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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 licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **United Energy Group Limited** (formerly known as Orient Resources Group Company Limited), you should at once hand this circular and the accompanying form of proxy to the purchaser or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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UNITED ENERGY GROUP LIMITED

(formerly known as Orient Resources Group Company Limited)

(incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 467)

MAJOR AND CONNECTED TRANSACTION DEEMED DISPOSAL OF INTERESTS IN JOINT VENTURE COMPANY

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

VEDA | CAPITAL
智略資本

A letter from the Independent Board Committee (as defined in this circular) containing its recommendations in respect of the transaction under the Capital Contribution Agreement (as defined in this circular) to the Independent Shareholders (as defined in this circular) is set out on page 12 of this circular. A letter from Veda Capital Limited, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 13 to 24 of this circular.

A notice convening the SGM (as defined in this circular) to be held at Unit 2112, 21/F., Two Pacific Place, 88 Queensway, Hong Kong, on Monday, 28 January 2008 at 9:30 a.m. is set out on pages 102 to 103 of this circular. Whether or not you are able to attend the SGM, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Hong Kong branch share registrars and transfer office of the Company, Tricor Secretaries Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event, not less than 48 hours before the time appointed for holding the SGM or any adjourned meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting should you so wish.

11 January 2008

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	4
Letter from the Independent Board Committee	12
Letter from Veda Capital	13
Appendix I — Financial Information of the Group	25
Appendix II — Valuation Report	82
Appendix III— General Information	95
Notice of SGM	102

DEFINITIONS

“Acquisition”	the acquisition of the entire issued share capital of Grand Hope by the Company
“associates”	has the same meaning ascribed to it under the Listing Rules
“Beijing Glory”	北京國瑞興業地產有限公司(Beijing Glory Real Estate Co. Ltd.*), a limited liability company established in the PRC on 12 March 2002 with a registered capital of RMB100,000,000
“Board”	the board of Directors
“Capital Contribution Agreement”	關於瀋陽大東方置業有限公司增加投資總額、註冊資本及股權變更的協議， the agreement in Chinese dated 11 December 2007 entered into by Grand Hope and Beijing Glory in relation to the increase of registered capital of Shenyang Dadongfang and the parties’ capital contribution obligations
“Company”	United Energy Group Limited (formerly known as Orient Resources Group Company Limited), a company incorporated in the Cayman Islands and continued in Bermuda with limited liability and the shares of which are listed on the Stock Exchange
“Connected Person”	has the same meaning ascribed to it under the Listing Rules
“Director(s)”	director(s) of the Company
“Grand Hope”	Grand Hope Group Limited, a company incorporated in the British Virgin Islands with limited liability on 20 February 2004 and is a wholly-owned subsidiary of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“Independent Board Committee”	an independent committee of the Board comprising Mr. Chau Siu Wai, Mr. San Fung and Mr. Zhu Chengwu, all being independent non-executive Directors, established for the purpose of considering the transaction under the Capital Contribution Agreement and making recommendation to the Independent Shareholders
“Independent Shareholders”	shareholders who and whose associates are not involved in or have any interest in the transaction under the Capital Contribution Agreement
“Independent Valuer”	BMI Appraisals Limited, independent chartered surveyors and property valuers
“Latest Practicable Date”	9 January 2008, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	The People’s Republic of China
“RMB”	Renminbi yuan, the lawful currency of the PRC
“Shareholders”	Shareholders of the Company
“Shenyang Dadongfang”	瀋陽大東方置業有限公司 (Shenyang Dadongfang Property Development Co., Ltd.*), a sino-foreign joint venture established in the PRC on 19 March 2004
“Shenyang Shengtaicheng”	瀋陽盛泰誠置業有限公司 (Shenyang Shengtaicheng Property Development Co., Ltd.*), a sino-foreign joint venture established in the PRC on 26 January 2007
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“SGM”	a special general meeting of the Company to be held to consider the resolution to approve the transaction under the Capital Contribution Agreement

* For identification purposes only

DEFINITIONS

“Veda Capital”	Veda Capital Limited, a licensed corporation to conduct type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the transaction under the Capital Contribution Agreement
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent.

LETTER FROM THE BOARD

UNITED ENERGY GROUP LIMITED

(formerly known as Orient Resources Group Company Limited)

(incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 467)

Executive Directors:

Zhang Hongwei (*Chairman*)

Zhu Jun

Zhang Meiyang

Registered office:

Clarendon House

2 Church Street

Hamilton HM11 Bermuda

Independent non-executive Directors:

Chau Siu Wai

San Fung

Zhu Chengwu

Principal place of business

in Hong Kong:

Unit 2112, 21/F.,

Two Pacific Place

88 Queensway

Hong Kong

11 January 2008

To the Shareholders

Dear Sir and Madam,

MAJOR AND CONNECTED TRANSACTION DEEMED DISPOSAL OF INTERESTS IN JOINT VENTURE COMPANY

INTRODUCTION

The Board announced that on 11 December 2007, Grand Hope entered into the Capital Contribution Agreement with Beijing Glory pursuant to which the parties have conditionally agreed to increase the total investment and the registered capital of Shenyang Dadongfang from US\$30,359,800 to US\$71,851,400 and from US\$15,179,900 to US\$35,925,700, respectively. Under the Capital Contribution Agreement, there is no commitment for any of the parties to contribute to the increase in the total investment of Shenyang Dadongfang and Beijing Glory will solely contribute the full amount of US\$20,745,800 (equivalent to approximately HK\$161,817,240) in the increased registered capital. Upon completion of the investment injection, Beijing Glory and Grand Hope will be interested in 70% and 30% of the paid-up registered capital in Shenyang Dadongfang respectively.

BACKGROUND

The Company refers to its announcements dated 1 December 2005, 1 June 2006 and 26 July 2006, and its circular dated 31 March 2006, in relation to, among others, the acquisition of the entire issued share capital of Grand Hope. As a result of the Acquisition, Shenyang Dadongfang has become a subsidiary of the Company and the Group holds 71% indirect interests in the paid-up registered capital of Shenyang Dadongfang through Grand Hope.

LETTER FROM THE BOARD

Shenyang Dadongfang is a sino-foreign equity joint venture established in the PRC on 19 March 2004. As at the Latest Practicable Date, Shenyang Dadongfang has a paid-up registered capital and a total investment of US\$15,179,900 and US\$30,359,800 respectively, and the equity interest of Shenyang Dadongfang was owned as to 71% by Grand Hope and 29% by Beijing Glory.

At the time of its establishment, Shenyang Dadongfang was principally engaged in property development and property investment in the PRC. For the purpose of delineating business and enhancing management accountability, Shenyang Dadongfang underwent a restructuring whereby the property investment business of Shenyang Dadongfang was taken up by Shenyang Shengtaicheng. Each of Grand Hope and Beijing Glory holds 71% and 29% equity interest in both Shenyang Dadongfang and Shenyang Shengtaicheng and the restructuring did not involve the payment of consideration or any capital commitment incurred by Grand Hope and Beijing Glory. The restructuring was approved by the PRC authorities and took effect on 1 September 2007. As at the Latest Practicable Date, the registered capital of Shenyang Dadongfang and Shenyang Shengtaicheng was US\$15,179,900 and US\$13,021,800 respectively, and the aggregate paid-up registered capital of both Shenyang Dadongfang and Shenyang Shengtaicheng in the amount of US\$28,201,700 represented the paid-up registered capital of the original Shenyang Dadongfang immediately before the restructuring.

After the restructuring, Shenyang Dadongfang is principally engaged in property development in the PRC. Shenyang Dadongfang held and owned the land use rights of the following properties:

- (a) 14 contiguous land parcels with a total site area of approximately 322,586.4 sq.m. for commercial use located at the southern part of Lian He Road, Da Dong District, Shenyang City, Liaoning Province, the PRC. Land use right certificates have been granted to Shenyang Dadongfang for these land parcels. The land use right certificate of the land parcels with a site area of 102,245.5 sq.m. has a term of 40 years expiring on 25 March 2044. The land use right certificate for another land parcels with a site area of 220,340.9 sq.m. has a term of 40 years expiring on 25 August 2044. A commercial logistic port centre, comprising several shopping malls, an automobile exhibition centre and an auto spare part exhibition centre is being constructed in different phases on these parcels of land and the estimated total gross floor areas is 568,857 sq.m.. The Directors confirmed that all land use right certificates relating to those 14 land parcels have been obtained by Shenyang Dadongfang.
- (b) The land parcel with a site area of 6,276.4 sq.m. located at No. 396 Dong Bei Da Ma Lu, Da Dong District, Shenyang City, Liaoning Province, the PRC. The land use right has a term of 40 years expiring on 2 September 2043. The property is vacant and development of the property is at the planning stage.

Details on the properties were set out in the Valuation Report on pages 82 to 94 of this Circular.

LETTER FROM THE BOARD

CAPITAL CONTRIBUTION AGREEMENT

Date

11 December 2007

Parties

- (A) Grand Hope, a wholly-owned subsidiary of the Company
- (B) Beijing Glory, a Connected Person of the Company by virtue of its equity interest in Shenyang Dadongfang and Shenyang Shengtaicheng and Beijing Glory is therefore a substantial shareholder of two subsidiaries of the Company

Terms

Subject to the fulfillment of the conditions precedent, the parties agreed that:

- (1) the total investment of Shenyang Dadongfang shall be increased from US\$30,359,800 to US\$71,851,400;
- (2) the registered capital of Shenyang Dadongfang shall be increased from US\$15,179,900 to US\$35,925,700, which represents an increase of US\$20,745,800 or 136.67% over the existing registered capital of Shenyang Dadongfang;
- (3) Beijing Glory shall solely contribute US\$20,745,800 (equivalent to approximately HK\$161,817,240) to the registered capital of Shenyang Dadongfang and the resulting equity interests in Shenyang Dadongfang held by Beijing Glory after the completion of the Capital Contribution Agreement will be increased from 29% to 70%; and
- (4) the resulting equity interests held by Grand Hope in Shenyang Dadongfang after the completion of the Capital Contribution Agreement will be diluted from 71% to 30%.

The percentage equity interests of the Grand Hope and Beijing Glory in Shenyang Dadongfang before and after the completion of the Capital Contribution Agreement are set out as follows:

	Before		After	
	Amount	percentage in total registered capital	Amount	percentage in total registered capital
Grand Hope	US\$10,777,700	71%	US\$10,777,700	30%
Beijing Glory	US\$4,402,200	29%	US\$25,148,000	70%
Total	<u>US\$15,179,900</u>	<u>100%</u>	<u>US\$35,925,700</u>	<u>100%</u>

LETTER FROM THE BOARD

Pursuant to Rule 14.29 of the Listing Rules, the transaction under the Capital Contribution Agreement constitutes a deemed disposal of 41% equity interests in Shenyang Dadongfang by the Group to Beijing Glory.

Conditions precedent

Completion of the Capital Contribution Agreement is subject to the fulfillment of the following conditions:

1. the passing of an ordinary resolution by the Independent Shareholders by poll at the SGM to approve the Capital Contribution Agreement and the transaction contemplated under the Capital Contribution Agreement as required by the Listing Rules; and
2. the relevant authorities in the PRC approving the transaction contemplated under the Capital Contribution Agreement.

REASONS FOR ENTERING INTO THE CAPITAL CONTRIBUTION AGREEMENT

The Directors consider that the increase of the registered capital of Shenyang Dadongfang pursuant to the Capital Contribution Agreement is in the best interests of the Company and its shareholders. The amount of capital increase was determined with reference to the working capital requirement of Shenyang Dadongfang. The increased capital will be utilized to finance the development and improve the working capital of Shenyang Dadongfang. The financial performance of Shenyang Dadongfang is expected to improve when the property development projects begin to generate revenue and the Group will share the profit of Shenyang Dadongfang according to its percentage equity interest in Shenyang Dadongfang.

If Grand Hope has to maintain its current level of equity interests in Shenyang Dadongfang, an injection of US\$14,729,500 (equivalent to approximately HK\$114,890,100) as capital contribution will be required and this will have an adverse effect on the Group's working capital. In light of the recent acquisition of the oil business by the Group and the Group's business strategy to expand into the oil business (the details of which have been published in the Company's announcement dated 15 August 2007 and circular dated 17 September 2007), the Directors consider that any further injection of capital into Shenyang Dadongfang is not a priority in the business strategy of the Group and it is in the best interest of the Group to focus the managerial, operational and financial resources in the oil business. The Group nevertheless does not rule out any possibility of increasing its investment in Shenyang Dadongfang in the future. In the event that the Group further injects capital into Shenyang Dadongfang, the Company will comply with the relevant laws and Listing Rules requirements.

Based on the above reasons, and the advice by Veda Capital (which is set out in page 13 to 24 of this circular), the Directors (including the independent non-executive Directors) consider that the transaction contemplated under the Capital Contribution Agreement is beneficial to the Company's business prospects; the terms thereof are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

FINANCIAL EFFECT OF THE TRANSACTION UNDER THE CAPITAL CONTRIBUTION AGREEMENT

In accordance with the Hong Kong Financial Reporting Standards, the net profit before and after tax attributable to Shenyang Dadongfang for the year ended 31 March 2007 was RMB6,245,579 (equivalent to approximately HK\$6,308,666) and RMB4,424,451 (equivalent to approximately HK\$4,469,142) respectively; and that for the year ended 31 March 2006 was RMB24,030,189 (equivalent to approximately HK\$22,820,692) and RMB16,444,327 (equivalent to approximately HK\$15,616,645) respectively.

The Company acquired 71% equity interests in Shenyang Dadongfang through its acquisition of the entire issued share capital of Grand Hope for a consideration of HK\$508,000,000 which was completed on 6 June 2006. At the time of the Acquisition, the total assets of Grand Hope solely comprised 71% equity interest in Shenyang Dadongfang. As at 31 March 2007, the net asset value of Shenyang Dadongfang was reported to be RMB301,066,244 (equivalent to approximately HK\$304,107,317) in the Company's audited consolidated accounts prepared in accordance with the Hong Kong Financial Reporting Standards. As at 30 September 2007, the net asset value of Shenyang Dadongfang was reported to be RMB108,032,657 (equivalent to approximately HK\$111,523,337) in the Company's consolidated accounts. The market value of the investment property and other properties held by Shenyang Dadongfang as at 31 March 2007 was estimated by the Independent Valuer to be RMB160,000,000 (equivalent to approximately HK\$161,616,161) and RMB649,300,000 (equivalent to approximately HK\$655,858,583) respectively in the valuation report dated 26 July 2007. The fair value of the properties held by Shenyang Dadongfang as at 31 March 2007 has been arrived at on the basis of a valuation carried out on that date by the Independent Valuer. On completion of the restructuring of Shenyang Dadongfang on 1 September 2007, the investment property originally held by Shenyang Dadongfang became a property held by Shenyang Shengtaicheng. Please refer to the valuation report contained in Appendix II of this Circular for the valuation of the properties held by Shenyang Dadongfang as at 30 November 2007. Since there will be no transfer of assets or equity interests owned by the Group in Shenyang Dadongfang pursuant to the Capital Contribution Agreement and there will be no proceeds receivable by the Group as a result of the transaction thereunder, there will be no significant gain or loss to be reported in the next financial statements of the Company.

Upon completion of the Capital Contribution Agreement, Shenyang Dadongfang will cease to be a subsidiary of the Group and its accounts will no longer be consolidated to the Company's financial statements and according to the unaudited consolidated financial statements of the Company as at 30 September 2007 prepared in accordance with the Hong Kong Financial Reporting Standards, the total assets of the Group will be decreased by approximately HK\$422,749,000 and the total liabilities of the Group will be decreased by approximately HK\$479,118,000. Shenyang Dadongfang will become an associate of the Group following the completion of the Capital Contribution Agreement. The Group, however, has currently no intention to further dispose of its interests, whether by direct transfer or deemed disposal through dilution by the joint venture partner, in Shenyang Dadongfang.

LETTER FROM THE BOARD

INFORMATION ON THE GROUP

The Company acts as an investment holding company. The principal activities of its subsidiary are investment holding, wholesale of household building materials, property development and investment, and oil resources business.

The Group has recently completed the acquisition of its oil business. In view of the continued rapid growth of the PRC economy, growth of oil demand in Asia, together with strong demand in other developed countries, the Directors believe that the increasing trend of oil price would be sustained. The pilot test and related operations under the enhancing oil recovery contract have been in good progress so far. The Directors believe that it is in the Group's interest and that of Shareholders to develop the oil business.

INFORMATION ON BEIJING GLORY

Beijing Glory is a limited liability company established in the PRC on 12 March 2002 with a registered capital of RMB100,000,000. Beijing Glory is principally engaged in the business of property development.

Beijing Glory acquired 29% equity interests in Shenyang Dadongfang in August 2006 and has since then become a Connected Person of the Company by virtue of its interests in Shenyang Dadongfang and Shenyang Shengtaicheng, each of which is a subsidiary of the Company. As at the Latest Practicable Date, Beijing Glory did not have any shareholding in the Company. None of Beijing Glory or its associates has any voting right at the general meeting of the Company.

MAJOR AND CONNECTED TRANSACTION

The transaction under the Capital Contribution Agreement constitutes a major transaction of the Company under Rule 14.08 of the Listing Rules. As Beijing Glory is a Connected Person, the transaction under the Capital Contribution Agreement will also constitute a connected transaction for the Company under Rule 14A.16(5) of the Listing Rules and will be subject to, and conditional on, among other things, the approval of the Independent Shareholders by poll at the SGM.

SGM

A notice convening the SGM to be held at Unit 2112, 21/F., Two Pacific Place, 88 Queensway, Hong Kong, on Monday, 28 January 2008 at 9:30 a.m. is set out on pages 102 to 103 of this circular. An ordinary resolution will be proposed at that meeting to approve the Capital Contribution Agreement and the transaction thereunder. Voting on the resolution will be by way of poll. A form of proxy for the use at the SGM is enclosed with this circular.

LETTER FROM THE BOARD

PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS

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

- (i) by the chairman of the meeting; or
- (ii) by at least three Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or
- (iii) by a Shareholder or Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or
- (iv) by a Shareholder or Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorised representative) or by proxy and holding Shares conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all Shares conferring that right; or
- (v) if required by the Listing Rules, any Director or Directors who, individually or collectively, hold proxies in respect of shares representing five per cent. (5%) or more of the total voting rights at such meeting.

Whether or not holders of the Shares are able to attend the SGM, they are requested to complete and return the form of proxy accompanying this circular in accordance with the instructions printed thereon to the Hong Kong branch share registrar and transfer office of the Company, Tricor Secretaries Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude holders of the Shares from attending and voting in person at the SGM or any adjournment thereof should they so wish.

Any Shareholder that has a material interest in the transaction under the Capital Contribution Agreement shall abstain from voting on the resolution approving the transaction thereunder at the SGM. At as the Latest Practicable Date, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholder or his associate has a material interest in the transaction under the Capital Contribution Agreement and is required under the Listing Rules to abstain from voting at the SGM.

LETTER FROM THE BOARD

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising of Mr. Chau Siu Wai, Mr. San Fung and Mr. Zhu Chengwu has been constituted to make recommendations to the Independent Shareholders in relation to the Capital Contribution Agreement and the transaction thereunder.

INDEPENDENT FINANCIAL ADVISER

Veda Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders regarding the Capital Contribution Agreement and the transaction thereunder.

RECOMMENDATION

The Directors (including the independent non-executive Directors) consider that the Capital Contribution Agreement and the transaction thereunder is on normal commercial terms and that such terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM.

Your attention is drawn to the recommendation of the Independent Board Committee (set out on page 12 of this circular) and advice of Veda Capital Limited (set out on pages 13 to 24 of this circular) regarding the Capital Contribution Agreement and the transaction thereunder.

By order of the Board
United Energy Group Limited
Zhang Hongwei
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

UNITED ENERGY GROUP LIMITED

(formerly known as Orient Resources Group Company Limited)

(incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 467)

MAJOR AND CONNECTED TRANSACTION DEEMED DISPOSAL OF INTERESTS IN JOINT VENTURE COMPANY

To the Independent Shareholders

11 January 2008

Dear Sir or Madam,

As the Independent Board Committee, we have been appointed to advise you in connection with the transaction under the Capital Contribution Agreement, details of which are set out in the letter from the Board contained in the circular to the Shareholders dated 11 January 2008 (the “Circular”), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

Having considered the terms of the Capital Contribution Agreement and the transaction thereunder, and the advice of Veda Capital Limited in relation thereto as set out on pages 13 to 24 of the Circular, we are of the opinion that the terms of the Capital Contribution Agreement and the transaction are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders and the Company are concerned and that the terms of the transaction under the Capital Contribution Agreement are in the interest of the Shareholders and the Company as a whole. We, taking into account the recommendations of the Independent Financial Adviser, therefore recommend that the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the transaction contemplated under the Capital Contribution Agreement.

Yours faithfully,

Independent Board Committee

Mr. Chau Siu Wai

Mr. San Fung

Mr. Zhu Chengwu

LETTER FROM VEDA CAPITAL

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 Capital Contribution Agreement and the transaction contemplated thereunder, which has been prepared for the purpose of inclusion in the Circular.

VEDA | CAPITAL
智略資本

Veda Capital Limited

Suite 809, 8/F

Shui On Centre

8 Harbour Road

Wanchai, Hong Kong

11 January 2008

*To the Independent Board Committee and the Independent Shareholders
of United Energy Group Limited (formerly known as Orient Resources Group Company Limited)*

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION DEEMED DISPOSAL OF INTERESTS IN JOINT VENTURE COMPANY

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Capital Contribution Agreement and the transaction contemplated thereunder, details of which are set out in the letter from the Board (the “Board Letter”) contained in this circular (the “Circular”) dated 11 January 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 11 December 2007, Grand Hope entered into the Capital Contribution Agreement with Beijing Glory pursuant to which the parties have conditionally agreed to increase the total investment and the registered capital of the Existing Shenyang Dadongfang (as defined in the section headed “Background and financial information of Existing Shenyang Dadongfang”) from US\$30,359,800 to US\$71,851,400 and from US\$15,179,900 to US\$35,925,700, respectively. Under the Capital Contribution Agreement, Beijing Glory will solely contribute the full amount of US\$20,745,800 (equivalent to approximately HK\$161,817,240) in the increased registered capital. Upon completion of the investment injection, Beijing Glory and Grand Hope will be interested in 70% and 30% of the paid-up registered capital in Existing Shenyang Dadongfang (as defined hereinafter).

LETTER FROM VEDA CAPITAL

The transaction under the Capital Contribution Agreement constitutes a major and connected transaction of the Company under Rules 14.08 and 14A.16(5) of the Listing Rules and will be subject to, and conditional on, among other things, the approval of the Independent Shareholders by poll at the SGM.

The Independent Board Committee (comprising the independent non-executive Directors, namely Mr. Chau Siu Wai, Mr. San Fung and Mr. Zhu Chengwu) which is not involved in or has no interest in the Capital Contribution Agreement and the transaction contemplated thereunder and thus being independent, has been established to advise the Independent Shareholders in respect of the Capital Contribution Agreement and the transaction contemplated thereunder. Veda Capital has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders as to (i) whether the terms and conditions of the Capital Contribution Agreement and the transaction contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Capital Contribution Agreement and the transaction contemplated thereunder are in the interests of the Company and the Independent Shareholders as a whole; and (iii) whether the Independent Shareholders should vote in favour of the resolution to approve the Capital Contribution Agreement and the transaction contemplated thereunder.

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 when they were made and continue to be true at the date of the Circular.

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 or its subsidiaries.

LETTER FROM VEDA CAPITAL

PRINCIPAL FACTORS AND REASONS CONSIDERED

In assessing the Capital Contribution Agreement and the transaction contemplated thereunder 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:

Financial information on the Group

The Company is an investment holding company. The principal activities of its subsidiaries are investment holding, wholesale of household building materials, property development and investment, and oil resources business.

Financial performance for the year ended 31 March 2007 versus 31 March 2006

According to the annual report of the Company for the year ended 31 March 2007 (“2007 Annual Report”), the Group reported a turnover of approximately HK\$15.9 million for the year ended 31 March 2007, representing a significant drop of approximately 93.3% from the turnover for the year ended 31 March 2006 of approximately HK\$236.5 million. As stated in the 2007 Annual Report, turnover generated from wholesale trading of household building materials business in Shenyang contributed about HK\$3.08 million for the year ended 31 March 2007, showing a significant decrease as compared to approximately HK\$224.08 million for the year ended 31 March 2006. Such a plunge in turnover from the wholesale business was mainly due to the fact that the Group has ceased to conduct trading with the connected persons of the Group on the wholesale trading business. Though the turnover from the wholesale business dropped so drastically for the year ended 31 March 2007, the impact on the results of the Group was not significant because its profit margin was only approximately 0.97%.

Profit from operations of the Group for the year ended 31 March 2007 increased to approximately HK\$24.2 million from approximately HK\$20.0 million for the year ended 31 March 2006. The increase in profit from operations was mainly due to gains on disposal of property and investment properties and financial assets at fair value through profit or loss during the year. Such incidents also contributed to the increase in profit attributable to the Shareholders of approximately HK\$18.5 million for the year ended 31 March 2007 from that of approximately HK\$6.4 million for the year ended 31 March 2006.

LETTER FROM VEDA CAPITAL

Financial performance for the six months ended 30 September 2007 versus 30 September 2006

For the six months ended 30 September 2007, the Group was mainly engaged in property development and property investment in the PRC and recorded a turnover of approximately HK\$4.69 million, representing a decrease of approximately 50% from the turnover of approximately HK\$9.38 million for the six months ended 30 September 2006. Revenue for the six months ended 30 September 2007 was mainly derived from the properties letting business in the PRC. For the six months ended 30 September 2007, the increase in other operating income to approximately HK\$5.37 million from approximately HK\$3.46 million was mainly due to the benefit from a gain on disposal of financial assets at fair value through profit or loss. For the six months ended 30 September 2007, the Group was proceed the acquisition of the oil business, the administrative expenses was increased to approximately HK\$16.77 million from approximately HK\$9.96 million for the same period in 2006, which mainly included increase in legal expenses, salary and other general expenses. Loss attributable to the Shareholders increased to approximately HK\$5.85 million for the six months ended 30 September 2007, representing an increase of approximately 157.7% from a loss of approximately HK\$2.27 million for the six months ended 30 September 2006.

Background and financial information of Existing Shenyang Dadongfang

As at the Latest Practicable Date, the Company was interested in as to 71% of the issued share capital of Existing Shenyang Dadongfang (as defined hereinafter) which is principally engaged in property development and investment in the PRC. As at the Latest Practicable Date, Existing Shenyang Dadongfang (as defined hereinafter) has a paid-up registered capital and a total investment of US\$15,179,900 and US\$30,359,800 respectively, and the equity interest of Existing Shenyang Dadongfang (as defined hereinafter) was owned as to 71% by Grand Hope and 29% by Beijing Glory.

At the time of its establishment, original Shenyang Dadongfang (the “Original Shenyang Dadongfang”) was principally engaged in property development in the PRC. As advised by the Company and stated in the Board Letter, for the purpose of delineating business and enhancing management accountability, the Original Shenyang Dadongfang underwent a restructuring (the “Restructuring”) whereby the original business undertakings of the Original Shenyang Dadongfang in property development and property investment were respectively taken up by the existing Shenyang Dadongfang (the “Existing Shenyang Dadongfang”, being the Shenyang Dadongfang after the Restructuring) and Shenyang Shengtaicheng respectively. The Restructuring involved the statutory sub-division of the Original Shenyang Dadongfang into two companies, namely the Existing Shenyang Dadongfang and Shenyang Shengtaicheng. Each of Grand Hope and Beijing Glory holds 71% and 29% equity interest in both companies and the statutory sub-division did not involve any capital commitment for any of Grand Hope and Beijing Glory. The Restructuring was approved by the PRC authorities and took effect on 1 September 2007. As of the Latest Practicable Date, the respective paid-up registered capital

LETTER FROM VEDA CAPITAL

of the Existing Shenyang Dadongfang and Shenyang Shengtaicheng was US\$15,179,900 (representing approximately 53.86% paid-up registered capital of the Original Shenyang Dadongfang) and US\$13,021,800 (representing approximately 46.17% paid-up registered capital of the Original Shenyang Dadongfang), and the aggregated paid-up registered capital of both the Existing Shenyang Dadongfang and Shenyang Shengtaicheng in the amount of US\$28,201,700 represents the paid-up registered capital of the Original Shenyang Dadongfang before the Restructuring.

After the Restructuring, the Existing Shenyang Dadongfang is principally engaged in property development in the PRC. As stated in the Board Letter, the Existing Shenyang Dadongfang held and owned the land use rights of the following properties:

- (a) 14 contiguous land parcels with a total site area of approximately 322,586.4 sq.m. for commercial use located at the southern part of Lian He Road, Da Dong District, Shenyang City, Liaoning Province, the PRC. Land use right certificates have been granted to the Existing Shenyang Dadongfang for these land parcels. The land use right certificate of the land parcels with a site area of 102,245.5 sq.m. has a term of 40 years expiring on 25 March 2044. The land use right certificate for another land parcels with a site area of 220,340.9 sq.m. has a term of 40 years expiring on 25 August 2044. A commercial logistic port centre, comprising several shopping malls, an automobile exhibition centre and an auto spare part exhibition centre is being constructed in different phases on these parcels of land and the estimated total gross floor areas is 568,857 sq.m.. The Directors confirmed that all land use right certificates relating to those 14 land parcels have been obtained by the Existing Shenyang Dadongfang.
- (b) The land parcel with a site area of 6,276.4 sq.m. located at No. 396 Dong Bei Da Ma Lu, Da Dong District, Shenyang City, Liaoning Province, the PRC. The land use right has a term of 40 years expiring on 2 September 2043. The property is vacant and development of the property is at the planning stage.

Details on the properties were set out in the valuation report as set out in Appendix II to this Circular.

The Company acquired 71% equity interests in the Original Shenyang Dadongfang through its acquisition of the entire issued share capital of Grand Hope for a consideration of HK\$508 million which was completed on 6 June 2006, i.e. the entire interest of the Original Shenyang Dadongfang in 2006 was valued at approximately HK\$715.5 million and 53.86% (paid-up registered capital of the Existing Shenyang Dadongfang as a percentage of the Original Shenyang Dadongfang) of which was approximately HK\$385.4 million (the “Adjusted Original Consideration”). We consider that the amount of the increase in registered capital of the Existing Shenyang Dadongfang of US\$20,745,800 (equivalent to approximately HK\$161,811,000) solely by Beijing Glory is comparable to 41% of the Adjusted Original Consideration of approximately HK\$158 million.

LETTER FROM VEDA CAPITAL

Based on the unaudited management accounts of Original Shenyang Dadongfang, which have been prepared in accordance with the Hong Kong Financial Reporting Standards, the results of the Original Shenyang Dadongfang for the two years ended 31 March 2007 were as follows:

	For the year ended 31 March 2007	For the year ended 31 March 2006
	(unaudited)	(unaudited)
	(HK\$'000)	(HK\$'000)
Turnover	9,237	8,684
Profit before taxation	6,309	22,821
Profit after taxation	4,413	15,246

Rental income and management fee income accounted for the total turnover of the Original Shenyang Dadongfang for the two years ended 31 March 2007. Turnover of Original Shenyang Dadongfang slightly increased by approximately 6.4% to approximately HK\$9.2 million for the year ended 31 March 2007. However, Original Shenyang Dadongfang recorded a profit after taxation for the year ended 31 March 2007 of approximately HK\$4.4 million, representing a significant drop of approximately 71.1% from a profit after taxation of approximately HK\$15.3 million for the year ended 31 March 2006. Such a significant drop in profit was mainly contributed to the fact that a fair value gain on investment properties in the amount of approximately HK\$18.7 million was recorded for the year ended 31 March 2006.

Reasons for entering into of the Capital Contribution Agreement

Shenyang, being the capital city of Liaoning Province, has a population of approximately 7 million. According to the official website of the Shenyang Government (www.shenyang.gov.cn), the per capita disposable income and per capita consumption of the urban households in Shenyang for year 2006 increased by approximately 13.4% and approximately 10.3% respectively from year 2005. Due to the strong economic growth in Shenyang, the standard of living in Shenyang has showed strong improvement over the past few years, which in terms boosted the growth of the Shenyang property market. Shenyang property market had a growth rate of about 25.1% from 2004 to 2005. In view of the above factors, the Directors are of the view that the growth of Shenyang and the property market of Shenyang are expected to remain strong, the Group will benefit from the expansion opportunity arising from Existing Shenyang Dadongfang. The Directors consider that the increase of the registered capital of Existing Shenyang Dadongfang pursuant to the Capital Contribution Agreement is in the interests of the Company and the Shareholders. The amount of capital increase was determined with reference to the working capital requirement of Existing Shenyang Dadongfang. The increased capital will be utilized to finance the development and improve the working capital of Existing Shenyang Dadongfang. The financial performance of Existing Shenyang Dadongfang is expected to improve when the property development projects begin to generate revenue and the Group will share the profit of Existing Shenyang Dadongfang according to its percentage equity interest in Existing Shenyang Dadongfang. Currently, it is expected that the property development projects in Shenyang will be completed by around 2009.

LETTER FROM VEDA CAPITAL

By considering the pressure in raising additional capital for the property development projects in Shenyang, the Group entered into a cooperation agreement with Beijing Glory in July 2006 that Beijing Glory agreed to inject only by itself RMB1,000 million (equivalent to approximately HK\$1,050 million) for developing the property development projects in Shenyang.

If Grand Hope has to maintain its current level of equity interests in Existing Shenyang Dadongfang, an injection of US\$14,729,500 (equivalent to approximately HK\$114,890,100) as capital contribution will be required and this will have an adverse effect on the Group's working capital. The Group had recently acquired the oil business in October 2007 and it has been the Group's strategy to expand into the oil business therefrom. In view of the continued rapid growth in the economy of the PRC, growth of oil demand in Asia, together with strong demand in other developed countries, the Directors believe that the increasing trend of oil price would be sustained. The pilot test and related operations under the petroleum contract for enhancing oil recovery in Gaosheng Block, Bohai Bay Basin of the PRC have been in good progress so far. Given the new diversion of the business strategy of the Group into the oil business, the Directors consider that any further injection of capital into Existing Shenyang Dadongfang is not a priority in the business strategy of the Group and it is in the best interest of the Group to focus the managerial, operational and financial resources in the oil business. However, the Board Letter stated that the Group does not rule out any possibility of increasing its investment in Existing Shenyang Dadongfang in the future.

Conditions

Completion of the Capital Contribution Agreement is subject to the fulfillment of the following conditions:

- (1) the passing of an ordinary resolution by the Independent Shareholders by poll at the SGM to approve the Capital Contribution Agreement and the transaction contemplated under the Capital Contribution Agreement as required by the Listing Rules; and
- (2) the relevant authorities in the PRC approving the transaction contemplated under the Capital Contribution Agreement.

None of the above conditions can be waived. Given the above conditions are for compliance of the relevant provisions of the Listing Rules and fulfilling the requirements by the relevant authorities in the PRC, we concur with the Directors that the conditions of the Capital Contribution Agreement are in normal commercial terms and fair and reasonable to the Company and the Independent Shareholders.

LETTER FROM VEDA CAPITAL

Valuation under the Capital Contribution Agreement

Subject to the fulfillment of the conditions, Grand Hope and Beijing Glory agreed that:

- (1) the total investment of Existing Shenyang Dadongfang shall be increased from US\$30,359,800 to US\$71,851,400;
- (2) the registered capital of Existing Shenyang Dadongfang shall be increased from US\$15,179,900 to US\$35,925,700, which represents an increase of US\$20,745,800 or 136.67% over the existing registered capital of Existing Shenyang Dadongfang;
- (3) Beijing Glory shall solely contribute US\$20,745,800 to the registered capital of Existing Shenyang Dadongfang and the resulting equity interests in Existing Shenyang Dadongfang held by Beijing Glory after the completion of the Capital Contribution Agreement will be increased from 29% to 70%; and
- (4) the resulting equity interests held by Grand Hope in Existing Shenyang Dadongfang after the completion of the Capital Contribution Agreement will be diluted from 71% to 30%.

Pursuant to Rule 14.29 of the Listing Rules, the transaction under the Capital Contribution Agreement constitutes a deemed disposal of 41% equity interests in Existing Shenyang Dadongfang by the Group to Beijing Glory.

As confirmed by the Company, there was no commitment for any of the parties to contribute to the increase in total investment of the Existing Shenyang Dadongfang because no such contribution is required under the Capital Contribution Agreement. Any contribution to the total investment (whether in terms of capital contribution; shareholders' loan or outside financing) will be determined by the board of the Existing Shenyang Dadongfang as and when appropriate.

In assessing the fairness and reasonableness of the deemed disposal under the Capital Contribution Agreement, we have identified all the comparable companies (the "Sector Comparables") (a total of six) which are principally engaged in property investment and development in the PRC or Hong Kong; (b) are currently listed on Growth Enterprise Market or Main Board of the Stock Exchange; and (c) had a market capitalization in the range of HK\$100 million and HK\$350 million (at which the amount of the increase in registered capital of Existing Shenyang Dadongfang of US\$20,745,800 (equivalent to approximately HK\$161,811,000) lies within) as at the Latest Practicable Date. Given the relatively small

LETTER FROM VEDA CAPITAL

sample size of only six relevant Sector Comparables, Independent Shareholders are reminded that the following comparison may not be representative. Our findings on the six Sector Comparables are summarized below:

Company name (Stock code)	Principal business	Closing share price as at the Latest Practicable Date (HK\$)	Market Capitalisation as at the Latest Practicable Date (HK\$ million)	Price-earnings multiple based on closing share price as at the Latest Practicable Date (times)	Latest published net asset/ (liability) value per share prior to the Latest Practicable Date (HK\$)	Premium/ (discount) of closing price as at the Latest Practicable Date over/(to) latest published net asset value per share (%)
Berjaya Holdings (HK) Limited (288)	Property investment, development and investment holding in Hong Kong	0.45	266.0	Not applicable since loss making	0.045	898.0 <i>(excluded in the comparison for being an extreme outliner)</i>
China Fair Land Holdings Limited (169)	Property development in the PRC	0.52	154.1	Not applicable since loss making	0.867	(40.0)
Mexan Limited (22)	Property investment, hotel operation, investment holding and toll road projects in Hong Kong	0.189	247.8	Not applicable since loss making	0.917	(79.4)
South China Land Limited (8155)	Publication and marketing of monthly Chinese financial and economic magazines as well as property investment and development in the PRC	0.56	283.6	1,853.9	0.155	261.3
Wah Ha Realty Company Limited (278)	Investment holdings, property development and investment, property management and building contractor	2.7	326.6	6.7	4.932	(45.3)
Zhong Hua International Holdings Limited (1064)	Property development and investment, and leasing of equipment in the PRC	0.31	285.3	Not applicable since loss making	0.492	(37.0)
			Maximum	1,853.9	Maximum	261.3
			Minimum	6.7	Minimum	(79.4)
			Average	930.3	Average	11.9
Deemed disposal of 41% in Existing Shenyang Dadongfang			161.8 <i>(Note 1)</i>	89.4 <i>(Note 2)</i>	82.97 <i>(Note 3)</i>	95.0 <i>(Note 4)</i>

Source: website of the Stock Exchange (www.hkex.com.hk)

LETTER FROM VEDA CAPITAL

Notes:

1. Based on the increase in registered capital of Existing Shenyang Dadongfang of US\$20,745,800 which will be solely paid by Beijing Glory.
2. Based on the ratio of the increase in registered capital of Existing Shenyang Dadongfang of US\$20,745,800 to 41% of the net profit of Existing Shenyang Dadongfang for the year ended 31 March 2007.
3. Based on 41% of Adjusted NAV.
4. Based on the comparison of the increase in registered capital of Existing Shenyang Dadongfang of US\$20,745,800 to 41% of the Adjusted NAV.

(a) *Price-earnings multiple*

Price-earnings multiple is one of the most commonly used benchmarks for valuing a company and we noted that only two out of the six Sector Comparables recorded profits for their respective latest financial years. Although the price-earnings multiple represented by the increase in registered capital of Existing Shenyang Dadongfang of US\$20,745,800 to 41% of the net profit of Original Shenyang Dadongfang for the year ended 31 March 2007 of approximately 89.4 times lies within the range of the price-earnings multiples of the two profitable Sector Comparables of approximately 6.7 times and approximately 1,853.9 times respectively, we consider that the range of comparison is too wide to draw conclusion on the fairness and reasonableness of the amount of the increase in registered capital of Existing Shenyang Dadongfang of US\$20,745,800 solely by Beijing Glory.

(b) *Net asset value*

Assessing the consideration against the underlying net asset value is also a common way of valuation. As advised by the Company, the net asset value (the “Adjusted NAV”) of Existing Shenyang Dadongfang as at 30 September 2007 (as adjusted by the latest valuation on its properties as at 30 November 2007) was approximately HK\$202,364,000. The increase in registered capital of Existing Shenyang Dadongfang of US\$20,745,800 (equivalent to approximately HK\$161,811,000 and constitute a deemed disposal of 41% equity interest in Existing Shenyang Dadongfang by the Group to Beijing Glory) which will be solely paid by Beijing Glory represents a premium of approximately 95% to the 41% of the Adjusted NAV of approximately HK\$82,969,240.

On the other hand, the comparisons with the Sector Comparables based on the closing share price on the Latest Practicable Date to the net asset values range from a discount of approximately 79.4% to a premium of approximately 261.3% (the case of Berjaya Holdings (HK) Limited with the closing price on the Latest Practicable Date representing a substantial premium of approximately 898.0% to the latest net asset value has been excluded in the comparison as being an extreme outlier). Amongst the comparisons of

LETTER FROM VEDA CAPITAL

the five valid Sector Comparables, four of which were represented by discounts based on the respective closing share prices on the Latest Practicable Date to the respective net asset values per share. The comparison of the increase in registered capital of Existing Shenyang Dadongfang of US\$20,745,800 to 41% of the Adjusted NAV is represented by a premium of approximately 95.0%. In this regard, we are of the view that the deemed disposal of 41% equity interests in Existing Shenyang Dadongfang by the Group to Beijing Glory with the increase in registered capital of Existing Shenyang Dadongfang of US\$20,745,800 is fair and reasonable to the Independent Shareholders.

Financial effect of the transaction under the Capital Contribution Agreement

Upon the completion of the Capital Contribution Agreement, Existing Shenyang Dadongfang will cease to be a subsidiary of the Group and its accounts will no longer be consolidated to the Company's financial statements. Existing Shenyang Dadongfang will become an associate of the Group following the completion of the Capital Contribution Agreement.

Since there will be no transfer of assets or equity interests owned by the Group in Existing Shenyang Dadongfang pursuant to the Capital Contribution Agreement and there will be no proceeds receivable by the Group as a result of the transaction thereunder, there will be not significant gain or loss to be reported in the next financial statements of the Company.

RECOMMENDATION

Having considered the principal factors and reasons set out above, in particular, the followings:

- (i) the growth of Shenyang and the property market of Shenyang are expected to remain strong, the Group will benefit from the expansion opportunity arising from Existing Shenyang Dadongfang;
- (ii) the increased capital will be utilized to finance the development and improve the working capital of Existing Shenyang Dadongfang and financial performance of Existing Shenyang Dadongfang is expected to improve when the property development projects begin to generate revenue;
- (iii) if Grand Hope has to maintain its current level of equity interests in Existing Shenyang Dadongfang, an injection of US\$14,729,500 (equivalent to approximately HK\$114,890,100) as capital contribution will be required and this will have an adverse effect on the Group's working capital;
- (iv) it has been the Group's strategy to expand into the oil business and any further injection of capital into Existing Shenyang Dadongfang is not a priority in the current business strategy of the Group;

LETTER FROM VEDA CAPITAL

- (v) the amount of the increase in registered capital of the Existing Shenyang Dadongfang of US\$20,745,800 (equivalent to approximately HK\$161,811,000) solely by Beijing Glory is comparable to 41% of the Adjusted Original Consideration of approximately HK\$158 million; and
- (vi) the comparison of the increase in registered capital of Existing Shenyang Dadongfang of US\$20,745,800 to 41% of the Adjusted NAV is represented by a premium of approximately 95.0% whereas the comparisons with the Sector Comparables based on the closing share prices on the Latest Practicable Date to the net asset values are majoritily (4 out of 5) represented by discounts,

we consider that the terms of the Capital Contribution Agreement are fair and reasonable so far as the Independent Shareholders are concerned and the Capital Contribution Agreement is in the interests of the Company and the Independent Shareholders as a whole and in the ordinary course of business of the Group. We also consider that the terms of the Capital Contribution Agreement were entered into upon normal commercial terms. 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 Capital Contribution Agreement.

Yours faithfully,

For and on behalf of

Veda Capital Limited

Hans Wong

Julisa Fong

Managing Director

Executive Director

(A) FINANCIAL SUMMARY

The following is a summary of the consolidated income statements of the Company for the three years ended 31 March 2007 and the consolidated balance sheets of the Company as at 31 March 2005, 2006 and 2007.

Consolidated Income Statements

	Years ended 31 March		
	2007 <i>HK\$'000</i> (audited)	2006 <i>HK\$'000</i> (unaudited and restated)	2005 <i>HK\$'000</i> (unaudited and restated)
Turnover	15,933	236,468	6,749
Cost of sales and service	<u>(5,314)</u>	<u>(224,367)</u>	<u>(2,292)</u>
Gross Profit	10,619	12,101	4,457
Other income	33,337	20,917	129
Administrative expenses	(19,758)	(13,025)	(16,713)
Surplus arising on revaluation of investment properties	<u>—</u>	<u>—</u>	<u>46,255</u>
Profit from operations	24,198	19,993	34,128
Finance costs	<u>(951)</u>	<u>(718)</u>	<u>(391)</u>
Profit before tax	23,247	19,275	33,737
Income tax expenses	<u>(2,571)</u>	<u>(7,879)</u>	<u>(19,910)</u>
Profit for the year	<u><u>20,676</u></u>	<u><u>11,396</u></u>	<u><u>13,827</u></u>
Attributable to:			
Equity holder of the Company	18,508	6,419	1,001
Minority interests	<u>2,168</u>	<u>4,977</u>	<u>12,826</u>
	<u><u>20,676</u></u>	<u><u>11,396</u></u>	<u><u>13,827</u></u>
Basic earnings per share	<u><u>0.28 cents</u></u>	<u><u>0.12 cents</u></u>	<u><u>0.02 cents</u></u>

Consolidated Balance Sheets

	Years ended 31 March		
	2007 <i>HK\$'000</i> (audited)	2006 <i>HK\$'000</i> (unaudited and restated)	2005 <i>HK\$'000</i> (unaudited and restated)
Non-current assets			
Property, plant and equipment	149,710	137,147	707
Prepaid lease payments	—	—	360,406
Properties under development	—	—	31,075
Investment properties	161,616	172,523	148,190
Deposits for acquisition of property, plant and equipment	—	—	12,466
	311,326	309,670	552,844
Current assets			
Properties under development	367,480	328,854	—
Trade and other receivables	76,850	760	3,570
Deposits paid for prepaid land lease payments	13,398	15,745	—
Due from a director	5	—	—
Due from a related company	69	—	—
Financial assets at fair value through profit or loss	6,109	—	—
Bank and cash balances	355,158	242,212	3,476
	819,069	587,571	7,046
Current liabilities			
Trade and other payables	21,654	13,302	12,317
Current tax liabilities	573	584	148
Due to directors	3,930	12,454	11,570
Due to a related company	12,792	23,288	252,528
Due to a minority shareholder	31,402	—	—
Bank loans — due within one year	303,030	1,473	1,101
	373,381	51,101	277,661
Net current assets /(liabilities)	445,688	536,470	(270,615)
Total assets less current liabilities	757,014	846,140	282,229
Non-current liability			
Bank loans — due after one year	—	303,648	10,266
Deferred tax liabilities	29,020	26,572	19,729
	29,020	330,220	29,995
Net assets	727,994	515,920	252,234

	Years ended 31 March		
	2007 HK\$'000 (audited)	2006 HK\$'000 (unaudited and restated)	2005 HK\$'000 (unaudited and restated)
Capital and reserves			
Share capital and reserves attributable to equity holders of the Company	521,294	319,994	175,608
Minority interests	206,700	195,926	76,626
Total equity	727,994	515,920	252,234

Notes:

- (1) As stated in the Company's 2007 annual report and its circular dated 31 March 2006, the Company issued 5,080,000,000 shares at par value of HK\$0.01 each as consideration to acquire Grand Hope Group Limited and its subsidiaries (the "Grand Hope Group") from He Fu International Limited ("He Fu") and the acquisition was completed on 6 June 2006. As the Company and Grand Hope Group were both ultimately controlled by He Fu before and after the acquisition, the acquisition was accounted for as a combination of entities under common control. Therefore, figures for the three years ended 31 March 2007 were prepared based on the principles of merger accounting in accordance with the Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), as if the acquisition had occurred from the date when the combining entities first came under the control of He Fu.
- (2) Figures for 2007 and 2006 are extracted from the 2007 annual report of the Company. The 2006 figures presented in the 2007 financial statements had been restated for comparative purpose to reflect the acquisition of Grand Hope Group. The auditors of the Company had performed appropriate audit procedures for the 2006 comparative figures and the opening balances of the financial statements for the year 2007 in accordance with the relevant Hong Kong Standards on Auditing issued by the HKICPA. The Directors of the Company are of the view and the auditors of the Company concurred that, the 2007 financial statements which include the 2006 comparative figures, provide a true and fair view of the state of affairs of the Group and of the results of its operations and its cashflows.

- (3) Figures for year 2005 had been adjusted to reflect the changes in accounting policies in relation to the first adoption of HKAS 40 “Investment property” and HKAS 16 “Property, Plant and Equipment” and had reflected the acquisition of Grand Hope Group. The adjustments had been made by combining the consolidated income statement and consolidated balance sheet of the Company for the year ended 31 March 2005 as extracted from its annual report for year 2006 and the consolidated income statement and consolidated balance sheet of Grand Hope Group for the year ended 31 March 2005 as extracted from the accountants’ report on Grand Hope Group as set out in Appendix I of the Company’s circular dated 31 March 2006. The following summaries the adjustments for the combined 2005 figures on the above basis:

Consolidated Income Statement

	The Group <i>HK'000</i>	Grand Hope Group <i>HK'000</i>	Combined <i>HK'000</i>
Turnover	3,884	2,865	6,749
Cost of sale and service	(2,149)	(143)	(2,292)
Gross Profit	1,735	2,722	4,457
Other income	—	129	129
Administrative expenses	(13,191)	(3,522)	(16,713)
(Deficit)/surplus arising on revaluation of investment properties	(18,420)	64,675	46,255
Profit from operations	(29,876)	64,004	34,128
Finance costs	(391)	—	(391)
Profit before tax	(30,267)	64,004	33,737
Income tax expenses	—	(19,910)	(19,910)
Profit/(loss) for the year	<u>(30,267)</u>	<u>44,094</u>	<u>13,827</u>
Attributable to:			
Equity holders of the Company	(30,267)	31,268	1,001
Minority interests	—	12,826	12,826
	<u>(30,267)</u>	<u>44,094</u>	<u>13,827</u>

Consolidated Balance Sheet

	The Group <i>HK\$'000</i>	Grand Hope Group <i>HK\$'000</i>	Combined <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	363	344	707
Prepaid lease payments	—	360,406	360,406
Properties under development	—	31,075	31,075
Investment properties	18,190	130,000	148,190
Deposits for acquisition of property, plant and equipment	—	12,466	12,466
	<u>18,553</u>	<u>534,291</u>	<u>552,844</u>
Current assets			
Trade and other receivables	607	2,963	3,570
Bank and cash balances	64	3,412	3,476
	<u>671</u>	<u>6,375</u>	<u>7,046</u>
Current liabilities			
Trade and other payables	6,827	5,487	12,314
Current tax liabilities	—	148	148
Due to directors	11,570	—	11,570
Due to related companies	447	252,081	252,528
Bank loans — due within one year	1,101	—	1,101
	<u>19,945</u>	<u>257,716</u>	<u>277,661</u>
Net current liabilities	<u>(19,274)</u>	<u>(251,341)</u>	<u>(270,615)</u>
Total assets less current liabilities	<u>(721)</u>	<u>282,950</u>	<u>282,229</u>
Non-current liabilities			
Bank loans — due after one year	10,266	—	10,266
Deferred tax liabilities	—	19,729	19,729
	<u>10,266</u>	<u>19,729</u>	<u>29,995</u>
Net assets/(liabilities)	<u><u>(10,987)</u></u>	<u><u>263,221</u></u>	<u><u>252,234</u></u>
Capital and reserves			
Share capital and reserves attributable to equity holders of the Company	(10,987)	186,595	175,608
Minority interests	—	76,626	76,626
Total equity	<u><u>(10,987)</u></u>	<u><u>263,221</u></u>	<u><u>252,234</u></u>

(B) SUMMARY OF AUDITED FINANCIAL STATEMENTS

Set out below is the audited financial statements together with the relevant notes to the financial statements of the Group as extracted from the annual report of the Company for the year ended 31 March 2007.

Income Statements

For the year ended 31 March 2007

	<i>Note</i>	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i> (Unaudited and restated)
Turnover	7	15,933	236,468
Cost of sales and service		<u>(5,314)</u>	<u>(224,367)</u>
Gross profit		10,619	12,101
Other income	8	33,337	20,917
Administrative expenses		<u>(19,758)</u>	<u>(13,025)</u>
Profit from operations	10	24,198	19,993
Finance costs	11	<u>(951)</u>	<u>(718)</u>
Profit before tax		23,247	19,275
Income tax expense	12	<u>(2,571)</u>	<u>(7,879)</u>
Profit for the year		<u>20,676</u>	<u>11,396</u>
Attributable to:			
Equity holders of the Company		18,508	6,419
Minority interests		<u>2,168</u>	<u>4,977</u>
		<u>20,676</u>	<u>11,396</u>
Earnings per share			
Basic	14	<u>0.28 cents</u>	<u>0.12 cents</u>
Diluted	14	<u>N/A</u>	<u>N/A</u>

Consolidated Balance Sheet*As at 31 March 2007*

	<i>Note</i>	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i> (Unaudited and restated)
Non-current assets			
Property, plant and equipment	<i>16</i>	149,710	137,147
Investment properties	<i>17</i>	161,616	172,523
		<u>311,326</u>	<u>309,670</u>
Current assets			
Properties under development	<i>18</i>	367,480	328,854
Trade and other receivables	<i>20</i>	76,850	760
Deposits paid for prepaid land lease payments	<i>21</i>	13,398	15,745
Due from a director	<i>22</i>	5	—
Due from a related company	<i>23</i>	69	—
Financial assets at fair value through profit or loss	<i>24</i>	6,109	—
Bank and cash balances	<i>25</i>	355,158	242,212
		<u>819,069</u>	<u>587,571</u>
Current liabilities			
Trade and other payables	<i>26</i>	21,654	13,302
Current tax liabilities		573	584
Due to directors	<i>36(b)</i>	3,930	12,454
Due to related companies	<i>36(b)</i>	12,792	23,288
Due to a minority shareholder	<i>36(b)</i>	31,402	—
Bank loans	<i>27</i>	303,030	1,473
		<u>373,381</u>	<u>51,101</u>
Net current assets		<u>445,688</u>	<u>536,470</u>
Total assets less current liabilities		<u>757,014</u>	<u>846,140</u>
Non-current liabilities			
Bank loans	<i>27</i>	—	303,648
Deferred tax liabilities	<i>28</i>	29,020	26,572
		<u>29,020</u>	<u>330,220</u>
NET ASSETS		<u><u>727,994</u></u>	<u><u>515,920</u></u>
Capital and reserves			
Share capital	<i>30</i>	68,760	51,760
Reserves	<i>31(a)</i>	452,534	268,234
Equity attributable to equity holders of the Company		<u>521,294</u>	<u>319,994</u>
Minority interests		<u>206,700</u>	<u>195,926</u>
TOTAL EQUITY		<u><u>727,994</u></u>	<u><u>515,920</u></u>

Consolidated Statement of Changes in Equity*For the Year ended 31 March 2007*

	Attributable to equity holders of the Company										
	Share capital (Note 30) HK\$'000	Share premium account (Note 31(c)) HK\$'000	Merger reserve (Note 31(c)) HK\$'000	Capital reserve (Note 31(c)) HK\$'000	Property revaluation reserve (Note 31(c)) HK\$'000	Foreign currency translation reserve (Note 31(c)) HK\$'000	Statutory reserve (Note 31(c)) HK\$'000	Retained profits/ losses (accumulated) HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1 April 2005, as previously reported	95,985	90,660	—	—	2,672	—	—	(200,304)	(10,987)	—	(10,987)
Effect on merger of equity interests in subsidiaries (Note 3)	50,800	2,235,200	(2,286,000)	155,580	—	—	8	31,088	186,676	76,660	263,336
At 1 April 2005, as restated	146,785	2,325,860	(2,286,000)	155,580	2,672	—	8	(169,216)	175,689	76,660	252,349
Exchange differences arising on translation of foreign operations and net income recognised directly in equity	—	—	—	—	—	5,921	—	—	5,921	2,304	8,225
Profit for the year	—	—	—	—	—	—	—	6,419	6,419	4,977	11,396
Total recognised income and expense for the year	—	—	—	—	—	5,921	—	6,419	12,340	7,281	19,621
Consolidation of shares and reduction in capital (note 30 (a))	(95,025)	95,025	—	—	—	—	—	—	—	—	—
Capital contributed by a minority shareholder	—	—	—	131,965	—	—	—	—	131,965	111,985	243,950
Transfer	—	—	—	—	—	—	514	(514)	—	—	—
	(95,025)	95,025	—	131,965	—	—	514	(514)	131,965	111,985	243,950
At 31 March 2006 (unaudited and restated)	51,760	2,420,885	(2,286,000)	287,545	2,672	5,921	522	(163,311)	319,994	195,926	515,920

	Attributable to equity holders of the Company										
	Share capital (Note 30) HK\$'000	Share premium account (Note 31(c)) HK\$'000	Merger reserve (Note 31(c)) HK\$'000	Capital reserve (Note 31(c)) HK\$'000	Property revaluation reserve (Note 31(c)) HK\$'000	Foreign currency translation reserve (Note 31(c)) HK\$'000	Statutory reserve (Note 31(c)) HK\$'000	Retained profits/ losses (accumulated) HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1 April 2006, as previously reported	960	185,685	—	—	2,672	—	—	(205,556)	(16,239)	—	(16,239)
Effect on merger of equity interests in subsidiaries (Note 3)	50,800	2,235,200	(2,286,000)	287,545	—	5,921	522	42,245	336,233	195,926	532,159
At 1 April 2006, as restated	51,760	2,420,885	(2,286,000)	287,545	2,672	5,921	522	(163,311)	319,994	195,926	515,920
Share issue expenses paid	—	(1,716)	—	—	—	—	—	—	(1,716)	—	(1,716)
Exchange differences arising on translation of foreign operations	—	—	—	—	—	14,508	—	—	14,508	8,606	23,114
Net income and expenses recognised directly in equity	—	(1,716)	—	—	—	14,508	—	—	12,792	8,606	21,398
Profit for the year	—	—	—	—	—	—	—	18,508	18,508	2,168	20,676
Total recognised income and expense for the year	—	(1,716)	—	—	—	14,508	—	18,508	31,300	10,774	42,074
Issue of shares on placement	17,000	153,000	—	—	—	—	—	—	170,000	—	170,000
Realised on disposal of property	—	—	—	—	(2,672)	—	—	2,672	—	—	—
Transfer	—	—	—	—	—	—	307	(307)	—	—	—
	17,000	153,000	—	—	(2,672)	—	307	2,365	170,000	—	170,000
At 31 March 2007	68,760	2,572,169	(2,286,000)	287,545	—	20,429	829	(142,438)	521,294	206,700	727,994

Consolidated Cash Flow Statement*For the Year ended 31 March 2007*

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i> (Unaudited and restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	23,247	19,275
Adjustments for:		
Depreciation	661	66
Interest income	(6,887)	(472)
Interest expenses	951	718
Fair value gain on investment properties	(2,020)	(20,129)
Gain on disposals of financial assets at fair value through profit or loss	(8,896)	—
Gain on disposals of property and investment properties	(12,788)	—
	<hr/>	<hr/>
Operating loss before working capital changes	(5,732)	(542)
Additions to properties under development	(21,312)	(49,870)
(Increase)/decrease in trade and other receivables	(1,803)	6,777
Increase in amount due from a director	(5)	—
Increase in amount due from a related company	(69)	—
Increase/(decrease) in trade and other payables	7,924	(6,158)
(Decrease)/increase in amounts due to directors	(8,524)	884
Decrease in amounts due to related companies	(11,028)	(242,224)
Increase in amount due to a minority shareholder	31,402	—
	<hr/>	<hr/>
Cash used in operations	(9,147)	(291,133)
Interest paid	(951)	(718)
Income tax paid	(1,314)	(1,208)
	<hr/>	<hr/>
Net cash used in operating activities	(11,412)	(293,059)
CASH FLOWS FROM INVESTING ACTIVITIES		
Loan granted to an unrelated company	(73,000)	—
Net proceeds from disposal of property and investment properties	32,771	—
Purchase of financial assets at fair value through profit or loss	(72,386)	—
Sales of financial assets at fair value through profit or loss	75,173	—
Purchases of property, plant and equipment	(7,698)	(5,537)
Interest received	5,608	472
	<hr/>	<hr/>
Net cash used in investing activities	(39,532)	(5,065)

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i> (Unaudited and restated)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	170,000	—
Share issue expenses paid	(1,716)	—
Repayment of bank loans	(14,706)	(1,142)
Bank loans raised	—	289,361
Capital injection from a minority shareholder of a subsidiary	—	243,950
	<u>153,578</u>	<u>532,169</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		
	102,634	234,045
Effect of foreign exchange rate changes	10,312	4,691
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
	<u>242,212</u>	<u>3,476</u>
CASH AND CASH EQUIVALENTS AT 31 MARCH		
	<u><u>355,158</u></u>	<u><u>242,212</u></u>
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	<u><u>355,158</u></u>	<u><u>242,212</u></u>

Notes to the Financial Statements*For the Year ended 31 March 2007***1. General Information**

The Company was incorporated in the Cayman Islands and redomiciled to Bermuda as an exempted company with limited liability under the Companies Act of Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The address of its principal place of business is Unit 2112, 21/F, Two Pacific Place, 88 Queensway, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 37 to the financial statements.

In the opinion of the directors of the Company, as at 31 March 2007, He Fu International Limited ("He Fu"), a company incorporated in the British Virgin Islands, is the immediate and ultimate parent and Mr. Zhang Hong Wei is the ultimate controlling party of the Company.

2. Adoption of New and Revised HKFRSs

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2006. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the current year and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The directors anticipate that the adoption of these new and revised HKFRSs in future periods will not have material impact on the financial statements of the Group.

3. Basis of Preparation

Pursuant to the sale and purchase agreement dated 22 September 2005, the Company issued 5,080,000,000 shares at par value of HK\$0.01 each as consideration to acquire Grand Hope Group Limited ("Grand Hope") and its subsidiaries ("Grand Hope Group") from He Fu (the "Acquisition"). The Acquisition was a very substantial acquisition pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). Details of the Acquisition were set out in the Company's circular dated 31 March 2006. The Acquisition was completed on 6 June 2006.

Grand Hope Group is principally engaged in the investment holding, property development and investment and wholesale of household building materials.

As the Company and Grand Hope Group were both ultimately controlled by He Fu before and after the Acquisition, the Acquisition was accounted for as a combination of entities under common control. The financial statements of the Group have been prepared based on the principles of merger accounting in accordance with the Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA, as if the Acquisition had occurred from the date when the combining entities first came under the control of He Fu. Comparative figures have been restated accordingly.

4. Significant Accounting Policies

These financial statements have been prepared in accordance with HKFRSs, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Listing Rules and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties and financial assets at fair value through profit or loss which are carried at their fair values.

The preparation of financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires management to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these financial statements, are disclosed in note 5 to the financial statements.

The significant accounting policies applied in the preparation of these financial statements are set out below.

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 March. Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill relating to the subsidiary which was not previously charged or recognised in the consolidated income statement and also any related accumulated foreign currency translation reserve.

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

Minority interests represent the interests of minority shareholders in the operating results and net assets of subsidiaries. Minority interests are presented in the consolidated balance sheet and consolidated statement of changes in equity within equity. Minority interests are presented in the consolidated income statement as an allocation of profit or loss for the year between minority and shareholders of the Company. Losses applicable to the minority in excess of the minority's interests in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the interests of the Group until the minority's share of losses previously absorbed by the Group has been recovered.

(b) *Merger Accounting for Common Control Combinations*

The consolidated financial statements incorporate the financial statements of the combining entities in which the common control combination occurs as if they had been combined from the date when the combining entities first came under the control of the controlling party.

The net assets of the combining entities are combined using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities from the earliest date presented or since the date when the combining entities first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

An uniform set of accounting policies is adopted by those entities. All intra-group transactions, balances and unrealised gains on transactions between combining entities or businesses are eliminated on consolidation.

(c) *Joint Venture*

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over the economic activity when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control.

In respect of interests in jointly controlled operations, the Group recognises in its financial statements, the assets that it controls and the liabilities that it incurs; and the expenses that it incurs and its share of the income that it earns from the sale of goods or services by the joint venture.

(d) *Foreign Currency Translation*

(i) *Functional and presentation currency*

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

(ii) *Transactions and balances in each entity's financial statements*

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the rates ruling on the balance sheet date. Profits and losses resulting from this translation policy are included in the consolidated income statement.

Translation differences on non-monetary items, such as equity instruments classified as financial assets at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equity instruments classified as available-for-sale financial assets, are included in the investment revaluation reserve in equity.

(iii) *Translation on consolidation*

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and
- All resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in the consolidated income statement as part of the profit or loss on disposal.

(e) *Investment Properties*

Investment properties are land and/or buildings held to earn rentals and/or for capital appreciation. An investment property is measured initially at its cost including all direct costs attributable to the property.

After initial recognition, the investment property is stated at its fair value based on valuation by an external independent valuer. Gains or losses arising from changes in fair value of the investment property are included in the consolidated income statement for the period in which they arise.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the consolidated income statement.

If an investment property becomes owner-occupied or a property held for sale, it is reclassified as property, plant and equipment or properties held for sale as appropriate, and its fair value at the date of reclassification becomes its cost for accounting purposes.

Property that is being constructed or developed for future use as investment property is classified as investment properties under construction in property, plant and equipment and stated at cost less impairment losses until construction or development is completed, at which time it is reclassified as an investment property at fair value. The difference between the fair value and the previous carrying amount is recognised in the consolidated income statement.

The gain or loss on disposal of an investment property is the difference between the net sales proceeds and the carrying amount of the property, and is recognised in the consolidated income statement.

(f) Property, Plant and Equipment

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

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

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal residual values and annual depreciation rates are as follows:

	Residual values	Annual depreciation rate
Property	—	Over the remaining unexpired terms of the leases or forty years, whichever is the shorter
Leasehold improvements	—	33.3%
Motor vehicles	0%–3%	12.5%
Furniture, fixtures and equipment	0%–3%	20%

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

Investment properties under construction represents properties being constructed or developed for future use as investment properties, and is stated at cost less impairment losses.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the consolidated income statement.

(g) *Properties Under Development*

Properties under development are stated at the lower of cost and net realisable value. Costs include acquisition costs, prepaid land lease payments, construction costs, borrowing costs capitalised and other direct costs attributable to such properties. Net realisable value is determined by reference to sale proceeds received after the balance sheet date less selling expenses, or by management estimates based on prevailing market condition. On completion, the properties are reclassified to properties held for sale at the then carrying amount.

(h) *Investments*

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs except in the case of financial assets at fair value through profit or loss.

Financial assets at fair value through profit or loss are either investments held for trading or designated as at fair value through profit or loss upon initial recognition. These investments are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in the consolidated income statement.

(i) *Trade and Other Receivables*

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in the consolidated income statement.

Impairment losses are reversed in subsequent periods and recognised in the consolidated income statement when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

(j) *Cash and Cash Equivalents*

For the purpose of the cash flow statement, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

(k) *Financial Liabilities and Equity Instruments*

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

(l) ***Borrowings***

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost 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 12 months after the balance sheet date.

(m) ***Trade and Other Payables***

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) ***Equity Instruments***

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(o) ***Revenue Recognition***

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

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

Property management service fee income is recognised when the services are rendered.

Revenues from the wholesale of household building materials are recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

Interest income is recognised on a time-proportion basis using the effective interest method.

(p) ***Employee Benefits***

(i) ***Employee leave entitlements***

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

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

(ii) ***Pension obligations***

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to the consolidated income statement represents contributions payable by the Group to the funds.

(iii) *Termination benefits*

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(q) ***Borrowing Costs***

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sales, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specified borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in consolidated income statement in the period in which they are incurred.

(r) ***Taxation***

Income tax represents the sum of the current tax and deferred tax.

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

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(s) ***Related Parties***

A party is related to the Group if:

- (i) directly or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;
- (ii) the party is an associate;
- (iii) the party is a joint venture;
- (iv) the party is a member of the key management personnel of the Company or its parent;
- (v) the party is a close member of the family of any individual referred to in (i) or (iv);
- (vi) 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 (iv) or (v); or
- (vii) 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.

(t) ***Segment Reporting***

A segment is a distinguishable component of the Group that is engaged either in providing products and 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, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Segment revenue, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to the segment. Unallocated costs mainly represent corporate expenses. Segment assets consist primarily of property, plant and equipment, investment properties, properties under development, trade and other receivables, deposits paid for prepaid land lease payments and bank and cash balances. Segment liabilities comprise operating liabilities and exclude items such as tax liabilities and corporate borrowings.

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 enterprises within a single segment. Inter-segment pricing is based on terms mutually agreed between the segments.

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.

(u) *Impairment of Assets*

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets except investment properties, properties under development, receivables and investments to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or 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. An impairment loss is recognised immediately in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(v) *Leases*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

(i) *The Group as lessee*

Lease payments (net of any incentives received from the lessor) are expensed in the consolidated income statement on a straight-line basis over the lease term.

(ii) *The Group as lessor*

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

(w) *Provisions and Contingent Liabilities*

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

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

(x) *Events After the Balance Sheet Date*

Events after the balance sheet date that provide additional information about the Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the balance sheet date that are not adjusting events are disclosed in the notes to the financial statements when material.

5. Critical Judgement and Key Estimates

Critical Judgements in Applying Accounting Policies

In the process of applying the accounting policies, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimation, which are dealt with below).

(a) *Distinction between investment properties, properties under development and property, plant and equipment*

The Group determines whether a properties qualifies as investment properties, properties under development or property, plant and equipment. In making its judgement, the Group has developed criteria to exercise judgement for the classification.

Investment properties are held to earn rentals or for capital appreciation or both while properties under development are intended for development and resale within the normal operating cycle. Properties that are being constructed or developed for future use as investment properties are classified as investment properties under construction in property, plant and equipment.

Key Sources of Estimation Uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, 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.

(a) *Estimate of fair value of investment properties and net realisable value of properties under development*

The directors of the Company appointed an independent professional valuer to assess the fair value of the investment properties and the net realisable value of the properties under development. In determining the fair value and the net realisable value, the valuer has utilised a method of valuation which involves certain estimates. The directors of the Company have exercised their judgement and are satisfied that the method of valuation is reflective of the current market conditions.

(b) *Income tax*

The Group is subject to income taxes in several jurisdictions. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the periods in which such determination is made.

6. Financial Risk Management

The Group's activities expose it to a variety of financial risks: interest rate risk, liquidity risk, credit risk, price risk and foreign currency risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) *Interest Rate Risk*

The Group's exposure to changes in interest rates is mainly attributable to its bank balances and bank loans. Bank balances and bank loans at variable rates expose the Group to cash flow interest-rate risk.

The Group's has not used any interest rate swaps to hedge its exposure to interest rate risk.

(b) *Liquidity Risk*

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and long term.

(c) Credit Risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales and advances are made to customers and third parties with an appropriate credit history.

The carrying amount of the trade and other receivables included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

(d) Price Risk

The Group's financial assets at fair value through profit or loss are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity security price risk. The directors manage this exposure by maintaining a portfolio of investments with difference risk profiles.

(e) Foreign Currency Risk

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in Hong Kong dollars and Renminbi ("RMB"). Nevertheless, the exchange rate of RMB to Hong Kong dollars is subject to rules and regulations of foreign exchange control promulgated by the PRC government. The Group currently does not have a foreign currency hedging policy in respect of foreign currency debt. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

(f) Fair Value

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated balance sheet approximate their respective fair values.

7. Turnover

The Group's turnover which represents rental income, property management service fee income and wholesale of household building materials are as follows:

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited and restated)
Rental income	9,491	9,227
Property management service fee income	3,359	3,158
Wholesale of household building materials	3,083	224,083
	<u>15,933</u>	<u>236,468</u>

8. Other Income

	2007 HK\$'000	2006 HK\$'000 (Unaudited and restated)
Fair value gain on investment properties	2,020	20,129
Gain on disposals of property and investment properties	12,788	—
Gain on disposals of financial assets at fair value through profit or loss	8,896	—
Interest income	6,887	472
Others	2,746	316
	<u>33,337</u>	<u>20,917</u>

9. Segment Information

(a) Primary Reporting Format — Business Segments

The Group is organised into three main business segments:

Property development	—	The property development segment engages in development of commercial properties for sales;
Property investment	—	The property investment segment invests in commercial properties for their rental income, property management service fee and value appreciation potential;
Wholesale of household building materials	—	The wholesale of household building materials segment engages in trading of household building materials on indent basis.

(b) Secondary Reporting Format — Geographical Segments

More than 90% of the Group's turnover and operating profit is earned within the PRC and all major operating assets of the Group are located in the PRC. Therefore, no geographical segment is presented.

Primary Reporting Format — Business Segments:

Year ended	Property development	Property investment	Wholesale of household building materials	Consolidated
31 March 2007	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Total revenue	<u>—</u>	<u>12,850</u>	<u>3,083</u>	<u>15,933</u>
Segment results before fair value gain on investment properties and gain on disposals of property and investment properties	(5,568)	7,131	(365)	1,198
Gain on disposals of property and investment properties	—	12,788	—	12,788
Fair value gain on investment properties	<u>—</u>	<u>2,020</u>	<u>—</u>	<u>2,020</u>
Segment results	<u>(5,568)</u>	<u>21,939</u>	<u>(365)</u>	16,006
Other income				18,529
Unallocated expenses				<u>(10,337)</u>
Profit from operations				24,198
Finance costs				<u>(951)</u>
Profit before tax				<u>23,247</u>
At 31 March 2007				
Segment assets	<u>544,537</u>	<u>189,744</u>	<u>245,916</u>	980,197
Unallocated assets				<u>150,198</u>
Total assets				<u>1,130,395</u>
Segment liabilities	<u>18,196</u>	<u>1,202</u>	<u>107</u>	19,505
Unallocated liabilities				<u>382,896</u>
Total liabilities				<u>402,401</u>
Other segment information:				
Capital expenditure	5,755	1,943	—	7,698
Depreciation	<u>76</u>	<u>582</u>	<u>3</u>	<u>661</u>

	Property development	Property investment	Wholesale of household building materials	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited and restated)	(Unaudited and restated)	(Unaudited and restated)	(Unaudited and restated)
Year ended				
31 March 2006				
Total revenue	—	12,385	224,083	236,468
Segment results before fair value gain on investment properties	(3,380)	7,839	1,011	5,470
Fair value gain on investment properties	—	20,129	—	20,129
Segment results	(3,380)	27,968	1,011	25,599
Other income				788
Unallocated expenses				(6,394)
Profit from operations				19,993
Finance costs				(718)
Profit before tax				19,275
At 31 March 2006				
Segment assets	486,068	177,429	231,250	894,747
Unallocated assets				2,494
Total assets				897,241
Segment liabilities	9,665	1,137	170	10,972
Unallocated liabilities				370,349
Total liabilities				381,321
Other segment information:				
Capital expenditure	5,523	1	13	5,537
Depreciation	41	23	2	66

10. Profit from Operations

Profit from operations is arrived at after charging the following:

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i> (Unaudited and restated)
Auditors' remuneration		
— Current	915	888
— Underprovision in prior year	214	9
	1,129	897
Depreciation	661	66
Directors' emoluments (<i>Note 13</i>)	2,934	2,170
Operating lease rentals paid in respect of rented premises (<i>Note</i>)	1,204	33
Staff costs including directors' emoluments		
Salaries, bonuses and allowances (<i>Note</i>)	5,208	4,195
Retirement benefits scheme contributions	267	472
Direct operating expenses of investment properties that generate rental income (include in cost of sales and service in consolidated income statement)	2,264	2,326
	<u>2,264</u>	<u>2,326</u>

Note: The amount includes the accommodation benefits provided to a director amounting to HK\$206,000 (2006: HK\$Nil) which is included in the directors' emoluments.

11. Finance Costs

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i> (Unaudited and restated)
Interest on bank loans	19,147	20,399
Amount capitalised	(18,196)	(19,681)
	<u>951</u>	<u>718</u>

Borrowing costs on funds borrowed generally are capitalised at a rate of 6% per annum (2006: 6.9%).

12. Income Tax Expense

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i> (Unaudited and restated)
Current tax — PRC enterprise income tax		
Provision for the year	1,306	1,479
(Over)/under-provision in prior years	<u>(28)</u>	<u>152</u>
Deferred tax (<i>Note 28</i>)	<u>1,278</u>	<u>1,631</u>
	<u>1,293</u>	<u>6,248</u>
	<u>2,571</u>	<u>7,879</u>

No provision for profits tax in the Bermuda, the British Virgin Islands or Hong Kong is required as the Group has no assessable profit arising in or derived from these jurisdictions for the year ended 31 March 2007 (2006: HK\$Nil).

Pursuant to relevant laws and regulations in the PRC, the subsidiaries in the PRC are required to pay PRC enterprise income tax at a rate of 30% of notional income tax plus 3% of local income tax.

Pursuant to relevant laws and regulations in the PRC, a subsidiary of the Group, Shenyang Dadongfang Property Development Company Limited (“Shenyang Dadongfang”), is exempted from PRC enterprise local income tax for the five years from its first profit-making year and thereafter are entitled to a 50% relief from PRC enterprise local income tax for the following sixth to eighth years. Shenyang Dadongfang was in its second profit-making year for the financial year ended 31 March 2007 and was therefore entitled to a full relief from PRC enterprise local income tax. The tax rate applicable to Shenyang Dadongfang, after the full relief of 3% of local income tax, was 30% (2006: 30%).

No preferential enterprise income tax was granted to other PRC subsidiary, the tax rate applicable to the other subsidiary in the PRC is 33% (2006: 33%).

As the Group's major operations are located in and the Group's major income is derived from the PRC, the applicable tax rate to the Group was the PRC statutory tax rate of 33% during the year. The reconciliation between the income tax expense and the product of profit before tax at the PRC enterprise income tax rate is as follows:

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i> (Unaudited and restated)
Profit before tax	23,247	19,275
Tax at the statutory PRC enterprise income tax rate of 33% (2006: 33%)	7,671	6,361
Tax effect of income that is not taxable	(4,207)	(484)
Tax effect of expenses that are not deductible	3,275	1,270
Tax effect of tax losses not recognised	216	449
Tax effect of utilisation of tax losses not previously recognised	(883)	—
(Over)/under-provision in prior years	(28)	152
Effect of different tax rates of subsidiaries	(3,284)	815
Tax effect of tax preferential period	(189)	(684)
Income tax expense	<u>2,571</u>	<u>7,879</u>

13. Directors' and Employees' Emoluments

The emoluments of each director were as follow:

	Fees <i>HK\$'000</i>	Salaries and other benefits <i>HK\$'000</i>	Retirement benefits scheme contributions <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31 March 2007				
Executive directors:				
Mr. Zhang Hong Wei	1,000	—	—	1,000
Mr. Guan Guo Liang (<i>Note c</i>)	—	—	—	—
Mr. Wong Wing Ming (<i>Note b</i>)	—	—	—	—
Mr. Zhu Jun	540	—	—	540
Ms. Zhang Mei Ying (<i>Note a</i>)	768	257	9	1,034
	<u>2,308</u>	<u>257</u>	<u>9</u>	<u>2,574</u>
Independent non-executive directors:				
Mr. Chau Siu Wai	120	—	—	120
Mr. San Fung	120	—	—	120
Mr. Zhu Cheng Wu	120	—	—	120
	<u>360</u>	<u>—</u>	<u>—</u>	<u>360</u>
	<u>2,668</u>	<u>257</u>	<u>9</u>	<u>2,934</u>

Notes:

- a. Appointed on 19 June 2006
- b. Resigned on 30 June 2006
- c. Resigned on 18 August 2006

	Fees <i>HK\$'000</i>	Salaries and other benefits <i>HK\$'000</i>	Retirement benefits scheme contributions <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31 March 2006				
Executive directors				
Mr. Zhang Hong Wei	1,000	—	—	1,000
Mr. Guan Guo Liang	600	—	—	600
Mr. Wong Wing Ming	—	—	—	—
Mr. Zhu Jun (<i>Note b</i>)	270	—	—	270
	1,870	—	—	1,870
Independent non-executive directors:				
Mr. Chan Ka Si (<i>Note c</i>)	—	—	—	—
Mr. Chau Siu Wai	120	—	—	120
Mr. San Fung	120	—	—	120
Mr. Zhu Cheng Wu (<i>Note a</i>)	60	—	—	60
	300	—	—	300
	2,170	—	—	2,170

Notes:

- a. Appointed on 5 December 2005
- b. Appointed on 20 October 2005
- c. Resigned on 28 October 2005

There was no arrangement under which a director waived or agreed to waive any emoluments during the years ended 31 March 2007 and 2006.

The five highest paid individuals in the Group during the year included 3 (2006: 3) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining 2 (2006: 2) individuals are set out below:

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i> (Unaudited and restated)
Salaries and other benefits	482	260
Retirement benefits scheme contributions	<u>20</u>	<u>31</u>
	<u><u>502</u></u>	<u><u>291</u></u>

The emoluments fell within the following band:

	Number of individuals	
	2007	2006 (Unaudited and restated)
Nil to HK\$1,000,000	<u><u>2</u></u>	<u><u>2</u></u>

During the years ended 31 March 2007 and 2006, no emoluments were paid by the Group to any of the directors or the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

14. Earnings per Share

Basic earnings per share is calculated based on earnings attributable to equity holders of the Company during the year divided by the weighted average number of ordinary shares in issue. The calculation of the basis earnings per share is based on the following:

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i> (Unaudited and restated)
Earnings		
Profit attributable to equity holders of the Company	<u>18,508</u>	<u>6,419</u>
	2007	2006
Number of shares		
Weighted average number of ordinary shares	<u><u>6,568,586,476</u></u>	<u><u>5,175,985,375</u></u>

In determining the weighted average number of ordinary shares in issue, the 5,080,000,000 ordinary shares as consideration of the Acquisition (note 3) were deemed to be in issue since 1 April 2005.

No diluted earnings per share are presented as the Company did not have any dilutive potential ordinary share during the two years ended 31 March 2007.

15. Dividend

No dividend has been paid or declared by the Company during the year (2006: HK\$Nil).

16. Property, Plant and Equipment

	Property	Leasehold	Motor	Furniture,	Investment	Total
	improvements	improvements	vehicles	fixtures and	properties	
	HK\$'000	HK\$'000	HK\$'000	equipment	under	HK\$'000
				HK\$'000	construction	
					HK\$'000	
Cost						
At 1 April 2005						
(unaudited and restated)	390	—	—	273	127,086	127,749
Additions	—	—	—	17	5,520	5,537
Transfer from investment						
properties	60	—	—	—	—	60
Exchange differences	—	—	—	9	3,921	3,930
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 March 2006						
(unaudited and restated)	450	—	—	299	136,527	137,276
Additions	—	1,441	187	668	5,402	7,698
Disposals	(450)	—	—	—	—	(450)
Exchange differences	—	—	—	13	5,930	5,943
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 March 2007	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	—	1,441	187	980	147,859	150,467
Accumulated depreciation						
At 1 April 2005						
(unaudited and restated)	27	—	—	34	—	61
Charge for the year	10	—	—	56	—	66
Exchange differences	—	—	—	2	—	2
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 March 2006						
(unaudited and restated)	37	—	—	92	—	129
Charge for the year	—	480	15	166	—	661
Disposals	(37)	—	—	—	—	(37)
Exchange differences	—	—	—	4	—	4
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 March 2007	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	—	480	15	262	—	757
Carrying amount						
At 31 March 2007	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	—	961	172	718	147,859	149,710
At 31 March 2006	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
(unaudited and restated)	413	—	—	207	136,527	137,147

At 31 March 2007, the carrying amount of property, plant and equipment pledged as security for the Group's bank loans amounted to approximately HK\$102,101,000 (2006: HK\$98,264,000).

At 31 March 2007, the carrying amount of prepaid land lease payments included in investment properties under construction which amounted to approximately HK\$131,937,000 (2006: HK\$126,445,000) represents payments for land use rights outside Hong Kong under medium term leases.

17. Investment Properties

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i> (Unaudited and restated)
At beginning of year	172,523	148,191
Transfer to property, plant and equipment	—	(60)
Disposal	(19,570)	—
Fair value gains	2,020	20,129
Exchange differences	6,643	4,263
	<u>172,523</u>	<u>148,191</u>
At 31 March	<u><u>161,616</u></u>	<u><u>172,523</u></u>

The fair value of the Group's investment properties as at 31 March 2007 has been arrived at on the basis of a valuation carried out on that date by BMI Appraisals Limited, independent qualified professional valuers not connected with the Group. BMI Appraisals Limited is a member of The Hong Kong Institute of Surveyors, and has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation prepared in accordance with the HKIS Valuation Standards on Properties (First Edition 2005) published by The Hong Kong Institute of Surveyors, was arrived at by reference to market evidence of transaction prices for similar properties.

The Group's investment properties at their carrying amounts are analysed as follows:

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i> (Unaudited and restated)
Investment properties held under		
Medium-term leases in Hong Kong	—	19,570
Medium-term leases in the PRC	161,616	152,953
	<u>161,616</u>	<u>152,953</u>
	<u><u>161,616</u></u>	<u><u>172,523</u></u>

At 31 March 2007, the carrying amount of investment properties pledged as security for the Group's bank loans amounted to HK\$161,616,000 (2006: HK\$172,523,000).

The Group's investment properties held as at 31 March 2007 are rented to an independent third party for periods up to 20 years. At 31 March 2007, the Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i> (Unaudited and restated)
Within one year	5,878	8,526
In the second to fifth years inclusive	24,198	24,103
After five years	82,887	85,351
	<u>112,963</u>	<u>117,980</u>

18. Properties under Development

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i> (Unaudited and restated)
At beginning of year	328,854	269,918
Additions	21,312	49,870
Transfer from deposits paid for prepaid land lease payments	3,030	—
Exchange differences	14,284	9,066
At 31 March	<u>367,480</u>	<u>328,854</u>

The Group's properties under development at their carrying amounts are analysed as follows:

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i> (Unaudited and restated)
Prepaid land lease payments	265,766	251,799
Construction costs and capitalised expenditures	66,133	55,587
Interests capitalised	35,581	21,468
	<u>367,480</u>	<u>328,854</u>

The Group's prepaid land lease payments represent payments for land use rights outside Hong Kong under medium term leases.

At 31 March 2007, the carrying amount of prepaid land lease payments pledged as security for the Group's bank loans amounted to approximately to HK\$227,594,000 (2006: HK\$218,120,000).

19. Interest in a Jointly-Controlled Operation

The Group entered into an agreement with Beijing Glory City Real Estate Company Limited (“北京國瑞興業地產有限公司”) (the “joint venture partner”) for the development of a property in the PRC. Pursuant to the terms of the agreement, other than the funds already invested by the Group up to the date of agreement, the Group will contribute no further funds and the joint venture partner bears all the additional funding required which shall not be less than HK\$1,010 million (equivalent to RMB1,000 million). At the balance sheet date, the aggregate amounts of assets recognised in the Group’s financial statements in relation to the interest in the jointly-controlled operation are as follows:

	2007 <i>HK\$’000</i>	2006 <i>HK\$’000</i> (Unaudited and restated)
Assets		
Property, plant and equipment	147,859	136,527
Properties under development	367,480	328,854
	<u>515,339</u>	<u>465,381</u>

20. Trade and other Receivables

	2007 <i>HK\$’000</i>	2006 <i>HK\$’000</i> (Unaudited and restated)
Trade receivables (<i>note a</i>)	32	40
Loan receivable (<i>note b</i>)	74,280	—
Deposits and other receivables	2,538	720
	<u>76,850</u>	<u>760</u>

- (a) The Group allows an average credit period of 30 days to its trade customers. The following is an aged analysis of trade receivables, based on invoice date:

	2007 <i>HK\$’000</i>	2006 <i>HK\$’000</i> (Unaudited and restated)
Within 60 days	29	40
61 to 90 days	3	—
	<u>32</u>	<u>40</u>

- (b) The loan receivable was secured, carrying interest at 8% per annum and repayable on or before 9 July 2007. The amount has been fully settled after the balance sheet date.

The loan receivable was arranged at a fixed interest rate, thus exposing the Group to fair value interest rate risk.

21. Deposits paid for Prepaid Land Lease Payments

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i> (Unaudited and restated)
At beginning of year	15,745	15,286
Transfer to properties under development	(3,030)	—
Exchange differences	683	459
	<u>13,398</u>	<u>15,745</u>
At 31 March	<u>13,398</u>	<u>15,745</u>

The amounts represent deposits paid for acquisition of land parcels, of which land use right certificates have not been obtained. However, as advised by the PRC legal adviser, Beijing Gase Law Firm (“北京市中高盛律師事務所”), the Group can apply for a refund if the vendor is unable to procure land use right certificates in accordance with the relevant contracts.

22. Due from a Director

Amount due from a director disclosed pursuant to section 161B of the Hong Kong Companies Ordinance is as follows:

Name	Terms of loan	Balance at 31 March 2007 <i>HK\$'000</i>	Balance at 1 April 2006 <i>HK\$'000</i> (Unaudited and restated)	Maximum amount outstanding during the year
				<i>HK\$'000</i>
Ms. Zhang Mei Ying	Unsecured, repayable on demand and interest-free	5	—	5

23. Due from a related company

Amount due from a related company disclosed pursuant to section 161B of the Hong Kong Companies Ordinance is as follows:

Name	Name of director having beneficial interest	Balance at 31 March 2007 <i>HK\$'000</i>	Balance at 1 April 2006 <i>HK\$'000</i> (Unaudited and restated)	Maximum amount outstanding during the year
				<i>HK\$'000</i>
Oriental Harbour Holding Limited	Mr. Zhang Hong Wei	69	—	69

The above advance is unsecured, interest-free and has no fixed repayment terms.

24. Financial Assets at Fair Value through Profit or Loss

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i> (Unaudited and restated)
Equity securities, at fair value		
Listed in Hong Kong and held for trading	<u>6,109</u>	<u>—</u>

The investments represent investments in listed equity securities that offer the Group the opportunity a return through dividend income and fair value gains. They have no fixed maturity or coupon rate. The fair values of the listed securities are based on quoted market prices.

25. Bank and Cash Balances

At 31 March 2007, the bank and cash balances of the Group denominated in RMB amounted to approximately HK\$264,590,000 (2006: HK\$237,418,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

26. Trade and other Payables

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i> (Unaudited and restated)
Trade payables (<i>note a</i>)	7,664	6,814
Receipts in advance	10,101	2,213
Accrual and other payables	3,763	4,135
Salary and welfare payables	<u>126</u>	<u>140</u>
Total trade and other payables	<u>21,654</u>	<u>13,302</u>

(a) The following is an aged analysis of trade payables at the balance sheet date:

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i> (Unaudited and restated)
Within 60 days	638	—
91 to 180 days	—	3,026
181 to 365 days	—	1,156
Over 365 days	<u>7,026</u>	<u>2,632</u>
	<u>7,664</u>	<u>6,814</u>

27. Bank Loans

The bank loans are repayable as follows:

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i> (Unaudited and restated)
On demand or within one year	303,030	1,473
In the second year	—	291,992
In the third to fifth years, inclusive	—	5,412
After five years	—	6,244
	<u>303,030</u>	<u>305,121</u>
<i>Less: Amounts due for settlement within one year</i> (shown under current liabilities)	<u>(303,030)</u>	<u>(1,473)</u>
Amounts due for settlement after one year	<u>—</u>	<u>303,648</u>

The carrying amounts of the Group's bank loans are denominated in the following currencies:

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i> (Unaudited and restated)
Hong Kong dollars	—	14,705
Renminbi	<u>303,030</u>	<u>290,416</u>
	<u>303,030</u>	<u>305,121</u>

The effective interest rate as at 31 March 2007 is 6.27% (2006: 6.25%)

Bank loans are arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

Bank loan of HK\$303,030,000 (2006: HK\$305,121,000) is secured by a charge over the Group's property, plant and equipment of HK\$102,101,000 (2006: HK\$98,264,000), investment properties of HK\$161,616,000 (2006: HK\$172,523,000) and properties under development of HK\$227,594,000 (2006: HK\$218,120,000) as disclosed in note 16, 17 and 18 to the financial statements respectively.

28. Deferred Tax Liabilities

The following are the major deferred tax liabilities recognised by the Group, and the movements thereon, during the current and prior reporting periods.

	Investment properties <i>HK\$'000</i>
At 1 April 2005 (unaudited and restated)	19,614
Charge to income statement for the year	6,248
Exchange differences	710
	<hr/>
At 31 March 2006 (unaudited and restated)	26,572
Charge to income statement for the year	1,293
Exchange differences	1,155
	<hr/>
At 31 March 2007	<u>29,020</u>

At the balance sheet date the Group has unused tax losses and other deductible temporary differences of approximately HK\$15,867,000 and HK\$743,000 respectively (2006: HK\$17,231,000 and HK\$945,000 respectively) that are available for offsetting against future taxable profits. No deferred tax assets have been recognised due to unpredictability of future profit streams. The unrecognised tax losses and other deductible temporary differences may be carried forward indefinitely.

29. Balance Sheet of the Company

	<i>Note</i>	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Investment in subsidiaries		2,286,010	10
Trade and other receivables		75,079	1
Financial assets at fair value through profit or loss		6,109	—
Due from a director		5	—
Due from a related company		69	—
Due from a subsidiary		16,219	5,557
Bank and cash balances		68,936	2,492
Trade and other payables		(2,124)	(2,315)
Due to directors		(3,930)	(12,454)
Due to a related company		—	(11,028)
		<hr/>	<hr/>
NET ASSETS		<u>2,446,373</u>	<u>(17,737)</u>
Capital and reserves			
Share capital		68,760	960
Reserves	<i>31(b)</i>	<u>2,377,613</u>	<u>(18,697)</u>
TOTAL EQUITY		<u>2,446,373</u>	<u>(17,737)</u>

30. Share Capital

	<i>Note</i>	Number of shares	Amount HK\$'000
Authorised:			
Ordinary shares of HK\$0.01 each			
At 1 April 2005		1,600,000,000	160,000
Consolidation of shares and reduction in capital	<i>(a)</i>	(1,440,000,000)	(95,025)
Division of shares	<i>(a)</i>	<u>6,337,447,875</u>	<u>—</u>
At 31 March 2006 and 1 April 2006		6,497,447,875	64,975
Increase in authorised share capital	<i>(b)</i>	<u>13,502,552,125</u>	<u>135,025</u>
At 31 March 2007		<u><u>20,000,000,000</u></u>	<u><u>200,000</u></u>
Issued and fully paid:			
Ordinary shares of HK\$0.01 each			
At 1 April 2005, as previously reported		959,853,750	95,985
New shares issued in connection with the acquisition of Grand Hope Group	<i>(c)</i>	<u>5,080,000,000</u>	<u>50,800</u>
At 1 April 2005, as restated		6,039,853,750	146,785
Consolidation of shares and reduction in capital	<i>(a)</i>	<u>(863,868,375)</u>	<u>(95,025)</u>
At 31 March 2006 (unaudited and restated)		<u><u>5,175,985,375</u></u>	<u><u>51,760</u></u>
At 1 April 2006, as previously reported		95,985,375	960
New shares issued in connection with the acquisition of Grand Hope Group	<i>(c)</i>	<u>5,080,000,000</u>	<u>50,800</u>
At 1 April 2006, as restated		5,175,985,375	51,760
Issue of shares on placement	<i>(d)</i>	<u>1,699,998,000</u>	<u>17,000</u>
At 31 March 2007		<u><u>6,875,983,375</u></u>	<u><u>68,760</u></u>

(a) On 8 August 2005, the Company reorganised its capital structure as follows:

- (i) consolidate 10 shares of the Company's ordinary shares of HK\$0.10 each into 1 consolidated share of HK\$1.00;
- (ii) reduce the nominal value of each issued consolidated share from HK\$1.00 share to HK\$0.01; and
- (iii) sub-divide each authorised but unissued consolidated share into 100 new shares.

(b) Pursuant to special resolutions passed on 11 May 2006, the authorised share capital of the Company was increased from HK\$64,974,478 to HK\$200,000,000 by the creation of 13,502,552,125 additional shares of HK\$0.01 each, ranking pari passu in all respects with the existing share capital of the Company.

- (c) As disclosed in note 3 to financial statements, the Company issued and allotted 5,080,000,000 new shares at HK\$0.01 each to He Fu and credited as fully paid in consideration for acquisition of the entire interest in Grand Hope Group on 6 June 2006. The consolidated financial statements have been prepared under the merger accounting method. Accordingly, the share capital issued for the Acquisition is deemed to have been in issue throughout the accounting periods presented in these financial statements.
- (d) On 6 June 2006, the Company issued and allotted 1,699,998,000 ordinary shares of HK\$0.01 each through a placing of the Company's shares at a consideration of HK\$0.10 per share. The Company received net proceeds of approximately HK\$168,284,000 from this share issue.

31. Reserves

(a) Group

The amounts of Group's reserves and the movements therein are presented in the consolidated statement of changes in equity.

(b) Company

	Share premium	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000
At 1 April 2005	90,660	(197,795)	(107,135)
Consolidation of shares and reduction in capital	95,025	—	95,025
Loss for the year	—	(6,587)	(6,587)
At 31 March 2006	<u>185,685</u>	<u>(204,382)</u>	<u>(18,697)</u>
At 1 April 2006	185,685	(204,382)	(18,697)
Share issue expenses paid	(1,716)	—	(1,716)
Issue of shares on acquisition of subsidiaries	2,235,200	—	2,235,200
Issue of shares on placement	153,000	—	153,000
Profit for the year	—	9,826	9,826
At 31 March 2007	<u>2,572,169</u>	<u>(194,556)</u>	<u>2,377,613</u>

(c) Nature and Purpose of Reserves

(i) Share premium account

Share premium represents premium arising from the issue of shares at a price in excess of their par value per share and is not distributable but may be applied in paying up unissued shares of the Company to be issued to the shareholders of the Company as fully paid bonus shares or in providing for the premiums payable on repurchase of shares.

(ii) *Merger reserve*

Merger reserve represents the difference between the nominal value of the shares of subsidiary acquired and the market value of the shares issued by the Company as consideration for the acquisition.

(iii) *Capital reserve*

Capital reserve represents the aggregate of:

- the Group's share of additional equity contribution made from minority shareholder of a subsidiary, Shengyang Shengtaiyuan Logistic Company Limited on 19 April 2005; and
- the loan waiver made by an ultimate holding company, He Fu International Limited to a subsidiary, Grand Hope Group Limited.

(iv) *Statutory reserve*

Statutory reserve, which is non-distributable, is appropriated from the profit after taxation of the Company's PRC subsidiaries under the applicable laws and regulations in the PRC.

32. Share Option Scheme

The Company's share option scheme (the "Scheme") was adopted pursuant to the shareholders' resolution passed on 11 May 2006 for the primary purpose of providing opportunity to directors and employees to acquire proprietary interests of the Group and will expire on 10 May 2016. Under the Scheme, the Board of Directors of the Company may grant options to eligible person (including all directors, employees of the Group, consultants, advisors, agents, customers, service providers, contractors and business partners of any members of the Group).

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 30% of the shares of the Company in issue from time to time. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual is not permitted to exceed 10% of the shares of the Company in issue from time to time.

The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the share for the five business dates immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

Share options granted to any directors, chief executive or substantial shareholder, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to substantial shareholders or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK\$5 million, within 12 month period, are subject to shareholders' approval in advance in general meeting.

The offer of a grant of share options may be accepted within 30 days from the date of offer, upon payment of a nominal consideration of HK\$1 in total by the grantee.

Since the adoption of the Scheme and up to 31 March 2007, no options have been granted.

33. Commitments

The Group's commitments at the balance sheet dates are as follows:

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i> (Unaudited and restated)
Contracted but not provided for		
Construction costs	185,409	1,233
Prepaid land lease payments	<u>353,298</u>	<u>338,592</u>
	<u><u>538,707</u></u>	<u><u>339,825</u></u>

34. Operating Lease Commitments

At the balance sheet dates the total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i> (Unaudited and restated)
Within one year	2,348	180
In the second to fifth years inclusive	<u>9,980</u>	<u>170</u>
	<u><u>12,328</u></u>	<u><u>350</u></u>

Operating lease payments represent rental payable by the Group for certain of its offices and staff quarter. Leases are negotiated for an average term of 2 years and rentals are fixed over the lease terms and do not include contingent rentals.

35. Retirement Benefits Scheme***Hong Kong***

The Group participates in the Mandatory Provident Fund Scheme (the "MPF Scheme") established under the MPF Scheme Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. No forfeited contributions are available to reduce contributions payable in future years.

The Group's contribution under the MPF Scheme for the year amounted to HK\$61,000 (2006: HK\$38,000).

PRC

According to the relevant laws and regulations in the PRC, the Group's subsidiaries in the PRC are required to contribute a specified percentage of the payroll of their employees to the retirement benefits schemes to fund the retirement benefits of their employees. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the respective schemes.

The Group's contribution under the respective schemes for the year amounted to HK\$206,000 (2006: HK\$434,000).

36. Related Party Transactions

In additions to the transactions and balances detailed elsewhere in these financial statements, the Group had the following transactions with its related parties during the year:

(a) Transactions With Related Parties:

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited and restated)
Orient Home Investment Holding Company (Formerly known as Orient Home Company Limited)		
Sales of household building materials	—	34,603
Interest expenses paid	—	3,596
	<u>—</u>	<u>38,199</u>

A director, Mr. Zhang Hong Wei, has significant influence over the above related company.

(b) Balances with Related Parties:

The amounts due to related companies, directors and a minority shareholder are unsecured, interest-free and repayable on demand.

37. Subsidiaries

Particulars of the subsidiaries as at 31 March 2007 are as follows:

Name of Subsidiary	Place of incorporation/ registration	Issued and fully paid share capital/ registration capital	Proportion of ownership interest			Principal activities
			Group's effective interest	Held by the Company	Held by subsidiaries	
Fine Profit Corporation Limited	Hong Kong	HK\$10,000	100%	100%	—	Property investment
Grand Hope Group Limited	British Virgin Islands	US\$1	100%	100%	—	Investment holding
Shenyang Dadongfang Property Development Company Limited ("Dadongfang")	PRC	US\$8,201,700	71%	—	71%	Property development and investment
Shenyang Shengtaiyuan Logistics Company Limited ("Shengtaiyuan")	PRC	RMB60,000,000	56.8%	—	80%	Wholesale of household building materials

Dadongfang is a sino-foreign equity joint venture and Shengtaiyuan is a domestic enterprise established in PRC.

38. Post balance Sheet Events

Pursuant to the PRC enterprise income tax law passed by the Tenth National People's Congress on 16 March 2007, the new enterprise income tax rates for domestic and foreign enterprises are unified at 25%, which will be effective from 1 January 2008. The impact of such change of enterprise income tax rate on the Group's consolidated financial statements will depend on the implementation details that have not been issued as of the date of the approval of these consolidated financial statements. Therefore, the Group cannot reasonably estimate the financial impact of the new tax law to the Group at this stage.

39. Approval of Financial Statements

The financial statements were approved and authorised for issue by the Board of Directors on 30 July 2007.

(C) UNAUDITED INTERIM FINANCIAL STATEMENTS OF THE GROUP FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006 AND 2007

(Terms defined herein apply to this appendix only.)

The following financial information is a reproduction of the relevant information extracted from the interim report of the Group for the six months 30 September 2007 together with the unaudited comparative figures for the corresponding period in 2006.

Condensed Consolidated Interim Income Statement

For six months ended 30 September 2007

		Six months ended	
		30 September	
		2007	2006
		(unaudited)	(unaudited)
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	4	4,688	9,376
Cost of sales and service		(234)	(4,239)
Gross profit		4,454	5,137
Other income	5	5,370	3,460
Administrative expenses		(16,770)	(9,959)
Loss from operations	5	(6,946)	(1,362)
Finance costs	5	—	(486)
Loss before tax		(6,946)	(1,848)
Income tax expense	6	(299)	(155)
Loss for the period		<u>(7,245)</u>	<u>(2,003)</u>
ATTRIBUTABLE TO:			
Equity holders of the Company		(5,849)	(2,274)
Minority interests		(1,396)	271
		<u>(7,245)</u>	<u>(2,003)</u>
LOSS PER SHARE			
Basic	7	<u>(0.09) cents</u>	<u>(0.04) cents</u>
Diluted	7	<u>N/A</u>	<u>N/A</u>

Condensed Consolidated Interim Balance Sheet*As at 30 September 2007*

	<i>Note</i>	As at 30 September 2007 (unaudited) HK\$'000	As at 31 March 2007 (audited) HK\$'000
Non-current assets			
Property, plant and equipment	<i>13</i>	153,317	149,710
Investment properties	<i>13</i>	165,169	161,616
		<u>318,486</u>	<u>311,326</u>
Current assets			
Properties under development	<i>13</i>	488,656	367,480
Trade and other receivables	<i>9</i>	7,163	76,850
Deposits paid for prepaid land lease payments	<i>13</i>	13,693	13,398
Due from a director		—	5
Due from a related company		—	69
Financial assets at fair value through profit or loss		54,504	6,109
Bank balances and cash		377,609	355,158
		<u>941,625</u>	<u>819,069</u>
Current liabilities			
Trade and other payables	<i>10</i>	82,960	21,654
Current tax liabilities		897	573
Due to directors		3,790	3,930
Due to related companies		13,073	12,792
Due to a minority shareholder		86,976	31,402
Bank loans		309,693	303,030
		<u>497,389</u>	<u>373,381</u>
Net current assets		<u>444,236</u>	<u>445,688</u>
Total assets less current liabilities		<u>762,722</u>	<u>757,014</u>
Non-current liabilities			
Deferred tax liabilities		29,658	29,020
Net assets		<u>733,064</u>	<u>727,994</u>
Capital and reserves			
Share capital	<i>11</i>	68,760	68,760
Reserves		454,464	452,534
Equity attributable to equity holders of the Company		<u>523,224</u>	<u>521,294</u>
Minority interests		209,840	206,700
Total equity		<u>733,064</u>	<u>727,994</u>

Condensed Consolidated Interim Statement of Change in Equity

For the six months ended 30 September 2007

	Attributable to equity holders of the Company										
	Share capital	Share premium account	Merger reserve	Capital reserve	Property revaluation reserve	Foreign currency translation reserve	Statutory reserve	Retained profits/ (acc- umulated losses)	Total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2006, as previously reported	960	185,685	—	—	2,672	—	—	(205,556)	(16,239)	—	(16,239)
Effect on merger of equity interests in subsidiaries	50,800	2,235,200	(2,286,000)	287,545	—	5,921	522	42,245	336,233	195,926	532,159
At 1 April 2006, as restated	51,760	2,420,885	(2,286,000)	287,545	2,672	5,921	522	(163,311)	319,994	195,926	515,920
Exchange differences arising on translation of foreign operations	—	—	—	—	—	7,605	—	—	7,605	4,432	12,037
Issue of shares on placement	17,000	153,000	—	—	—	—	—	—	170,000	—	170,000
Loss for the period	—	—	—	—	—	—	—	(2,274)	(2,274)	271	(2,003)
At 30 September 2006	68,760	2,573,885	(2,286,000)	287,545	2,672	13,526	522	(163,585)	495,325	200,629	695,954
At 1 April 2007	68,760	2,572,169	(2,286,000)	287,545	—	20,429	829	(142,438)	521,294	206,700	727,994
Exchange differences arising on translation of foreign operations	—	—	—	—	—	7,779	—	—	7,779	4,536	12,315
Loss for the period	—	—	—	—	—	—	—	(5,849)	(5,849)	(1,396)	(7,245)
At 30 September 2007	68,760	2,572,169	(2,286,000)	287,545	—	28,208	829	(148,287)	523,224	209,840	733,064

Condensed Consolidated Interim Cash Flow Statement*For the six months ended 30 September 2007*

	As at 30 September 2007 (unaudited) HK\$'000	As at 30 September 2006 (unaudited) HK\$'000
Net cash inflow from operating activities	102,876	10,874
Net cash outflow from investing activities	(86,241)	(525,452)
Net cash inflow from financing activities	—	665,087
Net increase in cash and cash equivalents	16,635	150,509
Cash and cash equivalents at 1 April	355,158	242,212
Effect of foreign exchange rate charges	5,816	5,406
Cash and cash equivalents at 30 September	<u>377,609</u>	<u>398,127</u>

Notes to Interim Financial Statements*For the six months ended 30 September 2007***1. General information**

The Company was incorporated in the Cayman Islands and redomiciled to Bermuda as an exempted company with limited liability under the Company Act of Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The address of its principal place of business is Unit 2112, 21/F., Two Pacific Place, 88 Queensway, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

He Fu International Limited, a company incorporated in the British Virgin Islands, is the immediate and ultimate parent and Mr. Zhang Hong Wei is the ultimate controlling party of the Company.

The condensed consolidated interim financial information has been approved for issue by the board of directors on 21 November 2007.

2. Basis of preparation

The condensed consolidated interim financial information for the six months ended 30 September 2007 have been prepared in accordance with the requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and the Hong Kong Accounting Standard No. 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

3. Principal accounting policies

The accounting policies used in the condensed interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2007. The condensed interim financial statements should be read in conjunction with the Company's 2007 annual report.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by HKICPA, which are effective for accounting periods beginning on January 2007 and which are relevant to its operations. The adoption of the new HKFRSs has no significant impact on these condensed consolidated interim financial statements.

The Group has not early applied the new HKFRSs that have been issued but not yet effective. The directors of the Company anticipate that the application of these new and revised HKFRSs in future periods will have no material impact on the financial position and the results of the Group.

4. Segment information

Primary Reporting Format — Business Segments

The Group is currently operating into three business segments, property development, property investment and wholesale of household building materials.

Turnover of the Group represents net amounts received and receivable for goods sold by the Group to outside customers, less returns and allowances and property rental income during the period. Segment information about the business is presented below:

Six months ended 30 September 2007

	Property development <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Wholesale of household building materials <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Turnover	<u>—</u>	<u>4,688</u>	<u>—</u>	<u>4,688</u>
Segment results	<u>(7,508)</u>	<u>1,052</u>	<u>(103)</u>	(6,559)
Other income				5,370
Unallocated corporate expenses				<u>(5,757)</u>
Loss from operations				(6,946)
Finance costs				<u>—</u>
Loss before taxation				(6,946)
Taxation				<u>(299)</u>
Loss for the period				<u><u>(7,245)</u></u>

Six months ended 30 September 2006

	Property development <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Wholesale of household building materials <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Turnover	<u>—</u>	<u>6,354</u>	<u>3,022</u>	<u>9,376</u>
Segment results	<u>(3,813)</u>	<u>3,460</u>	<u>(236)</u>	(589)
Other income				3,460
Unallocated corporate expenses				<u>(4,233)</u>
Loss from operations				(1,362)
Finance costs				<u>(486)</u>
Loss before taxation				(1,848)
Taxation				<u>(155)</u>
Loss for the period				<u>(2,003)</u>

Secondary Reporting Format — Geographical segments

The following table provides an analysis of the Group's turnover by geographical market irrespective of the origin of the services:

	For the six months ended 30 September	
	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
PRC, excluding Hong Kong	4,688	7,549
Hong Kong	<u>—</u>	<u>1,827</u>
	<u>4,688</u>	<u>9,376</u>

5. Loss from operations

	For the six months ended 30 September	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss from operations has been arrived at after charging (crediting) the followings:		
Other revenue:		
Interest income	(2,637)	(2,967)
Gain on disposals of financial assets at fair value through profit or loss	(2,681)	—
Other income	(52)	(493)
	(5,370)	(3,460)
Interest on		
— bank borrowings wholly repayable within one year	—	486
Staff costs, including directors' remuneration and retirement benefit scheme contributions	2,082	1,496
Depreciation of plant and equipment	96	436
Auditors' remuneration	261	—
Amortisation of prepaid land lease payments	—	5,036
<i>Less: capitalised in properties under development</i>	—	(5,036)
	—	—
Interest expenses	5,308	24,251
<i>Less: capitalised in properties under development</i>	(5,308)	(24,251)
	—	—
	—	—

6. Income tax expense

	For the six months ended 30 September	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
PRC Income Tax	299	155
	299	155

No provision for profits tax in the Bermuda, the British Virgin Islands or Hong Kong is required as the Group has no assessable profit arising in or derived from these jurisdictions for the relevant periods.

Pursuant to the relevant laws and regulations in the PRC, the subsidiaries in the PRC are required to pay PRC enterprise income tax at a rate of 30% of notional income tax plus 3% of local income tax.

Pursuant to the relevant laws and regulations in the PRC, a subsidiary of the Group, Shenyang Dadongfang Property Development Company Limited is exempted from PRC local tax of 3% for the relevant periods.

No preferential enterprise income tax was granted to other PRC subsidiary, the tax rate applicable to the other subsidiary in the PRC is 33% for the relevant periods.

7. Loss per share

Basic loss per share is calculated based on the net loss attributable to equity holders of the Company during the period divided by the weighted average number of ordinary shares in issue. The calculation of the basic loss per share is based on the following:

	For the six months ended 30 September	
	2007	2006
Loss attributable to equity holders of the Company (HK\$'000)	(5,849)	(2,274)
Weighted average number of ordinary shares in issue	6,875,983,375	6,262,169,342
Basic loss per share (HK\$ cents)	<u>(0.09)</u>	<u>(0.04)</u>

In determining the weighted average number of ordinary shares in issue, the 5,080,000,000 ordinary shares as consideration for the acquisition of Grand Hope were deemed to be in issue since 1 April 2006.

No diluted loss per share for the six months ended 30 September 2007 is presented as the Company did not have any dilutive potential ordinary share during the two periods ended 30 September.

8. Dividends

The directors of the Company do not recommend the payment of any interim dividend for the six months ended 30 September 2007 (Six months ended 30 September 2006: Nil).

9. Trade and other receivables

	30 September 2007	31 March 2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	4,718	32
Other receivables	2,445	76,818
Total trade and other receivables	<u>7,163</u>	<u>76,850</u>

The Group allows an average credit period of 30 days to its trade customers. The following is an aged analysis of trade receivable, based on invoice date:

	30 September 2007	31 March 2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 60 days	1,572	29
61 to 90 days	1,573	3
91 to 180 days	1,573	—
	<u>4,718</u>	<u>32</u>

10. Trade and other payables

	30 September 2007	31 March 2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	66,679	7,664
Other payables	16,281	13,990
	<u>82,960</u>	<u>21,654</u>

The following is an aged analysis of trade payables at the balance sheet date:

	30 September 2007	31 March 2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 90 days	49,726	638
91 to 180 days	15,330	—
181 to 365 days	1,623	—
Over 365 days	—	7,026
	<u>66,679</u>	<u>7,664</u>

11. Share capital

	30 September 2007	31 March 2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Authorised:		
20,000,000,000 ordinary shares of HK\$0.01 each	<u>200,000</u>	<u>200,000</u>
Issued and fully paid:		
6,875,983,375 ordinary shares of HK\$0.01 each	<u>68,760</u>	<u>68,760</u>

12. Commitments

(a) Operating lease commitments

At 30 September 2007, the Group had total future minimum lease payments under non-cancellable operating leases are as follows:

	30 September 2007	31 March 2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	2,266	2,348
In the second to fifth years inclusive	133	9,980
	<u>2,399</u>	<u>12,328</u>

(b) Capital commitments

	30 September 2007	31 March 2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted but not provided for		
Construction costs	52,829	185,409
Prepaid land lease payments	360,954	353,298
	<u>413,783</u>	<u>538,707</u>

13. Capital expenditure

	Property, plant and equipment	Deposit paid for prepaid land lease payments	Properties under development	Investment properties
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
For the six months ended				
30 September 2007				
At 1 April 2007	149,710	13,398	367,480	161,616
Additions	440	—	113,061	—
Depreciation and amortisation	(96)	—	—	—
Exchange differences	3,263	295	8,115	3,553
	<u>153,317</u>	<u>13,693</u>	<u>488,656</u>	<u>165,169</u>
At 30 September 2007	<u>153,317</u>	<u>13,693</u>	<u>488,656</u>	<u>165,169</u>
For the six months ended				
30 September 2006				
At 1 April 2006	137,147	15,745	328,854	172,523
Additions	351	—	18,905	—
Depreciation and amortisation	(437)	—	—	(1,182)
Exchange differences	5	293	10,387	3,387
	<u>137,066</u>	<u>16,038</u>	<u>358,146</u>	<u>174,728</u>
At 30 September 2006	<u>137,066</u>	<u>16,038</u>	<u>358,146</u>	<u>174,728</u>

(D) MATERIAL ADVERSE CHANGE

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

(E) WORKING CAPITAL

The Directors are satisfied after due and careful enquiry that taking into account the present internal financial resources, the present available credit facilities of the Group, and in the absence of unforeseen circumstances, the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of publication of this circular.

(F) INDEBTEDNESS

At the close of business on 30 November 2007 (being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular), the Group had outstanding borrowings of approximately HK\$449 million, comprising amounts due to directors of approximately HK\$4 million, amount due to a minority equity holder of approximately HK\$123 million, amount due to a related company of approximately HK\$13 million and a bank loan of approximately HK\$309 million which is secured by the pledge of the Group's property, plant and equipment, investment property and properties under development with total carrying value of HK\$501 million as at 30 November 2007. Except for the bank loan, the amounts due are unsecured, interest free and have no fixed terms of repayment.

As at the close of business on 30 November 2007 (being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular), the Group has total banking facilities of approximately HK\$125 million in respect of issuance of performance bond for contract of production of crude oil. The Group's cash at banks with carrying value of approximately HK\$126 million were pledged for the banking facilities.

Save as aforesaid or otherwise disclosed in the paragraphs above, and apart from intra-group liabilities and normal trade payables in the ordinary course of the business, as at 30 November 2007 (being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular), the Group had no other outstanding mortgages, charges, debentures or other loan capital, bank overdrafts or loans, other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, guarantees or other material contingent liabilities.

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this circular received from BMI Appraisals Limited, an independent valuer, in connection with its valuations as at 30 November 2007 of the properties held by Shenyang Dadongfang located in the PRC.

BMI APPRAISALS

BMI Appraisals Limited 中和邦盟評估有限公司

Suite 11-18, 31/F., Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong
香港灣仔港灣道6-8號瑞安中心3111-18室
Tel電話：(852) 2802 2191 Fax傳真：(852) 2802 0863
Email電郵：info@bmintelligence.com Website網址：www.bmintelligence.com

11 January 2008

The Directors

United Energy Group Limited

Unit 2112, 21st Floor

Two Pacific Place

88 Queensway

Hong Kong

Dear Sirs

INSTRUCTIONS

In accordance with your instructions for us to value the properties located in the People's Republic of China (the "PRC") held by Shenyang Dadongfang Property Development Co., Ltd., which is a subsidiary of United Energy Group Limited (the "Company") (together referred to as the "Group"). We confirm that we have performed inspections, made relevant enquiries and obtained such further information, as we consider necessary for the purpose of providing you with our opinion of the market values of such properties as at 30 November 2007 (the "date of valuation").

BASIS OF VALUATION

Our valuations of the properties have been based on the Market Value, which is defined as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

VALUATION METHODOLOGIES

In valuing Property No. 1, which is being held under development, we have assumed that it will be developed and completed in accordance with the latest development proposal. In arriving at our opinion of value, we have valued the land by the Comparison Approach by making reference to comparable transactions in the locality and have taken into account the construction costs and professional fees already spent and the remainder to be expended to complete the development.

In valuing Property No. 2, which is being held for future development, we have adopted the Comparison Approach assuming sale in the existing state with the benefit of vacant possession and by making reference to comparable sales evidence as available in the relevant market. Appropriate adjustments have then been made to account for the differences between the property and the comparables in terms of time, location and other relevant factors.

TITLE INVESTIGATIONS

We have been provided with extracts of title documents relating to the titles of such properties and have been advised by the Group that no further relevant documents have been produced. Moreover, due to the nature of the land registration system in the PRC, we have not been able to examine the original documents to verify ownership or to ascertain the existence of any amendment documents, which may not appear on the copies handed to us. Therefore, in the course of our valuations, we have relied on the advice and information given by the Group and the legal advisor of the Group — Beijing Gaose Law Firm (北京市中高盛律師事務所) regarding the titles of the PRC properties. All documents have been used for reference only.

VALUATION ASSUMPTIONS

Our valuations have been made on the assumption that the properties are sold in the open market in their existing state without the benefit of deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to affect the values of the properties.

In addition, no account has been taken of any option or right of pre-emption concerning or effecting the sale of the properties and no forced sale situation in any manner is assumed in our valuations.

In valuing the properties, we have relied on the advice given by the Group and the Group's PRC legal advisor that the Group has valid and enforceable titles to the properties which are freely transferable, and have free and uninterrupted rights to use the same, for the whole of the unexpired term granted subject to the payment of annual government rent/land use fees and all requisite land premium/purchase consideration payable have been fully settled.

We have assumed that all consents, approvals and licenses from the relevant government departments for the development of the property have been granted without onerous conditions or undue delay, which might affect their values.

VALUATION CONSIDERATIONS

We have inspected the exterior and wherever possible, the interior of the properties. During the course of our inspections, we did not note any serious defects. However, no structural surveys have been conducted. We are, therefore, unable to report that the properties are free from rot, infestation or any other defects. No tests were carried out on any of the services.

In the course of our valuations, we have relied to a considerable extent on the information provided by the Group and have accepted advice on such matters as planning approvals or statutory notices, easements, tenures, particulars of occupancy, site/floor areas, identification of the properties and all other relevant information.

We have not carried out detailed on-site measurements to verify the correctness of the site/floor areas in respect of the properties but have assumed that the site/floor areas shown on the documents handed to us are correct. Dimensions, measurements and areas included in the valuation certificates are based on information contained in the documents provided to us by the Group and are therefore only approximations.

We have no reason to doubt the truth and accuracy of the information provided to us by the Group and the Group has also advised us that no material facts have been omitted from the information so supplied. We consider that we have been provided with sufficient information for us to reach an informed view.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the properties or for any expenses or taxation, which may be incurred in effecting a sale or a purchase.

Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

Our valuations have been prepared in accordance with the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors.

Our valuations have been prepared under the generally accepted valuation procedures and are in compliance with all the requirements contained in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited.

REMARKS

Unless otherwise stated, all money amounts stated are in Renminbi (RMB) and no allowances have been made for any exchange transfers.

Our Summary of Values and the Valuation Certificates are attached herewith.

Yours faithfully
For and on behalf of
BMI APPRAISALS LIMITED

Dr. Tony C. H. Cheng

BSc., MUD, MBA(Finance), MSc.(Eng), PhD(Econ),

MHKIS, MCIArb, AFA, SIFM, FCIM, MASCE,

MIET, MIEEE, MASME, MIIE

Director

Joannau W. F. Chan

BSc., MSc., MRICS, MHKIS, RPS(GP)

Director

Notes:

Dr. Tony C. H. Cheng is a Chartered Surveyor who has over 15 years' experience in valuations of properties in Hong Kong and the People's Republic of China.

Ms. Joannau W. F. Chan is a Chartered Surveyor who has over 15 years' experience in valuations of properties in Hong Kong and over 9 years' experience in valuations of properties in the People's Republic of China.

SUMMARY OF VALUES

No.	Property	Market Value in existing state as at 30 November 2007 <i>RMB</i>	Interest attributable to the Group before the completion of the Capital Contribution Agreement	Value attributable to the Group as at 30 November 2007 <i>RMB</i>
Properties held by Shenyang Dadongfang in the PRC				
1.	A development located at the Southern Part of Lian He Road (聯合路), Da Dong District (大東區), Shenyang City, Liaoning Province, the PRC	735,000,000	71%	521,850,000
2.	A parcel of land located at No. 396 Dong Bei Main Road (東北大馬路), Da Dong District (大東區), Shenyang City, Liaoning Province, the PRC	9,300,000	71%	6,603,000
Total:		744,300,000		528,453,000

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 November 2007 RMB															
1.	A development located at the Southern Part of Lian He Road (聯合路), Da Dong District (大東區), Shenyang City, Liaoning Province, the PRC	<p>The property comprises 14 contiguous land parcels with a total site area of approximately 322,586.4 sq.m. (or about 3,472,320 sq.ft.) upon which a shopping mall, an automobile exhibition centre and an auto spare part exhibition centre are being constructed under Phase 1 with a total of 62 blocks and a building material and household article exhibition centre is being constructed under Phase 2.</p> <p>The auto space part exhibition centre belongs to District A of Phase 1 while the automobile exhibition centre is divided into B, C and D Districts.</p> <p>Construction works are being undertaken and estimated gross floor areas ("GFA") of each phase are as follows:</p> <table style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th colspan="2" style="text-align: center;">GFA (approx.)</th> </tr> <tr> <th></th> <th style="text-align: center;"><i>sq.m.</i></th> <th style="text-align: center;"><i>sq.ft.</i></th> </tr> </thead> <tbody> <tr> <td>Phase 1</td> <td style="text-align: center;">314,123</td> <td style="text-align: center;">3,381,220</td> </tr> <tr> <td>Phase 2</td> <td style="text-align: center;">254,734</td> <td style="text-align: center;">2,741,957</td> </tr> <tr> <td>Total:</td> <td style="text-align: center;"><u>568,857</u></td> <td style="text-align: center;"><u>6,123,177</u></td> </tr> </tbody> </table> <p>The land use rights of the property have been granted for commercial use with a term expiring on 25 March 2044 for the land parcel with a site area of 102,245.5 sq.m and a term expiring on 25 August 2044 for the land parcels with a total site area of 220,340.9 sq.m.</p>		GFA (approx.)			<i>sq.m.</i>	<i>sq.ft.</i>	Phase 1	314,123	3,381,220	Phase 2	254,734	2,741,957	Total:	<u>568,857</u>	<u>6,123,177</u>	<p>One shopping mall with a GFA of approximately 39,800 sq.m. (or about 428,407 sq.ft.) of Phase 1 was completed in December 2006. The superstructure of 30 blocks with a total GFA of approximately 89,530 sq.m. (or about 963,701 sq.ft.) in Districts B and C of Phase 1 was also completed. Construction works of the remaining 31 blocks of Phase 1 and Phase 2 is in progress. The proposed development is estimated to be completed by the end of 2008.</p>	<p>735,000,000</p> <p>(71% interest attributable to the Group before the completion of the Capital Contribution Agreement: 521,850,000)</p>
	GFA (approx.)																		
	<i>sq.m.</i>	<i>sq.ft.</i>																	
Phase 1	314,123	3,381,220																	
Phase 2	254,734	2,741,957																	
Total:	<u>568,857</u>	<u>6,123,177</u>																	

Notes:

1. Pursuant to a Land Transaction Confirmation Letter (掛牌交易成交確認書), Shen Tu Jiao Zi [2004] No. 2 (瀋土交字[2004]2號), entered into between Shenyang Land and Resources Trading Centre (瀋陽市土地儲備交易中心) (referred to as the “Land and Resources Trading Centre”) and Shenyang Dadongfang Property Development Co., Ltd. (瀋陽大東方置業有限公司) (referred to as “Shenyang Dadongfang”) dated 23 March 2004, the former has agreed to sell the land parcels that the property forms a part of it for commercial use of 40 years.
2. Pursuant to a Land Transaction Confirmation Letter (掛牌交易成交確認書), Shen Tu Jiao Zi [2003] No. 15 (瀋土交字[2003]15號), entered into between Land and Resources Trading Centre and Dongfang Jia Yuan Company Limited (東方家園有限公司), which is a related company of the Group, dated 12 May 2003, the former has agreed to sell the land parcel for commercial use of 40 years.
3. Pursuant to a State-owned Land Use Rights Grant Contract, Shen Gui Guo Tu Chu He Zi [2004] No. 0099 (瀋規國土出合字[2004]0099號), entered into between Shenyang Plan and Land Resources Bureau (瀋陽市規劃和國土資源局) (referred to as the “Land Resources Bureau”) and Shenyang Dadongfang dated 25 March 2004, the former has agreed to grant the land use rights of the land parcels with a total site area of 102,245.5 sq.m. to the latter for a term of 40 years from 25 March 2004 to 25 March 2044 for commercial use at a land premium of RMB124,238,323.4.
4. Pursuant to a State-owned Land Use Rights Grant Contract, Shen Gui Guo Tu Chu He Zi [2004] No. 0262 (瀋規國土出合字[2004]0262號), entered into between the Land Resources Bureau and Shenyang Dadongfang dated 25 August 2004, the former has agreed to grant the land use rights of the land parcel with a site area of 220,341 sq.m. to the latter for a term of 40 years from 25 August 2004 to 25 August 2044 for commercial use at a land premium of RMB248,544,648.
5. Pursuant to a State-owned Land Use Rights Certificate, Shenyang Guo Yong (2004) Zi Di No. 0192 (瀋陽國用(2004)字第0192號), issued by the Land Resources Bureau dated 25 March 2004, the land use rights of the land parcels with a total site area of 102,245.5 sq.m. are legally owned by Shenyang Dadongfang for a term expiring on 25 March 2044 for commercial use.

6. Pursuant to 13 State-owned Land Use Rights Certificates, Shenyang Guo Yong (2004) Di Nos. 0486-0498 (瀋陽國用(2004)第0486-0498號), issued by the Land Resources Bureau all dated 30 August 2004, the land use rights of the land parcels with a total site area of 220,340.9 sq.m. are legally owned by Shenyang Dadongfang for a term expiring on 25 August 2044 for commercial use. The site areas of the land parcels are listed as follows:

No.	Certificate No.	Site Area (sq.m.)
1.	Shenyang Guo Yong (2004) Di No. 0486 (瀋陽國用(2004)第0486號)	11,029.6
2.	Shenyang Guo Yong (2004) Di No. 0487 (瀋陽國用(2004)第0487號)	9,015.5
3.	Shenyang Guo Yong (2004) Di No. 0488 (瀋陽國用(2004)第0488號)	20,780.0
4.	Shenyang Guo Yong (2004) Di No. 0489 (瀋陽國用(2004)第0489號)	15,770.5
5.	Shenyang Guo Yong (2004) Di No. 0490 (瀋陽國用(2004)第0490號)	15,826.6
6.	Shenyang Guo Yong (2004) Di No. 0491 (瀋陽國用(2004)第0491號)	18,170.5
7.	Shenyang Guo Yong (2004) Di No. 0492 (瀋陽國用(2004)第0492號)	20,335.9
8.	Shenyang Guo Yong (2004) Di No. 0493 (瀋陽國用(2004)第0493號)	15,945.5
9.	Shenyang Guo Yong (2004) Di No. 0494 (瀋陽國用(2004)第0494號)	16,733.8
10.	Shenyang Guo Yong (2004) Di No. 0495 (瀋陽國用(2004)第0495號)	23,332.2
11.	Shenyang Guo Yong (2004) Di No. 0496 (瀋陽國用(2004)第0496號)	18,295.6
12.	Shenyang Guo Yong (2004) Di No. 0497 (瀋陽國用(2004)第0497號)	19,282.9
13.	Shenyang Guo Yong (2004) Di No. 0498 (瀋陽國用(2004)第0498號)	15,822.3
Total:		220,340.9

7. Pursuant to a Construction Land Planning Permit, Shen Gui Tu Zheng Zi Year 04 No. 0030 (瀋規土証字04年0030號), issued by Land Resources Bureau dated 24 March 2004, Shenyang Dadongfang is permitted to develop the land with a site area of 124,215 sq.m. for the construction of buildings with a total GFA of 144,668 sq.m. for commercial use. The salient conditions stipulated in the contract are summarized as below:

- a) Project Name : Shenyang Dadongfang Commercial Logistic Port Commercial Centre
(瀋陽大東方商業物流園商業中心)
(referred to as the “Logistic Port Commercial Centre”)
- b) Plot Ratio : Not exceeding 1.5
- c) Site Coverage : Not exceeding 35%
- d) Building Height : 24 m
- e) No. of Storeys : 4

8. Pursuant to a Construction Land Planning Permit, Shen Gui Tu Zheng Zi Year 04 No. 0216 (瀋規土証字04年0216號), issued by the Land Resources Bureau dated 21 October 2004, Shenyang Dadongfang is permitted to develop the land with a site area of 234,004 sq.m. for the construction of buildings with a total GFA of 431,224 sq.m. for commercial/service uses. The salient conditions stipulated in the contract are summarized as below:
- a) Project Name : Shenyang Glory Dadongfang Commercial Logistic Port
(瀋陽光彩大東方商業物流園)
 - b) Plot Ratio : Not exceeding 1.8
 - c) Site Coverage : Not exceeding 40%
 - d) Building Height : About 75 m
 - e) No. of Storeys : 4-22 storeys plus 2 storeys underground
9. Pursuant to a Construction Works Planning Permit, Shen Gui Jian Zheng Zi Year 04 No. 0044 (瀋規建証字04年0044號), issued by the Land Resources Bureau dated 25 March 2004, the property is permitted for the development of the Logistic Port Commercial Centre with a GFA of 144,668 sq.m. by Shenyang Dadongfang.
10. Pursuant to a Construction Works Commencement Permit, No. 210105200403250101, issued by Shenyang City Town and Village Construction Authority (瀋陽市城鄉建設委員會) dated 25 March 2004, construction works are permitted to be commenced on 28 March 2004 for the development of a Logistic Port Commercial Centre with a GFA of 144,668 sq.m. by Shenyang Dadongfang.
11. Pursuant to a Mortgage Agreement, Year 2005 Jing Kong San Di Zi No. 001 (2005年京公三抵字001號), entered into between China Minsheng Banking Corporation Limited (中國民生銀行股份有限公司) and Shenyang Dadongfang dated 28 March 2005, a portion of the property with a site area of 279,578.1 sq.m. is subject to a mortgage for a term of 3 years at a consideration of RMB363,670,000.
12. Pursuant to a Business License, Qi He Liao Shen Zong Fu Zi Di No. 111503135(1-1) (企合遼瀋總副字第111503135(1-1)號), dated 31 January 2007 issued by Shenyang Administration of Industry and Commerce (瀋陽市工商行政管理局), Shenyang Dadongfang was established on 19 March 2004 with a registered capital of USD15,179,900 and the operation period is effective from 19 March 2004 to 18 March 2054 for the business of real estate development, operation and property management.

13. As advised by the Group, the estimated total costs of construction (excluding the land premium) and the construction cost (excluding the land premium) had been expended up to the date of valuation (i.e. 30 November 2007), for different phases of the property are listed as follows:—

	Estimate Total Construction Cost <i>(approx.)</i> <i>RMB</i>	Construction Cost Expended up to 30 November 2007 <i>(approx.)</i> <i>RMB</i>
Phase 1	488,950,000	206,640,000
Phase 2	389,180,000	51,360,000
Total:	878,130,000	258,000,000

14. For reference purpose, the gross development value of the proposed development of the property upon completion is estimated to be approximately RMB1,880,000,000.
15. As advised by the Group, one shopping mall with a GFA of approximately 39,800 sq.m. (or about 428,407 sq.ft.) in Phase 1 was completed in December 2006. As informed by the Group, the Group is in the process of applying for the Building Ownership Certificate of such shopping mall of the property.
16. Pursuant to a Shenyang Dadongfang Commercial Logistic Port “Commercial Plaza” Project Subscription Letter of Intention (瀋陽大東方商業物流園「商業廣場」項目認購意向書) and the supplemental agreement dated 20 April 2006 and 19 May 2006 respectively, entered into between Shenyang Dadongfang and Beijing Weiyin International Investment Group Limited (北京偉銀國際投資集團有限公司), the former agreed to sell Phase 1 of the property with a total GFA of about 146,600 sq.m. (or about 1,578,002 sq.ft.) at a consideration of RMB4,800 per sq.m. on GFA except for the completed portion of Phase 1, known as “建材城”, with a total GFA of about 39,800 sq.m. (or about 428,407 sq.ft.) at a consideration of RMB5,200 per sq.m. on GFA.
17. The status of title and grant of major approvals and license in accordance with the information provided by the Group is as follows:

State-owned Land Use Rights Grant Contracts	Yes
State-owned Land Use Rights Certificates (Phases 1 and 2)	Yes
Construction Land Planning Permits (Phases 1 and 2)	Yes
Construction Works Planning Permit (Phase 1 only)	Yes
Construction Works Commencement Permit (Phase 1 only)	Yes
Building Ownership Certificate	Under application
Business License	Yes

18. The opinion given by the PRC legal advisor — Beijing Gaose Law Firm (北京市中高盛律師事務所) to the Group is as follows:
 - a. Shenyang Dadongfang is in possession of a proper legal title to the land parcel of the property and no extra land premium or other additional payment is payable to Shenyang Plan and Land Resources Bureau;
 - b. All land premium, relevant tax and other costs of ancillary utility services have been settled in full;
 - c. 11 land parcels of the property with a total site area of 279,578.1 sq.m. are subject to a Mortgage dated 28 March 2005 in favour of China Minsheng Banking Corporation Limited (中國民生銀行股份有限公司) for a term of 3 years at a consideration of RMB363,670,000;
 - d. Except for the aforesaid mortgage, the property is not subject to any other mortgage or material encumbrances; and
 - e. Shenyang Dadongfang is entitled to transfer, lease or dispose of the property freely to both local and overseas purchasers with the consent of the relevant mortgagee.
19. We have prepared our valuation based on the assumption that the design and construction of the property are in compliance with the local planning regulations and have been approved by the relevant government authorities.
20. Shenyang Dadongfang is a 71%-owned subsidiary of the Company before the completion of the Capital Contribution Agreement.
21. Shenyang Dadongfang will be a 30%-owned associate of the Company after the completion of the Capital Contribution Agreement.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 November 2007 RMB
2.	A parcel of land located at No. 396 Dong Bei Main Road (東北大馬路), Da Dong District (大東區), Shenyang City, Liaoning Province, the PRC	The property comprises a parcel of land with a site area of approximately 6,276.4 sq.m. (or about 67,559 sq.ft.). The land use rights of the property have been granted for commercial use for a term expiring on 2 September 2043.	As advised, the property is subject to various short-term leases for temporary car parking use at an aggregated annual rent of approximately RMB170,000. The development of the property is under planning stage.	9,300,000 (71% interest attributable to the Group before the completion of the Capital Contribution Agreement: 6,603,000)

Notes:—

- Pursuant to a Land Transaction Confirmation Letter (掛牌交易成交確認書), Shen Tu Jiao Zi [2004] No. 2 (瀋土交字[2004]2號), entered into between Shenyang Land and Resources Trading Centre (瀋陽市土地儲備交易中心) (referred to as the “Land and Resources Trading Centre”) and Shenyang Dadongfang Property Development Co., Ltd. (瀋陽大東方置業有限公司) (referred to as “Shenyang Dadongfang”) dated 23 March 2004, the former has agreed to sell the land parcels that the property forms a part of it for commercial use of 40 years.
- Pursuant to a State-owned Land Use Rights Transfer Contract, entered into between Shenyang Metallurgy Cold — Roll Twisted Steel Company Limited (瀋陽冶金冷軋螺紋鋼有限公司) and Shenyang Dadongfang dated 9 November 2004, the former has agreed to transfer the land use rights of the land parcel with a site area of 6,276.4 sq.m. to the latter for a term of 40 years from 2 September 2003 to 2 September 2043 for commercial use at a land premium of RMB3,000,000.
- Pursuant to a State-owned Land Use Rights Certificate, Shenyang Guo Yong (2005) Di No. 0111 (瀋陽國用(2005)第0111號), issued by Shenyang Plan and Land Resources Bureau (瀋陽市規劃和國土資源局) dated 10 April 2005, the land use rights of the property with a site area of 6,276.4 sq.m. are legally owned by Shenyang Dadongfang for a term expiring on 2 September 2043 for commercial use.
- Pursuant to a Business License, Qi He Liao Shen Zong Fu Zi Di No. 111503135(1-1) (企合遼瀋總副字第111503135(1-1)號), dated 31 January 2007 issued by Shenyang Administration of Industry and Commerce (瀋陽市工商行政管理局), Shenyang Dadongfang was established on 19 March 2004 with a registered capital of USD15,179,900 and the operation period is effective from 19 March 2004 to 18 March 2054 for the business of real estate development, operation and property management.

5. The status of title and grant of major approvals and license in accordance with the information provided by the Group is as follows:
- | | |
|--|-----|
| State-owned Land Use Rights Grant Contract | Yes |
| State-owned Land Use Rights Certificate | Yes |
| Business License | Yes |
6. The opinion given by the PRC legal advisor — Beijing Gaose Law Firm (北京市中高盛律師事務所) to the Group is as follows:
- Shenyang Dadongfang is in possession of a proper legal title to the property and no extra land premium or other additional payment is payable to Shenyang Plan and Land Resources Bureau;
 - All land premium, relevant tax and other costs of ancillary utility services have been settled in full;
 - The property is not subject to mortgage; and
 - Shenyang Dadongfang is entitled to transfer, lease or dispose of the property freely to both local and overseas purchasers.
7. We have prepared our valuation based on the assumption that the existing use of the property is in compliance with the local planning regulations and has been approved by the relevant government authorities.
8. Shenyang Dadongfang is a 71%-owned subsidiary of the Company before the completion of the Capital Contribution Agreement.
9. Shenyang Dadongfang will be a 30%-owned associate of the Company after the completion of the Capital Contribution Agreement.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts not contained herein the omission of which would make any statement contained in this circular misleading.

2. DISCLOSURE OF INTERESTS

(i) Interests of Directors

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (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 and which were required to be entered into the register pursuant to section 352 of the SFO; and the interests and short positions of the Directors in the Shares and the underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, are as follows:

Name of Director	Name of Company	Nature of interests	Number of Shares Long position	Short position	Approximate % shareholding
Zhang Hongwei	The Company	Corporate (Note 1)	9,001,240,115	—	70.45%
Zhang Meiyong	The Company	Beneficial (Note 2)	100,000,000	—	0.78%
Zhu Jun	The Company	Beneficial	1,443,000	—	0.02%

Note:

1. Out of the 9,001,240,115 Shares, 5,128,169,125 Shares were beneficially held by He Fu International Limited, 2,223,726,708 Shares were beneficially held by United Petroleum & Natural Gas Holdings Limited, and 1,649,344,282 Shares were beneficially held by United Energy Holdings Limited. He Fu International Limited, United Petroleum & Natural Gas Holding Limited and United Energy Holdings Limited are companies wholly-owned by Mr. Zhang Hongwei. Therefore, Mr. Zhang Hongwei is deemed to be interested in those 9,001,240,115 Shares.
2. Share options which entitle Ms. Zhang Meiyong to subscribe for an aggregate 100,000,000 Shares were granted to Ms. Zhang Meiyong on 31 December 2007 under the share option scheme adopted by the Company on 11 May 2006.

Saved as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company and their associates had any interests and short positions in the 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 Companies and which were required to be entered into the register required to be kept under section 352 of the SFO; and none of the Directors is a director or employee of a company which had an interest or short position in the shares and the underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which was significant in relation to the business of the Group; and none of the Directors had any direct or indirect interest in any assets which had been, since 31 March 2007 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or which were proposed to be acquired or disposed of by or leased to any member of the Group.

(ii) Interests of substantial Shareholders

As at the Latest Practicable Date, so far as is known to the Directors and the chief executive of the Company, 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 were otherwise notified to the Company were as follows:

Name of shareholder	Name of member of the Group	Capacity and nature of interest	Number of Shares	Approximate % shareholding
He Fu International Limited (<i>Note 1</i>)	the Company	Beneficial owner	5,128,169,125	40.14%
United Petroleum & Natural Gas Holdings Limited (<i>Note 1</i>)	the Company	Beneficial owner	2,223,726,708	17.40%
United Energy Holdings Limited (<i>Note 1</i>)	the Company	Beneficial owner	1,649,344,282	12.91%
Kowin Limited	the Company	Beneficial owner	654,037,267	5.12%

Note:

1. These companies are wholly-owned by Mr. Zhang Hongwei.

So far as is known to the Directors and the chief executive of the Company, as at the Latest Practicable Date, the following shareholders were interested in 10% or more of the equity interests of the following members of the Group:

Name of member of the Group	Name of shareholder	Number of shares held	Percentage of shareholding
Shenyang Dadongfang Property Development Company Limited	Beijing Glory Real Estate Co Ltd.	N/A	29%
Shenyang Shengtaicheng Property Development Company Limited	Beijing Glory Real Estate Co Ltd.	N/A	29%
Shenyang Shengtaiyuan Logistics Company Limited	Beijing Bailida Logistics Company Limited	N/A	20%

Save as disclosed above, the Directors and the chief executive of the Company 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 Shares and underlying 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 meetings of any other member of the Group, or had any options in respect of such capital.

3. MATERIAL CONTRACTS

The following are the material contracts, not being contracts entered into in the ordinary course of business of the Group, which have been entered into by members of the Group within the two years immediately preceding the Latest Practicable Date:

- (a) a cooperation agreement dated 26 July 2006 entered into between Shenyang Dadongfang Property Development Co., Ltd. and Beijing Glory Real Estate Co., Ltd. in relation to the joint development of the Southern part of Lian He Road, Dadong District, Shenyang, pursuant to such agreement, Shenyang Dadongfang agreed to contribute the already contributed land use rights of land parcels with a total site area of approximately 328,862.8 sq.m. and Beijing Glory agreed to contribute all additional capital (which shall not be less than RMB1,000 million) to the development project;
- (b) a disposal agreement dated 10 November 2006 and an assignment dated 30 March 2007 entered into between Fine Profit Corporation Limited, a wholly-owned subsidiary of the Company and Union Step Limited for the disposal of 5/F and 6/F and car parking spaces No. 33, 34 and 50, G/F, Kwai Shun Industrial Centre, Nos. 51-63 Container Port Road, Kwai Chung NT at a consideration of HK\$33,330,000;

- (c) a sale and purchase agreement dated 8 August 2007 and a supplemental agreement dated 14 September 2007 entered into between the Company and United Energy Holdings Limited, United Petroleum and Natural Gas Holdings Limited and Kowin Limited for the acquisition of the entire issued share capital of and shareholder's loan owing by United Petroleum and Natural Gas Investments Limited at a consideration of HK\$7,288,644,294;
- (d) a placing agreement dated 8 August 2007 entered into between the Company and BOCI Asia Limited in relation to the placing of no more than 1,374,000,000 new Shares at a placing price of HK\$1.61 per placing share;
- (e) a deed of assignment dated 16 October 2007 entered into by the Company, United Energy Holdings Limited and United Petroleum and Natural Gas Investments Limited in relation to the assignment to the Company by United Energy Holdings Limited the shareholders' loan owing by United Petroleum and Natural Gas Investments Limited at a consideration of HK\$268,644,294; and
- (f) the Capital Contribution Agreement.

Save as disclosed above, none of the members of the Group has entered into any contracts (not being contracts entered into in the ordinary course of business) within the two years preceding the date of this circular that are or may be material.

4. EXPERTS AND CONSENTS

The followings are the qualifications of the experts who have given opinions or advice which are contained in this circular:

Name Qualification

Beijing Gaose Law Firm	PRC Legal adviser
BMI Appraisals Limited	Professional valuers
Veda Capital Limited	Licensed corporation to carry out type 6 (advising on corporate finance) regulated activities under the SFO

Beijing Gaose Law Firm, BMI Appraisals Limited and Veda Capital Limited have given and have not withdrawn their respective written consents to the issue of this circular with the inclusion herein of their respective letters and reports (as the case may be) and references to their respective names, in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of Beijing Gaose Law Firm, BMI Appraisals Limited and Veda Capital Limited was beneficially interested in the share capital of any member of the Group, nor did they have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, nor did they have any interest, either direct or indirect, in any assets which had

been since 31 March 2007 (being the date to which the latest published audited accounts of the Company were made up) acquired or disposed of by or leased to any member of the Group or which were proposed to be acquired or disposed of by or leased to any member of the Group.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any service contracts with any member of the Group which were not expiring or determinable by the employer within one year without payment of compensation other than statutory compensation.

6. LITIGATION

As at the Latest Practicable Date, none of the members of the Group was engaged in any litigation or claims of material importance pending or threatened against any member of the Group.

7. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and his/her respective associates was considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group other than those businesses to which the Directors and his/her associates were appointed to represent the interests of the Company and/or the Group.

8. MISCELLANEOUS

- (i) The secretary of the Company is Ms. Judy Ngan. Ms. Ngan is an associate member of The Hong Kong Institute of Chartered Secretaries.
- (ii) The qualified accountant of the Company is Mr. Ho Yuk Ming, Hugo who is an associate member of the HKICPA.
- (iii) The Hong Kong branch share register and transfer office of the Company is Tricor Secretaries Limited situated at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (iv) The registered office of the Company is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.
- (v) The English text of this circular and the accompanying proxy form shall prevail over its Chinese text.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the principal place of business of the Company from the date of this circular up to and including 25 January 2008.

- (i) the memorandum of association and bye-laws of the Company;
- (ii) the annual reports of the Company for the three years ended 31 March 2005, 2006 and 2007;
- (iii) the letter from the Independent Board Committee, the text of which is set out on page 12 of this circular;
- (iv) the letter from Veda Capital, the text of which is set out on pages 13 to 24 of this circular;
- (v) the valuation report, by BMI Appraisals Limited as referred to on pages 82 and 94 of this circular;
- (vi) the PRC Legal opinion dated 19 December 2007 as referred to in the valuation report;
- (vii) the material contracts referred to in the section headed “Material Contracts” in this Appendix;
- (viii) the written consents referred to in paragraph 4 headed “Experts and consents” of this Appendix;
- (ix) the Capital Contribution Agreement;
- (x) announcement of the Company dated 15 August 2007 and the circular of the Company dated 17 September 2007 in relation to the major and connected transaction — acquisition of the entire issued share capital of and shareholders’ loan owed by United Petroleum & Natural Gas Investments Limited; and
- (xi) the announcements of the Company dated 1 December 2005, 1 June 2006 and 26 July 2006, and its circular dated 31 March 2006, in relation to, among others, the acquisition of the entire issued share capital of Grand Hope.

NOTICE OF SGM

UNITED ENERGY GROUP LIMITED

(formerly known as Orient Resources Group Company Limited)

(incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 467)

NOTICE IS HEREBY GIVEN that a special general meeting of the shareholders of United Energy Group Limited (the “**Company**”) will be held at Unit 2112, 21/F., Two Pacific Place, 88 Queensway, Hong Kong on Monday, 28 January 2008 at 9:30 a.m. for the purpose of considering and, if thought fit, passing the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

“**THAT** the agreement (the “Capital Contribution Agreement”) dated 11 December 2007 entered into between (i) Grand Hope Group Limited and (ii) Beijing Glory City Real Estate Company Limited, a copy of which is tabled at the meeting and marked “A” and initialled by the chairman of the meeting for identification purpose, and the transaction thereunder be and is hereby approved, ratified and confirmed and the directors of the Company be and are hereby authorized to take such actions as are necessary or expedient to give effect to the transaction contemplated under the Capital Contribution Agreement.”

By Order of the Board
United Energy Group Limited
Zhang Hongwei
Chairman

11 January 2008

Principal office in Hong Kong:
Unit 2112, 21/F.,
Two Pacific Place
88 Queensway
Hong Kong

Notes:

1. A form of proxy for use at the meeting is enclosed herewith.
2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his/her attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of any officer, attorney or other person authorised to sign the same.
3. Any member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him/her. A proxy need not be a member of the Company.
4. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under

NOTICE OF SGM

which it is signed, or a notarially certified copy of such power or authority, must be lodged at the office of the Company's Hong Kong branch share registrars and transfer office, Tricor Secretaries Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting thereof (as the case may be).

5. Completion and return of the form of proxy will not preclude members from attending and voting in person at the meeting or at any adjourned meeting thereof (as the case may be) should they so wish, and in such event, the form of proxy shall be deemed to be revoked.
6. Where there are joint registered holders of any share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she was solely entitled thereto, but if more than one of such joint holders are present at the meeting, whether in person or by proxy, the joint registered holder present whose name stands first on the register of members in respect of the shares shall be accepted to the exclusion of the votes of the other registered holders.