., certified public accountants, Hong Kong, respectively. We have acted as auditors to Century 21 Hong Kong Limited in respect of the year ended 31 March 2008.

The consolidated income statements, consolidated cash flow statements and consolidated statements of changes in equity of Consecutive Profits Limited for each of the Relevant Periods and the consolidated balance sheets of Consecutive Profits Limited as at 31 March 2006, 2007 and 2008 as set out in this report have been prepared based on the management accounts of Consecutive Profits Limited, Century Profit Investments Limited and Century 21 Limited and the audited financial statements of Century 21 Hong Kong Limited (the "Underlying Financial Statements") for the Relevant Periods for the purpose of preparing our report for inclusion in the Circular.

For the purpose of this report, we have examined and carried out independent audit procedures on the Financial Information for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and have carried out such additional procedures as we consider necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

No adjustments to the Underlying Financial Statements have been considered necessary in preparing the Financial Information for the purpose of this report.

The Underlying Financial Statements are the responsibility of the respective directors of Consecutive Profits Limited, Century Profit Investments Limited, Century 21 Limited and Century 21 Hong Kong Limited who approved their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the consolidated balance sheets of Consecutive Profits Limited as at 31 March 2006, 2007 and 2008 and of the consolidated results and consolidated cash flows of Consecutive Profits Limited for each of the three years ended 31 March 2006, 2007 and 2008.

## I. FINANCIAL INFORMATION

**Consolidated income statements**

| | *Note* | **Year ended 31 March 2006** *HK$'000* *(Audited)* | **Year ended 31 March 2007** *HK$'000* *(Audited)* | **Year ended 31 March 2008** *HK$'000* *(Audited)* |
|---|---|---|---|---|
| Revenue | *4* | 7,207 | 6,201 | 5,856 |
| Other income | *5* | 3,060 | 2,147 | 3,522 |
| Employee benefit expenses | *7* | (2,647) | (2,277) | (1,643) |
| Depreciation | | (431) | (416) | (354) |
| Other operating expenses | | (6,806) | (5,277) | (4,924) |
| Finance costs | *8* | (13) | — | — |
| **Profit before income tax** | *6* | 370 | 378 | 2,457 |
| Income tax expense | *9* | (65) | (67) | (433) |
| **Profit for the year** | | 305 | 311 | 2,024 |
| **Attributable to:** | | | | |
| Equity holders of Consecutive Profits Limited | | 252 | 257 | 1,923 |
| Minority interests | | 53 | 54 | 101 |
| | | 305 | 311 | 2,024 |

**Consolidated balance sheets**

| | Note | As at 31 March 2006 HK$'000 (Audited) | As at 31 March 2007 HK$'000 (Audited) | As at 31 March 2008 HK$'000 (Audited) |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Property, plant and equipment | *11* | 780 | 368 | 17 |
| Deferred income tax assets | *20* | 37 | 97 | 147 |
| | | 817 | 465 | 164 |
| **Current assets** | | | | |
| Trade and other receivables | *13* | 1,572 | 1,630 | 938 |
| Amounts due from related companies | *14* | 4,238 | 4,556 | 3,191 |
| Current income tax assets | | 52 | — | — |
| Cash and cash equivalents | *15* | 211 | 345 | 3,407 |
| | | 6,073 | 6,531 | 7,536 |
| **Total assets** | | 6,890 | 6,996 | 7,700 |
| **Current liabilities** | | | | |
| Obligation under finance lease | *16* | 12 | 12 | 5 |
| Trade and other payables | *17* | 2,483 | 2,475 | 2,599 |
| Amount due to a related company | *18* | — | 9 | — |
| Amount due to a director | *19* | 4,063 | 3,825 | 2,543 |
| Current income tax liabilities | | — | 44 | 388 |
| | | 6,558 | 6,365 | 5,535 |
| **Net current assets/(liabilities)** | | (485) | 166 | 2,001 |
| **Total assets less current liabilities** | | 332 | 631 | 2,165 |
| **Non-current liabilities** | | | | |
| Obligation under finance lease | *16* | 17 | 5 | — |
| **Net assets** | | 315 | 626 | 2,165 |
| **Capital and reserves** | | | | |
| Share capital | *21* | — | — | — |
| (Accumulated losses)/Retained earnings | | (308) | (51) | 1,872 |
| Equity attributable to the equity holders of Consecutive Profits Limited | | (308) | (51) | 1,872 |
| Minority interests | | 623 | 677 | 293 |
| **Total equity** | | 315 | 626 | 2,165 |

**Balance sheets**

| | Note | As at 31 March 2006 HK$'000 (Audited) | As at 31 March 2007 HK$'000 (Audited) | As at 31 March 2008 HK$'000 (Audited) |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Investments in subsidiaries | | 3,201 | 3,201 | 3,201 |
| **Current assets** | | | | |
| Amount due from a subsidiary | | — | — | 485 |
| **Total assets** | | 3,201 | 3,201 | 3,686 |
| **Current liabilities** | | | | |
| Amount due to a director | *19* | 3,201 | 3,201 | 3,686 |
| **Net assets** | | — | — | — |
| **Capital** | | | | |
| Share capital | *21* | — | — | — |

**Consolidated statements of changes in equity**

| | Share capital *HK$'000* | (Accumulated losses)/ Retained earnings *HK$'000* | Minority interests *HK$'000* | Total equity *HK$'000* |
|---|---|---|---|---|
| **Balance at 1 April 2005** | — | (560) | 560 | — |
| Capital contribution from minority shareholders | — | — | 10 | 10 |
| Profit for the year | — | 252 | 53 | 305 |
| **Balance at 31 March 2006** | — | (308) | 623 | 315 |
| Profit for the year | — | 257 | 54 | 311 |
| **Balance at 31 March 2007** | — | (51) | 677 | 626 |
| Acquisition of a subsidiary | — | — | (485) | (485) |
| Profit for the year | — | 1,923 | 101 | 2,024 |
| **Balance at 31 March 2008** | — | 1,872 | 293 | 2,165 |

**Consolidated cash flow statements**

| | Year ended 31 March 2006 *HK$'000* *(Audited)* | Year ended 31 March 2007 *HK$'000* *(Audited)* | Year ended 31 March 2008 *HK$'000* *(Audited)* |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before income tax | 370 | 378 | 2,457 |
| Adjustments for: | | | |
| — Depreciation | 431 | 416 | 354 |
| — Finance costs | 13 | — | — |
| Changes in working capital: | | | |
| — Trade and other receivables | 4,452 | (58) | 692 |
| — Amounts due from related companies | (1,730) | (318) | 1,365 |
| — Trade and other payables | (3,003) | (8) | 124 |
| — Amount due to a related company | — | 9 | (9) |
| — Amount due to a director | 715 | (238) | (1,282) |
| Cash generated from operations | 1,248 | 181 | 3,701 |
| Hong Kong profits tax paid | (149) | (31) | (139) |
| Net cash generated from operating activities | 1,099 | 150 | 3,562 |
| **Cash flows from investing activities** | | | |
| Acquisition of a subsidiary | — | — | (485) |
| Purchase of property, plant and equipment | (1,135) | (4) | (3) |
| Net cash used in investing activities | (1,135) | (4) | (488) |
| **Cash flows from financing activities** | | | |
| Capital contribution from minority shareholders | 10 | — | — |
| Capital element of finance lease payment | (12) | (12) | (12) |
| Interest paid | (13) | — | — |
| Net cash used in financing activities | (15) | (12) | (12) |
| **Net (decrease)/increase in cash and cash equivalents** | (51) | 134 | 3,062 |
| **Cash and cash equivalents at beginning of the year** | 262 | 211 | 345 |
| **Cash and cash equivalents at end of the year** | 211 | 345 | 3,407 |
| **Analysis of balances of cash and cash equivalents** | | | |
| Cash and cash equivalents | 211 | 345 | 3,407 |

## NOTES TO THE FINANCIAL INFORMATION

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**Basis of preparation**

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying Consecutive Profits Limited's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

**Consolidation**

***Subsidiaries***

Subsidiaries are all entities over which Consecutive Profits Limited has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether Consecutive Profits Limited controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to Consecutive Profits Limited. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by Consecutive Profits Limited. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of Consecutive Profits Limited's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by Consecutive Profits Limited.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**Consolidation** *(continued)*

***Transactions and minority interests***

Consecutive Profits Limited applies a policy of treating transactions with minority interests as transactions with parties external to Consecutive Profits Limited. Disposals to minority interests result in gains and losses for Consecutive Profits Limited that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

**Foreign currency translation**

***(a) Functional and presentation currency***

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

***(b) Transactions and balances***

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

**Property, plant and equipment**

Property, plant and equipment is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Consecutive Profits Limited and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged in the income statement during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives at an annual rate of 33-1/3%.

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains or losses on disposals are determined by comparing the proceeds with carrying amount and are recognized in the income statement.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**Impairment of non-financial assets**

Assets that have an indefinite useful life or are not yet available for use are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

**Trade and other receivables**

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that Consecutive Profits Limited will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognized in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited to the income statement.

**Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

**Share capital**

Ordinary shares are classified as equity.

**Trade payables**

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

**Deferred income tax**

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**Deferred income tax** *(continued)*

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

**Employee benefits**

Contributions to defined contribution retirement schemes which are available to all employees, calculated at rates specified in the rules of the schemes, are charged to the income statement when the contributions are payable to the fund.

**Provisions**

Provisions are recognized when Consecutive Profits Limited has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

**Revenue recognition**

Revenue comprises the fair value of services and sales of goods in the ordinary course of the activities of Consecutive Profits Limited. Revenue is shown net of sales tax, returns, rebates, and discounts and other revenue reducing factors.

Revenue is recognized when it is probable that the economic benefits will flow to Consecutive Profits Limited , the amount can be measured reliably and specific criteria for each of the activities have been met.

Commission income and other services income are recognized in the period in which the services are rendered.

Franchise income is recognized on an accrual basis in accordance with the terms of the relevant franchise agreement and when Consecutive Profits Limited's entitlement to payment has been established.

Interest income is recognized on a time-apportioned basis using the effective interest method.

**Operating leases (as the lessee)**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor re classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

## 2. FINANCIAL RISK MANAGEMENT

### 2.1 Financial risk factors

Consecutive Profits Limited's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest-rate risk, cash flow interest-rate risk and price risk), credit risk and liquidity risk. Consecutive Profits Limited's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on Consecutive Profits Limited's financial performance.

***(a) Market risk***

*(i) Foreign currency risk*

Consecutive Profits Limited is not exposed to significant foreign currency risk.

*(ii) Price risk*

Consecutive Profits Limited is not exposed to significant price risk.

*(iii) Cash flow and fair value interest-rate risk*

As Consecutive Profits Limited has no significant interest-bearing assets, Consecutive Profits Limited's income and operating cash flows are substantially independent of changes in market interest rates.

***(b) Credit risk***

Credit risk arises from cash and cash equivalents and credit exposures to customers. Consecutive Profits Limited has no significant concentrations of credit risk as Consecutive Profits Limited has a large number of customers. Services provided to customers are settled in cash or cheque payments.

***(c) Liquidity risk***

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, Consecutive Profits Limited employs a prudent liquidity policy. Consecutive Profits Limited regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

Consecutive Profits Limited's financial liabilities principally comprise trade and other payables, obligation under finance lease and amount due to a director, all of which are expected to be settled within 1 year and are included in current liabilities. As at 31 March 2008, Consecutive Profits Limited did not have any borrowings or derivative financial liabilities.

**2. FINANCIAL RISK MANAGEMENT** *(continued)*

**2.2 Capital risk management**

Consecutive Profits Limited's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, Consecutive Profits Limited may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Consecutive Profits Limited is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes during the Relevant Periods.

**2.3 Fair value estimation**

The carrying value les impairment provision of trade receivables and payables are a reasonable approximation of their fair values.

**3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Consecutive Profits Limited makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

**Estimated recoverability of trade and other receivables**

Consecutive Profits Limited's management determines the provision for impairment of trade and other receivables based on ongoing assessment of the recoverability of the receivables. This assessment is based on the credit history of its customers and other debtors and current market conditions, and requires the use of judgments and estimates. Management reassesses the provision for impairment of trade and other receivables at each balance sheet date.

## 4. REVENUE AND SEGMENT INFORMATION

Revenue recognized during the Relevant Periods is as follows:

| | **Year ended 31 March 2006** *HK$'000* | **Year ended 31 March 2007** *HK$'000* | **Year ended 31 March 2008** *HK$'000* |
|---|---|---|---|
| Project management fee income | 3,898 | 2,758 | 2,059 |
| Franchise service fee income | 3,034 | 3,140 | 3,515 |
| Administrative fee income | 275 | 303 | 282 |
| | 7,207 | 6,201 | 5,856 |

No business segment and geographical segment information has been presented as Consecutive Profits Limited and its subsidiaries operate in a single business and geographical segment during the Relevant Periods which is the provision of franchise, consultancy and property agency services in Hong Kong.

## 5. OTHER INCOME

| | **Year ended 31 March 2006** *HK$'000* | **Year ended 31 March 2007** *HK$'000* | **Year ended 31 March 2008** *HK$'000* |
|---|---|---|---|
| Consultancy fee income | 125 | 3 | 4 |
| Training fee income | 416 | 333 | 420 |
| Advertising income | 49 | 30 | 26 |
| Referral fee income | 2,263 | 1,259 | 2,658 |
| Sundry income | 207 | 522 | 414 |
| | 3,060 | 2,147 | 3,522 |

## 6. PROFIT BEFORE INCOME TAX

Profit before income tax is stated after charging:

| | **Year ended 31 March 2006** *HK$'000* | **Year ended 31 March 2007** *HK$'000* | **Year ended 31 March 2008** *HK$'000* |
|---|---|---|---|
| Depreciation: | | | |
| — owned assets | 411 | 403 | 354 |
| — leased assets | 20 | 13 | — |
| | 431 | 416 | 354 |
| Auditors' remuneration | 24 | 26 | 20 |
| Operating lease payments in respect of rented premises | 670 | 807 | 463 |
| Bad debts written off | 65 | 16 | 22 |

## 7. EMPLOYEE BENEFIT EXPENSES

| | Year ended 31 March 2006 | Year ended 31 March 2007 | Year ended 31 March 2008 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Salaries and allowances | 2,534 | 2,180 | 1,575 |
| Pension costs — defined contribution plan | 113 | 97 | 68 |
| | 2,647 | 2,277 | 1,643 |

### (a) Directors' emoluments

The remuneration of every director for the Relevant Periods is set out below:

**Year ended 31 March 2008**

| Name of director | Fees | Salaries and other benefits | Employer's contribution to pension scheme | Total |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Mr. Ng Kai Man | — | 60 | 3 | 63 |
| | — | 60 | 3 | 63 |

**Year ended 31 March 2007**

| Name of director | Fees | Salaries and other benefits | Employer's contribution to pension scheme | Total |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Mr. Ng Kai Man | — | 136 | 6 | 142 |
| | — | 136 | 6 | 142 |

**Year ended 31 March 2006**

| Name of director | Fees | Salaries and other benefits | Employer's contribution to pension scheme | Total |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Mr. Ng Kai Man | — | 288 | 12 | 300 |
| | — | 288 | 12 | 300 |

**7. EMPLOYEE BENEFIT EXPENSES** *(continued)*

**(b) Five highest paid individuals**

The five individuals whose emoluments were the highest in Consecutive Profits Limited for the years ended 31 March 2006, 2007 and 2008 include one, nil and nil director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four, five and five individuals for the years ended 31 March 2006, 2007 and 2008 are as follows:

| | Year ended 31 March 2006 *HK$'000* | Year ended 31 March 2007 *HK$'000* | Year ended 31 March 2008 *HK$'000* |
|---|---|---|---|
| Salaries, allowances and benefits in kind | 1,107 | 1,362 | 987 |
| Pension costs — defined contribution plan | 46 | 57 | 41 |
| | 1,153 | 1,419 | 1,028 |

The emoluments were below HK$1,000,000.

**8. FINANCE COSTS**

| | Year ended 31 March 2006 *HK$'000* | Year ended 31 March 2007 *HK$'000* | Year ended 31 March 2008 *HK$'000* |
|---|---|---|---|
| Interest on bank overdrafts | 13 | — | — |

**9. INCOME TAX EXPENSE**

Consecutive Profits Limited was incorporated in the British Virgin Islands and is exempted from payment of the British Virgin Islands income tax.

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong for the Relevant Periods.

| | Year ended 31 March 2006 *HK$'000* | Year ended 31 March 2007 *HK$'000* | Year ended 31 March 2008 *HK$'000* |
|---|---|---|---|
| Current income tax | | | |
| — Hong Kong profits tax | 84 | 127 | 483 |
| Deferred income tax | (19) | (60) | (50) |
| | 65 | 67 | 433 |

**9. INCOME TAX EXPENSE** *(continued)*

The tax on the profit before income tax differs from the theoretical amount that would arise using the Hong Kong profits tax rate of 17.5% as follows:

| | **Year ended 31 March 2006** *HK$'000* | **Year ended 31 March 2007** *HK$'000* | **Year ended 31 March 2008** *HK$'000* |
|---|---|---|---|
| Profit before income tax | 370 | 378 | 2,457 |
| Tax calculated at the Hong Kong profits tax rate | 65 | 66 | 430 |
| Tax effect of: | | | |
| — Non-deductible expenses | — | 1 | 3 |
| Income tax expense | 65 | 67 | 433 |

**10. EARNINGS PER SHARE**

Earnings per share has not been presented as such information is not considered meaningful for the purpose of this report.

## 11. PROPERTY, PLANT AND EQUIPMENT

| | Furniture and fixtures *HK$'000* | Leasehold improvements *HK$'000* | Total *HK$'000* |
|---|---|---|---|
| **At 1 April 2005** | | | |
| Cost | 242 | 376 | 618 |
| Accumulated depreciation | (166) | (376) | (542) |
| Net carrying amount | 76 | — | 76 |
| **Year ended 31 March 2006** | | | |
| Opening net carrying amount | 76 | — | 76 |
| Additions | 260 | 875 | 1,135 |
| Depreciation | (139) | (292) | (431) |
| Closing net carrying amount | 197 | 583 | 780 |
| **At 31 March 2006** | | | |
| Cost | 502 | 875 | 1,377 |
| Accumulated depreciation | (305) | (292) | (597) |
| Net carrying amount | 197 | 583 | 780 |
| **Year ended 31 March 2007** | | | |
| Opening net carrying amount | 197 | 583 | 780 |
| Additions | 4 | — | 4 |
| Depreciation | (125) | (291) | (416) |
| Closing net carrying amount | 76 | 292 | 368 |
| **At 31 March 2007** | | | |
| Cost | 506 | 875 | 1,381 |
| Accumulated depreciation | (430) | (583) | (1,013) |
| Net carrying amount | 76 | 292 | 368 |
| **Year ended 31 March 2008** | | | |
| Opening net carrying amount | 76 | 292 | 368 |
| Additions | 3 | — | 3 |
| Depreciation | (62) | (292) | (354) |
| Closing net carrying amount | 17 | — | 17 |
| **At 31 March 2008** | | | |
| Cost | 509 | 875 | 1,384 |
| Accumulated depreciation | (492) | (875) | (1,367) |
| Net carrying amount | 17 | — | 17 |

## 12. FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

| Assets per consolidated balance sheets | Note | As at 31 March 2006 HK$'000 | As at 31 March 2007 HK$'000 | As at 31 March 2008 HK$'000 |
|---|---|---|---|---|
| **Loans and receivables** | | | | |
| Trade and other receivables | *13* | 1,562 | 1,620 | 935 |
| Amounts due from related companies | *14* | 4,238 | 4,556 | 3,191 |
| Cash and cash equivalents | *15* | 211 | 345 | 3,407 |
| Total (maximum exposure to credit risk) | | 6,011 | 6,521 | 7,533 |

| Liabilities per consolidated balance sheets | Note | As at 31 March 2006 HK$'000 | As at 31 March 2007 HK$'000 | As at 31 March 2008 HK$'000 |
|---|---|---|---|---|
| **Financial liabilities at amortized cost** | | | | |
| Obligation under finance lease | *16* | 29 | 17 | 5 |
| Trade and other payables | *17* | 2,476 | 2,475 | 2,599 |
| Amount due to a related company | *18* | — | 9 | — |
| Amount due to a director | *19* | 4,063 | 3,825 | 2,543 |
| Total | | 6,568 | 6,326 | 5,147 |

## 13. TRADE AND OTHER RECEIVABLES

| | As at 31 March 2006 HK$'000 | As at 31 March 2007 HK$'000 | As at 31 March 2008 HK$'000 |
|---|---|---|---|
| Trade receivables | 1,234 | 1,278 | 808 |
| Other receivables, prepayments and deposits | 338 | 352 | 130 |
| | 1,572 | 1,630 | 938 |

**13. TRADE AND OTHER RECEIVABLES** *(continued)*

Services provided to customers are settled in cash or cheque payments. At the balance sheet dates, the ageing analysis of the trade receivables were as follows:

| | As at 31 March 2006 *HK$'000* | As at 31 March 2007 *HK$'000* | As at 31 March 2008 *HK$'000* |
|---|---|---|---|
| 0 — 30 days | 434 | 427 | 206 |
| 31 — 60 days | 281 | 177 | 214 |
| 61 — 90 days | 87 | 210 | 87 |
| Over 90 days | 432 | 464 | 301 |
| | 1,234 | 1,278 | 808 |

The carrying amounts of the trade and other receivables are denominated in Hong Kong dollars.

The maximum exposure to credit risk at the reporting date is the carrying value of the trade receivables mentioned above.

**14. AMOUNTS DUE FROM RELATED COMPANIES**

| | As at 31 March 2006 *HK$'000* | As at 31 March 2007 *HK$'000* | As at 31 March 2008 *HK$'000* |
|---|---|---|---|
| Century 21 Property Agency Limited | 30 | 201 | 258 |
| Century 21 Surveyors Limited | 4,208 | 4,355 | 2,812 |
| Century 21 Best Mortgage Limited | — | — | 121 |
| | 4,238 | 4,556 | 3,191 |

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

Mr. Ng Kai Man is the common beneficial owner of Consecutive Profits Limited and these related companies.

**15. CASH AND CASH EQUIVALENTS**

| | As at 31 March 2006 *HK$'000* | As at 31 March 2007 *HK$'000* | As at 31 March 2008 *HK$'000* |
|---|---|---|---|
| Cash at bank and in hand | 211 | 345 | 3,407 |
| Maximum exposure to credit risk | 211 | 345 | 3,407 |

The carrying amounts of the cash and cash equivalents are denominated in Hong Kong dollars.

The bank balances are deposited with creditworthy banks with no recent history of default.

## 16. OBLIGATION UNDER FINANCE LEASE

| | As at 31 March 2006 *HK$'000* | As at 31 March 2007 *HK$'000* | As at 31 March 2008 *HK$'000* |
|---|---|---|---|
| Amounts payable under finance lease: | | | |
| — within one year | 12 | 12 | 5 |
| — in the second to fifth years inclusive | 17 | 5 | — |
| | 29 | 17 | 5 |
| Less: amount due for settlement within one year | (12) | (12) | (5) |
| Amount due for settlement after one year | 17 | 5 | — |

## 17. TRADE AND OTHER PAYABLES

| | As at 31 March 2006 *HK$'000* | As at 31 March 2007 *HK$'000* | As at 31 March 2008 *HK$'000* |
|---|---|---|---|
| Trade payables | 790 | 738 | 284 |
| Other payables and accruals | 298 | 153 | 153 |
| Deposits received | 1,395 | 1,584 | 2,162 |
| | 2,483 | 2,475 | 2,599 |

At the balance sheet dates, the ageing analysis of the trade payables were as follows:

| | As at 31 March 2006 *HK$'000* | As at 31 March 2007 *HK$'000* | As at 31 March 2008 *HK$'000* |
|---|---|---|---|
| 0 — 30 days | 208 | 266 | 44 |
| 31 — 60 days | 199 | 113 | 68 |
| 61 — 90 days | 37 | 138 | 38 |
| Over 90 days | 346 | 221 | 134 |
| | 790 | 738 | 284 |

The carrying amounts of the trade and other payables are denominated in Hong Kong dollars.

**18. AMOUNT DUE TO A RELATED COMPANY**

The amount due is unsecured, interest-free and has no fixed terms of repayment.

**19. AMOUNT DUE TO A DIRECTOR**

The amount due is unsecured, interest-free and has no fixed terms of repayment.

**20. DEFERRED INCOME TAX ASSETS**

| | **Depreciation in excess of related depreciation allowances** |
|---|---|
| | *HK$'000* |
| **At 1 April 2005** | 18 |
| Credited to the income statement | 19 |
| **At 31 March 2006** | 37 |
| Credited to the income statement | 60 |
| **At 31 March 2007** | 97 |
| Credited to the income statement | 50 |
| **At 31 March 2008** | 147 |

**21. SHARE CAPITAL**

| | **As at 31 March 2006** | **As at 31 March 2007** | **As at 31 March 2008** |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Authorized,: | | | |
| 50,000 ordinary shares of US$1 each | 390 | 390 | 390 |
| Issued and fully paid: | | | |
| 10 ordinary shares of US$1 each | — | — | — |

**22. OPERATING LEASE COMMITMENTS**

At the balance sheet dates, the future aggregate minimum lease payments under non-cancellable operating leases in respect of rented premises are as follows:

| | **As at 31 March 2006** | **As at 31 March 2007** | **As at 31 March 2008** |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| No later than one year | 786 | 378 | 55 |
| Later than one year and no later than five years | 297 | — | — |
| | 1,083 | 378 | 55 |

## 23. SIGNIFICANT RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in the Financial Information, Consecutive Profits Limited entered into the following significant related party transactions during the Relevant Periods:

| | Year ended 31 March 2006 *HK$'000* | Year ended 31 March 2007 *HK$'000* | Year ended 31 March 2008 *HK$'000* |
|---|---|---|---|
| **Century 21 Surveyors Limited** *(note (i))* | | | |
| Referral fee expenses | (290) | (56) | (103) |
| Administration fee expenses | — | (43) | — |
| Consultancy fee income | 280 | 240 | 240 |
| Advertising income | 6 | 6 | 12 |
| Training fee income | 200 | 180 | 180 |
| Service fee income | 34 | 36 | 36 |
| Commission income | 955 | 134 | 4 |
| **Century 21 Property Agency Limited** *(note (i))* | | | |
| Referral fee expenses | (136) | (32) | (65) |
| Advertising income | 50 | 39 | 38 |
| Sundry income | 12 | — | — |
| Service fee income | 245 | 117 | 57 |
| Centurion Award income | 11 | — | — |
| **Century 21 Best Mortgage Limited** *(note (i))* | | | |
| Referral fee income | 17 | 246 | 445 |
| **CSI Investment Limited** *(note (i))* | | | |
| Administration fee income | 33 | — | — |
| **Year-end balance with related parties** | | | |
| Non-trade balance due from related companies | 2,896 | 3,206 | 2,771 |
| Non-trade balance due to related companies | — | (9) | — |
| Non-trade balance due to a director | (4,063) | (3,825) | (2,543) |
| Trade balance due from related companies | 1,342 | 1,350 | 420 |
| **Compensation to key management personnel** | | | |
| Short-term employee benefits | 288 | 136 | 60 |
| Post-employment benefits | 12 | 6 | 3 |
| | 300 | 142 | 63 |

*Note:*

(i) Mr. Ng Kai Man is the common beneficial owner of Consecutive Profits Limited and these related companies.

## II. SEPARATE FINANCIAL STATEMENTS OF CONSECUTIVE PROFITS LIMITED

### Income statements

| | Year ended 31 March 2006 *HK$'000* *(Audited)* | Year ended 31 March 2007 *HK$'000* *(Audited)* | Year ended 31 March 2008 *HK$'000* *(Audited)* |
|---|---|---|---|
| Revenue | — | — | — |
| Expenses | — | — | — |
| **Results for the year** | — | — | — |

### Balance sheets

| | As at 31 March 2006 *HK$'000* *(Audited)* | As at 31 March 2007 *HK$'000* *(Audited)* | As at 31 March 2008 *HK$'000* *(Audited)* |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments in subsidiaries | 3,201 | 3,201 | 3,201 |
| **Current assets** | | | |
| Amount due from a subsidiary | — | — | 485 |
| **Total assets** | 3,201 | 3,201 | 3,686 |
| **Current liabilities** | | | |
| Amount due to a director | 3,201 | 3,201 | 3,686 |
| **Net assets** | — | — | — |
| **Capital** | | | |
| Share capital | — | — | — |

### Cash flow statements

Cash flow statements have not been presented as Consecutive Profits Limited did not have any cash and cash equivalents during the Relevant Periods.

## III. SEPARATE FINANCIAL STATEMENTS OF CENTURY PROFIT INVESTMENTS LIMITED

### Income statement

| | Period from 15 August 2007 (date of acquisition by Consecutive Profits Limited) to 31 March 2008 *HK$'000* *(Audited)* |
|---|---|
| Revenue | — |
| Expenses | — |
| **Results for the year** | — |

### Balance sheet

| | As at 31 March 2008 *HK$'000* *(Audited)* |
|---|---|
| **Non-current assets** | |
| Investment in Century 21 Hong Kong Limited | 485 |
| **Current liabilities** | |
| Amount due to immediate holding company | 485 |
| **Net assets** | — |
| **Capital** | |
| Share capital | — |

### Cash flow statement

Cash flow statement has not been presented as Century Profit Investments Limited did not have any cash and cash equivalents during the period from 15 August 2007 (date of acquisition by Consecutive Profits Limited) to 31 March 2008.

## IV. SUBSEQUENT EVENTS

Save as disclosed in the Financial Information, there were no significant events subsequent to 31 March 2008.

## V. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of Consecutive Profits Limited have been prepared in respect of any period subsequent to 31 March 2008.

Yours faithfully,
**HLB Hodgson Impey Cheng**
*Chartered Accountants*
*Certified Public Accountants*
Hong Kong

*The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong.*

HLB 國衛會計師事務所
Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

28 June 2008

The board of directors
GFT Holdings Limited
Unit 707, Tower II, Admiralty Centre
18 Harcourt Road
Hong Kong

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding Real Clever Profits Limited for each of the three years ended 31 March 2006, 2007 and 2008 (the "Relevant Periods"), for inclusion in the circular dated 28 June 2008 (the "Circular") issued by GFT Holdings Limited (the "Company") in connection with, *inter alia*, the very substantial acquisition and connected transaction whereby Kingbox Investments Limited (a wholly-owned subsidiary of the Company) conditionally agreed to acquire the entire equity interests in Real Clever Profits Limited.

Real Clever Profits Limited is a limited liability company incorporated in the British Virgin Islands on 2 January 2002 with an authorized share capital of 50,000 ordinary shares of US$1 each. The registered office of Real Clever Profits Limited is situated at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, the British Virgin Islands. As at the date of this report, the issued share capital of Real Clever Profits Limited amounted to HK$7.8 comprising 1 ordinary share of US$1 each, which was held by Mr. Ng Kai Man. Real Clever Profits Limited is an investment holding company and has not carried on any business and has no material asset save for its holding of 80% equity interest in Century 21 Surveyors Limited and 50% equity interest in Century 21 Property Agency Limited.

As at the date of this report, Real Clever Profits Limited had the following subsidiary:

| Name | Form of business structure, place and date of incorporation | Issued and fully paid capital | Principal activities | Attributable interest held by Real Clever Profits Limited |
|---|---|---|---|---|
| Century 21 Surveyors Limited | Limited liability company incorporated in Hong Kong on 19 December 1995 | 100 shares of HK$1 each | Provision of surveying and property agency services in Hong Kong | 80% (direct) |

No audited financial statements have been prepared for Real Clever Profits Limited up to the date of this report as it was incorporated in a jurisdiction where there were no statutory audit requirements.

The statutory financial statements of Century 21 Property Agency Limited for each of the three years ended 31 March 2006, 2007 and 2008 were prepared in accordance with accounting principles generally accepted in Hong Kong. The statutory financial statements of Century 21 Property Agency Limited for the year ended 31 March 2006 were audited by Lak & Associates C.P.A. Limited, certified public accountants, Hong Kong. We have acted as auditors to Century 21 Property Agency Limited in respect of the years ended 31 March 2007 and 2008.

The statutory financial statements of Century 21 Surveyors Limited for each of the three years ended 31 March 2006, 2007 and 2008 were prepared in accordance with accounting principles generally accepted in Hong Kong. The statutory financial statements of Century 21 Surveyors Limited for the year ended 31 March 2006 were audited by Lak & Associates C.P.A. Limited, certified public accountants, Hong Kong. We have acted as auditors to Century 21 Surveyors Limited in respect of the years ended 31 March 2007 and 2008.

The consolidated income statements, consolidated cash flow statements and consolidated statements of changes in equity of Real Clever Profits Limited for each of the Relevant Periods and the consolidated balance sheets of Real Clever Profits Limited as at 31 March 2006, 2007 and 2008 as set out in this report have been prepared based on the management accounts of Real Clever Profits Limited and the audited financial statements of Century 21 Property Agency Limited and Century 21 Surveyors Limited (the "Underlying Financial Statements") for the Relevant Periods for the purpose of preparing our report for inclusion in the Circular.

For the purpose of this report, we have examined and carried out independent audit procedures on the Financial Information for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and have carried out such additional procedures as we consider necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

No adjustments to the Underlying Financial Statements have been considered necessary in preparing the Financial Information for the purpose of this report.

The Underlying Financial Statements are the responsibility of the respective directors of Real Clever Profits Limited, Century 21 Property Agency Limited and Century 21 Surveyors Limited who approved their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the consolidated balance sheets of Real Clever Profits Limited as at 31 March 2006, 2007 and 2008 and of the consolidated results and consolidated cash flows of Real Clever Profits Limited for each of the three years ended 31 March 2006, 2007 and 2008.

## I. FINANCIAL INFORMATION

### Consolidated income statements

| | Note | Year ended 31 March 2006 HK$'000 (Audited) | Year ended 31 March 2007 HK$'000 (Audited) | Year ended 31 March 2008 HK$'000 (Audited) |
|---|---|---|---|---|
| Revenue | 4 | 28,120 | 42,489 | 54,629 |
| Other income | 5 | 903 | 916 | 904 |
| Commission expenses | | (17,326) | (33,021) | (35,434) |
| Employee benefit expenses | 7 | (5,554) | (4,995) | (4,840) |
| Depreciation | | (33) | (9) | (7) |
| Other operating expenses | | (4,013) | (4,541) | (4,370) |
| Share of results of an associate | | 623 | 111 | 4,820 |
| **Profit before income tax** | 6 | 2,720 | 950 | 15,702 |
| Income tax expense | 8 | (124) | (648) | (1,904) |
| **Profit for the year** | | 2,596 | 302 | 13,798 |
| **Attributable to:** | | | | |
| Equity holders of Real Clever Profits Limited | | 2,201 | 264 | 12,002 |
| Minority interests | | 395 | 38 | 1,796 |
| | | 2,596 | 302 | 13,798 |

**Consolidated balance sheets**

| | Note | As at 31 March 2006 HK$'000 (Audited) | As at 31 March 2007 HK$'000 (Audited) | As at 31 March 2008 HK$'000 (Audited) |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Property, plant and equipment | 10 | 12 | 3 | 53 |
| Investment in an associate | 11 | 678 | 789 | 5,609 |
| | | 690 | 792 | 5,662 |
| **Current assets** | | | | |
| Trade and other receivables | 13 | 4,597 | 20,006 | 22,535 |
| Amount due from a director | 14 | 1,993 | 2,814 | 3,477 |
| Amount due from an associate | 11 | 446 | — | — |
| Amount due from a related company | 14 | — | 172 | 72 |
| Current income tax assets | | 215 | — | — |
| Cash and cash equivalents | 15 | 55 | 256 | 8,366 |
| | | 7,306 | 23,248 | 34,450 |
| **Total assets** | | 7,996 | 24,040 | 40,112 |
| **Current liabilities** | | | | |
| Bank overdrafts | 16 | 160 | — | — |
| Trade and other payables | 17 | 5,349 | 18,642 | 20,097 |
| Amounts due to related parties | 18 | 48 | 60 | 87 |
| Amount due to an associate | 11 | — | 2,066 | 2,941 |
| Amount due to a related company | 19 | 4,163 | 4,374 | 2,812 |
| Current income tax liabilities | | — | 320 | 1,799 |
| | | 9,720 | 25,462 | 27,736 |
| **Net current assets/(liabilities)** | | (2,414) | (2,214) | 6,714 |
| **Net assets/(liabilities)** | | (1,724) | (1,422) | 12,376 |
| **Capital and reserves** | | | | |
| Share capital | 20 | — | — | — |
| Retained earnings/ (Accumulated losses) | | (1,244) | (980) | 11,022 |
| Equity attributable to the equity holders of Real Clever Profits Limited | | (1,244) | (980) | 11,022 |
| Minority interests | | (480) | (442) | 1,354 |
| **Total equity** | | (1,724) | (1,422) | 12,376 |

**Balance sheets**

| | *Note* | **As at 31 March 2006** *HK$'000* *(Audited)* | **As at 31 March 2007** *HK$'000* *(Audited)* | **As at 31 March 2008** *HK$'000* *(Audited)* |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Investment in a subsidiary | | — | — | — |
| Investment in an associate | *11* | 678 | 789 | 5,609 |
| | | 678 | 789 | 5,609 |
| **Capital and reserves** | | | | |
| Share capital | *20* | — | — | — |
| Retained earnings | | 678 | 789 | 5,609 |
| **Total equity** | | 678 | 789 | 5,609 |

**Consolidated statements of changes in equity**

| | Share capital *HK$'000* | (Accumulated losses)/ Retained earnings *HK$'000* | Minority interests *HK$'000* | Total equity *HK$'000* |
|---|---|---|---|---|
| **Balance at 1 April 2005** | — | (3,445) | (875) | (4,320) |
| Profit for the year | — | 2,201 | 395 | 2,596 |
| **Balance at 31 March 2006** | — | (1,244) | (480) | (1,724) |
| Profit for the year | — | 264 | 38 | 302 |
| **Balance at 31 March 2007** | — | (980) | (442) | (1,422) |
| Profit for the year | — | 12,002 | 1,796 | 13,798 |
| **Balance at 31 March 2008** | — | 11,022 | 1,354 | 12,376 |

**Consolidated cash flow statements**

| | Year ended 31 March 2006 HK$'000 (Audited) | Year ended 31 March 2007 HK$'000 (Audited) | Year ended 31 March 2008 HK$'000 (Audited) |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before income tax | 2,720 | 950 | 15,702 |
| Adjustments for: | | | |
| — Depreciation | 33 | 9 | 7 |
| — Interest income | (1) | (9) | (6) |
| — Share of results of an associate | (623) | (111) | (4,820) |
| Changes in working capital: | | | |
| — Trade and other receivables | 2,493 | (15,409) | (2,529) |
| — Amount due from a related company | — | (172) | 100 |
| — Trade and other payables | (1,456) | 13,293 | 1,455 |
| — Amounts due to related parties | (84) | 12 | 27 |
| — Amount due to a related company | 1,310 | 211 | (1,562) |
| **Cash generated from/(used in) operations** | 4,392 | (1,226) | 8,374 |
| Hong Kong profits tax paid | (339) | (113) | (425) |
| Net cash generated from/(used in) operating activities | 4,053 | (1,339) | 7,949 |
| **Cash flows from investing activities** | | | |
| Interest received | 1 | 9 | 6 |
| Advance to a related company | (299) | — | — |
| Repayment to a related company | 547 | — | — |
| Advance from an associate | 1,350 | 3,330 | 875 |
| Repayment to an associate | — | (818) | — |
| Purchase of property, plant and equipment | — | — | (57) |
| Net cash generated from investing activities | 1,599 | 2,521 | 824 |
| **Cash flows from financing activities** | | | |
| Advance from a director | 4,918 | 3,588 | 2,310 |
| Repayment to loan from a director | (10,900) | (4,409) | (2,973) |
| Net cash used in financing activities | (5,982) | (821) | (663) |
| **Net (decrease)/increase in cash, cash equivalents and bank overdrafts** | (330) | 361 | 8,110 |
| **Cash, cash equivalents and bank overdrafts at beginning of the year** | 225 | (105) | 256 |
| **Cash, cash equivalents and bank overdrafts at end of the year** | (105) | 256 | 8,366 |
| **Analysis of balances of cash, cash equivalents and bank overdrafts** | | | |
| Cash and cash equivalents | 55 | 256 | 8,366 |
| Bank overdrafts | (160) | — | — |
| | (105) | 256 | 8,366 |

## NOTES TO THE FINANCIAL INFORMATION

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**Basis of preparation**

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying Real Clever Profits Limited's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

**Consolidation**

***Subsidiaries***

Subsidiaries are all entities over which Real Clever Profits Limited has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether Real Clever Profits Limited controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to Real Clever Profits Limited. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by Real Clever Profits Limited. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of Real Clever Profits Limited's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by Real Clever Profits Limited.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**Consolidation** *(continued)*

***Transactions and minority interests***

Real Clever Profits Limited applies a policy of treating transactions with minority interests as transactions with parties external to Real Clever Profits Limited. Disposals to minority interests result in gains and losses for Real Clever Profits Limited that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

***Associates***

Associates are all entities over which Real Clever Profits Limited has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. Real Clever Profits Limited's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

Real Clever Profits Limited's share of its associates' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When Real Clever Profits Limited's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, Real Clever Profits Limited does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between Real Clever Profits Limited and its associates are eliminated to the extent of Real Clever Profits Limited's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by Real Clever Profits Limited.

Dilution gains and losses in associates are recognized in the consolidated income statement.

**Foreign currency translation**

***(a) Functional and presentation currency***

Items included in the financial statements of Real Clever Profits Limited are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Hong Kong dollars, which is Real Clever Profits Limited's functional and presentation currency.

***(b) Transactions and balances***

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

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**Property, plant and equipment**

Property, plant and equipment is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Real Clever Profits Limited and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged in the income statement during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives at an annual rate of 20%.

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains or losses on disposals are determined by comparing the proceeds with carrying amount and are recognized in the income statement.

**Impairment of non-financial assets**

Assets that have an indefinite useful life or are not yet available for use are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**Trade and other receivables**

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that Real Clever Profits Limited will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognized in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited to the income statement.

**Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

**Share capital**

Ordinary shares are classified as equity.

**Trade payables**

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

**Deferred income tax**

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**Employee benefits**

Contributions to defined contribution retirement schemes which are available to all employees, calculated at rates specified in the rules of the schemes, are charged to the income statement when the contributions are payable to the fund.

**Provisions**

Provisions are recognized when Real Clever Profits Limited has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

**Revenue recognition**

Revenue comprises the fair value of services and sales of goods in the ordinary course of the activities of Real Clever Profits Limited. Revenue is shown net of sales tax, returns, rebates, and discounts and other revenue reducing factors.

Revenue is recognized when it is probable that the economic benefits will flow to Real Clever Profits Limited, the amount can be measured reliably and specific criteria for each of the activities have been met.

Commission income and other services income are recognized in the period in which the services are rendered.

Interest income is recognized on a time-apportioned basis using the effective interest method.

**Operating leases (as the lessee)**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

## 2. FINANCIAL RISK MANAGEMENT

### 2.1 Financial risk factors

Real Clever Profits Limited's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest-rate risk, cash flow interest— rate risk and price risk), credit risk and liquidity risk. Real Clever Profits Limited's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on Real Clever Profits Limited's financial performance.

***(a) Market risk***

*(i) Foreign currency risk*

Real Clever Profits Limited is not exposed to significant foreign currency risk.

*(ii) Price risk*

Real Clever Profits Limited is not exposed to significant price risk.

*(iii) Cash flow and fair value interest-rate risk*

As Real Clever Profits Limited has no significant interest-bearing assets, Real Clever Profits Limited's income and operating cash flows are substantially independent of changes in market interest rates.

***(b) Credit risk***

Credit risk arises from cash and cash equivalents and credit exposures to customers. Real Clever Profits Limited has no significant concentrations of credit risk as Real Clever Profits Limited has a large number of customers. Services provided to customers are settled in cash or cheque payments.

***(c) Liquidity risk***

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, Real Clever Profits Limited employs a prudent liquidity policy. Real Clever Profits Limited regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

Real Clever Profits Limited's financial liabilities principally comprise trade and other payables, amounts due to related parties, amount due to an associate and amount due to a related company, all of which are expected to be settled within 1 year and are included in current liabilities. As at 31 March 2008, Real Clever Profits Limited did not have any borrowings or derivative financial liabilities.

## 2. FINANCIAL RISK MANAGEMENT *(continued)*

### 2.2 Capital risk management

Real Clever Profits Limited's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, Real Clever Profits Limited may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Real Clever Profits Limited is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes during the Relevant Periods.

### 2.3 Fair value estimation

The carrying value less impairment provision of trade receivables and payables are a reasonable approximation of their fair values.

## 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Real Clever Profits Limited makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

**Estimated recoverability of trade and other receivables**

Real Clever Profits Limited's management determines the provision for impairment of trade and other receivables based on ongoing assessment of the recoverability of the receivables. This assessment is based on the credit history of its customers and other debtors and current market conditions, and requires the use of judgments and estimates. Management reassesses the provision for impairment of trade and other receivables at each balance sheet date.

## 4. REVENUE AND SEGMENT INFORMATION

Revenue recognized during the Relevant Periods is as follows:

| | Year ended 31 March 2006 | Year ended 31 March 2007 | Year ended 31 March 2008 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Rendering of services | 28,120 | 42,489 | 54,629 |

No business segment and geographical segment information has been presented as Real Clever Profits Limited and its subsidiary operate in a single business and geographical segment during the Relevant Periods which is the provision of surveying and property agency services in Hong Kong.

## 5. OTHER INCOME

| | Year ended 31 March 2006 | Year ended 31 March 2007 | Year ended 31 March 2008 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Consultancy fee income | 465 | — | — |
| Referral fee income | 295 | 136 | 224 |
| Bank interest income | 1 | 9 | 6 |
| Administrative fee income | — | 461 | — |
| Sundry income | 142 | 310 | 674 |
| | 903 | 916 | 904 |

## 6. PROFIT BEFORE INCOME TAX

Profit before income tax is stated after charging:

| | Year ended 31 March 2006 | Year ended 31 March 2007 | Year ended 31 March 2008 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Depreciation of owned assets | 33 | 9 | 7 |
| Auditors' remuneration | 50 | 50 | 50 |
| Operating lease payments in respect of rented premises | 1,034 | 1,317 | 1,680 |
| Provision for impairment of trade receivables | 203 | 21 | 94 |

## 7. EMPLOYEE BENEFIT EXPENSES

| | Year ended 31 March 2006 | Year ended 31 March 2007 | Year ended 31 March 2008 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Salaries and allowances | 5,153 | 4,747 | 4,579 |
| Pension costs-defined contribution plan | 298 | 238 | 255 |
| Staff welfare and messing | 7 | 10 | 6 |
| Provision for annual leave | 96 | — | — |
| | 5,554 | 4,995 | 4,840 |

### *(a) Directors' emoluments*

The remuneration of every director for the Relevant Periods is set out below:

**Year ended 31 March 2008**

| Name of director | Fees | Salaries and other benefits | Employer's contribution to pension scheme | Total |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Mr. Ng Kai Man | — | — | — | — |
| | — | — | — | — |

**Year ended 31 March 2007**

| Name of director | Fees | Salaries and other benefits | Employer's contribution to pension scheme | Total |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Mr. Ng Kai Man | — | — | — | — |
| | — | — | — | — |

**Year ended 31 March 2006**

| Name of director | Fees | Salaries and other benefits | Employer's contribution to pension scheme | Total |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Mr. Ng Kai Man | — | — | — | — |
| | — | — | — | — |

**7. EMPLOYEE BENEFIT EXPENSES** *(continued)*

***(b) Five highest paid individuals***

The five individuals whose emoluments were the highest in Real Clever Profits Limited for the years ended 31 March 2006, 2007 and 2008 include nil, nil and nil director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining five, five and five individuals for the years ended 31 March 2006, 2007 and 2008 are as follows:

| | Year ended 31 March 2006 *HK$'000* | Year ended 31 March 2007 *HK$'000* | Year ended 31 March 2008 *HK$'000* |
|---|---|---|---|
| Salaries, allowances and benefits in kind | 2,564 | 2,327 | 3,495 |
| Pension costs-defined contribution plan | 5 | 46 | 17 |
| | 2,569 | 2,373 | 3,512 |

The emoluments were below HK$1,000,000.

**8. INCOME TAX EXPENSE**

Real Clever Profits Limited was incorporated in the British Virgin Islands and is exempted from payment of the British Virgin Islands income tax.

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong for the Relevant Periods.

| | Year ended 31 March 2006 *HK$'000* | Year ended 31 March 2007 *HK$'000* | Year ended 31 March 2008 *HK$'000* |
|---|---|---|---|
| Current income tax | | | |
| — Hong Kong profits tax | 124 | 106 | 1,904 |
| — Under-provision in prior years | — | 542 | — |
| | 124 | 648 | 1,904 |

## 8. INCOME TAX EXPENSE *(continued)*

The tax on the profit before income tax differs from the theoretical amount that would arise using the Hong Kong profits tax rate of 17.5% as follows:

| | Year ended 31 March 2006 *HK$'000* | Year ended 31 March 2007 *HK$'000* | Year ended 31 March 2008 *HK$'000* |
|---|---|---|---|
| Profit before income tax | 2,720 | 950 | 15,702 |
| Tax calculated at the Hong Kong profits tax rate | 476 | 166 | 2,748 |
| Tax effect of: | | | |
| — Income not subject to tax | (109) | (20) | (845) |
| — Non-deductible expenses | 11 | — | — |
| — Under-provision in prior years | — | 542 | — |
| — Utilization of tax loss not previously recognized | (257) | — | — |
| — Depreciation allowance in excess of related depreciation | — | (40) | 1 |
| — Others | 3 | — | — |
| Income tax expense | 124 | 648 | 1,904 |

**Deferred income tax**

No deferred income tax liabilities or assets are recognized in the financial statements as Real Clever Profits Limited did not have material temporary difference arising between the tax bases of liabilities or assets and their carrying amounts as at 31 March 2006, 2007 and 2008.

## 9. EARNINGS PER SHARE

Earnings per share has not been presented as such information is not considered meaningful for the purpose of this report.

## 10. PROPERTY, PLANT AND EQUIPMENT

| | Furniture, fixtures and office equipments *HK$'000* | Motor vehicle *HK$'000* | Total *HK$'000* |
|---|---|---|---|
| **At 1 April 2005** | | | |
| Cost | 397 | 27 | 424 |
| Accumulated depreciation | (357) | (22) | (379) |
| Net carrying amount | 40 | 5 | 45 |
| **Year ended 31 March 2006** | | | |
| Opening net carrying amount | 40 | 5 | 45 |
| Depreciation | (28) | (5) | (33) |
| Closing net carrying amoun | 12 | — | 12 |
| **At 31 March 2006** | | | |
| Cost | 397 | — | 397 |
| Accumulated depreciation | (385) | — | (385) |
| Net carrying amount | 12 | — | 12 |
| **Year ended 31 March 2007** | | | |
| Opening net carrying amount | 12 | — | 12 |
| Depreciation | (9) | — | (9) |
| Closing net carrying amount | 3 | — | 3 |
| **At 31 March 2007** | | | |
| Cost | 46 | — | 46 |
| Accumulated depreciation | (43) | — | (43) |
| Net carrying amount | 3 | — | 3 |
| **Year ended 31 March 2008** | | | |
| Opening net carrying amount | 3 | — | 3 |
| Additions | 57 | — | 57 |
| Depreciation | (7) | — | (7) |
| Closing net carrying amount | 53 | — | 53 |
| **At 31 March 2008** | | | |
| Cost | 103 | — | 103 |
| Accumulated depreciation | (50) | — | (50) |
| Net carrying amount | 53 | — | 53 |

### 11. INVESTMENT IN AN ASSOCIATE

| | As at 31 March 2006 | As at 31 March 2007 | As at 31 March 2008 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Beginning of the year | 55 | 678 | 789 |
| Share of profit | 623 | 111 | 4,820 |
| End of the year | 678 | 789 | 5,609 |

The investment represents Real Clever Profits Limited's 50% equity interests in Century 21 Property Agency Limited. The financial information relating to Century 21 Property Agency Limited for each of the three years ended 31 March 2006, 2007 and 2008 is set out in Appendix VI to the Circular.

**Amount due from and due to associate**

The amount due from and due to an associate is unsecured, interest-free and has no fixed terms of repayment.

### 12. FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

| **Assets per consolidated balance sheets** | *Note* | As at 31 March 2006 *HK$'000* | As at 31 March 2007 *HK$'000* | As at 31 March 2008 *HK$'000* |
|---|---|---|---|---|
| **Loans and receivables** | | | | |
| Trade and other receivables | *13* | 4,573 | 19,974 | 22,499 |
| Amount due from a director | *14* | 1,993 | 2,814 | 3,477 |
| Amount due from an associate | *11* | 446 | — | — |
| Amount due from a related company | *14* | — | 172 | 72 |
| Cash and cash equivalents | *15* | 55 | 256 | 8,366 |
| Total (maximum exposure to credit risk) | | 7,067 | 23,216 | 34,414 |

| **Liabilities per consolidated balance sheets** | *Note* | As at 31 March 2006 *HK$'000* | As at 31 March 2007 *HK$'000* | As at 31 March 2008 *HK$'000* |
|---|---|---|---|---|
| **Financial liabilities at amortized cost** | | | | |
| Bank overdrafts | *16* | 160 | — | — |
| Trade and other payables | *17* | 5,239 | 18,552 | 19,988 |
| Amounts due to related parties | *18* | 48 | 60 | 87 |
| Amount due to an associate | *11* | — | 2,066 | 2,941 |
| Amount due to a related company | *19* | 4,163 | 4,374 | 2,812 |
| Total | | 9,610 | 25,052 | 25,828 |

## 13. TRADE AND OTHER RECEIVABLES

| | As at 31 March 2006 *HK$'000* | As at 31 March 2007 *HK$'000* | As at 31 March 2008 *HK$'000* |
|---|---|---|---|
| Trade receivables | 3,774 | 19,035 | 22,043 |
| Less: provision for impairment of receivables | (203) | (21) | (115) |
| Trade receivables-net | 3,571 | 19,014 | 21,928 |
| Other receivables, prepayments and deposits | 1,026 | 992 | 607 |
| | 4,597 | 20,006 | 22,535 |

Services provided to customers are settled in cash or cheque payments. At the balance sheet dates, the ageing analysis of the trade receivables were as follows:

| | As at 31 March 2006 *HK$'000* | As at 31 March 2007 *HK$'000* | As at 31 March 2008 *HK$'000* |
|---|---|---|---|
| 0 — 30 days | 2,452 | 5,678 | 2,354 |
| 31 — 60 days | 268 | 2,077 | 2,712 |
| 61 — 90 days | 4 | 1,308 | 2,126 |
| Over 90 days | 1,050 | 9,972 | 14,851 |
| | 3,774 | 19,035 | 22,043 |

The carrying amounts of the trade and other receivables are denominated in Hong Kong dollars.

Movements on the provision for impairment of trade receivables are as follows:

| | As at 31 March 2006 *HK$'000* | As at 31 March 2007 *HK$'000* | As at 31 March 2008 *HK$'000* |
|---|---|---|---|
| **At beginning of the year** | — | 203 | 21 |
| Provision for receivable impairment | 203 | 21 | 94 |
| Unused amounts reversed | — | (203) | — |
| **At end of the year** | 203 | 21 | 115 |

**13. TRADE AND OTHER RECEIVABLES** *(continued)*

The individually impaired trade receivables relate to customers that were in financial difficulties, in default or invoices in dispute and only a portion of the receivables is expected to be recovered. Real Clever Profits Limited does not hold any collateral or other credit enhancements over these balances.

The maximum exposure to credit risk at the reporting date is the carrying value of the trade receivables mentioned above.

**14. AMOUNTS DUE FROM A RELATED COMPANY/A DIRECTOR**

| Name of related company/director | As at 31 March 2006 *HK$'000* | As at 31 March 2007 *HK$'000* | As at 31 March 2008 *HK$'000* |
|---|---|---|---|
| Mr. Ng Kai Man | 1,993 | 2,814 | 3,477 |
| Century 21 Best Mortgage Limited | — | 172 | 72 |
| | 1,993 | 2,986 | 3,549 |

| Maximum amount outstanding during the year: | As at 31 March 2006 *HK$'000* | As at 31 March 2007 *HK$'000* | As at 31 March 2008 *HK$'000* |
|---|---|---|---|
| Mr. Ng Kai Man | 1,993 | 2,814 | 5,550 |
| Century 21 Best Mortgage Limited | — | 172 | 172 |

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

Mr. Ng Kai Man is the common beneficial owner of Real Clever Profits Limited and Century 21 Best Mortgage Limited.

**15. CASH AND CASH EQUIVALENTS**

| | As at 31 March 2006 *HK$'000* | As at 31 March 2007 *HK$'000* | As at 31 March 2008 *HK$'000* |
|---|---|---|---|
| Cash at bank and in hand | 55 | 256 | 8,366 |
| Maximum exposure to credit risk | 55 | 256 | 8,366 |

The carrying amounts of the cash and cash equivalents are denominated in Hong Kong dollars.

The bank balances are deposited with creditworthy banks with no recent history of default.

## 16. BANK BORROWINGS

| | As at 31 March 2006 HK$'000 | As at 31 March 2007 HK$'000 | As at 31 March 2008 HK$'000 |
|---|---|---|---|
| **Current** | | | |
| Bank overdrafts | 160 | — | — |

The bank overdrafts are denominated in Hong Kong dollars and bear interest at prevailing interest rate.

## 17. TRADE AND OTHER PAYABLES

| | As at 31 March 2006 HK$'000 | As at 31 March 2007 HK$'000 | As at 31 March 2008 HK$'000 |
|---|---|---|---|
| Trade payables | 4,248 | 17,746 | 19,858 |
| Other payables and accruals | 1,101 | 896 | 239 |
| | 5,349 | 18,642 | 20,097 |

At the balance sheet dates, the ageing analysis of the trade payables were as follows:

| | As at 31 March 2006 HK$'000 | As at 31 March 2007 HK$'000 | As at 31 March 2008 HK$'000 |
|---|---|---|---|
| 0 — 30 days | 2,485 | 4,371 | 1,450 |
| 31 — 60 days | 148 | 1,342 | 2,053 |
| 61 — 90 days | 48 | 869 | 1,463 |
| Over 90 days | 1,567 | 11,164 | 14,892 |
| | 4,248 | 17,746 | 19,858 |

The carrying amounts of the trade and other payables are denominated in Hong Kong dollars.

## 18. AMOUNTS DUE TO RELATED PARTIES

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

## 19. AMOUNT DUE TO A RELATED COMPANY

The amount due is unsecured, interest-free and has no fixed terms of repayment.

## 20. SHARE CAPITAL

| | As at 31 March 2006 *HK$'000* | As at 31 March 2007 *HK$'000* | As at 31 March 2008 *HK$'000* |
|---|---|---|---|
| Authorized: | | | |
| 50,000 ordinary shares of US$1 each | 390 | 390 | 390 |
| Issued and fully paid: | | | |
| 1 ordinary share of US$1 each | — | — | — |

## 21. OPERATING LEASE COMMITMENTS

At the balance sheet dates, the future aggregate minimum lease payments under non-cancellable operating leases in respect of rented premises are as follows:

| | As at 31 March 2006 *HK$'000* | As at 31 March 2007 *HK$'000* | As at 31 March 2008 *HK$'000* |
|---|---|---|---|
| No later than one year | 903 | 1,605 | 1,469 |
| Later than one year and no later than five years | — | 1,337 | — |
| | 903 | 2,942 | 1,469 |

## 22. SIGNIFICANT RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in the Financial Information, Real Clever Profits Limited entered into the following significant related party transactions during the Relevant Periods:

| | Year ended 31 March 2006 *HK$'000* | Year ended 31 March 2007 *HK$'000* | Year ended 31 March 2008 *HK$'000* |
|---|---|---|---|
| **Century 21 Hong Kong Limited** *(note (i))* | | | |
| Consultancy fee expenses | (280) | (240) | (240) |
| Advertising expenses | (6) | (6) | (12) |
| Training fees | (200) | (180) | (180) |
| Service fees | (34) | (36) | (36) |
| Commission expenses | (955) | (134) | (4) |
| Referral fee income | 290 | 56 | 103 |
| Administration fee income | — | 43 | — |
| **Richway Properties Group Limited** *(note (i))* | | | |
| Motor vehicles expenses | (40) | — | — |
| Commission expenses | (150) | — | — |
| **Century 21 Best Mortgage Limited** *(note (i))* | | | |
| Referral fee income | 6 | 75 | 121 |
| Administration fee income | — | 376 | — |
| **Century 21 Property Agency Limited** | | | |
| Referral expenses | (22) | — | — |
| Commission expenses | — | (1,721) | (851) |
| Service fees | — | (450) | — |
| **China Perfect Limited** *(note (i))* | | | |
| Commission expenses | (200) | — | — |
| **Empire Base Limited** *(note (i))* | | | |
| Commission expenses | (250) | — | — |
| **Precheer Limited** *(note (i))* | | | |
| Commission expenses | (250) | — | — |
| **Grand Rich Resources Limited** *(note (i))* | | | |
| Commission expenses | (3,300) | — | — |
| **Pacific Pointer Limited** *(note (i))* | | | |
| Commission expenses | (300) | — | — |

**22. SIGNIFICANT RELATED PARTY TRANSACTIONS** *(continued)*

| | Year ended 31 March 2006 *HK$'000* | Year ended 31 March 2007 *HK$'000* | Year ended 31 March 2008 *HK$'000* |
|---|---|---|---|
| **Year-end balance with related parties** | | | |
| Non-trade balance due from a director | 1,993 | 2,814 | 3,477 |
| Trade balance due from a related company | — | 172 | 72 |
| Trade balance due to a related company | (4,163) | (4,374) | (2,812) |
| Trade balance due to related parties | (48) | (60) | (87) |
| **Compensation to key management personnel** | | | |
| Short-term employee benefits | 818 | 723 | 779 |
| Post-employment benefits | 30 | 30 | 24 |
| | 848 | 753 | 803 |

*Note:*

(i) Mr. Ng Kai Man is the common beneficial owner of Real Clever Profits Limited and these related companies.

## II. SEPARATE FINANCIAL STATEMENTS OF REAL CLEVER PROFITS LIMITED

### Income statements

| | Year ended 31 March 2006 *HK$'000* *(Audited)* | Year ended 31 March 2007 *HK$'000* *(Audited)* | Year ended 31 March 2008 *HK$'000* *(Audited)* |
|---|---|---|---|
| Revenue | — | — | — |
| Expenses | — | — | — |
| **Results for the year** | — | — | — |

**Balance sheets**

| | As at 31 March 2006 *HK$'000* *(Audited)* | As at 31 March 2007 *HK$'000* *(Audited)* | As at 31 March 2008 *HK$'000* *(Audited)* |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment in a subsidiary | — | — | — |
| Investment in an associate | — | — | — |
| | — | — | — |
| **Capital** | | | |
| Share capital | — | — | — |

**Cash flow statements**

Cash flow statements have not been presented as Real Clever Profits Limited did not have any cash and cash equivalents during the Relevant Periods.

## III. SUBSEQUENT EVENTS

Save as disclosed in the Financial Information, there were no significant events subsequent to 31 March 2008.

## IV. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of Real Clever Profits Limited have been prepared in respect of any period subsequent to 31 March 2008.

Yours faithfully,
**HLB Hodgson Impey Cheng**
*Chartered Accountants*
*Certified Public Accountants*
Hong Kong

*The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong.*

HLB 國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

28 June 2008

The board of directors
GFT Holdings Limited
Unit 707, Tower II, Admiralty Centre
18 Harcourt Road
Hong Kong

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding Pacific Pointer Limited for each of the three years ended 31 March 2006, 2007 and 2008 (the "Relevant Periods"), for inclusion in the circular dated 28 June 2008 (the "Circular") issued by GFT Holdings Limited (the "Company") in connection with, *inter alia*, the very substantial acquisition and connected transaction whereby Kingbox Investments Limited (a wholly-owned subsidiary of the Company) conditionally agreed to acquire the entire equity interests in Pacific Pointer Limited.

Pacific Pointer Limited is a limited liability company incorporated in the British Virgin Islands on 8 April 1998 with an authorized share capital of 50,000 ordinary shares of US$1 each. The registered office of Pacific Pointer Limited is situated at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, the British Virgin Islands. As at the date of this report, the issued share capital of Pacific Pointer Limited amounted to HK$7.8 comprising 1 ordinary share of US$1 each, which was held by Mr. Ng Kai Man. Pacific Pointer Limited is an investment holding company and holds 50% equity interest in Century 21 Property Agency Limited and 20% equity interest in Century 21 Surveyors Limited.

No audited financial statements have been prepared for Pacific Pointer Limited up to the date of this report as it was incorporated in a jurisdiction where there were no statutory audit requirements.

The statutory financial statements of Century 21 Property Agency Limited for each of the three years ended 31 March 2006, 2007 and 2008 were prepared in accordance with accounting principles generally accepted in Hong Kong. The statutory financial statements of Century 21 Property Agency Limited for the year ended 31 March 2006 were audited by Lak & Associates C.P.A. Limited, certified public accountants, Hong Kong. We have acted as auditors to Century 21 Property Agency Limited in respect of the years ended 31 March 2007 and 2008.

The statutory financial statements of Century 21 Surveyors Limited for each of the three years ended 31 March 2006, 2007 and 2008 were prepared in accordance with accounting principles generally accepted in Hong Kong. The statutory financial statements of Century 21 Surveyors Limited for the year ended 31 March 2006 were audited by Lak & Associates C.P.A. Limited, certified public accountants, Hong Kong. We have acted as auditors to Century 21 Surveyors Limited in respect of the years ended 31 March 2007 and 2008.

The income statements, cash flow statements and statements of changes in equity of Pacific Pointer Limited for each of the Relevant Periods and the balance sheets of Pacific Pointer Limited as at 31 March 2006, 2007 and 2008 as set out in this report have been prepared based on the management accounts of Pacific Pointer Limited and the audited financial statements of Century 21 Property Agency Limited and Century 21 Surveyors Limited (the "Underlying Financial Statements") for the Relevant Periods for the purpose of preparing our report for inclusion in the Circular.

For the purpose of this report, we have examined and carried out independent audit procedures on the Financial Information for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and have carried out such additional procedures as we consider necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

No adjustments to the Underlying Financial Statements have been considered necessary in preparing the Financial Information for the purpose of this report.

The Underlying Financial Statements are the responsibility of the respective directors of Pacific Pointer Limited, Century 21 Property Agency Limited and Century 21 Surveyors Limited who approved their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Pacific Pointer Limited as at 31 March 2006, 2007 and 2008 and of the results of Pacific Pointer Limited for each of the three years ended 31 March 2006, 2007 and 2008.

## I. FINANCIAL INFORMATION

### Income statements

| | *Note* | **Year ended 31 March 2006** *HK$'000* *(Audited)* | **Year ended 31 March 2007** *HK$'000* *(Audited)* | **Year ended 31 March 2008** *HK$'000* *(Audited)* |
|---|---|---|---|---|
| Revenue | *4* | — | — | — |
| Other income | *5* | 800 | — | — |
| Expenses | | — | — | — |
| Share of results of associates | *8* | 623 | 149 | 6,616 |
| **Profit for the year** | *6* | 1,423 | 149 | 6,616 |

**Balance sheets**

| | Note | As at 31 March 2006 HK$'000 (Audited) | As at 31 March 2007 HK$'000 (Audited) | As at 31 March 2008 HK$'000 (Audited) |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Investments in associates | 8 | 678 | 827 | 7,443 |
| **Current assets** | | | | |
| Amount due from a shareholder | 10 | 800 | 800 | 800 |
| **Net assets** | | 1,478 | 1,627 | 8,243 |
| **Capital and reserves attributable to the equity holders of Pacific Pointer Limited** | | | | |
| Share capital | 11 | — | — | — |
| Retained earnings | | 1,478 | 1,627 | 8,243 |
| **Total equity** | | 1,478 | 1,627 | 8,243 |

**Statements of changes in equity**

| | Share capital *HK$'000* | Retained earnings *HK$'000* | Total equity *HK$'000* |
|---|---|---|---|
| **Balance at 1 April 2005** | — | 55 | 55 |
| Profit for the year | — | 1,423 | 1,423 |
| **Balance at 31 March 2006** | — | 1,478 | 1,478 |
| Profit for the year | — | 149 | 149 |
| **Balance at 31 March 2007** | — | 1,627 | 1,627 |
| Profit for the year | — | 6,616 | 6,616 |
| **Balance at 31 March 2008** | — | 8,243 | 8,243 |

## Cash flow statements

Cash flow statements have not been presented as Pacific Pointer Limited did not have any cash and cash equivalents during the Relevant Periods.

## NOTES TO THE FINANCIAL INFORMATION

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**Basis of preparation**

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying Pacific Pointer Limited's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

**Associates**

Associates are all entities over which Pacific Pointer Limited has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. Pacific Pointer Limited's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

Pacific Pointer Limited's share of its associates' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When Pacific Pointer Limited's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, Pacific Pointer Limited does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between Pacific Pointer Limited and its associates are eliminated to the extent of Pacific Pointer Limited's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by Pacific Pointer Limited.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**Foreign currency translation**

***(a) Functional and presentation currency***

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

***(b) Transactions and balances***

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

**Trade and other receivables**

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that Pacific Pointer Limited will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognized in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited to the income statement.

**Share capital**

Ordinary shares are classified as equity.

**Trade payables**

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**Provisions**

Provisions are recognized when Pacific Pointer Limited has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

**Revenue recognition**

Revenue comprises the fair value of services and sales of goods in the ordinary course of the activities of Pacific Pointer Limited. Revenue is shown net of sales tax, returns, rebates, and discounts and other revenue reducing factors.

Revenue is recognized when it is probable that the economic benefits will flow to Pacific Pointer Limited, the amount can be measured reliably and specific criteria for each of the activities have been met.

Commission income and other services income are recognized in the period in which the services are rendered.

## 2. FINANCIAL RISK MANAGEMENT

### 2.1 Financial risk factors

Pacific Pointer Limited's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest-rate risk, cash flow interest-rate risk and price risk), credit risk and liquidity risk. Pacific Pointer Limited's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on Pacific Pointer Limited's financial performance.

***(a) Market risk***

*(i) Foreign currency risk*

Pacific Pointer Limited is not exposed to significant foreign currency risk.

*(ii) Price risk*

Pacific Pointer Limited is not exposed to significant price risk.

*(iii) Cash flow and fair value interest-rate risk*

As Pacific Pointer Limited has no significant interest-bearing assets, Pacific Pointer Limited's income and operating cash flows are substantially independent of changes in market interest rates.

***(b) Credit risk***

Pacific Pointer Limited is not exposed to significant credit risk.

***(c) Liquidity risk***

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, Pacific Pointer Limited employs a prudent liquidity policy. Pacific Pointer Limited regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

As at 31 March 2008, Pacific Pointer Limited did not have any liabilities.

## 2. FINANCIAL RISK MANAGEMENT *(continued)*

### 2.2 Capital risk management

Pacific Pointer Limited's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, Pacific Pointer Limited may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Pacific Pointer Limited is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes during the Relevant Periods.

### 2.3 Fair value estimation

The carrying value less impairment provision of trade receivables and payables are a reasonable approximation of their fair values.

## 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Pacific Pointer Limited makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. There are no estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

## 4. REVENUE AND SEGMENT INFORMATION

Pacific Pointer Limited did not generate any revenue arising from investment holding during the Relevant Periods.

No business segment and geographical segment information has been presented as Pacific Pointer Limited operates in a single business and geographical segment during the Relevant Periods which is investment holding.

## 5. OTHER INCOME

| | Year ended 31 March 2006 | Year ended 31 March 2007 | Year ended 31 March 2008 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Commission income from: | | | |
| — Century 21 Surveyors Limited | 300 | — | — |
| — Century 21 Property Agency Limited | 450 | — | — |
| Referral fee income from: | | | |
| — Century 21 Property Agency Limited | 50 | — | — |
| | 800 | — | — |

## 6. PROFIT FOR THE YEAR

Profit for the year is stated after charging:

| | Year ended 31 March 2006 | Year ended 31 March 2007 | Year ended 31 March 2008 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Auditors' remuneration | — | — | — |
| Directors' remuneration | — | — | — |

## 7. EARNINGS PER SHARE

Earnings per share has not been presented as such information is not considered meaningful for the purpose of this report.

## 8. INVESTMENTS IN ASSOCIATES

| | As at 31 March 2006 | As at 31 March 2007 | As at 31 March 2008 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Beginning of the year | 55 | 678 | 827 |
| Share of profit | 623 | 149 | 6,616 |
| End of the year | 678 | 827 | 7,443 |

The investments represent Pacific Pointer Limited's 50% equity interests in Century 21 Property Agency Limited and 20% equity interests in Century 21 Surveyors Limited. The financial information relating to Century 21 Property Agency Limited and Century 21 Surveyors Limited for each of the three years ended 31 March 2006, 2007 and 2008 are set out in Appendix VI and VII to the Circular, respectively.

## 9. FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

| Assets per balance sheets | Note | As at 31 March 2006 HK$'000 | As at 31 March 2007 HK$'000 | As at 31 March 2008 HK$'000 |
|---|---|---|---|---|
| **Loans and receivables** | | | | |
| Amount due from a shareholder | *10* | 800 | 800 | 800 |
| Total (maximum exposure to credit risk) | | 800 | 800 | 800 |

## 10. AMOUNT DUE FROM A SHAREHOLDER

The amount due is unsecured, interest-free and has no fixed terms of repayment.

## 11. SHARE CAPITAL

| | As at 31 March 2006 HK$'000 | As at 31 March 2007 HK$'000 | As at 31 March 2008 HK$'000 |
|---|---|---|---|
| Authorized: | | | |
| 50,000 ordinary shares of US$1 each | 390 | 390 | 390 |
| Issued and fully paid: | | | |
| 1 ordinary share of US$1 each | — | — | — |

## II. SEPARATE FINANCIAL STATEMENTS OF PACIFIC POINTER LIMITED

### Income statements

| | Year ended 31 March 2006 *HK$'000* *(Audited)* | Year ended 31 March 2007 *HK$'000* *(Audited)* | Year ended 31 March 2008 *HK$'000* *(Audited)* |
|---|---|---|---|
| Revenue | — | — | — |
| Other income | 800 | — | — |
| Expenses | — | — | — |
| **Profit for the year** | 800 | — | — |

### Balance sheets

| | As at 31 March 2006 *HK$'000* *(Audited)* | As at 31 March 2007 *HK$'000* *(Audited)* | As at 31 March 2008 *HK$'000* *(Audited)* |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments in associates | — | — | — |
| **Current assets** | | | |
| Amount due from a shareholder | 800 | 800 | 800 |
| **Net assets** | 800 | 800 | 800 |
| **Capital and reserves** | | | |
| Share capital | — | — | — |
| Retained earnings | 800 | 800 | 800 |
| **Total equity** | 800 | 800 | 800 |

## III. SUBSEQUENT EVENTS

Save as disclosed in the Financial Information, there were no significant events subsequent to 31 March 2008.

## IV. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of Pacific Pointer Limited have been prepared in respect of any period subsequent to 31 March 2008.

Yours faithfully,
**HLB Hodgson Impey Cheng**
*Chartered Accountants*
*Certified Public Accountants*
Hong Kong

*The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong.*

HLB 國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

28 June 2008

The board of directors
GFT Holdings Limited
Unit 707, Tower II, Admiralty Centre
18 Harcourt Road
Hong Kong

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding Century 21 Hong Kong Limited for each of the three years ended 31 March 2006, 2007 and 2008 (the "Relevant Periods"), for inclusion in the circular dated 28 June 2008 (the "Circular") issued by GFT Holdings Limited (the "Company") in connection with, *inter alia*, the very substantial acquisition and connected transaction whereby Kingbox Investments Limited (a wholly-owned subsidiary of the Company) conditionally agreed to acquire the entire equity interests in Century 21 Hong Kong Limited.

Century 21 Hong Kong Limited was incorporated in Hong Kong with limited liability under the Hong Kong Companies Ordinance on 18 May 1993. The registered office and principal place of business of Century 21 Hong Kong Limited is situated at 10/F., No. 88 Gloucester Road, Wanchai, Hong Kong. As at the date of this report, the issued share capital of Century 21 Hong Kong Limited comprised 3,880,000 ordinary shares of HK$1 each, and was held as to 82.5% by Consecutive Profits Limited, as to 12.5% by Century Profit Investments Limited and as to 5% by Mr. Ng Kai Man. Century 21 Hong Kong Limited is principally engaged in the provision of franchise, consultancy and property agency services in Hong Kong.

As at the date of this report, Century 21 Hong Kong Limited had the following subsidiary:

| Name | Form of business structure, place and date of incorporation | Issued and fully paid capital | Principal activities | Attributable interest held by Century 21 Hong Kong Limited |
|---|---|---|---|---|
| Century 21 Limited | Limited liability company incorporated in Macau on 11 August 2005 | MOP 30,000 comprising 2 shares | Dormant and not yet commenced operations | 66.7 (direct) |

The statutory financial statements of Century 21 Hong Kong Limited for each of the three years ended 31 March 2006, 2007 and 2008 were prepared in accordance with accounting principles generally accepted in Hong Kong. The statutory financial statements of Century 21 Hong Kong Limited for the years ended 31 March 2006 and 2007 were audited by Johnny Chan & Co. Limited and Robert Chui & Co., certified public accountants, Hong Kong, respectively. We have acted as auditors to Century 21 Hong Kong Limited in respect of the year ended 31 March 2008.

The consolidated income statements, consolidated cash flow statements and consolidated statements of changes in equity of Century 21 Hong Kong Limited for each of the Relevant Periods and the consolidated balance sheets of Century 21 Hong Kong Limited as at 31 March 2006, 2007 and 2008 as set out in this report have been prepared based on the management accounts of Century 21 Limited and the audited financial statements of Century 21 Hong Kong Limited (the "Underlying Financial Statements") for the Relevant Periods for the purpose of preparing our report for inclusion in the Circular.

For the purpose of this report, we have examined and carried out independent audit procedures on the Financial Information for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and have carried out such additional procedures as we consider necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

No adjustments to the Underlying Financial Statements have been considered necessary in preparing the Financial Information for the purpose of this report.

The Underlying Financial Statements are the responsibility of the respective directors of Century 21 Hong Kong Limited and Century 21 Limited who approved their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the consolidated balance sheets of Century 21 Hong Kong Limited as at 31 March 2006, 2007 and 2008 and of the consolidated results and consolidated cash flows of Century 21 Hong Kong Limited for each of the three years ended 31 March 2006, 2007 and 2008.

## I. FINANCIAL INFORMATION

### Consolidated income statements

| | Note | Year ended 31 March 2006 HK$'000 (Audited) | Year ended 31 March 2007 HK$'000 (Audited) | Year ended 31 March 2008 HK$'000 (Audited) |
|---|---|---|---|---|
| Revenue | *4* | 7,207 | 6,201 | 5,856 |
| Other income | *5* | 3,060 | 2,147 | 3,522 |
| Employee benefit expenses | *7* | (2,647) | (2,277) | (1,643) |
| Depreciation | | (431) | (416) | (354) |
| Other operating expenses | | (6,806) | (5,277) | (4,924) |
| Finance costs | *8* | (13) | — | — |
| **Profit before income tax** | *6* | 370 | 378 | 2,457 |
| Income tax expense | *9* | (65) | (67) | (433) |
| **Profit for the year** | | 305 | 311 | 2,024 |

**Consolidated balance sheets**

| | Note | As at 31 March 2006 HK$'000 (Audited) | As at 31 March 2007 HK$'000 (Audited) | As at 31 March 2008 HK$'000 (Audited) |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Property, plant and equipment | *11* | 780 | 368 | 17 |
| Deferred income tax assets | *20* | 37 | 97 | 147 |
| | | 817 | 465 | 164 |
| **Current assets** | | | | |
| Trade and other receivables | *13* | 1,572 | 1,630 | 938 |
| Amounts due from related companies | *14* | 4,238 | 4,556 | 3,191 |
| Amount due from a director | *14* | — | — | 1,142 |
| Current income tax assets | | 52 | — | — |
| Cash and cash equivalents | *15* | 211 | 345 | 3,407 |
| | | 6,073 | 6,531 | 8,678 |
| **Total assets** | | 6,890 | 6,996 | 8,842 |
| **Current liabilities** | | | | |
| Obligation under finance lease | *16* | 12 | 12 | 5 |
| Trade and other payables | *17* | 2,483 | 2,475 | 2,599 |
| Amount due to a related company | *18* | — | 9 | — |
| Amount due to a director | *19* | 863 | 625 | — |
| Current income tax liabilities | | — | 44 | 388 |
| | | 3,358 | 3,165 | 2,992 |
| **Net current assets** | | 2,715 | 3,366 | 5,686 |
| **Total assets less current liabilities** | | 3,532 | 3,831 | 5,850 |
| **Non-current liabilities** | | | | |
| Obligation under finance lease | *16* | 17 | 5 | — |
| **Net assets** | | 3,515 | 3,826 | 5,850 |
| **Capital and reserves** | | | | |
| Share capital | *21* | 3,880 | 3,880 | 3,880 |
| (Accumulated losses)/ Retained earnings | | (375) | (64) | 1,960 |
| Equity attributable to the equity holders of Century 21 Hong Kong Limited | | 3,505 | 3,816 | 5,840 |
| Minority interests | | 10 | 10 | 10 |
| **Total equity** | | 3,515 | 3,826 | 5,850 |

**Balance sheets**

| | Note | As at 31 March 2006 HK$'000 (Audited) | As at 31 March 2007 HK$'000 (Audited) | As at 31 March 2008 HK$'000 (Audited) |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Property, plant and equipment | 11 | 780 | 368 | 17 |
| Investment in a subsidiary | | 20 | 20 | 20 |
| Deferred income tax assets | 20 | 37 | 97 | 147 |
| | | 837 | 485 | 184 |
| **Current assets** | | | | |
| Trade and other receivables | 13 | 1,572 | 1,630 | 938 |
| Amounts due from related companies | 14 | 4,238 | 4,556 | 3,191 |
| Amount due from a director | 14 | — | — | 1,142 |
| Current income tax assets | | 52 | — | — |
| Cash and cash equivalents | | 181 | 315 | 3,377 |
| | | 6,043 | 6,501 | 8,648 |
| **Total assets** | | 6,880 | 6,986 | 8,832 |
| **Current liabilities** | | | | |
| Obligation under finance lease | 16 | 12 | 12 | 5 |
| Trade and other payables | 17 | 2,483 | 2,475 | 2,599 |
| Amount due to a related company | 18 | — | 9 | — |
| Amount due to a director | 19 | 863 | 625 | — |
| Current income tax liabilities | | — | 44 | 388 |
| | | 3,358 | 3,165 | 2,992 |
| **Net current assets** | | 2,685 | 3,336 | 5,656 |
| **Total assets less current liabilities** | | 3,522 | 3,821 | 5,840 |
| **Non-current liabilities** | | | | |
| Obligation under finance lease | 16 | 17 | 5 | — |
| **Net assets** | | 3,505 | 3,816 | 5,840 |
| **Capital and reserves** | | | | |
| Share capital | 21 | 3,880 | 3,880 | 3,880 |
| (Accumulated losses)/ Retained earnings | | (375) | (64) | 1,960 |
| **Total equity** | | 3,505 | 3,816 | 5,840 |

**Consolidated statements of changes in equity**

| | **Share capital** *HK$'000* | **(Accumulated losses)/ Retained earnings** *HK$'000* | **Minority interests** *HK$'000* | **Total equity** *HK$'000* |
|---|---|---|---|---|
| **Balance at 1 April 2005** | 3,880 | (680) | — | 3,200 |
| Capital contribution from minority shareholders | — | — | 10 | 10 |
| Profit for the year | — | 305 | — | 305 |
| **Balance at 31 March 2006** | 3,880 | (375) | 10 | 3,515 |
| Profit for the year | — | 311 | — | 311 |
| **Balance at 31 March 2007** | 3,880 | (64) | 10 | 3,826 |
| Profit for the year | — | 2,024 | — | 2,024 |
| **Balance at 31 March 2008** | 3,880 | 1,960 | 10 | 5,850 |

**Consolidated cash flow statements**

| | Year ended 31 March 2006 *HK$'000* *(Audited)* | Year ended 31 March 2007 *HK$'000* *(Audited)* | Year ended 31 March 2008 *HK$'000* *(Audited)* |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before income tax | 370 | 378 | 2,457 |
| Adjustments for: | | | |
| — Depreciation | 431 | 416 | 354 |
| — Finance costs | 13 | — | — |
| Changes in working capital: | | | |
| — Trade and other receivables | 4,452 | (58) | 692 |
| — Amount due from related companies | (1,730) | (318) | 1,365 |
| — Amount due from a director | — | — | (1,142) |
| — Trade and other payables | (3,003) | (8) | 124 |
| — Amount due to a related company | — | 9 | (9) |
| — Amount due to a director | 715 | (238) | (625) |
| Cash generated from operations | 1,248 | 181 | 3,216 |
| Hong Kong profits tax paid | (149) | (31) | (139) |
| Net cash generated from operating activities | 1,099 | 150 | 3,077 |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | (1,135) | (4) | (3) |
| Net cash used in investing activities | (1,135) | (4) | (3) |
| **Cash flows from financing activities** | | | |
| Capital contribution from minority shareholders | 10 | — | — |
| Capital element of finance lease payment | (12) | (12) | (12) |
| Interest paid | (13) | — | — |
| Net cash used in financing activities | (15) | (12) | (12) |
| **Net (decrease)/increase in cash and cash equivalents** | (51) | 134 | 3,062 |
| **Cash and cash equivalents at beginning of the year** | 262 | 211 | 345 |
| **Cash and cash equivalents at end of the year** | 211 | 345 | 3,407 |
| **Analysis of balances of cash and cash equivalents** | | | |
| Cash and cash equivalents | 211 | 345 | 3,407 |

## NOTES TO THE FINANCIAL INFORMATION

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**Basis of preparation**

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying Century 21 Hong Kong Limited's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

**Consolidation**

***Subsidiaries***

Subsidiaries are all entities over which Century 21 Hong Kong Limited has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether Century 21 Hong Kong Limited controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to Century 21 Hong Kong Limited. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by Century 21 Hong Kong Limited. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of Century 21 Hong Kong Limited's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by Century 21 Hong Kong Limited.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**Consolidation** *(continued)*

**Transactions and minority interests**

Century 21 Hong Kong Limited applies a policy of treating transactions with minority interests as transactions with parties external to Century 21 Hong Kong Limited. Disposals to minority interests result in gains and losses for Century 21 Hong Kong Limited that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

**Foreign currency translation**

***(a) Functional and presentation currency***

Items included in the financial statements of Century 21 Hong Kong Limited are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Hong Kong dollars, which is Century 21 Hong Kong Limited's functional and presentation currency.

***(b) Transactions and balances***

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

**Property, plant and equipment**

Property, plant and equipment is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Century 21 Hong Kong Limited and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged in the income statement during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives at an annual rate of 33-1/3%.

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

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

Gains or losses on disposals are determined by comparing the proceeds with carrying amount and are recognized in the income statement.

**Impairment of non-financial assets**

Assets that have an indefinite useful life or are not yet available for use are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

**Trade and other receivables**

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that Century 21 Hong Kong Limited will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognized in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited to the income statement.

**Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

**Share capital**

Ordinary shares are classified as equity.

**Trade payables**

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**Deferred income tax**

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

**Employee benefits**

Contributions to defined contribution retirement schemes which are available to all employees, calculated at rates specified in the rules of the schemes, are charged to the income statement when the contributions are payable to the fund.

**Provisions**

Provisions are recognized when Century 21 Hong Kong Limited has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

**Revenue recognition**

Revenue comprises the fair value of services and sales of goods in the ordinary course of the activities of Century 21 Hong Kong Limited. Revenue is shown net of sales tax, returns, rebates, and discounts and other revenue reducing factors.

Revenue is recognized when it is probable that the economic benefits will flow to Century 21 Hong Kong Limited, the amount can be measured reliably and specific criteria for each of the activities have been met.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Revenue recognition** *(continued)*

Commission income and other services income are recognized in the period in which the services are rendered.

Franchise income is recognized on an accrual basis in accordance with the terms of the relevant franchise agreement and when Century 21 Hong Kong Limited's entitlement to payment has been established.

Interest income is recognized on a time-apportioned basis using the effective interest method.

**Operating leases (as the lessee)**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor re classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

## 2. FINANCIAL RISK MANAGEMENT

### 2.1 Financial risk factors

Century 21 Hong Kong Limited's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest-rate risk, cash flow interest-rate risk and price risk), credit risk and liquidity risk. Century 21 Hong Kong Limited's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on Century 21 Hong Kong Limited's financial performance.

***(a) Market risk***

*(i) Foreign currency risk*

Century 21 Hong Kong Limited is not exposed to significant foreign currency risk.

*(ii) Price risk*

Century 21 Hong Kong Limited is not exposed to significant price risk.

*(iii) Cash flow and fair value interest-rate risk*

As Century 21 Hong Kong Limited has no significant interest-bearing assets, Century 21 Hong Kong Limited's income and operating cash flows are substantially independent of changes in market interest rates.

**2. FINANCIAL RISK MANAGEMENT** *(continued)*

**2.1 Financial risk factors** *(continued)*

***(b) Credit risk***

Credit risk arises from cash and cash equivalents and credit exposures to customers. Century 21 Hong Kong Limited has no significant concentrations of credit risk as Century 21 Hong Kong Limited has a large number of customers. Services provided to customers are settled in cash or cheque payments.

***(c) Liquidity risk***

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, Century 21 Hong Kong Limited employs a prudent liquidity policy. Century 21 Hong Kong Limited regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

Century 21 Hong Kong Limited's financial liabilities principally comprise trade and other payables, obligation under finance lease and amounts due to related parties, all of which are expected to be settled within 1 year and are included in current liabilities. As at 31 March 2008, Century 21 Hong Kong Limited did not have any borrowings or derivative financial liabilities.

**2.2 Capital risk management**

Century 21 Hong Kong Limited's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, Century 21 Hong Kong Limited may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Century 21 Hong Kong Limited is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes during the Relevant Periods.

**2.3 Fair value estimation**

The carrying value les impairment provision of trade receivables and payables are a reasonable approximation of their fair values.

## 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Century 21 Hong Kong Limited makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

**Estimated recoverability of trade and other receivables**

Century 21 Hong Kong Limited's management determines the provision for impairment of trade and other receivables based on ongoing assessment of the recoverability of the receivables. This assessment is based on the credit history of its customers and other debtors and current market conditions, and requires the use of judgments and estimates. Management reassesses the provision for impairment of trade and other receivables at each balance sheet date.

## 4. REVENUE AND SEGMENT INFORMATION

Revenue recognized during the Relevant Periods is as follows:

| | **Year ended 31 March 2006** | **Year ended 31 March 2007** | **Year ended 31 March 2008** |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Project management fee income | 3,898 | 2,758 | 2,059 |
| Franchise service fee income | 3,034 | 3,140 | 3,515 |
| Administrative fee income | 275 | 303 | 282 |
| | 7,207 | 6,201 | 5,856 |

No business segment and geographical segment information has been presented as Century 21 Hong Kong Limited and its subsidiary operate in a single business and geographical segment during the Relevant Periods which is the provision of franchise, consultancy and property agency services in Hong Kong.

## 5. OTHER INCOME

| | Year ended 31 March 2006 *HK$'000* | Year ended 31 March 2007 *HK$'000* | Year ended 31 March 2008 *HK$'000* |
|---|---|---|---|
| Consultancy fee income | 125 | 3 | 4 |
| Training fee income | 416 | 333 | 420 |
| Advertising income | 49 | 30 | 26 |
| Referral fee income | 2,263 | 1,259 | 2,658 |
| Sundry income | 207 | 522 | 414 |
| | 3,060 | 2,147 | 3,522 |

## 6. PROFIT BEFORE INCOME TAX

Profit before income tax is stated after charging:

| | Year ended 31 March 2006 *HK$'000* | Year ended 31 March 2007 *HK$'000* | Year ended 31 March 2008 *HK$'000* |
|---|---|---|---|
| Depreciation: | | | |
| — owned assets | 411 | 403 | 354 |
| — leased assets | 20 | 13 | — |
| | 431 | 416 | 354 |
| Auditors' remuneration | 24 | 26 | 20 |
| Operating lease payments in respect of rented premises | 670 | 807 | 463 |
| Bad debts written off | 65 | 16 | 22 |

## 7. EMPLOYEE BENEFIT EXPENSES

| | Year ended 31 March 2006 | Year ended 31 March 2007 | Year ended 31 March 2008 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Salaries and allowances | 2,534 | 2,180 | 1,575 |
| Pension costs - defined contribution plan | 113 | 97 | 68 |
| | 2,647 | 2,277 | 1,643 |

### (a) Directors' emoluments

The remuneration of every director for the Relevant Periods is set out below:

***Year ended 31 March 2008***

| Name of director | Fees | Salaries and other benefits | Employer's contribution to pension scheme | Total |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Mr. Ng Kai Man | — | 60 | 3 | 63 |
| Ms. Hsia Bin | — | — | — | — |
| Ms. Ng Chui Yiu, Jennifer | — | — | — | — |
| | — | 60 | 3 | 63 |

***Year ended 31 March 2007***

| Name of director | Fees | Salaries and other benefits | Employer's contribution to pension scheme | Total |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Mr. Ng Kai Man | — | 136 | 6 | 142 |
| Ms. Hsia Bin | — | — | — | — |
| Ms. Ng Chui Yiu, Jennifer | — | — | — | — |
| | — | 136 | 6 | 142 |

## 7. EMPLOYEE BENEFIT EXPENSES *(continued)*

### (a) Directors' emoluments *(continued)*

***Year ended 31 March 2006***

| Name of director | Fees | Salaries and other benefits | Employer's contribution to pension scheme | Total |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Mr. Ng Kai Man | — | 288 | 12 | 300 |
| Ms. Hsia Bin | — | — | — | — |
| Ms. Ng Chui Yiu, Jennifer | — | — | — | — |
| | — | 288 | 12 | 300 |

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in Century 21 Hong Kong Limited for the years ended 31 March 2006, 2007 and 2008 include one, nil and nil director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four, five and five individuals for the years ended 31 March 2006, 2007 and 2008 are as follows:

| | Year ended 31 March 2006 | Year ended 31 March 2007 | Year ended 31 March 2008 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Salaries, allowances and benefits in kind | 1,107 | 1,362 | 987 |
| Pension costs - defined contribution plan | 46 | 57 | 41 |
| | 1,153 | 1,419 | 1,028 |

The emoluments were below HK$1,000,000.

## 8. FINANCE COSTS

| | Year ended 31 March 2006 | Year ended 31 March 2007 | Year ended 31 March 2008 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Interest on bank overdrafts | 13 | — | — |

**9. INCOME TAX EXPENSE**

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong for the Relevant Periods.

| | **Year ended 31 March 2006** | **Year ended 31 March 2007** | **Year ended 31 March 2008** |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Current income tax | | | |
| — Hong Kong profits tax | 84 | 127 | 483 |
| Deferred income tax | (19) | (60) | (50) |
| | 65 | 67 | 433 |

The tax on the profit before income tax differs from the theoretical amount that would arise using the Hong Kong profits tax rate of 17.5% as follows:

| | **Year ended 31 March 2006** | **Year ended 31 March 2007** | **Year ended 31 March 2008** |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Profit before income tax | 370 | 378 | 2,457 |
| Tax calculated at the Hong Kong profits tax rate | 65 | 66 | 430 |
| Tax effect of: | | | |
| — Non-deductible expenses | — | 1 | 3 |
| Income tax expense | 65 | 67 | 433 |

**10. EARNINGS PER SHARE**

Earnings per share has not been presented as such information is not considered meaningful for the purpose of this report.

## 11. PROPERTY, PLANT AND EQUIPMENT

| | Furniture and fixtures HK$'000 | Leasehold improvements HK$'000 | Total HK$'000 |
|---|---|---|---|
| **At 1 April 2005** | | | |
| Cost | 242 | 376 | 618 |
| Accumulated depreciation | (166) | (376) | (542) |
| Net carrying amount | 76 | — | 76 |
| **Year ended 31 March 2006** | | | |
| Opening net carrying amount | 76 | — | 76 |
| Additions | 260 | 875 | 1,135 |
| Depreciation | (139) | (292) | (431) |
| Closing net carrying amount | 197 | 583 | 780 |
| **At 31 March 2006** | | | |
| Cost | 502 | 875 | 1,377 |
| Accumulated depreciation | (305) | (292) | (597) |
| Net carrying amount | 197 | 583 | 780 |
| **Year ended 31 March 2007** | | | |
| Opening net carrying amount | 197 | 583 | 780 |
| Additions | 4 | — | 4 |
| Depreciation | (125) | (291) | (416) |
| Closing net carrying amount | 76 | 292 | 368 |
| **At 31 March 2007** | | | |
| Cost | 506 | 875 | 1,381 |
| Accumulated depreciation | (430) | (583) | (1,013) |
| Net carrying amount | 76 | 292 | 368 |
| **Year ended 31 March 2008** | | | |
| Opening net carrying amount | 76 | 292 | 368 |
| Additions | 3 | — | 3 |
| Depreciation | (62) | (292) | (354) |
| Closing net carrying amount | 17 | — | 17 |
| **At 31 March 2008** | | | |
| Cost | 509 | 875 | 1,384 |
| Accumulated depreciation | (492) | (875) | (1,367) |
| Net carrying amount | 17 | — | 17 |

## 12. FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

**Assets per consolidated balance sheets**

| | Note | As at 31 March 2006 HK$'000 | As at 31 March 2007 HK$'000 | As at 31 March 2008 HK$'000 |
|---|---|---|---|---|
| **Loans and receivables** | | | | |
| Trade and other receivables | *13* | 1,562 | 1,620 | 935 |
| Amounts due from related companies | *14* | 4,238 | 4,556 | 3,191 |
| Amount due from a director | *14* | — | — | 1,142 |
| Cash and cash equivalents | *15* | 211 | 345 | 3,407 |
| Total (maximum exposure to credit risk) | | 6,011 | 6,521 | 8,675 |

**Liabilities per consolidated balance sheets**

| | Note | As at 31 March 2006 HK$'000 | As at 31 March 2007 HK$'000 | As at 31 March 2008 HK$'000 |
|---|---|---|---|---|
| **Financial liabilities at amortized cost** | | | | |
| Obligation under finance lease | *16* | 29 | 17 | 5 |
| Trade and other payables | *17* | 2,476 | 2,475 | 2,599 |
| Amount due to a related company | *18* | — | 9 | — |
| Amount due to a director | *19* | 863 | 625 | — |
| Total | | 3,368 | 3,126 | 2,604 |

## 13. TRADE AND OTHER RECEIVABLES

| | As at 31 March 2006 | As at 31 March 2007 | As at 31 March 2008 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Trade receivables | 1,234 | 1,278 | 808 |
| Other receivables, prepayments and deposits | 338 | 352 | 130 |
| | 1,572 | 1,630 | 938 |

Services provided to customers are settled in cash or cheque payments. At the balance sheet dates, the ageing analysis of the trade receivables were as follows:

| | As at 31 March 2006 | As at 31 March 2007 | As at 31 March 2008 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| 0 - 30 days | 434 | 427 | 206 |
| 31 - 60 days | 281 | 177 | 214 |
| 61 - 90 days | 87 | 210 | 87 |
| Over 90 days | 432 | 464 | 301 |
| | 1,234 | 1,278 | 808 |

The carrying amounts of the trade and other receivables are denominated in Hong Kong dollars.

The maximum exposure to credit risk at the reporting date is the carrying value of the trade receivables mentioned above.

## 14. AMOUNTS DUE FROM RELATED COMPANIES/A DIRECTOR

| | As at 31 March 2006 | As at 31 March 2007 | As at 31 March 2008 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Mr. Ng Kai Man | — | — | 1,142 |
| Century 21 Property Agency Limited | 30 | 201 | 258 |
| Century 21 Surveyors Limited | 4,208 | 4,355 | 2,812 |
| Century 21 Best Mortgage Limited | — | — | 121 |
| | 4,238 | 4,556 | 4,333 |

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

## 15. CASH AND CASH EQUIVALENTS

| | As at 31 March 2006 | As at 31 March 2007 | As at 31 March 2008 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Cash at bank and in hand | 211 | 345 | 3,407 |
| Maximum exposure to credit risk | 211 | 345 | 3,407 |

The carrying amounts of the cash and cash equivalents are denominated in Hong Kong dollars.

The bank balances are deposited with creditworthy banks with no recent history of default.

## 16. OBLIGATION UNDER FINANCE LEASE

| | As at 31 March 2006 | As at 31 March 2007 | As at 31 March 2008 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Amounts payable under finance lease: | | | |
| — within one year | 12 | 12 | 5 |
| — in the second to fifth years inclusive | 17 | 5 | — |
| | 29 | 17 | 5 |
| Less: amount due for settlement within one year | (12) | (12) | (5) |
| Amount due for settlement after one year | 17 | 5 | — |

## 17. TRADE AND OTHER PAYABLES

| | As at 31 March 2006 HK$'000 | As at 31 March 2007 HK$'000 | As at 31 March 2008 HK$'000 |
|---|---|---|---|
| Trade payables | 790 | 738 | 284 |
| Other payables and accruals | 298 | 153 | 153 |
| Deposits received | 1,395 | 1,584 | 2,162 |
| | 2,483 | 2,475 | 2,599 |

At the balance sheet dates, the ageing analysis of the trade payables were as follows:

| | As at 31 March 2006 HK$'000 | As at 31 March 2007 HK$'000 | As at 31 March 2008 HK$'000 |
|---|---|---|---|
| 0 - 30 days | 208 | 266 | 44 |
| 31 - 60 days | 199 | 113 | 68 |
| 61 - 90 days | 37 | 138 | 38 |
| Over 90 days | 346 | 221 | 134 |
| | 790 | 738 | 284 |

The carrying amounts of the trade and other payables are denominated in Hong Kong dollars.

## 18. AMOUNT DUE TO A RELATED COMPANY

The amount due is unsecured, interest-free and has no fixed terms of repayment.

## 19. AMOUNT DUE TO A DIRECTOR

The amount due is unsecured, interest-free and has no fixed terms of repayment.

### 20. DEFERRED INCOME TAX ASSETS

| | **Depreciation in excess of related depreciation allowances** |
|---|---|
| | *HK$'000* |
| **At 1 April 2005** | 18 |
| Credited to the income statement | 19 |
| **At 31 March 2006** | 37 |
| Credited to the income statement | 60 |
| **At 31 March 2007** | 97 |
| Credited to the income statement | 50 |
| **At 31 March 2008** | 147 |

### 21. SHARE CAPITAL

| | **As at 31 March 2006** | **As at 31 March 2007** | **As at 31 March 2008** |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Authorized, issued and fully paid: | | | |
| 3,880,000 ordinary shares of HK$1 each | 3,880 | 3,880 | 3,880 |

### 22. OPERATING LEASE COMMITMENTS

At the balance sheet dates, the future aggregate minimum lease payments under non-cancellable operating leases in respect of rented premises are as follows:

| | **As at 31 March 2006** | **As at 31 March 2007** | **As at 31 March 2008** |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| No later than one year | 786 | 378 | 55 |
| Later than one year and no later than five years | 297 | — | — |
| | 1,083 | 378 | 55 |

## 23. SIGNIFICANT RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in the Financial Information, Century 21 Hong Kong Limited entered into the following significant related party transactions during the Relevant Periods:

| | Year ended 31 March 2006 HK$'000 | Year ended 31 March 2007 HK$'000 | Year ended 31 March 2008 HK$'000 |
|---|---|---|---|
| **Century 21 Surveyors Limited** *(note (i))* | | | |
| Referral fee expenses | (290) | (56) | (103) |
| Administration fee expenses | — | (43) | — |
| Consultancy fee income | 280 | 240 | 240 |
| Advertising income | 6 | 6 | 12 |
| Training fee income | 200 | 180 | 180 |
| Service fee income | 34 | 36 | 36 |
| Commission income | 955 | 134 | 4 |
| **Century 21 Property Agency Limited** *(note (i))* | | | |
| Referral fee expenses | (136) | (32) | (65) |
| Advertising income | 50 | 39 | 38 |
| Sundry income | 12 | — | — |
| Service fee income | 245 | 117 | 57 |
| Centurion Award income | 11 | — | — |
| **Century 21 Best Mortgage Limited** *(note (i))* | | | |
| Referral fee income | 17 | 246 | 445 |
| **CSI Investment Limited** *(note (i))* | | | |
| Administration fee income | 33 | — | — |
| **Year-end balance with related parties** | | | |
| Non-trade balance due from related companies | 2,896 | 3,206 | 2,771 |
| Non-trade balance due to a related company | — | (9) | — |
| Non-trade balance due from a director | — | — | 1,142 |
| Non-trade balance due to a director | (863) | (625) | — |
| Trade balance due from related companies | 1,342 | 1,350 | 420 |
| **Compensation to key management personnel** | | | |
| Short-term employee benefits | 288 | 136 | 60 |
| Post-employment benefits | 12 | 6 | 3 |
| | 300 | 142 | 63 |

*Note:*

(i) Mr. Ng Kai Man is the common beneficial owner of Century 21 Hong Kong Limited and these related companies.

## II. SEPARATE FINANCIAL STATEMENTS OF CENTURY 21 HONG KONG LIMITED

**Income statements**

| | Year ended 31 March 2006 *HK$'000* *(Audited)* | Year ended 31 March 2007 *HK$'000* *(Audited)* | Year ended 31 March 2008 *HK$'000* *(Audited)* |
|---|---|---|---|
| Revenue | 7,207 | 6,201 | 5,856 |
| Other income | 3,060 | 2,147 | 3,522 |
| Employee benefit expenses | (2,647) | (2,277) | (1,643) |
| Depreciation | (431) | (416) | (354) |
| Other operating expenses | (6,806) | (5,277) | (4,924) |
| Finance costs | (13) | — | — |
| **Profit before income tax** | 370 | 378 | 2,457 |
| Income tax expense | (65) | (67) | (433) |
| **Profit for the year** | 305 | 311 | 2,024 |

**Balance sheets**

| | As at 31 March 2006 *HK$'000* *(Audited)* | As at 31 March 2007 *HK$'000* *(Audited)* | As at 31 March 2008 *HK$'000* *(Audited)* |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 780 | 368 | 17 |
| Investment in a subsidiary | 20 | 20 | 20 |
| Deferred income tax assets | 37 | 97 | 147 |
| | 837 | 485 | 184 |
| **Current assets** | | | |
| Trade and other receivables | 1,572 | 1,630 | 938 |
| Amounts due from related companies | 4,238 | 4,556 | 3,191 |
| Amount due from a director | — | — | 1,142 |
| Current income tax assets | 52 | — | — |
| Cash and cash equivalents | 181 | 315 | 3,377 |
| | 6,043 | 6,501 | 8,648 |
| **Total assets** | 6,880 | 6,986 | 8,832 |
| **Current liabilities** | | | |
| Obligation under finance lease | 12 | 12 | 5 |
| Trade and other payables | 2,483 | 2,475 | 2,599 |
| Amount due to a related company | — | 9 | — |
| Amount due to a director | 863 | 625 | — |
| Current income tax liabilities | — | 44 | 388 |
| | 3,358 | 3,165 | 2,992 |
| **Net current assets** | 2,685 | 3,336 | 5,656 |
| **Total assets less current liabilities** | 3,522 | 3,821 | 5,840 |
| **Non-current liabilities** | | | |
| Obligation under finance lease | 17 | 5 | — |
| **Net assets** | 3,505 | 3,816 | 5,840 |
| **Capital and reserves** | | | |
| Share capital | 3,880 | 3,880 | 3,880 |
| (Accumulated losses)/Retained earnings | (375) | (64) | 1,960 |
| **Total equity** | 3,505 | 3,816 | 5,840 |

**Cash flow statements**

| | Year ended 31 March 2006 *HK$'000* *(Audited)* | Year ended 31 March 2007 *HK$'000* *(Audited)* | Year ended 31 March 2008 *HK$'000* *(Audited)* |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before income tax | 370 | 378 | 2,457 |
| Adjustments for: | | | |
| — Depreciation | 431 | 416 | 354 |
| — Finance costs | 13 | — | — |
| Changes in working capital: | | | |
| — Trade and other receivables | 4,452 | (58) | 692 |
| — Amount due from related companies | (1,730) | (318) | 1,365 |
| — Amount due from a director | — | — | (1,142) |
| — Trade and other payables | (3,003) | (8) | 124 |
| — Amount due to a related company | — | 9 | (9) |
| — Amount due to a director | 715 | (238) | (625) |
| Cash generated from operations | 1,248 | 181 | 3,216 |
| Hong Kong profits tax paid | (149) | (31) | (139) |
| Net cash generated from operating activities | 1,099 | 150 | 3,077 |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | (1,135) | (4) | (3) |
| Net cash used in investing activities | (1,135) | (4) | (3) |
| **Cash flows from financing activities** | | | |
| Acquisition of a subsidiary | (20) | — | — |
| Capital element of finance lease payment | (12) | (12) | (12) |
| Interest paid | (13) | — | — |
| Net cash used in financing activities | (45) | (12) | (12) |
| **Net (decrease)/increase in cash and cash equivalents** | (81) | 134 | 3,062 |
| **Cash and cash equivalents at beginning of the year** | 262 | 181 | 315 |
| **Cash and cash equivalents at end of the year** | 181 | 315 | 3,377 |
| **Analysis of balances of cash and cash equivalents** | | | |
| Cash and cash equivalents | 181 | 315 | 3,377 |

## III. SUBSEQUENT EVENTS

Save as disclosed in the Financial Information, there were no significant events subsequent to 31 March 2008.

## IV. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of Century 21 Hong Kong Limited have been prepared in respect of any period subsequent to 31 March 2008.

Yours faithfully,
**HLB Hodgson Impey Cheng**
*Chartered Accountants*
*Certified Public Accountants*
Hong Kong

*The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong.*

HLB 國衛會計師事務所
Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

28 June 2008

The board of directors
GFT Holdings Limited
Unit 707, Tower II, Admiralty Centre
18 Harcourt Road
Hong Kong

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding Century 21 Property Agency Limited for each of the three years ended 31 March 2006, 2007 and 2008 (the "Relevant Periods"), for inclusion in the circular dated 28 June 2008 (the "Circular") issued by GFT Holdings Limited (the "Company") in connection with, *inter alia*, the very substantial acquisition and connected transaction whereby Kingbox Investments Limited (a wholly-owned subsidiary of the Company) conditionally agreed to acquire the entire equity interests in Century 21 Property Agency Limited.

Century 21 Property Agency Limited was incorporated in Hong Kong with limited liability under the Hong Kong Companies Ordinance on 8 September 1999. The registered office of Century 21 Property Agency Limited is situated at G/F., No. 5A MacDonnell Road, Hong Kong, and the principal place of business of Century 21 Property Agency Limited is situated at 10/F., No. 88 Gloucester Road, Wanchai, Hong Kong. As at the date of this report, the issued share capital of Century 21 Property Agency Limited comprised 2 ordinary shares of HK$1 each, and was held as to 50% by Pacific Pointer Limited and as to 50% by Real Clever Profits Limited. Century 21 Property Agency Limited is principally engaged in the provision of property agency services in Hong Kong.

The statutory financial statements of Century 21 Property Agency Limited for each of the three years ended 31 March 2006, 2007 and 2008 were prepared in accordance with accounting principles generally accepted in Hong Kong. The statutory financial statements of Century 21 Property Agency Limited for the year ended 31 March 2006 were audited by Lak & Associates C.P.A. Limited, certified public accountants, Hong Kong. We have acted as auditors to Century 21 Property Agency Limited in respect of the years ended 31 March 2007 and 2008.

The income statements, cash flow statements and statements of changes in equity of Century 21 Property Agency Limited for each of the Relevant Periods and the balance sheets of Century 21 Property Agency Limited as at 31 March 2006, 2007 and 2008 as set out in this report have been prepared based on the audited financial statements of Century 21 Property Agency Limited (the "Underlying Financial Statements") for the Relevant Periods for the purpose of preparing our report for inclusion in the Circular.

For the purpose of this report, we have examined and carried out independent audit procedures on the Financial Information for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and have carried out such additional procedures as we consider necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

No adjustments to the Underlying Financial Statements have been considered necessary in preparing the Financial Information for the purpose of this report.

The Underlying Financial Statements are the responsibility of the directors of Century 21 Property Agency Limited who approved their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Century 21 Property Agency Limited as at 31 March 2006, 2007 and 2008 and of the results and cash flows of Century 21 Property Agency Limited for each of the three years ended 31 March 2006, 2007 and 2008.

## I. FINANCIAL INFORMATION

### Income statements

| | *Note* | **Year ended 31 March 2006** *HK$'000* *(Audited)* | **Year ended 31 March 2007** *HK$'000* *(Audited)* | **Year ended 31 March 2008** *HK$'000* *(Audited)* |
|---|---|---|---|---|
| Revenue | *4* | 29,171 | 17,240 | 28,435 |
| Other income | *5* | 1,455 | 1,537 | 492 |
| Commission expenses | | (8,817) | (3,759) | (4,577) |
| Employee benefit expenses | *7* | (9,325) | (6,620) | (6,022) |
| Depreciation | | (233) | (163) | (115) |
| Other operating expenses | | (10,740) | (7,176) | (6,460) |
| Finance costs | *8* | (3) | (95) | (111) |
| **Profit before income tax** | *6* | 1,508 | 964 | 11,642 |
| Income tax expense | *9* | (263) | (158) | (2,001) |
| **Profit for the year** | | 1,245 | 806 | 9,641 |

**Balance sheets**

| | Note | As at 31 March 2006 HK$'000 (Audited) | As at 31 March 2007 HK$'000 (Audited) | As at 31 March 2008 HK$'000 (Audited) |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Property, plant and equipment | 11 | 586 | 192 | 532 |
| **Current assets** | | | | |
| Trade and other receivables | 13 | 5,794 | 4,438 | 7,652 |
| Loan due from a related party | 14 | — | 2,000 | 2,000 |
| Amount due from a related party | 14 | — | — | 3,970 |
| Amounts due from related companies | 14 | — | 2,246 | 3,020 |
| Cash and cash equivalents | 15 | 1,161 | 114 | 1,121 |
| | | 6,955 | 8,798 | 17,763 |
| **Total assets** | | 7,541 | 8,990 | 18,295 |
| **Current liabilities** | | | | |
| Bank overdrafts | 16 | 627 | 84 | — |
| Bank loan, secured | 16 | — | 2,000 | 2,000 |
| Trade and other payables | 17 | 1,988 | 1,260 | 1,047 |
| Amount due to a related party | 18 | 2,278 | 2,098 | — |
| Amounts due to directors | 19 | 122 | 324 | 325 |
| Amounts due to related companies | 20 | 881 | 615 | 672 |
| Current income tax liabilities | | 279 | 447 | 2,448 |
| | | 6,175 | 6,828 | 6,492 |
| **Net current assets** | | 780 | 1,970 | 11,271 |
| **Total assets less current liabilities** | | 1,366 | 2,162 | 11,803 |
| **Non-current liabilities** | | | | |
| Deferred income tax liabilities | 21 | 10 | — | — |
| **Net assets** | | 1,356 | 2,162 | 11,803 |
| **Capital and reserves attributable to the equity holders of Century 21 Property Agency Limited** | | | | |
| Share capital | 22 | — | — | — |
| Retained earnings | | 1,356 | 2,162 | 11,803 |
| **Total equity** | | 1,356 | 2,162 | 11,803 |

**Statements of changes in equity**

| | Share capital *HK$'000* | Retained earnings *HK$'000* | Total equity *HK$'000* |
|---|---|---|---|
| **Balance at 1 April 2005** | — | 111 | 111 |
| Profit for the year | — | 1,245 | 1,245 |
| **Balance at 31 March 2006** | — | 1,356 | 1,356 |
| Profit for the year | — | 806 | 806 |
| **Balance at 31 March 2007** | — | 2,162 | 2,162 |
| Profit for the year | — | 9,641 | 9,641 |
| **Balance at 31 March 2008** | — | 11,803 | 11,803 |

**Cash flow statements**

| | Year ended 31 March 2006 *HK$'000* *(Audited)* | Year ended 31 March 2007 *HK$'000* *(Audited)* | Year ended 31 March 2008 *HK$'000* *(Audited)* |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before income tax | 1,508 | 964 | 11,642 |
| Adjustments for: | | | |
| — Depreciation | 233 | 163 | 115 |
| — Interest income | (6) | (9) | (10) |
| — Finance costs | 3 | 95 | 111 |
| — (Reversal of)/impairment loss in respect of property, plant and equipment | 27 | (27) | — |
| — (Gain)/loss on disposal of property, plant and equipment | — | (70) | 13 |
| — Property, plant and equipment written off | 91 | — | — |
| Changes in working capital: | | | |
| — Trade and other receivables | 2,904 | 1,356 | (3,214) |
| — Trade and other payables | (1,506) | (728) | (213) |
| — Amounts due to directors | (207) | 202 | 1 |
| — Amounts due to related companies | (588) | (10) | 57 |
| Net cash generated from operating activities | 2,459 | 1,936 | 8,502 |
| **Cash flows from investing activities** | | | |
| Interest received | 6 | 9 | 10 |
| Proceeds from disposal of property, plant and equipment | — | 351 | 25 |
| Purchase of property, plant and equipment | (106) | (23) | (493) |
| Net cash generated from/(used in) investing activities | (100) | 337 | (458) |

**Cash flow statements** *(continued)*

| | Year ended 31 March 2006 *HK$'000* *(Audited)* | Year ended 31 March 2007 *HK$'000* *(Audited)* | Year ended 31 March 2008 *HK$'000* *(Audited)* |
|---|---|---|---|
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | — | 2,000 | 2,000 |
| Repayment of borrowings | — | — | (2,000) |
| Advance to a related party | — | (2,000) | (2,000) |
| Repayment from a related party | — | — | 2,000 |
| Advance from a related party | 5,444 | 1,159 | 3,928 |
| Repayment to a related party | (5,522) | (1,339) | (9,996) |
| Advances from related companies | 641 | 1,284 | 727 |
| Repayments to related companies | (1,880) | (3,786) | (1,501) |
| Capital element of finance lease payment | (161) | — | — |
| Interest paid | — | (95) | (111) |
| Finance lease charges | (3) | — | — |
| Net cash used in financing activities | (1,481) | (2,777) | (6,953) |
| **Net increase/(decrease) in cash, cash equivalents and bank overdrafts** | 878 | (504) | 1,091 |
| **Cash, cash equivalents and bank overdrafts at beginning of the year** | (344) | 534 | 30 |
| **Cash, cash equivalents and bank overdrafts at end of the year** | 534 | 30 | 1,121 |
| **Analysis of balances of cash, cash equivalents and bank overdrafts** | | | |
| Cash and cash equivalents | 1,161 | 114 | 1,121 |
| Bank overdrafts | (627) | (84) | — |
| | 534 | 30 | 1,121 |

## NOTES TO THE FINANCIAL INFORMATION

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**Basis of preparation**

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying Century 21 Property Agency Limited's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

**Foreign currency translation**

***(a) Functional and presentation currency***

Items included in the financial statements of Century 21 Property Agency Limited are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Hong Kong dollars, which is Century 21 Property Agency Limited's functional and presentation currency.

***(b) Transactions and balances***

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

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**Property, plant and equipment**

Property, plant and equipment is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Century 21 Property Agency Limited and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged in the income statement during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives at an annual rate of 20%.

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains or losses on disposals are determined by comparing the proceeds with carrying amount and are recognized in the income statement.

**Impairment of non-financial assets**

Assets that have an indefinite useful life or are not yet available for use are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

**Trade and other receivables**

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that Century 21 Property Agency Limited will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognized in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited to the income statement.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

**Share capital**

Ordinary shares are classified as equity.

**Trade payables**

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

**Deferred income tax**

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

**Employee benefits**

Contributions to defined contribution retirement schemes which are available to all employees, calculated at rates specified in the rules of the schemes, are charged to the income statement when the contributions are payable to the fund.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**Provisions**

Provisions are recognized when Century 21 Property Agency Limited has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

**Revenue recognition**

Revenue comprises the fair value of services and sales of goods in the ordinary course of the activities of Century 21 Property Agency Limited. Revenue is shown net of sales tax, returns, rebates, and discounts and other revenue reducing factors.

Revenue is recognized when it is probable that the economic benefits will flow to Century 21 Property Agency Limited, the amount can be measured reliably and specific criteria for each of the activities have been met.

Commission income and other services income are recognized in the period in which the services are rendered.

Interest income is recognized on a time-apportioned basis using the effective interest method.

**Operating leases (as the lessee)**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

## 2. FINANCIAL RISK MANAGEMENT

### 2.1 Financial risk factors

Century 21 Property Agency Limited's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest-rate risk, cash flow interest-rate risk and price risk), credit risk and liquidity risk. Century 21 Property Agency Limited's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on Century 21 Property Agency Limited's financial performance.

***(a) Market risk***

*(i) Foreign currency risk*

Century 21 Property Agency Limited is not exposed to significant foreign currency risk.

*(ii) Price risk*

Century 21 Property Agency Limited is not exposed to significant price risk.

*(iii) Cash flow and fair value interest-rate risk*

As Century 21 Property Agency Limited has no significant interest-bearing assets, Century 21 Property Agency Limited's income and operating cash flows are substantially independent of changes in market interest rates.

***(b) Credit risk***

Credit risk arises from cash and cash equivalents and credit exposures to customers. Century 21 Property Agency Limited has no significant concentrations of credit risk as Century 21 Property Agency Limited has a large number of customers. Services provided to customers are settled in cash or cheque payments.

***(c) Liquidity risk***

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, Century 21 Property Agency Limited employs a prudent liquidity policy. Century 21 Property Agency Limited regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

Century 21 Property Agency Limited's financial liabilities principally comprise trade and other payables and amounts due to related parties, all of which are expected to be settled within 1 year and are included in current liabilities. As at 31 March 2008, Century 21 Property Agency Limited did not have any borrowings or derivative financial liabilities.

## 2. FINANCIAL RISK MANAGEMENT *(continued)*

### 2.2 Capital risk management

Century 21 Property Agency Limited's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, Century 21 Property Agency Limited may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Century 21 Property Agency Limited is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes during the Relevant Periods.

### 2.3 Fair value estimation

The carrying value les impairment provision of trade receivables and payables are a reasonable approximation of their fair values.

## 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Century 21 Property Agency Limited makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

**Estimated recoverability of trade and other receivables**

Century 21 Property Agency Limited's management determines the provision for impairment of trade and other receivables based on ongoing assessment of the recoverability of the receivables. This assessment is based on the credit history of its customers and other debtors and current market conditions, and requires the use of judgments and estimates. Management reassesses the provision for impairment of trade and other receivables at each balance sheet date.

## 4. REVENUE AND SEGMENT INFORMATION

Revenue recognized during the Relevant Periods is as follows:

| | Year ended 31 March 2006 | Year ended 31 March 2007 | Year ended 31 March 2008 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Rendering of services | 29,171 | 17,240 | 28,435 |

No business segment and geographical segment information has been presented as Century 21 Property Agency Limited operates in a single business and geographical segment during the Relevant Periods which is the provision of property agency services in Hong Kong.

## 5. OTHER INCOME

| | Year ended 31 March 2006 | Year ended 31 March 2007 | Year ended 31 March 2008 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Agency fee income | 1,000 | — | — |
| Consultancy fee income | — | 450 | — |
| Administrative fee income | 116 | 321 | — |
| Referral fee income | 175 | 176 | 219 |
| Bank interest income | 6 | 9 | 10 |
| Loan interest income | — | 95 | 111 |
| Handling fee income | — | 90 | — |
| Gain on disposal of property, plant and equipment | — | 70 | — |
| Reversal of impairment loss in respect of property, plant and equipment | — | 27 | — |
| Sundry income | 158 | 299 | 152 |
| | 1,455 | 1,537 | 492 |

## 6. PROFIT BEFORE INCOME TAX

Profit before income tax is stated after charging:

| | Year ended 31 March 2006 *HK$'000* | Year ended 31 March 2007 *HK$'000* | Year ended 31 March 2008 *HK$'000* |
|---|---|---|---|
| Depreciation: | | | |
| — owned assets | 193 | 163 | 115 |
| — leased assets | 40 | — | — |
| | 233 | 163 | 115 |
| Auditors' remuneration | 50 | 50 | 50 |
| Impairment loss in respect of property, plant and equipment | 27 | — | — |
| Operating lease payments in respect of rented premises | 4,771 | 4,181 | 3,432 |
| Loss on disposal of property, plant and equipment | — | — | 13 |
| Property, plant and equipment written off | 91 | — | — |
| Provision for impairment of trade receivables | 286 | 31 | 221 |

## 7. EMPLOYEE BENEFIT EXPENSES

| | Year ended 31 March 2006 *HK$'000* | Year ended 31 March 2007 *HK$'000* | Year ended 31 March 2008 *HK$'000* |
|---|---|---|---|
| Salaries and allowances | 8,649 | 6,288 | 5,666 |
| Pension costs - defined contribution plan | 483 | 316 | 260 |
| Staff welfare and messing | 193 | 16 | 96 |
| | 9,325 | 6,620 | 6,022 |

7. **EMPLOYEE BENEFIT EXPENSES** *(continued)*

(a) **Directors' emoluments**

The remuneration of every director for the Relevant Periods is set out below:

***Year ended 31 March 2008***

| Name of director | Fees | Salaries and other benefits | Employer's contribution to pension scheme | Total |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Mr. Cheng Chi Chung | — | 1,085 | 12 | 1,097 |
| Mr. Tsang Ying Fung | — | 1,226 | 12 | 1,238 |
| I Agent Limited | — | — | — | — |
| | — | 2,311 | 24 | 2,335 |

***Year ended 31 March 2007***

| Name of director | Fees | Salaries and other benefits | Employer's contribution to pension scheme | Total |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Mr. Cheng Chi Chung | — | 542 | 12 | 554 |
| Mr. Tsang Ying Fung | — | 770 | 12 | 782 |
| I Agent Limited | — | — | — | — |
| | — | 1,312 | 24 | 1,336 |

## 7. EMPLOYEE BENEFIT EXPENSES *(continued)*

### (a) Directors' emoluments *(continued)*

***Year ended 31 March 2006***

| Name of director | Fees | Salaries and other benefits | Employer's contribution to pension scheme | Total |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Mr. Cheng Chi Chung | — | 479 | 12 | 491 |
| Mr. Tang Hing Nin (Resigned on 3 January 2006) | — | 967 | 9 | 976 |
| Mr. Tsang Ying Fung (Appointed on 3 January 2006) | — | 78 | 3 | 81 |
| I Agent Limited | — | — | — | — |
| | — | 1,524 | 24 | 1,548 |

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in Century 21 Property Agency Limited for the years ended 31 March 2006, 2007 and 2008 include two, two and two directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three, three and three individuals for the years ended 31 March 2006, 2007 and 2008 are as follows:

| | Year ended 31 March 2006 | Year ended 31 March 2007 | Year ended 31 March 2008 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Salaries, allowances and benefits in kind | 1,505 | 1,142 | 1,628 |
| Pension costs - defined contribution plan | 31 | 27 | 26 |
| | 1,536 | 1,169 | 1,654 |

The emoluments were below HK$1,000,000.

## 8. FINANCE COSTS

| | Year ended 31 March 2006 *HK$'000* | Year ended 31 March 2007 *HK$'000* | Year ended 31 March 2008 *HK$'000* |
|---|---|---|---|
| Interest on bank loan wholly repayable within five years | — | 95 | 111 |
| Finance lease charges | 3 | — | — |
| | 3 | 95 | 111 |

## 9. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong for the Relevant Periods.

| | Year ended 31 March 2006 *HK$'000* | Year ended 31 March 2007 *HK$'000* | Year ended 31 March 2008 *HK$'000* |
|---|---|---|---|
| Current income tax | | | |
| — Provision for the year | 279 | 168 | 2,018 |
| — Over-provision in prior years | — | — | (17) |
| Deferred income tax | (16) | (10) | — |
| | 263 | 158 | 2,001 |

The tax on the profit before income tax differs from the theoretical amount that would arise using the Hong Kong profits tax rate of 17.5% as follows:

| | Year ended 31 March 2006 *HK$'000* | Year ended 31 March 2007 *HK$'000* | Year ended 31 March 2008 *HK$'000* |
|---|---|---|---|
| Profit before income tax | 1,508 | 964 | 11,642 |
| Tax calculated at the Hong Kong profits tax rate | 264 | 169 | 2,037 |
| Tax effect of: | | | |
| — Income not subject to tax | (1) | (19) | (2) |
| — Unrecognized temporary differences | — | 8 | (17) |
| — Over-provision in prior years | — | — | (17) |
| Income tax expense | 263 | 158 | 2,001 |

## 10. EARNINGS PER SHARE

Earnings per share has not been presented as such information is not considered meaningful for the purpose of this report.

## 11. PROPERTY, PLANT AND EQUIPMENT

| | Furniture and fixtures *HK$'000* | Office equipment *HK$'000* | Motor vehicle *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|
| **At 1 April 2005** | | | | |
| Cost | 662 | 120 | 278 | 1,060 |
| Accumulated depreciation | (147) | (26) | (56) | (229) |
| Net book amount | 515 | 94 | 222 | 831 |
| **Year ended 31 March 2006** | | | | |
| Opening net book amount | 515 | 94 | 222 | 831 |
| Additions | 96 | 10 | — | 106 |
| Written off | (75) | (16) | — | (91) |
| Impairment loss | (20) | (7) | — | (27) |
| Depreciation | (152) | (26) | (55) | (233) |
| Closing net book amount | 364 | 55 | 167 | 586 |
| **At 31 March 2006** | | | | |
| Cost | 633 | 102 | 278 | 1,013 |
| Accumulated depreciation and impairment losses | (269) | (47) | (111) | (427) |
| Net book amount | 364 | 55 | 167 | 586 |
| **Year ended 31 March 2007** | | | | |
| Opening net book amount | 364 | 55 | 167 | 586 |
| Additions | — | 23 | — | 23 |
| Disposals | (248) | (33) | — | (281) |
| Reversal of impairment loss | 20 | 7 | — | 27 |
| Depreciation | (86) | (21) | (56) | (163) |
| Closing net book amount | 50 | 31 | 111 | 192 |
| **At 31 March 2007** | | | | |
| Cost | 160 | 59 | 278 | 497 |
| Accumulated depreciation | (110) | (28) | (167) | (305) |
| Net book amount | 50 | 31 | 111 | 192 |
| **Year ended 31 March 2008** | | | | |
| Opening net book amount | 50 | 31 | 111 | 192 |
| Additions | 430 | 23 | 40 | 493 |
| Disposals | (35) | (3) | — | (38) |
| Depreciation | (44) | (12) | (59) | (115) |
| Closing net book amount | 401 | 39 | 92 | 532 |
| **At 31 March 2008** | | | | |
| Cost | 493 | 72 | 318 | 883 |
| Accumulated depreciation | (92) | (33) | (226) | (351) |
| Net book amount | 401 | 39 | 92 | 532 |

## 12. FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

| Assets per balance sheets | Note | As at 31 March 2006 HK$'000 | As at 31 March 2007 HK$'000 | As at 31 March 2008 HK$'000 |
|---|---|---|---|---|
| **Loans and receivables** | | | | |
| Trade and other receivables | *13* | 5,759 | 4,404 | 7,605 |
| Loan due from a related party | *14* | — | 2,000 | 2,000 |
| Amount due from a related party | *14* | — | — | 3,970 |
| Amounts due from related companies | *14* | — | 2,246 | 3,020 |
| Cash and cash equivalents | *15* | 1,161 | 114 | 1,121 |
| Total (maximum exposure to credit risk) | | 6,920 | 8,764 | 17,716 |

| Liabilities per balance sheets | Note | As at 31 March 2006 HK$'000 | As at 31 March 2007 HK$'000 | As at 31 March 2008 HK$'000 |
|---|---|---|---|---|
| **Financial liabilities at amortized cost** | | | | |
| Bank overdrafts | *16* | 627 | 84 | — |
| Bank loan, secured | *16* | — | 2,000 | 2,000 |
| Trade and other payables | *17* | 1,988 | 1,260 | 1,047 |
| Amount due to a related party | *18* | 2,278 | 2,098 | — |
| Amounts due to directors | *19* | 122 | 324 | 325 |
| Amounts due to related companies | *20* | 881 | 615 | 672 |
| Total | | 5,896 | 6,381 | 4,044 |

## 13. TRADE AND OTHER RECEIVABLES

| | As at 31 March 2006 HK$'000 | As at 31 March 2007 HK$'000 | As at 31 March 2008 HK$'000 |
|---|---|---|---|
| Trade receivables | 4,515 | 3,303 | 6,664 |
| Less: provision for impairment of receivables | (286) | (172) | (377) |
| Trade receivables - net | 4,229 | 3,131 | 6,287 |
| Other receivables, prepayments and deposits | 1,565 | 1,307 | 1,365 |
| | 5,794 | 4,438 | 7,652 |

**13. TRADE AND OTHER RECEIVABLES** *(continued)*

Services provided to customers are settled in cash or cheque payments. At the balance sheet dates, the ageing analysis of the trade receivables were as follows:

| | As at 31 March 2006 *HK$'000* | As at 31 March 2007 *HK$'000* | As at 31 March 2008 *HK$'000* |
|---|---|---|---|
| 0 - 30 days | 1,855 | 1,462 | 638 |
| 31 - 60 days | 911 | 698 | 498 |
| 61 - 90 days | 566 | 613 | 244 |
| Over 90 days | 1,183 | 530 | 5,284 |
| | 4,515 | 3,303 | 6,664 |

The carrying amounts of the trade and other receivables are denominated in Hong Kong dollars.

Movements on the provision for impairment of trade receivables are as follows:

| | As at 31 March 2006 *HK$'000* | As at 31 March 2007 *HK$'000* | As at 31 March 2008 *HK$'000* |
|---|---|---|---|
| **At beginning of the year** | — | 286 | 172 |
| Provision for receivable impairment | 286 | 31 | 221 |
| Written off | — | (117) | — |
| Unused amounts reversed | — | (28) | (16) |
| **At end of the year** | 286 | 172 | 377 |

The individually impaired trade receivables relate to customers that were in financial difficulties, in default or invoices in dispute and only a portion of the receivables is expected to be recovered. Century 21 Property Agency Limited does not hold any collateral or other credit enhancements over these balances.

The maximum exposure to credit risk at the reporting date is the carrying value of the trade receivables mentioned above.

### 14. LOAN/AMOUNTS DUE FROM RELATED COMPANIES/A RELATED PARTY

| Name of related company/party | As at 31 March 2006 *HK$'000* | As at 31 March 2007 *HK$'000* | As at 31 March 2008 *HK$'000* |
|---|---|---|---|
| Mr. Ng Kai Man | | | |
| — Commercial loan | — | 2,000 | 2,000 |
| — Current account | — | — | 3,970 |
| Century 21 Surveyors Limited | — | 2,066 | 2,940 |
| Century 21 Best Mortgage Limited | — | 180 | 80 |
| | — | 4,246 | 8,990 |

| Maximum amount outstanding during the year: | Year ended 31 March 2006 *HK$'000* | Year ended 31 March 2007 *HK$'000* | Year ended 31 March 2008 *HK$'000* |
|---|---|---|---|
| Mr. Ng Kai Man | | | |
| — Commercial loan | — | 2,000 | 2,000 |
| — Current account | | — | 3,970 |
| Century 21 Surveyors Limited | — | 2,066 | 2,940 |
| Century 21 Best Mortgage Limited | — | 180 | 180 |

Except for the loan due from the related party, the amounts due are unsecured, interest-free and have no fixed terms of repayment. The loan due from the related party bear interest at prime rate minus 1% per annum.

Mr. Ng Kai Man is the common beneficial owner of Century 21 Property Agency Limited and these related companies.

### 15. CASH AND CASH EQUIVALENTS

| | As at 31 March 2006 *HK$'000* | As at 31 March 2007 *HK$'000* | As at 31 March 2008 *HK$'000* |
|---|---|---|---|
| Cash at bank and in hand | 1,161 | 114 | 1,121 |
| Maximum exposure to credit risk | 1,161 | 114 | 1,121 |

The carrying amounts of the cash and cash equivalents are denominated in Hong Kong dollars.

The bank balances are deposited with creditworthy banks with no recent history of default.

## 16. BANK BORROWINGS

| | As at 31 March 2006 *HK$'000* | As at 31 March 2007 *HK$'000* | As at 31 March 2008 *HK$'000* |
|---|---|---|---|
| **Current** | | | |
| Bank overdrafts | 627 | 84 | — |
| Secured revolving term loan | — | 2,000 | 2,000 |
| | 627 | 2,084 | 2,000 |

The bank overdrafts are denominated in Hong Kong dollars and bear interest at prevailing interest rate.

The revolving term loan was denominated in Hong Kong dollars and the effective interest rate was prime rate minus 1% per annum.

## 17. TRADE AND OTHER PAYABLES

| | As at 31 March 2006 *HK$'000* | As at 31 March 2007 *HK$'000* | As at 31 March 2008 *HK$'000* |
|---|---|---|---|
| Trade payables | 1,481 | 877 | 784 |
| Other payables and accruals | 507 | 383 | 263 |
| | 1,988 | 1,260 | 1,047 |

At the balance sheet dates, the ageing analysis of the trade payables were as follows:

| | As at 31 March 2006 *HK$'000* | As at 31 March 2007 *HK$'000* | As at 31 March 2008 *HK$'000* |
|---|---|---|---|
| 0 - 30 days | 499 | 357 | 153 |
| 31 - 60 days | 351 | 183 | 170 |
| 61 - 90 days | 160 | 151 | 60 |
| Over 90 days | 471 | 186 | 401 |
| | 1,481 | 877 | 784 |

The carrying amounts of the trade and other payables are denominated in Hong Kong dollars.

**18. AMOUNT DUE TO A RELATED PARTY**

The amount due is unsecured, interest-free and has no fixed terms of repayment.

**19. AMOUNTS DUE TO DIRECTORS**

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

**20. AMOUNTS DUE TO RELATED COMPANIES**

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

**21. DEFERRED INCOME TAX**

| | **Depreciation allowances in excess of related depreciation** | **Tax losses** | **Total** |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| **At 1 April 2005** | 28 | (2) | 26 |
| (Credited)/Charged to the income statement | (18) | 2 | (16) |
| **At 31 March 2006** | 10 | — | 10 |
| Credited to the income statement | (10) | — | (10) |
| **At 31 March 2007 and 2008** | — | — | — |

## 22. SHARE CAPITAL

| | As at 31 March 2006 | As at 31 March 2007 | As at 31 March 2008 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Authorized: | | | |
| 10,000 ordinary shares of HK$1 each | 10 | 10 | 10 |
| Issued and fully paid: | | | |
| 2 ordinary shares of HK$1 each | — | — | — |

## 23. OPERATING LEASE COMMITMENTS

At the balance sheet dates, the future aggregate minimum lease payments under non-cancellable operating leases in respect of rented premises are as follows:

| | As at 31 March 2006 | As at 31 March 2007 | As at 31 March 2008 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| No later than one year | 4,192 | 3,431 | 1,598 |
| Later than one year and no later than five years | 1,741 | 6,398 | 1,283 |
| | 5,933 | 9,829 | 2,881 |

## 24. SIGNIFICANT RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in the Financial Information, Century 21 Property Agency Limited entered into the following significant related party transactions during the Relevant Periods:

| | Year ended 31 March 2006 *HK$'000* | Year ended 31 March 2007 *HK$'000* | Year ended 31 March 2008 *HK$'000* |
|---|---|---|---|
| **Century 21 Hong Kong Limited** *(note (i))* | | | |
| Advertising expenses | (50) | (39) | (38) |
| Sundry expenses | (12) | — | — |
| Service fees | (245) | (117) | (57) |
| Charge for Centurion Award | (11) | — | — |
| Referral fee income | 136 | 32 | 65 |
| **Century 21 Best Mortgage Limited** *(note (i))* | | | |
| Referral fee income | 17 | 144 | 149 |
| Service fee income | — | 180 | — |
| **Century 21 Surveyors Limited** *(note (ii))* | | | |
| Referral fee income | 22 | — | — |
| Service fee income | — | 450 | — |
| Commission income | — | 1,721 | 851 |
| **V.I.P. LTD** *(note (i))* | | | |
| Administrative fee income | — | 95 | — |
| **Mr. Ng Kai Man** *(note (iv))* | | | |
| Loan interest income | — | 95 | 111 |
| Handling fee income | — | 90 | — |
| **Pacific Pointer Limited** *(note (iii))* | | | |
| Referral fee expenses | (50) | — | — |
| Commission expenses | (450) | — | — |
| **Empire Base Limited** *(note (i))* | | | |
| Commission expenses | (117) | — | — |
| **Year-end balance with related parties** | | | |
| Non-trade balance due to a related party | (2,278) | (2,098) | — |
| Non-trade balance due to related companies | (851) | (414) | (414) |
| Trade balance due to related companies | (30) | (201) | (258) |
| Trade balance due to directors | (122) | (324) | (325) |
| Non-trade balance due from related companies | — | 2,066 | 2,940 |
| Non-trade balance due from a related party | — | 2,000 | 5,970 |
| Trade balance due from related companies | — | 180 | 80 |
| **Compensation to key management personnel** | | | |
| Short-term employee benefits | 1,524 | 1,312 | 2,311 |
| Post-employment benefits | 24 | 24 | 24 |
| | 1,548 | 1,336 | 2,335 |

**24. SIGNIFICANT RELATED PARTY TRANSACTIONS** *(continued)*

*Notes:*

(i) Mr. Ng Kai Man is the common beneficial owner of Century 21 Property Agency Limited and these related companies.

(ii) Real Clever Profits Limited is the common shareholder of Century 21 Property Agency and Century 21 Surveyors Limited. I Agent Limited is the common director of Century 21 Property Agency Limited and Century 21 Surveyors Limited.

(iii) Pacific Pointer Limited is a shareholder of Century 21 Property Agency Limited.

(iv) Mr. Ng Kai Man is the beneficial owner of Century 21 Property Agency Limited.

## II. SUBSEQUENT EVENTS

Save as disclosed in the Financial Information, there were no significant events subsequent to 31 March 2008.

## III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of Century 21 Property Agency Limited have been prepared in respect of any period subsequent to 31 March 2008.

Yours faithfully,
**HLB Hodgson Impey Cheng**
*Chartered Accountants*
*Certified Public Accountants*
Hong Kong

*The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong.*

HLB 國衛會計師事務所
Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

28 June 2008

The board of directors
GFT Holdings Limited
Unit 707, Tower II, Admiralty Centre
18 Harcourt Road
Hong Kong

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding Century 21 Surveyors Limited for each of the three years ended 31 March 2006, 2007 and 2008 (the "Relevant Periods"), for inclusion in the circular dated 28 June 2008 (the "Circular") issued by GFT Holdings Limited (the "Company") in connection with, *inter alia*, the very substantial acquisition and connected transaction whereby Kingbox Investments Limited (a wholly-owned subsidiary of the Company) conditionally agreed to acquire the entire equity interests in Century 21 Surveyors Limited.

Century 21 Surveyors Limited was incorporated in Hong Kong with limited liability under the Hong Kong Companies Ordinance on 19 December 1995. The registered office and principal place of business of Century 21 Surveyors Limited is situated at 10/F., No. 88 Gloucester Road, Wanchai, Hong Kong. As at the date of this report, the issued share capital of Century 21 Surveyors Limited comprised 100 ordinary shares of HK$1 each, and was held as to 20% by Pacific Pointer Limited and as to 80% by Real Clever Profits Limited. Century 21 Surveyors Limited is principally engaged in the provision of surveying and property agency services in Hong Kong.

The statutory financial statements of Century 21 Surveyors Limited for each of the three years ended 31 March 2006, 2007 and 2008 were prepared in accordance with accounting principles generally accepted in Hong Kong. The statutory financial statements of Century 21 Surveyors Limited for the year ended 31 March 2006 were audited by Lak & Associates C.P.A. Limited, certified public accountants, Hong Kong. We have acted as auditors to Century 21 Surveyors Limited in respect of the years ended 31 March 2007 and 2008.

The income statements, cash flow statements and statements of changes in equity of Century 21 Surveyors Limited for each of the Relevant Periods and the balance sheets of Century 21 Surveyors Limited as at 31 March 2006, 2007 and 2008 as set out in this report have been prepared based on the audited financial statements of Century 21 Surveyors Limited (the "Underlying Financial Statements") for the Relevant Periods for the purpose of preparing our report for inclusion in the Circular.

For the purpose of this report, we have examined and carried out independent audit procedures on the Financial Information for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and have carried out such additional procedures as we consider necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

No adjustments to the Underlying Financial Statements have been considered necessary in preparing the Financial Information for the purpose of this report.

The Underlying Financial Statements are the responsibility of the directors of Century 21 Surveyors Limited who approved their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Century 21 Surveyors Limited as at 31 March 2006, 2007 and 2008 and of the results and cash flows of Century 21 Surveyors Limited for each of the three years ended 31 March 2006, 2007 and 2008.

## I. FINANCIAL INFORMATION

### Income statements

| | Note | Year ended 31 March 2006 HK$'000 (Audited) | Year ended 31 March 2007 HK$'000 (Audited) | Year ended 31 March 2008 HK$'000 (Audited) |
|---|---|---|---|---|
| Revenue | 4 | 28,120 | 42,489 | 54,629 |
| Other income | 5 | 903 | 916 | 904 |
| Commission expenses | | (17,326) | (33,021) | (35,434) |
| Employee benefit expenses | 7 | (5,554) | (4,995) | (4,840) |
| Depreciation | | (33) | (9) | (7) |
| Other operating expenses | | (4,013) | (4,541) | (4,370) |
| **Profit before income tax** | 6 | 2,097 | 839 | 10,882 |
| Income tax expense | 8 | (124) | (648) | (1,904) |
| **Profit for the year** | | 1,973 | 191 | 8,978 |

**Balance sheets**

| | Note | As at 31 March 2006 HK$'000 (Audited) | As at 31 March 2007 HK$'000 (Audited) | As at 31 March 2008 HK$'000 (Audited) |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Property, plant and equipment | *10* | 12 | 3 | 53 |
| **Current assets** | | | | |
| Trade and other receivables | *12* | 4,597 | 20,006 | 22,535 |
| Amount due from a related party | *13* | 1,993 | 2,814 | 3,477 |
| Amounts due from related companies | *13* | 446 | 172 | 72 |
| Current income tax assets | | 215 | — | — |
| Cash and cash equivalents | *14* | 55 | 256 | 8,366 |
| | | 7,306 | 23,248 | 34,450 |
| **Total assets** | | 7,318 | 23,251 | 34,503 |
| **Current liabilities** | | | | |
| Bank overdrafts | *15* | 160 | — | — |
| Trade and other payables | *16* | 5,349 | 18,642 | 20,097 |
| Amounts due to directors | *17* | 48 | 60 | 87 |
| Amounts due to related companies | *18* | 4,163 | 6,440 | 5,753 |
| Current income tax liabilities | | — | 320 | 1,799 |
| | | 9,720 | 25,462 | 27,736 |
| **Net current assets/(liabilities)** | | (2,414) | (2,214) | 6,714 |
| **Net assets/(liabilities)** | | (2,402) | (2,211) | 6,767 |
| **Capital and reserves attributable to the equity holders of Century 21 Surveyors Limited** | | | | |
| Share capital | *19* | — | — | — |
| Retained earnings/(Accumulated losses) | | (2,402) | (2,211) | 6,767 |
| **Total equity** | | (2,402) | (2,211) | 6,767 |

**Statements of changes in equity**

| | Share capital | (Accumulated losses)/ Retained earnings | Total equity |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| **Balance at 1 April 2005** | — | (4,375) | (4,375) |
| Profit for the year | — | 1,973 | 1,973 |
| **Balance at 31 March 2006** | — | (2,402) | (2,402) |
| Profit for the year | — | 191 | 191 |
| **Balance at 31 March 2007** | — | (2,211) | (2,211) |
| Profit for the year | — | 8,978 | 8,978 |
| **Balance at 31 March 2008** | — | 6,767 | 6,767 |

**Cash flow statements**

| | Year ended 31 March 2006 *HK$'000* *(Audited)* | Year ended 31 March 2007 *HK$'000* *(Audited)* | Year ended 31 March 2008 *HK$'000* *(Audited)* |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before income tax | 2,097 | 839 | 10,882 |
| Adjustments for: | | | |
| — Depreciation | 33 | 9 | 7 |
| — Interest income | (1) | (9) | (6) |
| Changes in working capital: | | | |
| — Trade and other receivables | 2,493 | (15,409) | (2,529) |
| — Amounts due from related companies | — | (172) | 100 |
| — Trade and other payables | (1,456) | 13,293 | 1,455 |
| — Amounts due to directors | (84) | 12 | 27 |
| — Amounts due to related companies | 1,327 | 211 | (1,561) |
| Cash generated from/(used in) operations | 4,409 | (1,226) | 8,375 |
| Hong Kong profits tax paid | (339) | (113) | (425) |
| Net cash generated from/(used in) operating activities | 4,070 | (1,339) | 7,950 |
| **Cash flows from investing activities** | | | |
| Interest received | 1 | 9 | 6 |
| Advances to related companies | (299) | (818) | — |
| Repayments to related companies | 1,880 | 3,330 | 874 |
| Purchase of property, plant and equipment | — | — | (57) |
| Net cash generated from investing activities | 1,582 | 2,521 | 823 |

**Cash flow statements** *(continued)*

| | Year ended 31 March 2006 *HK$'000* *(Audited)* | Year ended 31 March 2007 *HK$'000* *(Audited)* | Year ended 31 March 2008 *HK$'000* *(Audited)* |
|---|---|---|---|
| **Cash flows from financing activities** | | | |
| Advance from a related party | 4,918 | 3,588 | 2,310 |
| Repayment to loan from a related party | (10,900) | (4,409) | (2,973) |
| Net cash used in financing activities | (5,982) | (821) | (663) |
| **Net (decrease)/increase in cash, cash equivalents and bank overdrafts** | (330) | 361 | 8,110 |
| **Cash, cash equivalents and bank overdrafts at beginning of the year** | 225 | (105) | 256 |
| **Cash, cash equivalents and bank overdrafts at end of the year** | (105) | 256 | 8,366 |
| **Analysis of balances of cash, cash equivalents and bank overdrafts** | | | |
| Cash and cash equivalents | 55 | 256 | 8,366 |
| Bank overdrafts | (160) | — | — |
| | (105) | 256 | 8,366 |

## NOTES TO THE FINANCIAL INFORMATION

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**Basis of preparation**

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying Century 21 Surveyors Limited's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

**Foreign currency translation**

***(a) Functional and presentation currency***

Items included in the financial statements of Century 21 Surveyors Limited are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Hong Kong dollars, which is Century 21 Surveyors Limited's functional and presentation currency.

***(b) Transactions and balances***

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

**Property, plant and equipment**

Property, plant and equipment is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

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

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Century 21 Surveyors Limited and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged in the income statement during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives at an annual rate of 20%.

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains or losses on disposals are determined by comparing the proceeds with carrying amount and are recognized in the income statement.

**Impairment of non-financial assets**

Assets that have an indefinite useful life or are not yet available for use are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

**Trade and other receivables**

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that Century 21 Surveyors Limited will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognized in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited to the income statement.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

**Share capital**

Ordinary shares are classified as equity.

**Trade payables**

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

**Deferred income tax**

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

**Employee benefits**

Contributions to defined contribution retirement schemes which are available to all employees, calculated at rates specified in the rules of the schemes, are charged to the income statement when the contributions are payable to the fund.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**Provisions**

Provisions are recognized when Century 21 Surveyors Limited has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

**Revenue recognition**

Revenue comprises the fair value of services and sales of goods in the ordinary course of the activities of Century 21 Surveyors Limited. Revenue is shown net of sales tax, returns, rebates, and discounts and other revenue reducing factors.

Revenue is recognized when it is probable that the economic benefits will flow to Century 21 Surveyors Limited, the amount can be measured reliably and specific criteria for each of the activities have been met.

Commission income and other services income are recognized in the period in which the services are rendered.

Interest income is recognized on a time-apportioned basis using the effective interest method.

**Operating leases (as the lessee)**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

## 2. FINANCIAL RISK MANAGEMENT

### 2.1 Financial risk factors

Century 21 Surveyors Limited's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest-rate risk, cash flow interest-rate risk and price risk), credit risk and liquidity risk. Century 21 Surveyors Limited's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on Century 21 Surveyors Limited's financial performance.

***(a) Market risk***

*(i) Foreign currency risk*

Century 21 Surveyors Limited is not exposed to significant foreign currency risk.

*(ii) Price risk*

Century 21 Surveyors Limited is not exposed to significant price risk.

*(iii) Cash flow and fair value interest-rate risk*

As Century 21 Surveyors Limited has no significant interest-bearing assets, Century 21 Surveyors Limited's income and operating cash flows are substantially independent of changes in market interest rates.

***(b) Credit risk***

Credit risk arises from cash and cash equivalents and credit exposures to customers. Century 21 Surveyors Limited has no significant concentrations of credit risk as Century 21 Surveyors Limited has a large number of customers. Services provided to customers are settled in cash or cheque payments.

***(c) Liquidity risk***

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, Century 21 Surveyors Limited employs a prudent liquidity policy. Century 21 Surveyors Limited regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

Century 21 Surveyors Limited's financial liabilities principally comprise trade and other payables and amounts due to related parties, all of which are expected to be settled within 1 year and are included in current liabilities. As at 31 March 2008, Century 21 Surveyors Limited did not have any borrowings or derivative financial liabilities.

**2. FINANCIAL RISK MANAGEMENT** *(continued)*

**2.2 Capital risk management**

Century 21 Surveyors Limited's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, Century 21 Surveyors Limited may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Century 21 Surveyors Limited is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes during the Relevant Periods.

**2.3 Fair value estimation**

The carrying value less impairment provision of trade receivables and payables are a reasonable approximation of their fair values.

**3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Century 21 Surveyors Limited makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

**Estimated recoverability of trade and other receivables**

Century 21 Surveyors Limited's management determines the provision for impairment of trade and other receivables based on ongoing assessment of the recoverability of the receivables. This assessment is based on the credit history of its customers and other debtors and current market conditions, and requires the use of judgments and estimates. Management reassesses the provision for impairment of trade and other receivables at each balance sheet date.

## 4. REVENUE AND SEGMENT INFORMATION

Revenue recognized during the Relevant Periods is as follows:

| | Year ended 31 March 2006 | Year ended 31 March 2007 | Year ended 31 March 2008 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Rendering of services | 28,120 | 42,489 | 54,629 |

No business segment and geographical segment information has been presented as Century 21 Surveyors Limited operates in a single business and geographical segment during the Relevant Periods which is the provision of surveying and property agency services in Hong Kong.

## 5. OTHER INCOME

| | Year ended 31 March 2006 | Year ended 31 March 2007 | Year ended 31 March 2008 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Consultancy fee income | 465 | — | — |
| Referral fee income | 295 | 136 | 224 |
| Bank interest income | 1 | 9 | 6 |
| Administrative fee income | — | 461 | — |
| Sundry income | 142 | 310 | 674 |
| | 903 | 916 | 904 |

## 6. PROFIT BEFORE INCOME TAX

Profit before income tax is stated after charging:

| | Year ended 31 March 2006 | Year ended 31 March 2007 | Year ended 31 March 2008 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Depreciation of owned assets | 33 | 9 | 7 |
| Auditors' remuneration | 50 | 50 | 50 |
| Operating lease payments in respect of rented premises | 1,034 | 1,317 | 1,680 |
| Provision for impairment of trade receivables | 203 | 21 | 94 |

## 7. EMPLOYEE BENEFIT EXPENSES

| | Year ended 31 March 2006 | Year ended 31 March 2007 | Year ended 31 March 2008 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Salaries and allowances | 5,153 | 4,747 | 4,579 |
| Pension costs - defined contribution plan | 298 | 238 | 255 |
| Staff welfare and messing | 7 | 10 | 6 |
| Provision for annual leave | 96 | — | — |
| | 5,554 | 4,995 | 4,840 |

### (a) Directors' emoluments

The remuneration of every director for the Relevant Periods is set out below:

***Year ended 31 March 2008***

| Name of director | Fees | Salaries and other benefits | Employer's contribution to pension scheme | Total |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Mr. Cheung Man Wai | — | 206 | 2 | 208 |
| Ms. Chan Shui Sheung, Ivy | — | 356 | 12 | 368 |
| Mr. Choi Hon Sun, Henry | — | 217 | 10 | 227 |
| I Agent Limited | — | — | — | — |
| | — | 779 | 24 | 803 |

## 7. EMPLOYEE BENEFIT EXPENSES *(continued)*

### (a) Directors' emoluments *(continued)*

***Year ended 31 March 2007***

| Name of director | Fees | Salaries and other benefits | Employer's contribution to pension scheme | Total |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Mr. Cheung Man Wai | — | 180 | 9 | 189 |
| Ms. Chan Shui Sheung, Ivy | — | 357 | 12 | 369 |
| Mr. Choi Hon Sun, Henry | — | 186 | 9 | 195 |
| I Agent Limited | — | — | — | — |
| | — | 723 | 30 | 753 |

***Year ended 31 March 2006***

| Name of director | Fees | Salaries and other benefits | Employer's contribution to pension scheme | Total |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Mr. Cheung Man Wai | — | 171 | 8 | 179 |
| Ms. Chan Shui Sheung, Ivy | — | 326 | 12 | 338 |
| Mr. Choi Hon Sun, Henry | — | 211 | 10 | 221 |
| Mr. Tang Hing Nin (resigned on 3 January 2006) | — | 110 | — | 110 |
| I Agent Limited | — | — | — | — |
| | — | 818 | 30 | 848 |

**7. EMPLOYEE BENEFIT EXPENSES** *(continued)*

**(b) Five highest paid individuals**

The five individuals whose emoluments were the highest in Century 21 Surveyors Limited for the years ended 31 March 2006, 2007 and 2008 include nil, one and nil director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining five, four and five individuals for the years ended 31 March 2006, 2007 and 2008 are as follows:

| | Year ended 31 March 2006 | Year ended 31 March 2007 | Year ended 31 March 2008 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Salaries, allowances and benefits in kind | 2,564 | 1,970 | 3,495 |
| Pension costs-defined contribution plan | 5 | 34 | 17 |
| | 2,569 | 2,004 | 3,512 |

The emoluments were below HK$1,000,000.

**8. INCOME TAX EXPENSE**

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong for the Relevant Periods.

| | Year ended 31 March 2006 | Year ended 31 March 2007 | Year ended 31 March 2008 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Current income tax | | | |
| — Hong Kong profits tax | 124 | 106 | 1,904 |
| — Under-provision in prior years | — | 542 | — |
| | 124 | 648 | 1,904 |

**8. INCOME TAX EXPENSE** *(continued)*

The tax on the profit before income tax differs from the theoretical amount that would arise using the Hong Kong profits tax rate of 17.5% as follows:

| | **Year ended 31 March 2006** *HK$'000* | **Year ended 31 March 2007** *HK$'000* | **Year ended 31 March 2008** *HK$'000* |
|---|---|---|---|
| Profit before income tax | 2,097 | 839 | 10,882 |
| Tax calculated at the Hong Kong profits tax rate | 367 | 147 | 1,904 |
| Tax effect of: | | | |
| — Income not subject to tax | — | (1) | (1) |
| — Non-deductible expenses | 11 | — | — |
| — Under-provision in prior years | — | 542 | — |
| — Utilization of tax loss not previously recognized | (257) | — | — |
| — Depreciation allowance in excess of related depreciation | — | (40) | 1 |
| — Others | 3 | — | — |
| Income tax expense | 124 | 648 | 1,904 |

**Deferred income tax**

No deferred income tax liabilities or assets are recognized in the financial statements as the Company did not have material temporary difference arising between the tax bases of liabilities or assets and their carrying amounts as at 31 March 2006, 2007 and 2008.

**9. EARNINGS PER SHARE**

Earnings per share has not been presented as such information is not considered meaningful for the purpose of this report.

**10. PROPERTY, PLANT AND EQUIPMENT**

| | Furniture, fixtures and office equipments *HK$'000* | Motor vehicle *HK$'000* | Total *HK$'000* |
|---|---|---|---|
| **At 1 April 2005** | | | |
| Cost | 397 | 27 | 424 |
| Accumulated depreciation | (357) | (22) | (379) |
| Net carrying amount | 40 | 5 | 45 |
| **Year ended 31 March 2006** | | | |
| Opening net carrying amount | 40 | 5 | 45 |
| Depreciation | (28) | (5) | (33) |
| Closing net carrying amount | 12 | — | 12 |
| **At 31 March 2006** | | | |
| Cost | 397 | — | 397 |
| Accumulated depreciation | (385) | — | (385) |
| Net carrying amount | 12 | — | 12 |
| **Year ended 31 March 2007** | | | |
| Opening net carrying amount | 12 | — | 12 |
| Depreciation | (9) | — | (9) |
| Closing net carrying amount | 3 | — | 3 |
| **At 31 March 2007** | | | |
| Cost | 46 | — | 46 |
| Accumulated depreciation | (43) | — | (43) |
| Net carrying amount | 3 | — | 3 |
| **Year ended 31 March 2008** | | | |
| Opening net carrying amount | 3 | — | 3 |
| Additions | 57 | — | 57 |
| Depreciation | (7) | — | (7) |
| Closing net carrying amount | 53 | — | 53 |
| **At 31 March 2008** | | | |
| Cost | 103 | — | 103 |
| Accumulated depreciation | (50) | — | (50) |
| Net carrying amount | 53 | — | 53 |

## 11. FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

| **Assets per balance sheets** | *Note* | **As at 31 March 2006** *HK$'000* | **As at 31 March 2007** *HK$'000* | **As at 31 March 2008** *HK$'000* |
|---|---|---|---|---|
| **Loans and receivables** | | | | |
| Trade and other receivables | *12* | 4,573 | 19,974 | 22,499 |
| Amount due from a related party | *13* | 1,993 | 2,814 | 3,477 |
| Amounts due from related companies | *13* | 446 | 172 | 72 |
| Cash and cash equivalents | *14* | 55 | 256 | 8,366 |
| Total (maximum exposure to credit risk) | | 7,067 | 23,216 | 34,414 |

| **Liabilities per balance sheets** | *Note* | **As at 31 March 2006** *HK$'000* | **As at 31 March 2007** *HK$'000* | **As at 31 March 2008** *HK$'000* |
|---|---|---|---|---|
| **Financial liabilities at amortized cost** | | | | |
| Bank overdrafts | *15* | 160 | — | — |
| Trade and other payables | *16* | 5,239 | 18,552 | 19,988 |
| Amounts due to directors | *17* | 48 | 60 | 87 |
| Amounts due to related companies | *18* | 4,163 | 6,440 | 5,753 |
| Total | | 9,610 | 25,052 | 25,828 |

## 12. TRADE AND OTHER RECEIVABLES

| | **As at 31 March 2006** *HK$'000* | **As at 31 March 2007** *HK$'000* | **As at 31 March 2008** *HK$'000* |
|---|---|---|---|
| Trade receivables | 3,774 | 19,035 | 22,043 |
| Less: provision for impairment of receivables | (203) | (21) | (115) |
| Trade receivables - net | 3,571 | 19,014 | 21,928 |
| Other receivables, prepayments and deposits | 1,026 | 992 | 607 |
| | 4,597 | 20,006 | 22,535 |

## 12. TRADE AND OTHER RECEIVABLES *(continued)*

Services provided to customers are settled in cash or cheque payments. At the balance sheet dates, the ageing analysis of the trade receivables were as follows:

| | As at 31 March 2006 | As at 31 March 2007 | As at 31 March 2008 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| 0 - 30 days | 2,452 | 5,678 | 2,354 |
| 31 - 60 days | 268 | 2,077 | 2,712 |
| 61 - 90 days | 4 | 1,308 | 2,126 |
| Over 90 days | 1,050 | 9,972 | 14,851 |
| | 3,774 | 19,035 | 22,043 |

The carrying amounts of the trade and other receivables are denominated in Hong Kong dollars.

Movements on the provision for impairment of trade receivables are as follows:

| | As at 31 March 2006 | As at 31 March 2007 | As at 31 March 2008 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| **At beginning of the year** | — | 203 | 21 |
| Provision for receivable impairment | 203 | 21 | 94 |
| Unused amounts reversed | — | (203) | — |
| **At end of the year** | 203 | 21 | 115 |

The individually impaired trade receivables relate to customers that were in financial difficulties, in default or invoices in dispute and only a portion of the receivables is expected to be recovered. Century 21 Surveyors Limited does not hold any collateral or other credit enhancements over these balances.

The maximum exposure to credit risk at the reporting date is the carrying value of the trade receivables mentioned above.

## 13. AMOUNTS DUE FROM RELATED COMPANIES/A RELATED PARTY

| Name of related company/party | As at 31 March 2006 *HK$'000* | As at 31 March 2007 *HK$'000* | As at 31 March 2008 *HK$'000* |
|---|---|---|---|
| Mr. Ng Kai Man | 1,993 | 2,814 | 3,477 |
| Century 21 Property Agency Limited | 446 | — | — |
| Century 21 Best Mortgage Limited | — | 172 | 72 |
| | 2,439 | 2,986 | 3,549 |

| Maximum amount outstanding during the year: | Year ended 31 March 2006 *HK$'000* | Year ended 31 March 2007 *HK$'000* | Year ended 31 March 2008 *HK$'000* |
|---|---|---|---|
| Mr. Ng Kai Man | 1,993 | 2,814 | 5,550 |
| Century 21 Property Agency Limited | 1,946 | 446 | — |
| Century 21 Best Mortgage Limited | — | 172 | 172 |

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

Mr. Ng Kai Man is the common beneficial owner of Century 21 Surveyors Limited, Century 21 Property Agency Limited and Century 21 Best Mortgage Limited.

## 14. CASH AND CASH EQUIVALENTS

| | As at 31 March 2006 *HK$'000* | As at 31 March 2007 *HK$'000* | As at 31 March 2008 *HK$'000* |
|---|---|---|---|
| Cash at bank and in hand | 55 | 256 | 8,366 |
| Maximum exposure to credit risk | 55 | 256 | 8,366 |

The carrying amounts of the cash and cash equivalents are denominated in Hong Kong dollars.

The bank balances are deposited with creditworthy banks with no recent history of default.

### 15. BANK BORROWINGS

| | As at 31 March 2006 | As at 31 March 2007 | As at 31 March 2008 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| **Current** | | | |
| Bank overdrafts | 160 | — | — |

The bank overdrafts are denominated in Hong Kong dollars and bear interest at prevailing interest rate.

### 16. TRADE AND OTHER PAYABLES

| | As at 31 March 2006 | As at 31 March 2007 | As at 31 March 2008 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Trade payables | 4,248 | 17,746 | 19,858 |
| Other payables and accruals | 1,101 | 896 | 239 |
| | 5,349 | 18,642 | 20,097 |

At the balance sheet dates, the ageing analysis of the trade payables were as follows:

| | As at 31 March 2006 | As at 31 March 2007 | As at 31 March 2008 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| 0 - 30 days | 2,485 | 4,371 | 1,450 |
| 31 - 60 days | 148 | 1,342 | 2,053 |
| 61 - 90 days | 48 | 869 | 1,463 |
| Over 90 days | 1,567 | 11,164 | 14,892 |
| | 4,248 | 17,746 | 19,858 |

The carrying amounts of the trade and other payables are denominated in Hong Kong dollars.

### 17. AMOUNTS DUE TO DIRECTORS

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

## 18. AMOUNTS DUE TO RELATED COMPANIES

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

## 19. SHARE CAPITAL

| | As at 31 March 2006 *HK$'000* | As at 31 March 2007 *HK$'000* | As at 31 March 2008 *HK$'000* |
|---|---|---|---|
| Authorized: | | | |
| 10,000 ordinary shares of HK$1 each | 10 | 10 | 10 |
| Issued and fully paid: | | | |
| 100 ordinary shares of HK$1 each | — | — | — |

## 20. OPERATING LEASE COMMITMENTS

At the balance sheet dates, the future aggregate minimum lease payments under non-cancellable operating leases in respect of rented premises are as follows:

| | As at 31 March 2006 *HK$'000* | As at 31 March 2007 *HK$'000* | As at 31 March 2008 *HK$'000* |
|---|---|---|---|
| No later than one year | 903 | 1,605 | 1,469 |
| Later than one year and no later than five years | — | 1,337 | — |
| | 903 | 2,942 | 1,469 |

## 21. SIGNIFICANT RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in the Financial Information, Century 21 Surveyors Limited entered into the following significant related party transactions during the Relevant Periods:

| | Year ended 31 March 2006 *HK$'000* | Year ended 31 March 2007 *HK$'000* | Year ended 31 March 2008 *HK$'000* |
|---|---|---|---|
| **Century 21 Hong Kong Limited** *(note (i))* | | | |
| Consultancy fee expenses | (280) | (240) | (240) |
| Advertising expenses | (6) | (6) | (12) |
| Training fees | (200) | (180) | (180) |
| Service fees | (34) | (36) | (36) |
| Commission expenses | (955) | (134) | (4) |
| Referral fee income | 290 | 56 | 103 |
| Administration fee income | — | 43 | — |
| **Richway Properties Group Limited** *(note (i))* | | | |
| Motor vehicles expenses | (40) | — | — |
| Commission expenses | (150) | — | — |
| **Century 21 Best Mortgage Limited** *(note (i))* | | | |
| Referral fee income | 6 | 75 | 121 |
| Administration fee income | — | 376 | — |
| **Century 21 Property Agency Limited** *(note (ii))* | | | |
| Referral expenses | (22) | — | — |
| Commission expenses | — | (1,721) | (851) |
| Service fees | — | (450) | — |
| **China Perfect Limited** *(note (i))* | | | |
| Commission expenses | (200) | — | — |
| **Empire Base Limited** *(note (i))* | | | |
| Commission expenses | (250) | — | — |
| **Precheer Limited** *(note (i))* | | | |
| Commission expenses | (250) | — | — |
| **Grand Rich Resources Limited** *(note (i))* | | | |
| Commission expenses | (3,300) | — | — |
| **Pacific Pointer Limited** *(note (iii))* | | | |
| Commission expenses | (300) | — | — |
| **Year-end balance with related parties** | | | |
| Non-trade balance due from related companies | 446 | — | — |
| Non-trade balance due to related companies | — | (2,067) | (2,941) |
| Non-trade balance due from a related party | 1,993 | 2,814 | 3,477 |
| Trade balance due from a related company | — | 172 | 72 |
| Trade balance due to related companies | (4,163) | (4,373) | (2,812) |
| Trade balance due to directors | (48) | (60) | (87) |
| **Compensation to key management personnel** | | | |
| Short-term employee benefits | 818 | 723 | 779 |
| Post-employment benefits | 30 | 30 | 24 |
| | 848 | 753 | 803 |

**21. SIGNIFICANT RELATED PARTY TRANSACTIONS** *(continued)*

*Notes:*

(i) Mr. Ng Kai Man is the common beneficial owner of Century 21 Surveyors Limited and these related companies.

(ii) Real Clever Profits Limited is the common shareholder of Century 21 Surveyors Limited and Century 21 Property Agency Limited. I Agent Limited is the common director of Century 21 Surveyors Limited and Century 21 Property Agency Limited.

(iii) Pacific Pointer Limited is a shareholder of Century 21 Surveyors Limited.

## II. SUBSEQUENT EVENTS

Save as disclosed in the Financial Information, there were no significant events subsequent to 31 March 2008.

## III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of Century 21 Surveyors Limited have been prepared in respect of any period subsequent to 31 March 2008.

Yours faithfully,
**HLB Hodgson Impey Cheng**
*Chartered Accountants*
*Certified Public Accountants*
Hong Kong

*The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong.*

HLB 國衛會計師事務所
Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

28 June 2008

The board of directors
GFT Holdings Limited
Unit 707, Tower II, Admiralty Centre
18 Harcourt Road
Hong Kong

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding Century 21 Limited for the period from 11 August 2005 (date of incorporation) to 31 March 2006 and the years ended 31 March 2007 and 2008 (the "Relevant Periods"), for inclusion in the circular dated 28 June 2008 (the "Circular") issued by GFT Holdings Limited (the "Company") in connection with, *inter alia*, the very substantial acquisition and connected transaction whereby Kingbox Investments Limited (a wholly-owned subsidiary of the Company) conditionally agreed to acquire the entire equity interests in Century 21 Limited.

Century 21 Limited is a limited liability company incorporated in Macau on 11 August 2005 with an authorized share capital of MOP 30,000 comprising 2 shares. The registered office of Century 21 Limited is situated at Avenida da Praia Grande, No. 815, Edificio Centro Comercial Talento, 4 Andar, Macau. As at the date of this report, the issued share capital of Century 21 Limited amounted to MOP 30,000 comprising 2 shares, which were held as to 1 share by Mr. Ng Kai Man amounted to MOP 10,000 and as to 1 share by Century 21 Hong Kong Limited amounted to MOP 20,000. Century 21 Limited has not commenced operations since its date of incorporation to 31 March 2008, and its sole asset at 31 March 2006, 2007 and 2008 represented cash balance of MOP 30,000.

No audited financial statements have been prepared for Century 21 Limited up to the date of this report as it was incorporated in a jurisdiction where there were no statutory audit requirements.

The income statements, cash flow statements and statements of changes in equity of Century 21 Limited for each of the Relevant Periods and the balance sheets of Century 21 Limited as at 31 March 2006, 2007 and 2008 as set out in this report have been prepared based on the management accounts of Century 21 Limited (the "Underlying Financial Statements") for the Relevant Periods for the purpose of preparing our report for inclusion in the Circular.

For the purpose of this report, we have examined and carried out independent audit procedures on the Financial Information for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and have carried out such additional procedures as we consider necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

No adjustments to the Underlying Financial Statements have been considered necessary in preparing the Financial Information for the purpose of this report.

The Underlying Financial Statements are the responsibility of the directors of Century 21 Limited who approved their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the balance sheets of Century 21 Limited as at 31 March 2006, 2007 and 2008 and of the results and cash flows of Century 21 Limited for each of the Relevant Periods.

## I. FINANCIAL INFORMATION

### Income statements

| | Period from 11 August 2005 (date of incorporation) to 31 March 2006 | Year ended 31 March 2007 | Year ended 31 March 2008 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| | *(Audited)* | *(Audited)* | *(Audited)* |
| Revenue | — | — | — |
| Expenses | — | — | — |
| **Results for the financial year** | — | — | — |

**Balance sheets**

| | *Note* | **As at 31 March 2006** *HK$'000* *(Audited)* | **As at 31 March 2007** *HK$'000* *(Audited)* | **As at 31 March 2008** *HK$'000* *(Audited)* |
|---|---|---|---|---|
| **Current assets** | | | | |
| Cash on hand | | 30 | 30 | 30 |
| **Capital** | | | | |
| Share capital | *7* | 30 | 30 | 30 |

**Statements of changes in equity**

| | **Share capital** *HK$'000* | **Retained earnings** *HK$'000* | **Total equity** *HK$'000* |
|---|---|---|---|
| Issue of shares | 30 | — | 30 |
| **Balance at 31 March 2006, 2007 and 2008** | 30 | — | 30 |

**Cash flow statements**

| | Period from 11 August 2005 (date of incorporation) to 31 March 2006 | Year ended 31 March 2007 | Year ended 31 March 2008 |
|---|---|---|---|
| | *HK\$'000* | *HK\$'000* | *HK\$'000* |
| | *(Audited)* | *(Audited)* | *(Audited)* |
| Results for the financial year | — | — | — |
| **Cash flows from financing activities** | | | |
| Issue of shares | 30 | — | — |
| **Net movement of cash and cash equivalents** | 30 | — | — |
| **Cash and cash equivalents at beginning of the financial year** | — | 30 | 30 |
| **Cash and cash equivalents at end of the financial year** | 30 | 30 | 30 |
| **Analysis of balances cash and cash equivalents** | | | |
| Cash on hand | 30 | 30 | 30 |

## NOTES TO THE FINANCIAL INFORMATION

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the financial years presented, unless otherwise stated.

**Basis of preparation**

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying Century 21 Limited's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

**Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

**Share capital**

Ordinary shares are classified as equity.

### 2. FINANCIAL RISK MANAGEMENT

**2.1 Financial risk factors**

Century 21 Limited's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest-rate risk, cash flow interest-rate risk and price risk), credit risk and liquidity risk. Century 21 Limited's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on Century 21 Limited's financial performance.

***(a) Market risk***

*(i) Foreign currency risk*

Century 21 Limited is not exposed to significant foreign currency risk.

*(ii) Price risk*

Century 21 Limited is not exposed to significant price risk.

*(iii) Cash flow and fair value interest-rate risk*

Century 21 Limited is not exposed to significant cash flow and fair value interest-rate risk.

**2. FINANCIAL RISK MANAGEMENT** *(continued)*

**2.1 Financial risk factors** *(continued)*

***(b) Credit risk***

Century 21 Limited is not exposed to significant credit risk.

***(c) Liquidity risk***

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, Century 21 Limited employs a prudent liquidity policy. Century 21 Limited regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

As at 31 March 2008, Century 21 Limited did not have any liabilities.

**2.2 Capital risk management**

Century 21 Limited's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, Century 21 Limited may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Century 21 Limited is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes during the Relevant Periods.

**3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Century 21 Limited makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. There are no estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

## 4. REVENUE AND SEGMENT INFORMATION

Century 21 Limited has not commenced operations since its date of incorporation to 31 March 2008.

## 5. RESULTS FOR THE FINANCIAL YEAR

Results for the financial year are stated after charging:

| | Period from 11 August 2005 (date of incorporation) to 31 March 2006 | Year ended 31 March 2007 | Year ended 31 March 2008 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Auditors' remuneration | — | — | — |
| Directors' remuneration | — | — | — |

## 6. EARNINGS PER SHARE

Earnings per share has not been presented as such information is not considered meaningful for the purpose of this report.

## 7. SHARE CAPITAL

| | As at 31 March 2006 | As at 31 March 2007 | As at 31 March 2008 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Authorized, issued and fully paid: | | | |
| MOP 30,000 comprising 2 shares | 30 | 30 | 30 |

## II. SUBSEQUENT EVENTS

Save as disclosed in the Financial Information, there were no significant events subsequent to 31 March 2008.

## III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of Century 21 Limited have been prepared in respect of any period subsequent to 31 March 2008.

Yours faithfully,
**HLB Hodgson Impey Cheng**
*Chartered Accountants*
*Certified Public Accountants*
Hong Kong

## A. UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

### Introduction to the unaudited Pro Forma Financial Information of the Enlarged Group

On 30 April 2008, Kingbox and the Company entered into the Agreement with the Vendor, pursuant to which Kingbox conditionally agreed to acquire and the Vendor conditionally agreed to sell the equity interests in the Targets for a total consideration of HK$430,000,000 satisfied by cash of HK$200,000,000, by the issue of the Promissory Note of HK$100,000,000, and by the issue of the Vendor CN of HK$130,000,000 (the "Acquisition").

The unaudited pro forma consolidated income statement and cash flow statement of the Enlarged Group are prepared based on (i) the audited consolidated income statement and cash flow statement of the Group for the year ended 31 December 2007 extracted from published annual report of the Group as of 31 December 2007 as set out in the Appendix I to this Circular; (ii) the audited income statement of Consecutive Profits for the year ended 31 March 2008 as set out in Appendix II to this Circular; (iii) the audited income statement of Century Profit for the year ended 31 March 2008 as set out in Appendix II to this circular; (iv) the audited income statement and cash flow statement of Century 21 HK for the year ended 31 March 2008 as set out in Appendix V to this Circular; (v) the audited income statement and cash flow statement of Century 21 Macau for the year ended 31 March 2008 as set out in Appendix VIII to this Circular; (vi) the audited income statement of Real Clever for the year ended 31 March 2008 as set out in Appendix III to this Circular; (vii) the audited income statement of Pacific Pointer for the year ended 31 March 2008 as set out in Appendix IV to this Circular; (viii) the audited income statement and cash flow statement of Century 21 Property Agency for the year ended 31 March 2008 as set out in Appendix VI to this Circular; (ix) the audited income statement and cash flow statement of Century 21 Surveyors for the year ended 31 March 2008 as set out in Appendix VII to this Circular, assuming that the Acquisition had been completed on 1 January 2007.

The unaudited pro forma consolidated balance sheet of the Enlarged Group is prepared based on (i) the audited consolidated balance sheet of the Group as at 31 December 2007 extracted from published annual report of the Group as of 31 December 2007 as set out in the Appendix I to this Circular; (ii) the audited balance sheet of Consecutive Profits as at 31 March 2008 as set out in Appendix II to this Circular; (iii) the audited balance sheet of Century Profit as at 31 March 2008 as set out in Appendix II to this Circular; (iv) the audited balance sheet of Century 21 HK as at 31 March 2008 as set out in Appendix V to this Circular; (v) the audited balance sheet of Century 21 Macau as at 31 March 2008 as set out in Appendix VIII to this Circular; (vi) the audited balance sheet of Real Clever as at 31 March 2008 as set out in Appendix III to this Circular; (vii) the audited balance sheet of Pacific Pointer as at 31 March 2008 as set out in Appendix IV to this Circular; (viii) the audited balance sheet of Century 21 Property Agency as at 31 March 2008 as set out in Appendix VI to this Circular; (ix) the audited balance sheet of Century 21 Surveyors as at 31 March 2008 as set out in Appendix VII to this Circular, assuming that the Acquisition had been completed on 31 December 2007.

The unaudited pro forma financial information is prepared to provide information on the Enlarged Group as a result of completion of the Acquisition. As it is prepared for illustrative purposes only, it does not purport to represent what the results or financial position of the Enlarged Group will be on the completion of Acquisition.

## 1. Unaudited Pro Forma Income Statement of the Enlarged Group

| | The Group for the year ended 31 December 2007 | Consecutive Profits for the year ended 31 March 2008 | Century Profit for the year ended 31 March 2008 | Century 21 HK for the year ended 31 March 2008 | Century 21 Macau for the year ended 31 March 2008 | Real Clever for the year ended 31 March 2008 | Pacific Pointer for the year ended 31 March 2008 | Century 21 Property Agency for the year ended 31 March 2008 | Century 21 Surveyors for the year ended 31 March 2008 | Interest expenses | Elimination of inter-companies transaction | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | | | | | | | | | | *(Note 1)* | *(Note 2)* | |
| **Revenue** | 132,987 | – | – | 5,856 | – | – | – | 28,435 | 54,629 | | (1,188) | 220,719 |
| Cost of sales | (129,977) | – | – | – | – | – | – | – | – | | | (129,977) |
| Gross profit | 3,010 | – | – | 5,856 | – | – | – | 28,435 | 54,629 | | | 90,742 |
| Other income | 2,061 | – | – | 3,522 | – | – | – | 492 | 904 | | (398) | 6,581 |
| Distribution cost | (3,379) | – | – | – | – | – | – | – | – | | | (3,379) |
| Administrative expenses | (21,985) | – | – | – | – | – | – | – | – | | | (21,985) |
| Operating expenses | – | – | – | (6,921) | – | – | – | (17,174) | (44,651) | | 1,586 | (67,160) |
| Loss on assignment of an amount due from a subsidiary upon disposal | (68,559) | – | – | – | – | – | – | – | – | | | (68,559) |
| Other expenses | (5,420) | – | – | – | – | – | – | – | – | | | (5,420) |
| Gain on disposal of subsidiaries | 20,413 | – | – | – | – | – | – | – | – | | | 20,413 |
| (Loss)/Profit from operations | (73,859) | – | – | 2,457 | – | – | – | 11,753 | 10,882 | | | (48,767) |
| Finance costs | (940) | – | – | – | – | – | – | (111) | – | (11,575) | | (12,626) |
| **(Loss)/Profit before income tax** | (74,799) | – | – | 2,457 | – | – | – | 11,642 | 10,882 | | | (61,393) |
| Income tax expenses | (171) | – | – | (433) | – | – | – | (2,001) | (1,904) | | | (4,509) |
| **(Loss)/Profit for the year** | (74,970) | – | – | 2,024 | – | – | – | 9,641 | 8,978 | | | (65,902) |
| **Attributable to:** | | | | | | | | | | | | |
| Equity holders of the Company | (73,579) | – | – | 2,024 | – | – | – | 9,641 | 8,978 | | | (64,511) |
| Minority interests | (1,391) | – | – | – | – | – | – | – | – | | | (1,391) |
| | (74,970) | – | – | 2,024 | – | – | – | 9,641 | 8,978 | | | (65,902) |

*Notes:*

(1) This represents pro forma adjustment for interest expenses payable for the Promissory Note at 3% per annum and the Vendor CN at effective interest rate at 7.75% per annum.

(2) This represents pro forma adjustment for elimination of inter-companies transactions of the Target Group.

## 2. Unaudited Pro Forma Balance Sheet of the Enlarged Group

| | The Group as at 31 December 2007 | Consecutive Profits as at 31 March 2008 | Century Profit as at 31 March 2008 | Century 21 HK as at 31 March 2008 | Century 21 Macau as at 31 March 2008 | Real Clever as at 31 March 2008 | Pacific Pointer as at 31 March 2008 | Century 21 Property Agency as at 31 March 2008 | Century 21 Surveyors as at 31 March 2008 | Consideration payable for the Acquisition | Goodwill arising from the Acquisition | Interest expenses | Elimination of inter-company balances | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *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* |
| | | | | | | | | | | *(Note 1)* | *(Note 2)* | *(Note 3)* | *(Note 4)* | |
| **Non-current assets** | | | | | | | | | | | | | | |
| Property, plant and equipment | 155 | – | – | 17 | – | – | – | 532 | 53 | | | | | 757 |
| Goodwill | – | – | – | – | – | – | – | – | – | | 408,466 | | | 408,466 |
| Interest in subsidiaries | – | 3,201 | 485 | 20 | – | – | – | – | – | 430,000 | (433,706) | | | – |
| Deferred tax assets | – | – | – | 147 | – | – | – | – | – | | | | | 147 |
| | 155 | 3,201 | 485 | 184 | – | – | – | 532 | 53 | | | | | 409,370 |
| **Current assets** | | | | | | | | | | | | | | |
| Financial assets at fair value through profit or loss | 11,339 | – | – | – | – | – | – | – | – | | | | | 11,339 |
| Trade and other receivables | 15,546 | – | – | 938 | – | – | – | 7,652 | 22,535 | | | | | 46,671 |
| Amount due from a director, the Vendor | – | (3,686) | – | 1,142 | – | – | 800 | 5,970 | 3,477 | | | | | 7,703 |
| Amount due from related companies | – | 485 | – | 3,191 | – | – | – | 3,020 | 72 | | | | (6,496) | 272 |
| Tax recoverable | 231 | – | – | – | – | – | – | – | – | | | | | 231 |
| Bank balances and cash | 235,437 | – | – | 3,377 | 30 | – | – | 1,121 | 8,366 | (200,000) | | (5,600) | | 42,731 |
| | 262,553 | (3,201) | – | 8,648 | 30 | – | 800 | 17,763 | 34,450 | | | | | 108,947 |
| **Current liabilities** | | | | | | | | | | | | | | |
| Trade and other payables | 15,074 | – | – | 2,599 | – | – | – | 1,047 | 20,097 | | | | | 38,817 |
| Amount due to related companies | – | – | 485 | – | – | – | – | 672 | 5,753 | | | | (6,496) | 414 |
| Amount due to related parties | – | – | – | – | – | – | – | 325 | 87 | | | | | 412 |
| Bank borrowing | – | – | – | – | – | – | – | 2,000 | – | | | | | 2,000 |
| Promissory notes payable | – | – | – | – | – | – | – | – | – | 100,000 | | | | 100,000 |
| Obligation under finance lease | – | – | – | 5 | – | – | – | – | – | | | | | 5 |
| Income tax payables | – | – | – | 388 | – | – | – | 2,448 | 1,799 | | | | | 4,635 |
| | 15,074 | – | 485 | 2,992 | – | – | – | 6,492 | 27,736 | | | | | 146,283 |
| **Net current assets/(liabilities)** | 247,479 | (3,201) | (485) | 5,656 | 30 | – | 800 | 11,271 | 6,714 | | | | | (37,336) |
| **Total assets less current liabilities** | 247,634 | – | – | 5,840 | 30 | – | 800 | 11,803 | 6,767 | | | | | 372,034 |
| **Non-current liability** | | | | | | | | | | | | | | |
| Convertible notes | – | – | – | – | – | – | – | – | – | 110,649 | | 5,975 | | 116,624 |
| **Net assets** | 247,634 | – | – | 5,840 | 30 | – | 800 | 11,803 | 6,767 | | | | | 255,410 |
| **Capital and reserves** | | | | | | | | | | | | | | |
| Share capital | 156,456 | – | – | 3,880 | 30 | – | – | – | – | | (3,910) | | | 156,456 |
| Reserves | 91,178 | – | – | 1,960 | – | – | 800 | 11,803 | 6,767 | 19,351 | (21,330) | (11,575) | | 98,954 |
| Equity attributable to equity holders of the parent | 247,634 | – | – | 5,840 | 30 | – | 800 | 11,803 | 6,767 | | | | | 255,410 |

## 2. Unaudited Pro Forma Balance Sheet of the Enlarged Group *(continued)*

*Notes:*

(1) This pro forma adjustment represents the Consideration of HK$430,000,000 payable by the Group for acquiring the equity interests in the Targets. The Consideration is satisfied by cash of HK$200,000,000, by the issue of Promissory Note of HK$100,000,000, and by the issue of Vendor CN of HK$130,000,000. The pro forma adjustment for Vendor CN represented the liability and equity components of the Vendor CN as if it was issued on 1 January 2007. The estimated fair value of the liability component of Vendor CN is approximately HK$110,649,000 determined using the effective interest method. The estimated fair value of the equity component is approximately HK$19,351,000. Since this pro forma financial information is prepared solely for illustrative purpose of the effect of the aggregated financial position and the results and cash flows of the Enlarged Group on the Acquisition as if the Acquisition was completed on 1 January 2007, the proposed adjustment to the consideration, details as set out in page 15 to this circular, was not reflected in the unaudited pro forma balance sheet of the Enlarged Group in this respect.

(2) For the Acquisition of the equity interests in the Targets satisfied by the Consideration of HK$430,000,000, this pro forma adjustment represents the goodwill arose thereof. On Completion, the Consideration is subject to adjustment and the fiar values of the Consideration and the net identifiable assets and liabilities of the Targets will have to be reassessed. As a result of the reassessment, the amount of goodwill may be different from that presented in the unaudited pro forma balance sheet of the Enlarged Group.

(3) This represents pro forma adjustment for interest expenses payable for the Promissory Note at 3% per annum and the Vendor CN at effective interest rate at 7.75% per annum.

(4) This represents pro forma adjustment for elimination of inter-companies balances of the Target Group.

## 3. Unaudited Pro Forma Cash Flow Statement of the Enlarged Group

| | The Group for the year ended 31 December 2007 HK$'000 | Consecutive Profits for the year ended 31 March 2008 HK$'000 | Century Profit for the year ended 31 March 2008 HK$'000 | Century 21 HK for the year ended 31 March 2008 HK$'000 | Century 21 Macau for the year ended 31 March 2008 HK$'000 | Real Clever for the year ended 31 March 2008 HK$'000 | Pacific Pointer for the year ended 31 March 2008 HK$'000 | Century 21 Property Agency for the year ended 31 March 2008 HK$'000 | Century 21 Surveyors for the year ended 31 March 2008 HK$'000 | Consideration payable for the Acquisition HK$'000 (Note 1) | Interest expenses HK$'000 (Note 2) | Elimination of inter-companies balances HK$'000 (Note 3) | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | | | | | | | | | |
| (Loss)/Profit before taxation | (74,799) | – | – | 2,457 | – | – | – | 11,642 | 10,882 | | (11,575) | | (61,393) |
| Depreciation of property, plant and equipment | 1,901 | – | – | 354 | – | – | – | 115 | 7 | | | | 2,377 |
| Impairment loss on goodwill | 4,201 | – | – | – | – | – | – | – | – | | | | 4,201 |
| Loss on assignment of an amount due from a subsidiary upon disposal | 68,559 | – | – | – | – | – | – | – | – | | | | 68,559 |
| Equity settled share-based transactions | 2,282 | – | – | – | – | – | – | – | – | | | | 2,282 |
| Loss on disposal of property, plant and equipment | 62 | – | – | – | – | – | – | 13 | – | | | | 75 |
| Gain on disposal of subsidiaries | (20,413) | – | – | – | – | – | – | – | – | | | | (20,413) |
| Amortization of prepaid lease payments | 63 | – | – | – | – | – | – | – | – | | | | 63 |
| Finance cost | 940 | – | – | – | – | – | – | 111 | – | | 11,575 | | 12,626 |
| Interest income | (1,470) | – | – | – | – | – | – | (10) | (6) | | | | (1,486) |
| Operating (loss)/profit before working capital changes | (18,674) | – | – | 2,811 | – | – | – | 11,871 | 10,883 | | | | 6,891 |
| Increase in inventories | (2,289) | – | – | – | – | – | – | – | – | | | | (2,289) |
| Increase in financial assets at fair value through profit of loss | (11,339) | – | – | – | – | – | – | – | – | | | | (11,339) |
| (Increase)/Decrease in trade and other receivables | 3,285 | – | – | 692 | – | – | – | (3,214) | (2,529) | | | | (1,766) |
| Increase in amount due from a director, the Vendor | – | – | – | (1,142) | – | – | – | – | – | | | | (1,142) |
| (Increase)/Decrease in amount due from related companies | – | – | – | 1,365 | – | – | – | – | 100 | | | (1,485) | (20) |
| Increase/(Decrease) in trade and other payables | 1,082 | – | – | 124 | – | – | – | (213) | 1,455 | | | | 2,448 |
| (Decrease)/Increase in amount due to related companies | – | – | – | (9) | – | – | – | 57 | (1,561) | | | 1,485 | (28) |
| Decrease in amount due to a director, the Vendor | – | – | – | (625) | – | – | – | – | – | | | | (625) |
| (Decrease)/Increase in amount due to related parties | – | – | – | – | – | – | – | 1 | 27 | | | | 28 |
| Cash (used in)/generated from operations | (27,935) | – | – | 3,216 | – | – | – | 8,502 | 8,375 | | | | (7,842) |
| Income taxes refund/(paid) | 114 | – | – | (139) | – | – | – | – | (425) | | | | (450) |
| **Net cash from/(used in) operating activities** | (27,821) | – | – | 3,077 | – | – | – | 8,502 | 7,950 | | | | (8,292) |
| **Cash flows from investing activities** | | | | | | | | | | | | | |
| Interest received | 1,470 | – | – | – | – | – | – | 10 | 6 | | | | 1,486 |
| Purchase of property, plant and equipment | (44) | – | – | (3) | – | – | – | (493) | (57) | | | | (597) |
| Deposit paid for acquisition of property, plant and equipment | (2,657) | – | – | – | – | – | – | – | – | | | | (2,657) |
| Proceed from disposal of property, plant and equipment | – | – | – | – | – | – | – | 25 | – | | | | 25 |
| Net cash outflow from disposal of subsidiaries | (4,279) | – | – | – | – | – | – | – | – | | | | (4,279) |
| Net cash outflow from acquisition of subsidiaries | – | – | – | – | – | – | – | – | – | (199,369) | | | (199,369) |
| Repayment to related companies | – | – | – | – | – | – | – | – | 874 | | | (874) | – |
| **Net cash generated from/(used in) investing activities** | (5,510) | – | – | (3) | – | – | – | (458) | 823 | | | | (205,391) |

## 3. Unaudited Pro Forma Cash Flow Statement of the Enlarged Group *(continued)*

| | The Group for the year ended 31 December 2007 HK$'000 | Consecutive Profits for the year ended 31 March 2008 HK$'000 | Century Profit for the year ended 31 March 2008 HK$'000 | Century 21 HK for the year ended 31 March 2008 HK$'000 | Century 21 Macau for the year ended 31 March 2008 HK$'000 | Real Clever for the year ended 31 March 2008 HK$'000 | Pacific Pointer for the year ended 31 March 2008 HK$'000 | Century 21 Property Agency for the year ended 31 March 2008 HK$'000 | Century 21 Surveyors for the year ended 31 March 2008 HK$'000 | Consideration payable for the Acquisition HK$'000 (Note 1) | Interest expenses HK$'000 (Note 2) | Elimination of inter-companies balances HK$'000 (Note 3) | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Cash flows from financing activities** | | | | | | | | | | | | | |
| Net proceeds from Issue of new shares | 221,319 | – | – | – | – | – | – | – | – | | | | 221,319 |
| Issue of shares on exercise of share options | 4,632 | – | – | – | – | – | – | – | – | | | | 4,632 |
| Proceeds from issue of convertible notes | 34,000 | – | – | – | – | – | – | – | – | | | | 34,000 |
| Shares issue expenses | (6,595) | – | – | – | – | – | – | – | – | | | | (6,595) |
| Interest paid | (314) | – | – | – | – | – | – | (111) | – | | (5,600) | | (6,025) |
| Proceeds from new interest-bearing borrowings | 9,200 | – | – | – | – | – | – | 2,000 | – | | | | 11,200 |
| Repayment of borrowings | – | – | – | – | – | – | – | (2,000) | – | | | | (2,000) |
| Interest element paid on obligations under finance leases | (94) | – | – | – | – | – | – | – | – | | | | (94) |
| Repayment of obligation under finance lease | (587) | – | – | (12) | – | – | – | – | – | | | | (599) |
| Advance from a director, the Vendor | – | – | – | – | – | – | – | 1,928 | 2,310 | | | | 4,238 |
| Repayment to a director, the Vendor | – | – | – | – | – | – | – | (7,996) | (2,973) | | | | (10,969) |
| Advances from related companies | – | – | – | – | – | – | – | 727 | – | | | (627) | 100 |
| Repayment to related companies | – | – | – | – | – | – | – | (1,501) | – | | | 1,501 | – |
| **Net cash generated from/(used in) financing activities** | 261,561 | – | – | (12) | – | – | – | (6,953) | (663) | | | | 249,207 |
| **Net increase in cash and cash equivalents** | 228,230 | – | – | 3,062 | – | – | – | 1,091 | 8,110 | | | | 35,524 |
| **Cash and cash equivalents at beginning of year** | 7,207 | – | – | 315 | 30 | – | – | 30 | 256 | (631) | | | 7,207 |
| **Cash and cash equivalents at end of year** | 235,437 | – | – | 3,377 | 30 | – | – | 1,121 | 8,366 | | | | 42,731 |

*Notes:*

(1) This pro forma adjustment represents the Consideration of HK$430,000,000 payable by the Group for acquiring the equity interests in the Targets in which HK$200,000,000 satisfied by cash. The net cash outflow for acquisition of the Targets of approximately HK$199,369,000 was netted off the cash retained in the Targets as at 1 January 2007 as if the Acquisition had been completed on 1 January 2007.

(2) This represents pro forma adjustment for interest expenses payable for the Promissory Note at 3% per annum and the Vendor CN at effective interest rate at 7.75% per annum.

(3) This represents pro forma adjustment for elimination of inter-companies balances of the Target Group.

## B. LETTER ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

*The following is the text of the report, prepared for the purpose of incorporation in this circular, from Grant Thornton in respect of the pro forma financial information of the Enlarged Group as set out in this appendix:*

Grant Thornton
均富

Member of Grant Thornton International Ltd

The Board of Directors
GFT Holdings Limited
Unit 707, Tower II, Admiralty Centre
18 Harcourt Road
Hong Kong

Dear Sirs,

We report on the unaudited pro forma financial information of GFT Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") ("the Unaudited Pro Forma Financial Information") to the circular dated 28 June 2008 (the "Circular") in connection with the very substantial acquisitions and connected transactions relating to the proposed acquisition of equity interests in (i) Consecutive Profits Limited, (ii) Pacific Pointer Limited, (iii) Real Clever Profits Limited, (iv) Century 21 Hong Kong Limited, and (v) Century 21 Limited (the "Acquisition"), which has been prepared by the directors of the Company, for illustrative purposes solely to provide information about the Acquisition might have affected the financial information presented, for inclusion as Appendix IX to the Circular.

The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages 301 to 306 to the Circular.

**Responsibilities**

It is the responsibility solely of the directors to prepare the Unaudited Pro Forma Financial Information in accordance with Paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

It is our responsibility to form an opinion, as required by paragraph 29 (7) of Chapter 4 of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

**Basis of opinion**

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements ("HKSIR") 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. The engagement did not involve independent examination of any of the underlying financial information.

Our work does not constitute an audit or review made in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and accordingly, we do not express any such assurance on the Unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Enlarged Group as at date covered by the Unaudited Pro Forma Financial Information or any future date; or
- the results of the Enlarged Group for periods covered by the Unaudited Pro Forma Financial Information or for any future periods.

**Opinion**

In our opinion:

a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

b) such basis is consistent with the accounting policies of the Group, and

c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,

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

28 June 2008

*The following is the text of a letter prepared for the purpose of incorporation in this circular received from BMI Appraisals Limited, an independent valuer, in connection with its valuation of the market value of a 100% equity interest in Century 21 Hong Kong Limited, Century 21 Property Agency Limited and Century 21 Surveyors Limited as at 30 April 2008.*

BMI APPRAISALS

BMI Appraisals Limited 邦盟滙駿評估有限公司

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28 June 2008

The Directors
**GFT Holdings Limited**
Room 707, Tower II
Admiralty Centre
No. 18 Harcourt Road
Hong Kong

Dear Sirs,

## INSTRUCTIONS

We refer to the instructions from GFT Holdings Limited (referred to as the "Company") for us to provide our opinion on the market value of a 100% equity interest in Century 21 Hong Kong Limited, Century 21 Property Agency Limited and Century 21 Surveyors Limited (jointly referred to as the "Appraised Companies") to be acquired by the Company. The date of valuation is 30 April 2008.

This report describes the background of the Appraised Companies, a brief industry overview and the basis of valuation & assumptions. It also explains the valuation methodologies utilized and presents our conclusion of value.

## PURPOSE OF VALUATION

We understand that the purpose of our valuation is to express an independent opinion of the market value on a 100% equity interest in the Appraised Companies as at 30 April 2008 in connection with the acquisition of the Appraised Companies by the Company.

## BASIS OF VALUATION

Our valuation has been carried out on the basis of market value. Market value is defined as *"the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion"*.

## BACKGROUND OF THE APPRAISED COMPANIES

Century 21 Hong Kong Limited was incorporated in Hong Kong with limited liability under the Hong Kong Companies Ordinance on 18 May 1993. Its registered office and principal place of business is situated at 10/F., No. 88 Gloucester Road, Wanchai, Hong Kong. Century 21 Hong Kong Limited is principally engaged in the provision of franchise, consultancy and property agency services in Hong Kong.

Century 21 Property Agency Limited was incorporated in Hong Kong with limited liability under the Hong Kong Companies Ordinance on 8 September 1999. Its registered office is situated at G/F., No. 5A MacDonnell Road, and the principal place of business of Century 21 Property Agency Limited is situated at 10/F., No. 88 Gloucester Road, Wanchai, Hong Kong. Century 21 Property Agency Limited is principally engaged in the provision of property agency services in Hong Kong.

Century 21 Surveyors Limited was incorporated in Hong Kong with limited liability under the Hong Kong Companies Ordinance on 19 December 1995. Its registered office and principal place of business is situated at 10/F., No. 88 Gloucester Road, Wanchai, Hong Kong. Century 21 Surveyors Limited is principally engaged in the provision of surveying and property agency services in Hong Kong.

## INDUSTRY OVERVIEW

Hong Kong property market soared and became more attractive to foreigners and mainland Chinese, in spite of the housing downturn and mortgage crisis that threatens the U.S. economy, according to a report by Reuters. As Hong Kong's currency is pegged with the U.S. dollars, the U.S. interest rate cut has made the Hong Kong mortgage rates become negative in real terms, below the expected inflation rate of 4.5%. In the last three months of 2007, monthly transactions for mass market housing were on average 63% higher than in the rest of the year, the highest for a decade.

Economic indicators & forecasts:

| Economic indicator | Period | Figure | 2006 | 2007 | 2008F |
|---|---|---|---|---|---|
| GDP | Q4 2007 | 6.7%# | 7.0%# | 6.3%# | 5.0%# |
| Inflation | Jan 2008 | 3.2% | 2.0% | 2.0% | 4.5% |
| Unemployment | 3 months to Feb 2008 | 3.3%# | 4.8% | 4.0% | 3.2% |
| Prime lending rate | Current | 5.25-5.50% | 7.9%* | 7.6%* | 5.3%* |

Source: EIU CountryData/Census & Statistics Department/Knight Frank

# provisional * HSBC prime lending rate

Furthermore, the anticipated future annual supply of 11,000-12,000 units in the next few years can hardly fully match the demand for 17,000 new units every year. The perceived shortage has been attracting speculators to the market. Speculative activities, as measured by confirmor transactions, are on an uptrend. Nevertheless, confirmor transactions as a percentage of all secondary transactions were mild at 4.3% in February 2008, well below the 9.7% at the peak of 1997. Investors are also shifting their money to residential properties to get better returns. Low borrowing cost relative to higher property yield makes property investment more attractive. Other than that, the government's upward-biased land policy plays a role. Recently, lands were sold at sky-rocketing prices, which is an important indicator of future property prices. More land sites would be put onto market this year as announced in this year's Budget. But, it often takes more than three years from a land sale to the completion of a project.

Looking forward, the residential market is expected to post positive growth and some analysts have predicted an increase in property value by 50% in the next two years. The prevailing solid demand fundamentals, negative real interest rates and the limited supply of quality stock is expected to remain the key market drivers pushing property prices further upward.

## SOURCE OF INFORMATION

For the purpose of our valuation, we were furnished with financial and operational data related to the Appraised Companies, which was provided by the senior management of the Company.

The business valuation of the Appraised Companies required consideration of all pertinent factors affecting the economic benefits of the Appraised Companies and their abilities to generate future investment returns. The factors considered in the valuation included, but were not limited to, the following:

- The business nature of the Appraised Companies;
- The financial and operating information of the Appraised Companies;
- The specific economic environment and competition for the market in which the Appraised Companies operate or will operate;
- Market-derived investment returns of entities engaged in similar lines of business; and
- The financial and business risks of the Appraised Companies, including the continuity of income and the projected future results.

## SCOPE OF WORKS

In the course of our valuation work for the Appraised Companies, we have conducted the following steps to evaluate the reasonableness of the adopted bases and assumptions provided by the senior management of the Company:

- Interviewed with the senior management of the Company;
- Obtained financial and operational information of the Appraised Companies;
- Performed market research and obtained statistical figures from public sources;
- Examined all relevant bases and assumptions of both the financial and operational information of the Appraised Companies, which were provided by the senior management of the Company;
- Prepared a business valuation model to derive the indicated value of the Appraised Companies; and
- Presented all relevant information on the background of the Appraised Companies, valuation methodology, source of information, scope of works, major assumptions, comments and our conclusion of value in this report.

## VALUATION ASSUMPTIONS

Given the changing environment in which the Appraised Companies operate or will operate, a number of assumptions have to be established in order to sufficiently support our concluded opinion of value of the Appraised Companies. The major assumptions adopted in our valuation were:

- There will be no major changes in the existing political, legal, and economic conditions in the jurisdiction where the Appraised Companies operate or will operate, which will materially affect the revenues generated by the Appraised Companies;
- There will be no major changes in the current taxation law in the jurisdiction where the Appraised Companies operate or will operate, that the rates of tax payable remain unchanged and that all applicable laws and regulations will be complied with;
- The financial information in respect of the Appraised Companies has been prepared on a reasonable basis, reflecting estimates by the senior management of the Appraised Companies. The information has also been examined under due and careful considerations by the senior management of the Company;
- Exchange rates and interest rates will not differ materially from those presently prevailing; and
- Economic conditions will not deviate significantly from economic forecasts.

## VALUATION METHODOLOGY

Three generally accepted valuation methodologies have been considered in valuing the Appraised Companies. They are the *market approach*, the *cost approach* and the *income approach*.

The market approach provides indications of value by comparing the subject to similar businesses, business ownership interests, and securities that have been sold in the market.

The cost approach provides indications of value by studying the amounts required to recreate the business for which a value conclusion is desired. This approach seeks to measure the economic benefits of ownership by quantifying the amount of fund that would be required to replace the future service capability of the business.

The income approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the project than an amount equal to the present worth of anticipated future benefits from the same or a substantially similar business with a similar risk profile.

Among the three approaches, the income approach was considered inadequate in the valuation, as it involves much more assumptions compared to the other two approaches. The cost approach is also regarded inadequate in this valuation, as this approach does not take future growth potential of the Appraised Companies into consideration. Thus, we have determined that the market approach is the most appropriate valuation approach for this valuation.

During the valuation, we have selected three recent acquisitions that are related to companies which had similar business operation with the Appraised Companies and determined their "price to sales" multiples. Then we have applied these price multiples to the related financial data of the Appraised Companies and determined the indicated value of the Appraised Companies. The value based on "price to sales" multiple was then discounted back to the date of valuation with a calculated discount rate. The present value of the expected capital expenditure based on the expansion plans provided by the senior management of the Company was finally deducted to come up with the final concluded market value of the Appraised Companies.

The details of the three acquisitions selected are as follows:

| **Purchasor** | **Target** | **Target Description** | **Price to Sales Ratio** |
|---|---|---|---|
| BC Partners | Foxtons Limited | London's leading estate agency and independent mortgage broker group | 3.90 |
| Apollo Management LLP | Countrywide plc | UK's largest estate agency group | 1.61 |
| Technology Venture Holdings Limited | Grand Panorama Limited | Engaged in real estate broking of properties and provision of property-related services in China | 2.22 |
| | | **Median:** | 2.22 |

The "price to sales" multiple was considered the most appropriate price multiple to estimate our concluded value. First of all, the volatile and transitory nature of earnings makes the "price to earnings" multiple rather difficult to interpret. Also, the "price to book value" multiple was considered an inappropriate measure as the business of real estate agency is highly related to human capital, which is not reflected in the book value. On the other hand, the "price to sales" multiple is not as volatile as the "price to earnings" multiple because the volatility of earnings is magnified by the effect of fixed costs. By definition, change in earnings is equals to change in sales multiplied by the operating leverage, which is greater than 1 if there is any fixed cost involved. Furthermore, the "price to sales" multiple is particularly appropriate for valuing companies in the early expansion stage.

The future growth of the Appraised Companies can be incorporated by estimating our concluded value based on the projected sales three years from now, which was based on the expansion plans provided by the senior management of the Company. The third years projected sales were adopted as the growth of the Appraised Companies was expected to become relatively stable by that time. The calculated value based on the projected sales is then discounted back to the date of valuation with a calculated discount rate.

The discount rate is the sum of the risk-free rate, a related beta times the market risk premium and an early stage risk premium. We have adopted the yield rate of the 10-year Hong Kong Exchange Fund Notes as at the date of valuation as the risk-free rate, which was 2.584%. The beta has been determined as the median of betas of four public listed companies which had similar business operation with the Appraised Companies. The estimated beta for the Appraised Companies was 0.713. Besides, the market risk premium adopted was 11.846%. Also, since the Appraised Companies is still at an early stage of its operation, an early stage risk premium of 3% is added. As a result, the discount rate is calculated as 14.03%.

In respect of non-systematic risks, we have considered the size difference (a company-specific risk) between the Appraised Companies and the selected comparable companies. In the valuation, a discount have been used to account for the effect of the size difference.

## VALUATION COMMENTS

For the purpose of this valuation and in arriving at our opinion of value, we have referred to the information provided by the senior management of the Company to estimate the value of the Appraised Companies. We have also sought and received confirmation from the Company that no material facts have been omitted from the information supplied.

To the best of our knowledge, all data set forth in this report are true and accurate. Although gathered from reliable sources, no guarantee is made nor liability assumed for the accuracy of any data, opinions, or estimates identified as being furnished by others, which have been used in formulating this analysis.

## REMARKS

Unless otherwise stated, all money amounts stated herein are in Hong Kong Dollars (HK$).

## CONCLUSION OF VALUE

Our conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of a lot of uncertainties, not all of which can be easily ascertained or quantified.

Further, whilst the assumptions and consideration of such matters are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company, the Appraised Companies or us.

Based on our investigation and analysis outlined in this report, it is our opinion that the market value of a 100% equity interest in the Appraised Companies as at 30 April 2008 was **HK$465,000,000 (HONG KONG DOLLARS FOUR HUNDRED AND SIXTY FIVE MILLION ONLY).**

We hereby certify that we have neither present nor prospective interest in the Company, the Appraised Companies or the value reported.

Yours faithfully,
For and on behalf of
**BMI APPRAISALS LIMITED**

**Marco T.C. Sze**
*B.Eng(Hon), MBA(Acct), CFA*
*Director*

**Dr. Tony Cheng**
*BSc, MUD, MBA(Finance), MSc(Eng), PhD(Econ), MHKIS, MCIArb, AFA, SCIFM, FCIM, MASCE, MIET, MIEEE, MASME, MIIE*
*Director*

*Notes:*

1. Mr. Marco Sze holds a Master's Degree of Business Administration in Accountancy from the City University of New York - Baruch College and is a holder of Chartered Financial Analyst. He has about 3 years' experience in valuing similar assets or companies engaged in similar business activities as that of the Appraised Companies in Hong Kong, China and the Asia-Pacific Region.

2. Dr. Tony Cheng is a member of the Hong Kong Institute of Surveyors (General Practice), a member of the American Society of Civil Engineers, a member of the American Society of Mechanical Engineers and a member of Institute of Industrial Engineers (U.K.). He has about 10 years' experience in valuing similar assets or companies engaged in similar business activities as that of the Appraised Companies worldwide.

## RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

## SHARE CAPITAL

The authorised and issued and fully paid up share capital of the Company as at the Latest Practicable Date was as follows:

| | | |
|---|---|---|
| *Authorised:* | | *HK$* |
| 20,000,000,000 | Existing Shares | 500,000,000 |
| *Issued and fully paid:* | | |
| 6,258,230,400 | Existing Shares | 156,455,760 |

The authorised and issued and fully paid up share capital of the Company upon the Share Consolidation becoming effective, and the issue of the Placing Shares, the Placing CN Conversion Shares and the Vendor CN Conversion Shares will be as follows:

| | | |
|---|---|---|
| *Authorised:* | | *HK$* |
| 4,000,000,000 | New Shares | 500,000,000 |
| *Issued and fully paid:* | | |
| 1,251,646,080 | New Shares to be in issue immediately upon the Share Consolidation taking effect | 156,455,760 |
| 400,000,000 | Placing Shares | 50,000,000 |
| 727,272,727 | Placing CN Conversion Shares to be allotted and issued upon exercise in full of the conversion rights attaching to the Placing CN | 90,909,091 |
| 945,454,545 | Vendor CN Conversion Shares to be allotted & issued upon exercise in full of the conversion rights attaching to the Vendor CN | 118,181,818 |
| 3,324,373,352 | New Shares | 415,546,669 |

## DISCLOSURE OF INTERESTS

### (a) Interests of Directors and chief executives

As at the Latest Practicable Date, none of the Directors or the chief executives of the Company and their associates had any interests or short positions in any Shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange 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), the Model Code for Securities Transactions by Directors of Listed Issuers and which were required to be entered in the register maintained by the Company pursuant to section 352 of the SFO.

### (b) Interests of substantial Shareholders

As at the Latest Practicable Date, so far as is known to the Directors, the following persons (other than a director or chief executive of the Company) had an interest or short position in the Shares and underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or recorded in the register kept by the Company pursuant to Section 336 of the SFO, or who were, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other members of the Group:

*(i) long position in Existing Shares*

| Name | Capacity and nature of interest | Number of Existing Shares held | Approximate percentage of shareholding *(Note 1)* |
|---|---|---|---|
| Tse Cho Tseung ("Mr. Tse") | Through controlled corporation | 564,896,000 *(Note 2)* | 9.03% |
| Tellus Investments Limited | Through controlled corporation | 564,896,000 *(Note 2)* | 9.03% |
| Glory Winning Investment Limited | Directly beneficially owned | 564,896,000 *(Note 2)* | 9.03% |
| Vendor | Directly benefically owned *(Note 3)* | 945,454,545 *(Note 3)* | 15.11% |

*Notes:*

1. The percentage shareholding is calculated on the basis of 6,258,230,400 Existing Shares in issue as at the Latest Practicable Date.

2. Glory Winning Investment Limited is a company held by Mr. Tse and Tellus Investments Limited, the entire issued share capital of which is held by Mr. Tse, in equal shares. Therefore, both Tellus Investments Limited and Mr. Tse are deemed to be interested in 564,896,000 Existing Shares held by Glory Winning Investments Limited.

3. These are the Vendor CN Conversion Shares issuable to the Vendor.

*(ii) interest in other members of the Enlarged Group*

| Name of non-wholly owned subsidiary of the Company | Name of registered substantial shareholders (other than members of the Group) | Number of shares held | Approximate percentage of shareholding |
|---|---|---|---|
| Yanyan Force Limited | Ng Kai Lok, Paul | 40 ordinary shares of HK$1 each | 40% |

Save as disclosed above, the Directors were not aware that there was any person (other than a director or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in the Existing Shares and underlying Existing Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Enlarged Group.

**(c) Directors' interests in assets/contracts and other interests**

None of the Directors was materially interested in any contract or arrangement entered into by any member of the Enlarged Group subsisting at the Latest Practicable Date which was significant in relation to the business of the Enlarged Group.

None of the Directors has any direct or indirect interests in any assets which have been acquired or disposed of by or leased to any member of the Enlarged Group or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since 31 December 2007, being the date to which the latest published audited consolidated financial statements of the Group were made up.

**EXPERTS AND CONSENTS**

The following are the experts who have given opinion contained in this circular and their qualifications:

| Name | Qualification |
|---|---|
| Veda Capital | a licensed corporation to carry on type 6 regulated activity (advising on corporate finance) under the SFO |
| HLB Hodgson Impey Cheng ("HLB") | Chartered Accountants, Certified Public Accountants |
| Grant Thornton | Certified Public Accountants |
| BMI Appraisals Limited ("BMI") | valuer |

Each of Veda Capital, HLB, Grant Thornton and BMI has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its report or opinion as set out in this circular and references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of Veda Capital, HLB, Grant Thornton and BMI was beneficially interested in the share capital of any member of the Enlarged Group, nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group, nor did it have any direct or indirect interest in any assets which were, since 31 December 2007 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to, or proposed to be acquired or disposed of by or leased to, any member of the Enlarged Group.

## MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) were entered into by members of the Enlarged Group within two years preceding the Latest Practicable Date and are or may be material:

(i) the placing agreement dated 11 October 2006 entered into between the Company and Charm Management Limited ("Charm"), a former substantial shareholder of the Company, and Hani Securities (H.K.) Limited ( "Hani"), pursuant to which Hani agreed to place, on a best effort basis, up to 300,000,000 shares of the Company of HK$0.01 each (equivalent to 120,000,000 Existing Shares) at a price of HK$0.04 per share to not less than six placees and Charm agreed to subscribe for such number of new shares equivalent to the number of shares placed by Hani at the same price of HK$0.04 per share;

(ii) the sale and purchase agreement dated 23 November 2006 entered into between the Company and Sky Hawk International Limited, a third party independent of the Company and its connected persons, whereby the Company agreed to dispose of the entire equity interest in Good Prosper Trading Limited and assign the rights and benefits of the outstanding amounts owed by Good Prosper Trading Limited to the Group to Sky Hawk International Limited at a total consideration of HK$20 million;

(iii) the non-legally binding letter of intent dated 3 January 2007 entered into between the Company and Talus Holdings Limited in relation to a possible investment by the Company of not less than 50% equity interest in a company to be incorporated by Talus Holdings Limited, which will be principally engaged in coal mining, coal chemical processing, magnetic-levitated wind power generation and related business in 內蒙古巴彥淖爾市烏拉特中旗 (Urad Middle Banner, Baynnur, Inner Mongolia*);

(iv) the placing agreement dated 24 January 2007 (as amended by the supplemental agreement dated 9 February 2007) entered into between the Company and Hani pursuant to which Hani agreed to place up to 340,000,000 Existing Shares (of which 150,000,000 Existing Shares on a fully underwritten basis and up to 190,000,000 Existing Shares on a best effort basis) at a price of HK$0.10 per Existing Share;

(v) the placing agreement dated 24 January 2007 (as amended by the supplemental agreement dated 9 February 2007 and the second supplemental agreement dated 28 May 2007) entered into between the Company and Hani pursuant to which Hani agreed to procure subscribers to subscribe for the convertible notes to be issued by the Company with an aggregate principal amount of up to HK$34,000,000, which carrying right to convert the outstanding principal amount into Existing Shares at an initial conversion price of HK$0.10 per Existing Share (subject to adjustment);

** for identification purpose only*

(vi) the sale and purchase agreement dated 16 April 2007 entered into between Prosper Overseas Limited ("POL") and Innovative Sonic International Limited whereby POL agreed to dispose of the entire equity interest in GFT Holding Limited and assign the rights and benefits of the outstanding amounts owing from Great Force Technology Limited, one of the subsidiary of GFT Holding Limited, to POL to Innovative Sonic International Limited at a total consideration of HK$2;

(vii) the placing and subscription agreement dated 14 August 2007 entered into between the Company, Charm and Kingston Securities Limited ("Kingston"), pursuant to which Kingston agreed to place, on a fully underwritten basis, 70,000,000 Existing Shares held by Charm at a price of HK$0.128 per Existing Share to not less than six placees and Charm agreed to subscribe for 70,000,000 new Existing Shares at the same price of HK$0.128 per Existing Share;

(viii) the placing agreement dated 14 August 2007 entered into between the Company and Kingston, whereby Kingston agreed to place, on a best effort basis, a maximum of 150,000,000 new Existing Shares at a price of HK$0.128 per Existing Share to not less than six placees;

(ix) the termination agreement dated 14 September 2007 entered into between the Company and Kingston to terminate the placing agreement dated 14 August 2007 as disclosed in (viii) above;

(x) the underwriting agreement dated 3 October 2007 (as amended by a supplemental agreement dated 9 October 2007) entered into between the Company and the Get Nice Investment Limited ("Get Nice") in relation to the issue of 4,693,672,800 Existing Shares at a price of HK$0.038 per Existing Share;

(xi) the conditional convertible bonds placing agreement dated 3 October 2007 (as amended by a supplemental agreement dated 9 October 2007) entered into between the Company and Get Nice in relation to the placing of convertible bonds in the principal amount of HK$300 million;

(xii) the sale and purchase agreement dated 29 November 2007 entered into between Kennex Investments Limited ("Kennex"), a wholly-owned subsidiary of the Company, and Bao Chang Investment Holding Limited ("Bao Chang") whereby Kennex agreed to purchase a property from Bao Chang for a cash consideration of HK$17,712,600;

(xiii) the Agreement; and

(xiv) the Placing Agreement.

## SERVICES CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any service contracts with the Company or any other member of the Group (excluding contracts expiring or which may be terminated by the Company within a year without payment of any compensation (other than statutory compensation)).

## COMPETING INTERESTS

As at the Latest Practicable Date, so far as the Directors are aware, none of the Directors or their respective associates had any interest in a business which competes or may compete with the business of the Group, or have or may have any other conflicts of interest with the Group pursuant to Rule 8.10 of the Listing Rules.

## LITIGATION

On 8 October 2004, a writ of summons was filed by Mr. Kwok Chin Wing ("Mr. Kwok"), a former director of the Company, against the Company in respect of the loans due from two former subsidiaries of the Company for a sum of approximately HK$44.5 million together with accrued interests thereof (the "Action").

The Company had already completed discovery of all documentary evidence and exchange of witness statements and was ready to proceed with the trial since early 2006. However, Mr. Kwok took out applications in July 2006 for substantial amendments to his Re-Re-Amended Statement of Claim (the "Amendment Application") and joinder of party to the Action (the "Joinder Application"). The Amendment Application and the Joinder Application had substantially delayed the setting down of the Action for trial.

The Amendment Application and the Joinder Application were granted by the Court on 19 April 2007. The newly joined defendant had filed his defence and the Company had also properly dealt with all consequential amendments to the pleadings. Discovery and inspection of documentary evidence between Mr. Kwok and the newly joined defendant were completed and the Action is now pending the exchange of witness statements as to facts between Mr. Kwok and the newly joined defendant. It is foreseeable that the Action will set down for trial after the completion of exchange of witness statements as to facts between Mr. Kwok and the newly joined defendant.

Notwithstanding the substantial amendments made to the Re-Re-Amended Statement of Claim and the joining of a new party to the Action, the solicitors and counsel acting for the Company still hold good of their advice previously delivered to the Company. With the benefit of the advice of solicitors and counsel acting for the Company, the directors of the Company formed the opinion that Mr. Kwok does not have a valid claim against the Company and therefore it is unlikely to have any material adverse financial impact on the Enlarged Group.

Save as disclosed above, as at the Latest Practicable Date, to the best knowledge of the Directors, neither the Company nor other member of the Enlarged Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Enlarged Group.

## GENERAL

(i) The secretary and qualified accountant of the Company is Ms. Lau Siu Mui, who is a member of the Hong Kong Institute of Certified Public Accountants.

(ii) The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited situated at Shops 1712-1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(iii) The head office and principal place of business of the Company in Hong Kong is located at Unit 707, Tower II, Admiralty Centre, 18 Harcourt Road, Hong Kong.

(iv) The registered office of the Company is located at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda.

(v) The English texts of this circular and the accompanying proxy form shall prevail over the Chinese texts.

## DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company in Hong Kong during normal business hours on any weekdays other than public holidays up to and including 14 July 2008:

(i) the memorandum of association and bye-laws of the Company;

(ii) the annual reports of the Company for the two years ended 31 December 2006 and 2007;

(iii) the accountants' reports on:

(a) Consecutive Profits (as set out in Appendix II to this circular);

(b) Real Clever (as set out in Appendix III to this circular);

(c) Pacific Pointer (as set out Appendix IV to this circular);

(d) Century 21 HK (as set out in Appendix V to this circular);

(e) Century 21 Property Agency (as set out in Appendix VI to this circular);

(f) Century 21 Surveyors (as set out in Appendix VII to this circular); and

(g) Century 21 Macau (as set out in Appendix VIII to this circular).

(iv) the comfort letter from Grant Thornton on the unaudited pro forma financial information on the Enlarged Group, the text of each of which is set out in Appendix IX to this circular;

(v) the valuation report on Century 21 HK, Century 21 Property Agency and Century 21 Surveyors (as set out in Appendix X to this circular);

(vi) the letter from Veda Capital, the text of which is set out on pages 42 to 66 of this circular;

(vii) the written consents as referred to in the paragraphs headed "Experts and consents" in this appendix;

(viii) the material contracts as referred to in the paragraphs headed "Material contracts" in this appendix; and

(ix) a copy of each circular of the Company issued pursuant to the requirements set out in Chapters 14 and/or 14A of the Listing Rules since 31 December 2007 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

**GFT HOLDINGS LIMITED**
**真樂發控股有限公司***

*(incorporated in Bermuda with limited liability)*

**(stock code: 1003)**

**NOTICE IS HEREBY GIVEN** that the special general meeting of GFT Holdings Limited (the "Company") will be held at Tang Room II, 3/F., Sheraton Hong Kong Hotel & Towers, 20 Nathan Road, Kowloon, Hong Kong on Monday, 14 July 2008 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions:

## ORDINARY RESOLUTIONS

(1) "**THAT**, subject to and conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") granting its approval to the listing of, and permission to deal in, the New Shares (as defined below), every five (5) shares of HK$0.025 each in the issued and unissued share capital of the Company be consolidated into one new share of par value of HK$0.125 each ("**New Share(s)**") and that the directors of the Company (the "**Directors**") be and are generally and unconditionally authorised to execute all documents and to do all such things as they consider necessary, expedient and appropriate to implement the same."

(2) "**THAT**, subject to and conditional upon passing of the resolution numbered 1 above and the Listing Committee of the Stock Exchange granting its approval to the listing of, and permission to deal in, the Vendor CN Conversion Shares (as defined below), the sale and purchase agreement dated 30 April 2008 (as supplemented on 6 May 2008) (the "**Agreement**") (a copy of which, signed by the Chairman of the meeting for the purposes of identification, has been produced to the meeting marked "A") entered into between the Company, Kingbox Investments Limited ("**Kingbox**") and Mr. Ng Kai Man (the "**Vendor**"), the terms and conditions thereof and the transactions contemplated thereunder, including (i) the issue of the convertible notes with aggregate principal value of HK$130,000,000 (the "**Vendor CN(s)**") by the Company to the Vendor; (ii) the allotment and issue of New Shares upon the exercise of the conversion rights attaching to the Vendor CN(s) at the initial conversion price of HK$0.1375 per New Share (subject to adjustment) (the "**Vendor CN Conversion Shares**"); (iii) the issue of promissory note in the principal amount of HK$100,000,000 by Kingbox (and the Company as guarantor) to the Vendor; and (iv) all other transactions contemplated under the Agreement and the execution of the Agreement be and is hereby approved, confirmed and ratified and the Directors be and are generally and unconditionally authorised to execute all documents and to do all things as they consider necessary, expedient and appropriate to effect and implement the transactions contemplated under the Agreement or incidental thereto."

** for identification purpose only*

(3) "**THAT**, subject to and conditional upon passing of the resolution numbered 1 above and the Listing Committee of the Stock Exchange granting its approval to the listing of, and permission to deal in, the Placing Shares (as defined below) and the Placing CN Conversion Shares (as defined below), the placing agreement dated 30 April 2008 (as supplemented on 6 May 2008) (the "**Placing Agreement**") (a copy of which, signed by the Chairman of the meeting for the purposes of identification, has been produced to the meeting marked "B") with Get Nice Securities Limited (the "**Placing Agent**"), the terms and conditions thereof and the transactions contemplated thereunder, including (i) the allotment and issue of up to 400,000,000 New Shares (the "**Placing Shares**") to the Placing Agent or placees procured by it; (ii) the issue of the convertible notes with aggregate principal amount of up to HK$100,000,000 (the "**Placing CN(s)**"); and (iii) the allotment and issue of New Shares upon the exercise of the conversion rights attaching to the Placing CN(s) at the initial conversion price of HK$0.1375 per New Share (subject to adjustment) (the "**Placing CN Conversion Shares**") and the execution of the Placing Agreement be and is hereby approved, ratified and confirmed and that the Directors be and are generally and unconditionally authorised to execute all documents and to do all things as they consider necessary, expedient and appropriate to effect and implement the transactions contemplated under the Placing Agreement or incidental thereto."

By order of the Board
**GFT Holdings Limited**
**Lau Siu Mui**
*Company Secretary*

Hong Kong, 28 June 2008

*Notes:*

1. A member entitled to attend and vote at the special general meeting is entitled to appoint one or more proxies to attend and vote on his/her behalf. The proxy need not be a member of the Company. If more than one proxy is appointed, the appointment shall specify the number of shares in respect of which each such proxy is appointed.

2. In order to be valid, a proxy form, together with any power of attorney or other authority (if any) under which it is signed, or a certified copy of such power of authority, must be deposited to Computershare Hong Kong Investor Services Limited, the branch share registrar of the Company in Hong Kong, at Rooms 1806-1807, 18/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than forty-eight (48) hours before the time appointed for holding the meeting or any adjournment thereof.