1. GENERAL

New City (Beijing) Development Limited (the "Company") was incorporated in the Cayman Islands on 10 August 1998 with limited liability. Its registered office is at Scotia Centre, 4/F, P.O. Box 2804, George Town, Grand Cayman, the Cayman Islands and its principal place of business is at Room 3301, 33rd Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong. The Company's shares were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") by way of introduction on 24 May 2000.

During the year, the principal activities of the Company was investment holding and of its principal subsidiaries was property development in the People's Republic of China ("the PRC").

The functional currency of the Company is Hong Kong dollars while the functional currencies of its subsidiaries are Renminbi and Hong Kong dollars. The financial statements are presented in Hong Kong dollars for the convenience of readers.

2. BASIS OF PRESENTATION

As at 31 December 2005, the Company and its subsidiaries (the "Group") and the Company itself had net current liabilities of approximately HK$157 million and HK$74 million, respectively. Also, as at the same date, the Group and the Company had net deficiencies of approximately HK$166 million and HK$63 million, respectively. Further, the Group incurred a loss of approximately HK$21 million for the year ended 31 December 2005. Notwithstanding the above, the financial statements have been prepared on a going concern basis. In the opinion of the directors, the liquidity of the Group can be maintained in the forthcoming year, after taking into consideration the following financing and operating measures:

(i) In 2003, the Group entered into a conditional agreement with China Network Communications Group Corporation ("CNC"), an independent third party, in relation to certain financial and construction arrangements for the property under development for sale. Pursuant to the agreement, the Group agreed, subject to satisfaction of certain conditions precedent, to dispose to CNC the property under development upon completion for an aggregate consideration of approximately RMB2,007 million (equivalent to HK$1,930 million). The consideration is to be settled by a cash consideration of approximately RMB1,557 million (equivalent to HK$1,497 million) payable in eight separate instalments between 2004 and 2006 and the remaining by properties at an agreed value of approximately RMB450 million (equivalent to HK$433 million). Up to 31 December 2005, advances from CNC of HK$1,285 million (2004: HK$556 million) has been received (note 22). The instalments are to solely finance the development of the property. The conditions precedent to the completion of the sale include, among other things, the passing of the examinations of the completed property by relevant government authorities and the satisfaction of certain quality standards as required by CNC. The directors consider that the remaining instalment payments to be received by the Group will be sufficient to enable the Group to complete the project and the Group is able to satisfy the conditions precedent to the sale.

2. BASIS OF PRESENTATION *(Continued)*

(ii) During the year, the Group was successful in extending existing loan facilities with its bankers and to negotiating favourable payment terms on amounts with creditors. The directors are confident that, on the basis that the disposal of the property under development will be successfully completed and that the property as described above be self-financing, the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future.

(iii) During the year, the directors took actions to tighten cost controls over various administrative expenses. In order to further develop the principal activity of the Group, the directors have decided to place more emphasis on the property development business. The directors expect that the cost control measures adopted will improve the profitability and cash flows of the Group.

The directors are of the opinion that, in view of the measures taken to date, the Group and the Company will have sufficient cash resources to satisfy its future working capital and other financing requirements. Accordingly, the financial statements have been prepared on a going concern basis.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1 January 2005. The application of the new and revised HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and the consolidated statement of changes in equity. The changes in presentation have been applied retrospectively.

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

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the balance sheet date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payment
HKFRS 3	Business combinations
HKAS-INT 15	Operating Leases — Incentives

The adoption of HKAS 1, 2, 7, 8, 10, 12, 14, 16, 17, 18, 19, 21, 23, 24, 27, 33, 36, 37, HKFRS 3 and HKAS-INT 15 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 affects certain presentation in the income statement, balance sheet, and statement of changes in equity.
- HKAS 8, 16 and 21 affect certain disclosures of the financial statements.
- HKAS 2, 7, 10, 12, 14, 17, 18, 19, 23, 27, 33, 36, 37, HKFRS 3 and HKAS INT-15 do not have any impact as the Group's accounting policies already comply with the standards.
- HKAS 24 affects the identification of related parties and the disclosure of related party transactions.

HKAS 32 "Financial Instruments: Disclosure and Presentation"
HKAS 39 "Financial Instruments: Recognition and Measurement"

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

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39. This change has had no material effect on the results for the current or prior years.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Convertible bond

HKAS 32 requires an issuer of a compound financial instrument (that contains both financial liability and equity components) to separate the compound financial instrument into its liability and equity components on its initial recognition and to account for these components separately. In subsequent years, the liability component is carried at amortised cost using the effective interest method. The principal impact of HKAS 32 on the Group is in relation to a convertible bond of HK$12,000,000 issued by the Company that contains both liability and equity components. The equity component of the convertible bond of HK$226,000 has been credited to the reserves of the Group in the current year. The convertible bond was issued during the current year and therefore, this change has had no material effect on the results for the prior years.

Financial assets and financial liabilities other than debt and equity securities

From 1 January 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively, with exceptions as mentioned in note 4(l)(i). "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition.

Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. "Other financial liabilities" are carried at amortised cost using the effective interest method.

This change has had no material effect on the results for the current or prior years.

Derecognition

Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively for transfers of financial assets on or after 1 January 2005. The Group's discounted bills with recourse, which were previously treated as contingent liabilities, have been accounted for as collateralised bank advances prospectively on or after 1 January 2005, as the financial asset derecognition conditions as stipulated in HKAS 39 have not been fulfilled.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

HKFRS 2 "Share-Based Payment" (HKFRS 2)

In the current year, the Group has applied HKFRS 2 "Share-based Payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1 January 2005. In relation to share options granted before 1 January 2005, the Group chooses not to apply HKFRS 2 with respect to share options granted on or before 7 November 2002 and vested before 1 January 2005. However, the Group is still required to apply HKFRS 2 retrospectively to share options that were granted after 7 November 2002 and had not yet vested by 1 January 2005 and share options granted on or after 1 January 2005. This change has had no material effect on the results for the current or prior years.

Potential impact arising on the new accounting standards not yet effective

The Group has not yet applied the following new HKFRSs that have been issued but are not yet effective. The directors of the Company anticipated that the application of these new HKFRSs will have no material impact of the financial statements of the Group.

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial gains and losses, Group plans and disclosures
HKAS 21 Amendment	Net investment in a foreign operation
HKAS 39 Amendment	Cash flow hedge accounting of forecast intragroup transactions
HKAS 39 Amendment	The fair value option
HKAS 39 & HKFRS 4 Amendment	Financial guarantee contracts
HKFRS 6	Exploration for and evaluation of mineral resources
HKFRS 7	Financial instruments: Disclosures
HKFRS — Interpretation 4	Determining whether an arrangement contains a lease
HKFRS — Interpretation 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds
HK(IFRIC) — Interpretation 6	Liabilities arising from participating in a special market — waste electrical and electronic equipment
HK(IFRIC) — Interpretation 7	Applying the restatement approach under HKAS 29 "Financial reporting in hyperinflationary economies"

4. PRINCIPAL ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The financial statements have been prepared under the historical cost basis except for financial instruments which are measured at fair values, as explained in the accounting policies set out below:

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in the next year are discussed in note 37.

(a) Basis of consolidation

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

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

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

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(a) Basis of consolidation *(Continued)*

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

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

(b) Revenue recognition

Interest income is recognised on the accrual basis by reference to the principal amount outstanding and at the interest rate applicable.

(c) Property, plant and equipment

Leasehold buildings are stated at valuation, being their fair value at the date of valuation less any subsequent accumulated depreciation and impairment losses (note 4(e)). Depreciated replacement cost is used as open market value cannot be reliably allocated to the building component. The directors review the carrying value of the leasehold buildings and adjustment is made where they consider that there has been a material change. Increases in valuation are credited to the property revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and are thereafter charged to the consolidated income statement. Any subsequent increases are credited to the income statement up to the amount previously charged and thereafter to the property revaluation reserve.

Other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (note 4(e)).

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives after taking into consideration a residual value of up to 10%, using the straight line method. The useful lives and residual value are reviewed, and adjusted if appropriate, at each balance sheet date. The principal annual rates are as follows:

Land and buildings	2.5%
Furniture, fixtures and equipment	20% to 50%
Motor vehicles	20%

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 costs are charged to the income statement during the year in which they are incurred.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of a fixed asset other than leasehold building is the difference between the net sale proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

(d) Property under development for sale

Property under development for sale is included in current assets at the lower of cost or net realisable value.

Cost of property under development for sale comprises land costs, fees for land use rights and development costs including borrowing costs capitalised (note 4(g)) and other costs directly attributable to such properties. Net realisable value is based on estimated selling prices in the ordinary course of business as determined by management with reference to prevailing market conditions, less further estimated costs of completion and direct selling expenses.

(e) Impairment of non-financial assets

At each balance sheet date, the Group reviews the carrying amounts of its non-financial assets 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 asset is estimated in order to determine the extent of the impairment loss (if any). 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 profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(e) Impairment of non — financial assets *(Continued)*

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 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 profit or loss, 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.

(f) Leased assets/assets held under finance leases

As lessor
Rental income under operating leases is recognised on a straight-line basis over the relevant lease term.

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

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

(g) Capitalisation of borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(h) Foreign currency

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

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

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

(i) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the 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.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount 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 can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative 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.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(i) Taxation *(Continued)*

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, 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 profit will be available to allow all or part of the assets 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. Deferred tax is charged or credited to the 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.

(j) Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries operating in the PRC are required to participate in a central pension scheme (the "Central Scheme") operated by the local municipal government in the PRC. The respective local municipal governments in the PRC undertake to assume the retirement benefits obligations of all existing and future retired staff of these subsidiaries. The only obligation of these subsidiaries with respect to the Central Scheme is to meet the required contributions under the Central Scheme. The contributions are charged to the income statement or capitalised as cost of property under development for sale as they become payable in accordance with the rules of the Central Scheme.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(k) Convertible bond

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

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

(l) Financial instruments

(i) Financial assets

The Group classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Group's accounting policy for each category is as follows:

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

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

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

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(I) Financial instruments *(Continued)*

(i) Financial assets *(Continued)*

Available-for-sale: Non-derivative financial assets not included in the above categories are classified as available-for-sale and comprise the Group's strategic investments in entities not qualifying as subsidiaries, associates or jointly controlled entities. They are carried at fair value with changes in fair value recognised directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in the income statement. For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition.

(ii) Financial liabilities

The Group classifies its financial liabilities into one of two categories, depending on the purpose for which the liabilities were incurred. The Group's accounting policy for each category is as follows:

Financial liabilities at fair value through profit or loss has two subcategories, including financial liabilities held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

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

- Trade and notes payables and other short-term monetary liabilities, which are recognised at amortised cost.

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

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(l) Financial instruments *(Continued)*

(iii) Derecognition

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

(m) Share-based payment

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

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

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

The Group also operates a phantom share option scheme. An option pricing model is used to measure the Group's liability at each balance sheet date, taking into account the terms and conditions on which the bonus is awarded and the extent to which employees have rendered service. Movements in the liability (other than cash payments) are recognised in the income statement.

(n) Cash and cash equivalents

Cash and cash equivalents are carried at cost. Cash and cash equivalents comprise cash at banks and on hand, demand deposits with bank and other financial institutions, short-term, highly liquid investments that are readily convertible to cash and with a maturity of three months or less from the date of investment, and bank overdrafts.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(o) Provisions and contingent liabilities

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

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

(p) Segment reporting

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

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

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

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

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

5. TURNOVER

The Group generated no turnover for the year since the property was still under development as at 31 December 2005, no profit nor turnover was therefore recognised. Turnover of the year ended 31 December 2004 represents rental income less business tax.

6. SEGMENT INFORMATION

Business segments

For management purposes, the Group are organised into two operating divisions, namely property development and property investment. These divisions are the basis on which the Group reports its primary segment information. In 2005, the Group was only operated in property development and no business segment information is presented accordingly.

Segment information about these businesses in 2004 is presented below:

2004	**Property development** HK$'000	**Property investment** HK$'000	**Consolidated** HK$'000
Revenue	—	2,651	2,651
Results			
Segment results	(6,292)	(6,785)	(13,077)
Unallocated income			115
Unallocated corporate expenses			(16,221)
Loss from operations			(29,183)
Loss on disposal of properties, plant and equipment			(2,222)
Finance costs			(7,491)
Gain on disposal of subsidiaries			171,978
Profit before taxation			133,082
Tax credit			3,911
Profit for the year			136,993

6. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

2004	Property development HK$'000	Property investment HK$'000	Consolidated HK$'000
ASSETS			
Segment assets	1,065,649	—	1,065,649
Unallocated corporate assets			159,433
Consolidated total assets			1,225,082
LIABILITIES			
Segment liabilities	807,784	—	807,784
Unallocated corporate liabilities			566,157
Consolidated total liabilities			1,373,941
OTHER INFORMATION			
Capital additions			
Segment assets	1,934	—	1,934
Unallocated assets	—	—	902
			2,836
Depreciation			
Segment assets	368	—	368
Unallocated assets	—	—	1,765
			2,133

No geographical segment information of the Group is shown as the operating business of the Group is solely carried out in Beijing, the PRC and over 90% of Group's assets are located in the PRC.

7. OTHER INCOME

	Group	
	2005	2004
	HK$'000	HK$'000
Interest income	**279**	20
Exchange gain	**346**	—
Sundry income	**—**	95
	625	115

8. LOSS FROM OPERATIONS

	Group	
	2005	2004
	HK$'000	HK$'000
Loss from operations has been arrived at after charging:		
Auditors' remuneration	**420**	973
Depreciation of property, plant and equipment		
Owned assets	**929**	1,876
Leased assets	**20**	257
Exchange loss	**—**	545
Loss on disposal of property, plant and equipment	**—**	2,222
Operating lease rental of premises	**901**	1,329
Directors' remuneration (note 10)		
Fees	**1,166**	1,010
Salaries, allowances and benefits in kind	**2,184**	2,130
Retirement benefit scheme contributions	**12**	12
Staff costs		
Salaries allowances and benefits in kind	**1,320**	1,848
Retirement benefit scheme contributions	**51**	93
Total staff costs (including directors' remuneration)	**4,733**	5,093
and after crediting:		
Net rental income less outgoings	**—**	2,651

9. FINANCE COSTS

	Group 2005 HK$'000	Group 2004 HK$'000
Interest on:		
— Bank borrowings	**15,723**	21,934
— Other borrowings wholly repayable within five years	**6,287**	2,916
— Convertible bond interest	**392**	—
— Finance leases	**6**	63
Total borrowing costs	**22,408**	24,913
Less: Amounts capitalised	**(15,723)**	(17,422)
	6,685	7,491

The borrowing costs have been capitalised at rates of 6.000% - 6.336% per annum (2004: 6.000% - 6.039%).

10. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") is as follows:

	2005 Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
Executive directors				
Han Junran	—	1,950	—	1,950
Fu Yiu Kwong	806	234	12	1,052
Tam Biu Sing, Joseph	—	—	—	—
Independent non-executive directors				
Chan Yiu Tung, Anthony	120	—	—	120
Wong Shing Kay, Oliver	120	—	—	120
Zheng Qing	120	—	—	120
	1,166	2,184	12	3,362

10. DIRECTORS' REMUNERATION *(Continued)*

	2004			
	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
Executive directors				
Han Junran	—	1,950	—	1,950
Fu Yiu Kwong	770	180	12	962
Tam Biu Sing, Joseph	—	—	—	—
Independent non-executive directors				
Chan Yiu Tung, Anthony	120	—	—	120
Wong Shing Kay, Oliver	120	—	—	120
Zheng Qing	—	—	—	—
	1,010	2,130	12	3,152

The above directors' fees, salaries, allowances and benefits in kind and retirement benefit scheme contributions were paid to all directors, executive and non-executive, in respect of their length of services to the Group.

No director waived any remuneration during both years ended 31 December 2005 and 2004.

11. EMPLOYEES' REMUNERATION

Of the five individuals with the highest remuneration in the Group, two (2004: two) were directors of the Company whose remuneration is set out in note 10 above. The remuneration of the remaining three (2004: three) employees was as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Salaries and other benefits	**975**	919
Retirement benefit scheme contributions	**36**	36
	1,011	955

Their remuneration was within the following band:

	Group	
	2005	2004
	Number of employees	Number of employees
Nil to HK$1,000,000	**3**	3

12. TAX CREDIT

	Group	
	2005	2004
	HK$'000	HK$'000
Deferred tax credit	**—**	3,911

The Group companies operating in Hong Kong are subject to Hong Kong Profits Tax at the rate of 17.5% (2004: 17.5%) on estimated assessable profits arising in or derived from Hong Kong. No provision for Hong Kong Profits Tax has been made as the Group has no assessable profit for Hong Kong Profits Tax for the years ended 31 December 2005 and 2004.

The Group companies operating in the PRC are subject to enterprise income tax at a rate of 33% (2004: 33%). No provision for PRC enterprise income tax has been made as the Group has no assessable profit for PRC enterprise income tax for the years ended 31 December 2005 and 2004.

12. TAX CREDIT *(Continued)*

The charge for the year is reconciled to (loss)/profit per the consolidated income statement as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
(Loss)/profit before taxation	**(21,026)**	133,082
Tax at the PRC income tax rate of 33% (2004: 33%)	**(6,939)**	43,917
Tax effect of income not taxable for tax purpose	**—**	(56,452)
Tax effect of expenses not deductible	**255**	761
Tax effect of tax losses not recognised	**—**	4,782
Tax effect of revaluation of properties	**—**	(3,911)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**6,684**	6,992
Tax credit for the year	**—**	(3,911)

13. (LOSS)/EARNINGS PER SHARE

The calculation of the basic (loss)/earnings per share is based on the following data:

	Group	
	2005	2004
	HK$'000	HK$'000
(Loss)/profit for the year attributable to ordinary equity holders of the Company	**(21,026)**	136,993

	2005	2004
Number of shares for the calculation of basic (loss)/earnings per share	**271,758,000**	271,758,000

No diluted loss (2004: earnings) per share for the years ended 31 December 2005 and 2004 has been presented as the potential ordinary shares of the Company are anti-dilutive.

14. LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated loss attributable to equity shareholders of the Company includes a loss of HK$6,562,000 (2004: HK$4,659,000) which has been dealt with in the accounts of the Company.

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Land and buildings HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
COST OR VALUATION				
At 1 January 2005	—	2,630	5,727	8,357
Additions at cost	—	220	396	616
Exchange difference	—	32	65	97
At 31 December 2005	—	2,882	6,188	9,070
ACCUMULATED DEPRECIATION				
At 1 January 2005	—	1,404	4,130	5,534
Depreciation	—	596	353	949
Exchange difference	—	16	21	37
At 31 December 2005	—	2,016	4,504	6,520
COST OR VALUATION				
At 1 January 2004	86,411	3,242	5,040	94,693
Additions at cost	—	1,239	1,597	2,836
Disposals	(10,561)	(40)	—	(10,601)
Disposed on disposal of subsidiaries	(75,850)	(1,811)	(910)	(78,571)
At 31 December 2004	—	2,630	5,727	8,357
ACCUMULATED DEPRECIATION				
At 1 January 2004	—	2,425	4,643	7,068
Depreciation	1,396	431	306	2,133
Disposals	(143)	(15)	—	(158)
Eliminated on disposals of subsidiaries	—	(1,437)	(819)	(2,256)
Eliminated on revaluation	(1,253)	—	—	(1,253)
At 31 December 2004	—	1,404	4,130	5,534
NET BOOK VALUE				
At 31 December 2005	—	866	1,684	2,550
At 31 December 2004	—	1,226	1,597	2,823

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The net book value of property, plant and equipment included an amount of HK$46,000 (2004: HK$1,454,000) in respect of motor vehicles held under finance leases.

The Group's land and buildings were revalued by Messrs. RHL Appraisal Limited, an independent valuer, on an open market value basis as at 30 June 2004 at a total of HK$80,990,000. The directors resolved to adopt the valuation in the financial statements for the year ended 31 December 2004. On 14 September 2004, the Group disposed of all its land and buildings in the disposal of subsidiaries (note 35).

As at 31 December 2004 and 2005, the Group's property, plant and equipment were carried at cost.

16. INVESTMENTS IN SUBSIDIARIES

	Company	
	2005	2004
	HK$'000	HK$'000
Unlisted shares, at cost	**306,695**	306,695
Impairment losses recognised	**(283,000)**	(283,000)
	23,695	23,695

16. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Particulars of the subsidiaries at 31 December 2005 are as follows:

Name	Legal form	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Percentage of equity interest Directly	Percentage of equity interest Indirectly	Principal activities
Beijing Zhong Zheng Real Estate Development Co., Limited ("BJCSB")	Sino-foreign co-operative joint venture	PRC	US$25,000,000 Registered	—	51% (see note 34(b))	Property development
NR (BVI) Holdings Limited	Limited liability company	British Virgin Islands	US$47,001 Ordinary	100%	—	Investment holding
New Rank (BVI 2) Limited	Limited liability company	British Virgin Islands	US$36,000 Ordinary	—	100%	Investment holding
New Rank Services Limited	Limited liability company	Hong Kong	HK$2 Ordinary	—	100%	General management
Polywell Finance Corporation	Limited liability company	British Virgin Islands	US$1 Ordinary	100%	—	Inactive
Precise Assets Limited	Limited liability company	British Virgin Islands	US$1 Ordinary	—	100%	Inactive
Team Success Management Limited	Limited liability company	British Virgin Islands	US$1 Ordinary	—	100%	Investment holding
Tong Sun Limited ("Tong Sun")	Limited liability company	Samoa	US$49 Class A Ordinary US$51 Class B Ordinary	—	51% (note (ii))	Investment holding
Very Best Investments Limited	Limited liability company	British Virgin Islands	US$1 Ordinary	—	100%	Inactive

16. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Notes:

(i) Other than the subsidiary established in the PRC, whose place of operations is in the PRC, the place of operation of other subsidiaries is basically in Hong Kong.

(ii) Pursuant to the subscription agreement dated 8 May 2003, Starry Joy Properties Investment Ltd. ("Starry Joy") holding 49% of the equity interest of Tong Sun is entitled to a preferred dividend from Tong Sun in the sum of up to HK$94.6 million together with repayment in full of its loan and loan from Poly (Hong Kong) Investments Limtied ("Poly HK") and interest accrued thereon in priority over the preferred dividend payment to the Group by Tong Sun, which is up to HK$136 million. After the payment of the aforesaid preferred dividends and repayment of all loans from Starry Joy and Poly HK, any further dividend and/or distribution to be declared by Tong Sun will be paid to the Group and Starry Joy in the proportion of 75% and 25%.

17. PROPERTY UNDER DEVELOPMENT FOR SALE

	Group	
	2005	2004
	HK$'000	HK$'000
At cost	**1,564,583**	947,789

The property under development for sale represents China Securities Plaza, a property development project in Beijing, the PRC. At 31 December 2005, the Group pledged the property under development for sale with an aggregate net book value of approximately HK$1,564,583,000 (2004: HK$947,789,000) to secure bank loans granted and amounts payable in respect of land development cost totalling approximately HK$190,798,000 (2004: HK$306,944,000).

During the year ended 31 December 2003, the shareholders of the Company approved the disposal of 49% interest in a then wholly-owned subsidiary, Tong Sun, which holds indirectly the above property under development to Starry Joy. The sale transaction includes, among other things, Starry Joy to subscribe for 49 new shares in Tong Sun and grant an interest free loan up to HK$165 million and an interest bearing loan of HK$45 million from the holding company of Starry Joy to the Company. Details of the transaction has been disclosed in the circular to the shareholders dated 3 June 2003.

In connection with the above disposal, BJCSB, the subsidiary in the PRC holding the property under development also entered into a master standstill agreement with its creditors in respect of, among other things, the settlement of the disputes between BJCSB and its creditors and other parties, withholding of legal action against BJCSB by its creditors, the provision of further finance by a bank of the Group for the completion of the property under development and the arrangement for ultimate repayment of loans and monies due from BJCSB to its creditors. Consequently, the freeze on the property under development was released. Construction work was recommenced in October 2003 after the adoption of a new development plan.

17. PROPERTY UNDER DEVELOPMENT FOR SALE *(Continued)*

During the year ended 31 December 2003, the Group entered into an agreement with CNC in relation to certain financial and construction arrangements for the property under development, details of which are set out in Note 2(i) above.

The property under development for sale was valued at 31 December 2005 on an open market basis by RHL Appraisal Limited, an independent valuer at RMB1,798,000,000. The directors are of the opinion that no impairment loss is necessary as at 31 December 2005.

18. PREPAYMENTS AND OTHER RECEIVABLES

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Interest free loan (note i)	**36,783**	37,623	**—**	—
Amount due from a minority equity owner of a subsidiary of the Group (note 34(b))	**115,501**	107,858	**—**	—
Amount due from a former director (note (ii))	**2,460**	2,460	**2,460**	2,460
Temporary advances	**17,432**	17,314	**7,034**	7,179
Prepaid expenses and deposits	**13,131**	9,201	**—**	—
	185,307	174,456	**9,494**	9,639

Included in prepayments and other receivables are the following amounts denominated in a currency other than the functional currency of the company to which they relate:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Renminbi	**155,211**	134,258	**—**	—

Notes:

(i) During the year ended 31 December 2003, the Group entered into a triparty agreement with the borrower and a third party in the PRC. Under the agreement, the loan amount at that time of HK$37,623,000 was assigned to that third party.

(ii) The amount due is unsecured, non-interest bearing and has no fixed terms of repayment.

19. CASH AND CASH EQUIVALENTS

	Group		Company	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
Cash at bank and in hand	125,904	100,014	17	15

Included in cash and cash equivalents are the amounts denominated in a currency other than the functional currency of the company to which they relate:

	Group		Company	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Renminbi	124,573	55,610	—	—

20. AMOUNTS DUE FROM/(TO) SUBSIDIARIES

The amounts due from/(to) subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment.

21. TRADE PAYABLES

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

	Group	
	2005 HK$'000	2004 HK$'000
Within 3 months	98,995	52,856
4-6 months	11,039	4,642
7-9 months	7,160	5,515
10-12 months	21,988	—
Over 1 year	80,268	176,971
	219,450	239,984

21. TRADE PAYABLES *(Continued)*

Included in trade payables are the following amounts denominated in a currency other than the functional currency of the company to which they relate:

	Group	
	2005	2004
	RMB'000	RMB'000
Renminbi	**228,228**	256,783

22. ADVANCES FROM CUSTOMERS

Advances from customers mainly represent the instalment payments received in respect of the property which is under development for sale (note 17).

23. OBLIGATIONS UNDER FINANCE LEASES

	Group			
	Minimum lease payments		Present value of minimum lease payments	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance leases				
Within one year	**50**	757	**47**	751
In the second to fifth year inclusive	**—**	50	**—**	47
	50	807	**47**	798
Less: Future finance charges	**(3)**	(9)	**—**	—
	47	798	**47**	798
Less: Amounts due within one year shown under current liabilities			**(47)**	(751)
Amounts due after one year			**—**	47

24. BANK BORROWINGS

	Group	
	2005	2004
	HK$'000	HK$'000
Bank loans — secured (note 17 & 34(b))	**163,462**	280,374

The bank borrowings are denominated in Renminbi and repayable within one year. The bank borrowings bear annual interest rates varying from 6.039% to 6.336% per annum (2004: 6.039%). The carrying amounts of borrowings approximate their fair value.

25. OTHER BORROWINGS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Interest free (note i and ii)	**110,000**	165,000	**—**	—
Interest bearing (note i and iii)	**100,000**	45,000	**45,000**	45,000
Current liabilities	**210,000**	210,000	**45,000**	45,000

Notes:

(i) The above loans represent the loans granted to the Group pursuant to the disposal of 49% interest in Tong Sun (note 17). The repayment of the loans is in priority to the dividend payment by Tong Sun to the Group (note 16 (ii)).

(ii) This amount is secured on the shares in the Company held by a director and a former director. It was originally interest free and for a term of 2 years from June 2003 repayable on maturity and was to be applied exclusively to finance the working capital requirement of the property under development for sale. On 25 October 2005, a second supplemental agreement was signed which extended the repayment date up to 31 December 2005 and the Group is under negotiation to further extend the repayment date. Further, an amount of HK$55,000,000 became interest bearing at an interest rate of 10% per annum as from 1 July 2005 and as a result was reclassified to the interest-bearing portion for the year ended 31 December 2005.

(iii) An amount of HK$55,000,000 is secured on the shares in the Company held by a director and a former director and the remaining amount of HK$45,000,000 is unsecured. The amount of HK$45,000,000 was originally for a term of 2 years from June 2003 and borne interest at the rate of 6% per annum. Further, it was originally repayable in one lump sum upon maturity and was to be applied to finance the general working capital and settlement of trade payables of the Group. On 25 October 2005, a supplemental facility letter was signed to extend the repayment date up to 31 December 2005 and the interest rate was revised to 10% per annum with effect from 1 July 2005. The Group is under negotiation to further extend the repayment date.

26. CONVERTIBLE BOND

On 1 March 2005, the Company issued a convertible bond bearing interest at 3% per annum with a principal amount of HK$12 million, which is convertible into the Company's ordinary shares, at a conversion price of HK$0.30 per share. The convertible bond matures two years from the issue date. The convertible bond, if exercised in full, will be convertible into 40,000,000 ordinary shares, representing approximately 14.7% if the existing issued share capital of the Company as at the balance sheet date.

The fair values of the liability component and the equity conversion component were determined at the issuance of the convertible bonds. The fair value of the liability component, included in non-current financial liabilities, was calculated using a market interest rate for an equivalent non-convertible bonds. The residual amount, representing the value of the equity conversion component, is included in convertible bond equity reserve.

The convertible bonds recognised in the balance sheet is calculated as follows:

	Group and Company	
	2005	2004
	HK$'000	HK$'000
Face value of convertible bond issued on 1 March 2005	**12,000**	—
Equity component	**(226)**	—
Liability component on initial recognition at 1 March 2005	**11,774**	—
Interest expenses	**392**	—
Interest paid	**(300)**	—
Liability component at 31 December 2005	**11,866**	—

The fair value of the liability component of the convertible bond at 31 December 2005 amounted to HK$11,866,000. The fair value is calculated using cash flows discounted at a rate based on the borrowings rate of 4% per annum.

Interest expenses on the convertible bond is calculated using the effective interest method by applying the effective interest rate of 4% per annum to the liability component.

27. FINANCIAL INSTRUMENTS — RISK MANAGEMENT

The Group is exposed through its operations to one or more of the following financial risks:

- Credit risk
- Interest rate risk
- Liquidity risk
- Fair values of financial assets and financial liabilities
- Foreign currency risk

Policy for managing these risks is set by the directors of the Group. The policy for each of the above risks is described in more detail below:

(a) Credit risk

The extent of the Group's credit exposure is represented by the aggregate balance of cash in bank, prepayments and other receivables, and property under development for sale. In order to minimise the credit risk, the management of the Group has tight control over working capital management and on the credit policies and the counterparties related to banks are with high credit-worthiness.

The Group has arranged bank financing for property under development for sale. Details disclosure of relevant securities has been made in note 17.

(b) Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing financial assets and liabilities. Interest bearing financial assets are mainly balances with banks which are short term in nature. Interest bearing financial liabilities are mainly bank loans and convertible bonds with fixed rates and repayable within one year and two years respectively. Therefore, any future variations in interest rate will not have a significant impact on the results of the Group.

(c) Liquidity risk

Advances from customers, bank loans and issuance of convertible bond are the general sources of funds to finance the operations of the Group. Majority of the Group's banking facilities are subject to fixed interests rates and are renewable annually. The Group's liquidity risk management includes obtaining standby banking facilities and diversifying the funding sources. The Group regularly reviews its major funding positions to ensure it has adequate financial resources in meeting its financial obligations (note 2).

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

(d) Fair values of financial assets and financial liabilities

The fair values of financial assets and financial liabilities reported in the balance sheet of the Group and the Company approximate their carrying amount.

(e) Foreign currency risk

The Group is exposed to foreign currency risk arising from various currency exposures, primarily with respect to the HK dollars and Renminbi. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The exchange rate between the Hong Kong dollar and Renminbi was relatively stable during the year and as a result, the Group considers it has no material currency risk.

28. DEFERRED TAXATION

The following are the major deferred tax liabilities recognised and movement, thereon, during the current and prior years:

Group	Revaluation of properties HK$'000
At 1 January 2004	16,015
Credit to income for the year	(3,911)
Charge to equity for the year	769
Released on disposal of subsidiaries	(12,873)
At 31 December 2004	—
Movement during the year	—
At 31 December 2005	—

At the balance sheet date, the Group has unused tax losses of HK$90,650,000 (2004: HK$90,650,000) available to offset against future profits. No deferred tax assets have been recognised in respect of the amounts due to the unpredictability of future profit streams.

At the balance sheet date, the Company did not have material unprovided deferred tax liabilities.

29. SHARE CAPITAL

At 31 December 2005, the details of the Company's share capital were as follows:

	Number of shares		Amount	
	2005	2004	**2005**	2004
	'000	'000	**HK$'000**	HK$'000
Authorised:				
Ordinary shares of HK$0.001 each				
At beginning of year and at end of year	**500,000**	500,000	**500**	500
Issued and fully paid:				
Ordinary shares of HK$0.001 each				
At beginning of year and at end of year	**271,758**	271,758	**272**	272

30. SHARE OPTIONS

Pursuant to a shareholders' resolution passed on 14 June 2002, the share option scheme of the Company ("2000 Share Option Scheme"), which was approved by its shareholders on 25 January 2000 enabling the directors to grant options to eligible employees, including directors of the Company and/or its subsidiaries to subscribe for shares in the Company was terminated.

A new share option scheme (the "New Share Option Scheme") was approved and adopted on 14 June 2002. The New Share Option Scheme is valid and effective for a period of 10 years after the date of adoption. Outstanding options granted pursuant to the 2000 Share Option Scheme shall continue to be subject to the provisions of the 2000 Share Option Scheme and the adoption of the New Share Option Scheme will not in any event affect the terms of such outstanding options.

The New Share Option Scheme was adopted for the purpose of attracting, retaining and motivating any full-time employees and directors (including non-executive directors and independent non-executive directors) of the Group, part time employees working with weekly working hours of 10 hours and above of the Group and the Group's advisors, consultants, providers of goods and/or services and other persons who have contributed to the Group or their trustee (the "Participants") to perform their best in achieving the goals of the Group and at the same time allow them to enjoy the results of the Group attained through their effort and contributions. Under the New Share Option Scheme, the board of directors of the Company may grant options to the Participants to subscribe for shares of the Company.

30. SHARE OPTIONS *(Continued)*

Subject to the terms of the New Share Option Scheme, the total number of shares which may be issued upon exercise of all options to be granted under the New Share Option Scheme and any other schemes should not in aggregate exceed 10% of the total number of shares in issue as at the date of approval of the New Share Option Scheme unless approval from the Company's shareholders is obtained to renew such limit. Notwithstanding the above, the maximum number of shares in respect of which options may be granted under the New Share Option Scheme together with any options outstanding and yet to be exercised under the New Share Option Scheme and any other share option schemes of the Company must not exceed 30% (or such higher percentage as may be allowed under the Rules Governing the Listing of Securities on the Stock Exchange) of the total number of shares in issue from time to time. The number of shares in respect of which options may be granted to each participant in aggregate in any 12-month period shall not exceed 1% of the total number of shares in issue, any further grant to that particular participant shall be subject to approval of shareholders of the Company in general meeting with such participant and his or her associates abstaining from voting.

Options granted pursuant to the New Share Option Scheme must be accepted within 28 days of the date of option offered, upon payment of HK$1 by way of consideration. Options may be exercised at any time from the date of acceptance of the share option to such date as determined by the board of directors but in any event not exceeding 10 years. The exercise price per share will be determined by the board of directors of the Company, but in any event shall not be less than the highest of (i) the average closing price of the shares as quoted in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the option offered, (ii) the closing price of the shares as quoted in the Stock Exchange's daily quotations sheet on the date of the option offered, and (iii) the nominal value of the shares.

No option has been granted under the New Share Option Scheme since its adoption.

As at 31 December 2005 and 2004, no share options remain outstanding under the 2000 Share Option Scheme.

30. SHARE OPTIONS *(Continued)*

The following table discloses details of the Company's share options held by employees (including directors) and movements in such holdings in 2004.

	Outstanding at 1 January 2004	Lapsed during the year	Outstanding at 31 December 2004
Option type			
2001B	5,000,000	(5,000,000)	—
2001C	1,000,000	(1,000,000)	—
	6,000,000	(6,000,000)	—

Details of the share options held by the directors and chief executive officer included in the above table are as follows:

	Outstanding at 1 January 2004	Lapsed during the year	Outstanding at 31 December 2004
Option type			
2001B	5,000,0000	(5,000,000)	—

Details of specific categories of options are as follows:

	Date of grant	Exercise period	Exercise price HK$
2001B	15 February 2001	15 February 2001 to 14 February 2004	0.69
2001C	21 February 2001	21 February 2001 to 20 February 2004	0.96

Note: No charge was recognised in income statement in respect of the value of options granted.

31. RESERVES

	Company				
	Share premium HK$'000	Contributed surplus HK$'000	Convertible bond equity reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2004	20,773	306,450	—	(379,070)	(51,847)
Loss for the year	—	—	—	(4,659)	(4,659)
At 31 December 2004	20,773	306,450	—	(383,729)	(56,506)
Recognition of equity component of convertible bond	—	—	226	—	226
Loss for the year	—	—	—	(6,562)	(6,562)
At 31 December 2005	20,773	306,450	226	(390,291)	(62,842)

The contributed surplus of the Company represents the difference between the underlying net tangible assets of the subsidiaries acquired by the Company and the nominal value of the share capital issued by the Company at the time of the corporate reorganisation prior to the listing of the Company's shares in 2000.

32. OPERATING LEASE COMMITMENTS

Group

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases, in respect of premises, which fall due as follows:

	Group	
	2005 HK$'000	2004 HK$'000
Within one year	**3,962**	2,551
In the second to fifth year inclusive	**1,961**	1,101
	5,923	3,652

Operating lease payments represent rentals payable by the Group for certain office properties. Leases are negotiated for an average term of two years (2004: two years).

Company

At 31 December 2005, the Company had no commitments under non-cancellable operating leases (2004: Nil).

33. CAPITAL AND CONSTRUCTION COMMITMENTS

Group

At the balance sheet date, the Group had the following capital and construction commitments:

	Group	
	2005	2004
	HK$'000	HK$'000
Expenditure in relation to the property under development for sale — contracted for	**12,867**	446,811

Company

At the balance sheet date, the Company did not have any capital commitments.

34. RELATED PARTY TRANSACTIONS

(a) 13,587,900 shares and 54,351,600 shares of the Company held directly or indirectly by a director and a former director respectively have been charged to secure loans granted to the Group. No commission or charges have been paid to the director and the former director in respect of the charges.

(b) The joint venture partners of BJCSB are Tong Sun, a subsidiary of the Company, Guozheng Economic Development Company Limited ("Guozheng") and Beijing Finance Street Construction & Development Co. Ltd. ("Finance Street Development") and BJCSB's registered capital are contributed as to 66% by Tong Sun and 34% by Guozheng. In October 1999, the joint venture partners of BJCSB entered into an agreement, pursuant to which Guozheng will give up all its interest in BJCSB in exchange for a fixed return by the way of the ownership right of office space of gross floor area of 7,000 square meters upon completion of the property under development for sale (note 17) and Tong Sun became entitled to 100% of the economic benefit of BJSCB. Upon entering into this agreement, BJCSB became a wholly-owned subsidiary of Tong Sun and an amount of RMB107,000,000 was paid to Guozheng as advance payment on its entitlement to the 7,000 square meters. Accordingly, the amount due from Guozheng of HK$115,501,000 (2004: HK$107,858,000) was included in prepayments and other receivables as at 31 December 2005 and the previous capital contribution of HK$46,642,000 (2004: HK$46,642,000) made by Guozheng was classified as current liabilities in "other payables". The total amount due from Guozheng is interest free and has no fixed terms of repayment.

(c) During the year ended 31 December 2003, the Company had entered into a management contract with Million Rich Consultants Limited, of which one of the Company's substantial shareholders, Wei Ping, is a director, for the provision of administrative and financial advisory services to the Group. Service fee in an amount of HK$3,600,000 (2004: HK$3,600,000) was paid during the year ended 31 December 2005.

35. DISPOSAL OF SUBSIDIARIES

On 14 September 2004, the Company disposed of its entire equity interests in New Rank (BVI 1) Limited and its subsidiaries at cash consideration of HK$1 and waive of the amount due to New Rank (BVI 1) Limited of HK$37,558,000. The gain arising from the disposal amounted to HK$171,978,000, the net liabilities of New Rank (BVI 1) Limited and its subsidiaries at the date of disposal were as follows:

	As at 14 September 2004 HK$'000
Property, plant and equipment	76,315
Investment properties	157,514
Trade receivables	20,169
Prepayments and other receivables	252,205
Restricted cash	161
Bank balances and cash	594
Trade payables	(63,420)
Accruals and other payable	(302,457)
Advances from customers	(135)
Taxation	(166,381)
Bank borrowings	(91,621)
Deferred taxation	(12,873)
	(129,929)
Translation reserve released	(1,919)
Investment properties revaluation reserve released	(2,572)
	(134,420)
Gain on disposal of subsidiaries	171,978
Total consideration	37,558
Satisfied by:	
Cash	—
Amount due to New Rank (BVI 1) limited waived	37,558
	37,558
Net cash outflow on disposal of subsidiaries	
Cash consideration received	—
Bank balances and cash of disposed subsidiaries	(594)
	(594)

35. DISPOSAL OF SUBSIDIARIES *(Continued)*

The subsidiaries disposed during the year ended 31 December 2004 contributed HK$2,651,000 to the Group's turnover and loss of HK$8,030,000 to the Group's profit after taxation.

During the year ended 31 December 2005, there was no disposal of subsidiary.

36. CONTINGENT LIABILITIES

(a) In October 2002, one of the creditors of the Group filed a notice of arbitration against BJCSB for a total amount of approximately RMB290 million, which relates to certain land development cost for the property held for BJCSB of approximately RMB222 million and interest penalty of approximately RMB68 million. A court order against BJCSB was issued on 22 October 2002 either to freeze its bank deposits or to attach its assets for an amount up to RMB50 million. The Group has subsequently entered into a settlement agreement (the "Agreement") and rescheduled the outstanding amounts payable to the creditor. The rescheduled payment has been executed in accordance with the terms of the Agreement and therefore the directors are confident that the Group is not liable to pay the aforesaid interest penalty of approximately RMB68 million according to the Agreement.

(b) The Group has given guarantees to banks in respect of the loans of the amounts USD2,500,000 and RMB14,000,000 granted to Beijing New Rank Real Estate Development Co., Limited, a former subsidiary of the Group.

(c) Pursuant to the agreement entered into between the Group and CNC as mentioned in note 2(i), the construction of the property under development for sale shall be completed on 30 June 2005 and its ownership shall be delivered to CNC before 30 December 2005. Relevant penalties apply upon the late delivery of ownership as follows:

   i. 0.03% interest per day based on money received by the Group upon late delivery within 90 days from 30 December 2005;

   ii. if late delivery is more than 90 days from 30 December 2005, CNC will have a right to either terminate the agreement and BJCSB will be required to return all instalments without interest and pay damages at the rate of 10% of the money received within 30 days upon receiving notice from CNC; or require BJCSB to pay damages at 0.03% interest per day on the instalments received for the period from 30 December 2005 to the date of delivery.

37. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

37. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Critical accounting estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet, 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) Property under development for sale

As explained in note 4(d), the carrying value of property under development for sale is dependent on estimating the net realisable value, which is with reference to the total outcome of the construction contract, as well as the estimated cost of completion and direct selling expenses on disposal. Based on the Group's recent experience and the nature of the construction activity undertaken by the Group, the Group makes best estimates of the costs to completion and the net realisable value of the property under development for sale. However, actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the balance sheet date, which would affect the carrying amount of the property under development for sale at 31 December 2005.

(b) Income taxes

As at 31 December 2005, the Group did not recognise deferred tax assets in respect of its unused tax losses of HK$90,650,000 due to the uncertainty of its utilisation in future years. Realisation primarily involves judgement regarding the future performance of the particular legal entity in which the deferred tax asset has not been recognised. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portions or all of the deferred tax assets will ultimately be realised, such as existence of taxable temporary differences and the periods in which estimated tax losses can be utilised. The Group reviews at each balance sheet date its tax position to see whether there is sufficient convincing evidence that sufficient taxable profits will be available within the utilisation periods to allow utilisation of the unused tax losses and to recognise the relevant tax assets.

Critical judgements in applying the entity's accounting policies

Apart from those involving estimations which are dealt with above, management believe that the effect of those judgements made in the process of applying the entity's accounting policies, which are described in note 4, individually have no significant effect on the amounts recognised in the financial statements.

38. COMPARATIVE FIGURES

In conformity with the presentation of the current year, amount due from a former director and land development costs payable are reclassified to "Prepayments and other receivables" and "Trade payables", respectively.