

Notes to the Financial Statements

1. General information

New World China Land Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in investment and development of property projects in the People's Republic of China ("PRC").

The Company is a limited liability company incorporated in the Cayman Islands. The address of its registered office is P.O. Box 309, Uglan House, South Church Street, George Town, Grand Cayman, Cayman Islands, British West Indies. The address of its principal place of business in Hong Kong is 9/F., New World Tower I, 18 Queen's Road Central, Hong Kong.

The Company is listed on The Stock Exchange of Hong Kong Limited.

The ultimate holding company is New World Development Company Limited ("NWD"), a company incorporated and listed in Hong Kong.

These financial statements have been approved for issue by the Board of Directors on 10th October 2006.

2. Basis of preparation

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements are prepared under the historical cost convention, as modified by the revaluation of investment properties.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 5.

Change in the accounting policies

For the year ended 30th June 2005, the Group early adopted HKFRS 3 "Business combinations", Hong Kong Accounting Standard ("HKAS") 36 "Impairment of assets" and HKAS 38 "Intangible assets". With effect from 1st July 2005, the Group adopted all the remaining new and revised HKFRS that are currently in issue and effective for the accounting periods commencing on or after 1st January 2005 and also early adopted the amendment to HKAS 21 "The effects of changes in foreign exchange rates – Net investment in a foreign operation" which is effective for the accounting periods commencing on or after 1st January 2006.

The following is a summary of the material changes in the principal accounting policies or presentation of the Group's consolidated financial statements as a result of the adoption of those new or revised HKFRS.

(i) *HKAS 1 Presentation of financial statements*

The adoption of HKAS 1 has affected the presentation of minority interests, share of net after-tax results of jointly controlled entities and associated companies and other disclosures.

(ii) *HKAS 17 Leases*

The adoption of HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of land use rights from property, plant and equipment to operating leases. The upfront prepayments made for land use rights are expensed in the income statement on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the income statement.

In respect of properties held for/under development, the amortisation of land use rights is included as part of the costs of the properties under development in the course of property development. In all other cases, the amortisation charge is recognised in the income statement.

In previous years, land use rights were accounted for at cost or fair value less accumulated depreciation and impairment. This change in the accounting policy has been applied retrospectively.

(iii) *HKAS 32 Financial instruments: Disclosures and presentation*
HKAS 39 Financial instruments: Recognition and measurement

The adoption of HKAS 32 and 39 has resulted in a change in the accounting policy relating to the classification and measurement of loans and receivables and available-for-sale investment. HKAS 39 does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis.

(iv) *HKAS 40 Investment properties*

The adoption of HKAS 40 has resulted in a change in the accounting policy in which the changes in fair value of investment properties are recognised in the income statement.

In previous years, increases in valuation of investment properties were credited to the investment properties revaluation reserve; decreases were first set off against earlier revaluation surpluses on a portfolio basis and thereafter charged to the income statement.

The Group has applied the relevant transitional provisions under HKAS 40 and elected to apply HKAS 40 from 1st July 2005 onwards. As a result, investment properties revaluation reserve as at 1st July 2005 has been transferred to the revenue reserve. Comparative information has not been restated.

In addition, HKAS 40 has removed the 15% benchmark for determining the significance of the portion of property held for own use. Accordingly, the property held for own use, previously recognised as investment properties, has been classified as property, plant and equipment and land use rights under HKAS 16 "Property, plant and equipment" and HKAS 17 "Leases" respectively. This change in the accounting policy has been applied retrospectively.

(v) *HK-Int 2 The appropriate accounting policies for hotel properties*

Hong Kong Interpretation 2 requires owner-operated hotel properties to be classified as property, plant and equipment in accordance with HKAS 16. The Group has adopted the cost model and the change in the accounting policy has been applied retrospectively. The land portion is accounted for in accordance with HKAS 17.

In previous years, hotel properties were stated at their open market value based on an annual professional valuation at the balance sheet date. No depreciation was provided on hotel properties held on leases of more than 20 years. Increases in valuation of hotel properties were credited to the hotel properties revaluation reserve; decreases were first set off against earlier revaluation surpluses and thereafter charged to the income statement.

(vi) *HK (SIC) – Int 21 Income taxes – Recovery of revalued non-depreciated assets*

The adoption of Hong Kong (SIC) Interpretation 21 has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from the recovery of the carrying amount of that asset through use. In previous years, the carrying amount of that asset was expected to be recovered through sale.

(vii) *HKFRS 2 Share-based payments*

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 30th June 2005, the provision of share options to employees did not result in an expense in the income statement. Effective on 1st July 2005, the Group expenses the cost of share options in the income statement. As a transitional provision, the cost of share options which were granted after 7th November 2002 and had not yet vested on 1st July 2005 was expensed retrospectively in the income statement for the respective periods.

Notes to the Financial Statements

2. Basis of preparation (continued)**Change in the accounting policies** (continued)

The estimated effects of the changes in the accounting policies on the results for the year ended 30th June 2006 are as follows:

	Increase/(decrease) in profit for the year						Total HK\$'000
	HKAS 1 HK\$'000	HKAS 17 HK\$'000	HKAS 39 HK\$'000	Effect of adopting HKAS 40 & HK(SIC) -Int 21 HK\$'000	HK-INT 2 & HKAS 16 HK\$'000	HKFRS 2 HK\$'000	
Turnover	-	-	-	-	-	-	-
Cost of sales	-	3,676	-	-	(436)	-	3,240
Gross profit	-	3,676	-	-	(436)	-	3,240
Other gains, net	-	-	1,603	-	-	-	1,603
Increase in fair value of investment properties	-	-	-	348,926	-	-	348,926
Selling expenses	-	-	-	-	-	-	-
Administrative expenses	-	-	-	-	-	(4,200)	(4,200)
Other operating expenses	-	(1,522)	-	(1,557)	(60,941)	-	(64,020)
Operating profit before financing	-	2,154	1,603	347,369	(61,377)	(4,200)	285,549
Finance costs	-	-	-	-	-	-	-
Share of results of							
Associated companies	(73,565)	18	-	83,096	(5,057)	-	4,492
Jointly controlled entities	(91,913)	(280)	345	82,461	(8,470)	-	(17,857)
Profit before taxation	(165,478)	1,892	1,948	512,926	(74,904)	(4,200)	272,184
Taxation charge	165,478	-	-	(128,592)	-	-	36,886
Profit for the year	-	1,892	1,948	384,334	(74,904)	(4,200)	309,070
Attributable to:							
Equity holders of the Company	-	1,612	1,948	376,524	(60,849)	(4,200)	315,035
Minority interests	-	280	-	7,810	(14,055)	-	(5,965)
	-	1,892	1,948	384,334	(74,904)	(4,200)	309,070
Earnings per share (HK cents)							
Basic	-	0.04	0.05	9.91	(1.60)	(0.11)	8.29
Diluted	-	0.04	0.05	9.90	(1.60)	(0.11)	8.28

The estimated effects of the changes in the accounting policies on the consolidated balance sheet as at 30th June 2006 are summarised below:

	Increase/(decrease)					Total HK\$'000
	Effect of adopting					
	HKAS 17 HK\$'000	HKAS 40 HK\$'000	HKAS 32 HK\$'000	HKAS 39 HK\$'000	HK-Int 2 & HKAS 16 HK\$'000	
Property, plant and equipment	(115,570)	40,213	-	-	(589,017)	(664,374)
Investment properties	-	(59,005)	-	-	221,442	162,437
Land use rights	115,570	8,358	-	-	195,862	319,790
Properties held for development	(1,716)	-	-	-	-	(1,716)
Associated companies	(12)	(803)	-	-	(20,988)	(21,803)
Jointly controlled entities	(8,509)	(7,314)	-	(112)	(19,081)	(35,016)
Other non-current assets	-	-	(8,609)	-	-	(8,609)
Hotel inventories	-	-	-	-	(6,940)	(6,940)
Debtors, deposits and other receivables	-	-	-	(499)	-	(499)
Completed properties held for sale	(8,333)	-	-	-	-	(8,333)
	(18,570)	(18,551)	(8,609)	(611)	(218,722)	(265,063)
Long term borrowings	-	-	(7,681)	-	-	(7,681)
Current portion of long term borrowings	-	-	(928)	-	-	(928)
	-	-	(8,609)	-	-	(8,609)
Net assets	(18,570)	(18,551)	-	(611)	(218,722)	(256,454)
Reserves	(17,530)	(17,737)	-	(611)	(178,812)	(214,690)
Minority interests	(1,040)	(814)	-	-	(39,910)	(41,764)
Total equity	(18,570)	(18,551)	-	(611)	(218,722)	(256,454)

Notes to the Financial Statements

2. Basis of preparation (continued)**Change in the accounting policies** (continued)

The effects of the changes in the accounting policies on the results for the year ended 30th June 2005 are as follows:

	Increase/(decrease) in profit for the year					Total HK\$'000
	Effect of adopting					
	HKAS 1 HK\$'000	HKAS 17 HK\$'000	HKAS 40 HK\$'000	HK-Int 2 & HKAS 16 HK\$'000	HKFRS 2 HK\$'000	
Turnover	-	-	-	-	-	-
Cost of sales	-	6,213	-	(708)	-	5,505
Gross profit	-	6,213	-	(708)	-	5,505
Other gains, net	-	-	-	-	-	-
Selling expenses	-	-	-	-	-	-
Administrative expenses	-	-	-	-	(2,054)	(2,054)
Other operating expenses	-	(1,359)	(2,076)	(59,389)	-	(62,824)
Operating profit before financing	-	4,854	(2,076)	(60,097)	(2,054)	(59,373)
Finance costs	-	-	-	-	-	-
Share of results of						
Associated companies	(9,061)	16	(64)	(6,434)	-	(15,543)
Jointly controlled entities	(20,844)	647	(867)	(8,396)	-	(29,460)
Profit before taxation	(29,905)	5,517	(3,007)	(74,927)	(2,054)	(104,376)
Taxation charge	29,905	-	-	-	-	29,905
Profit for the year	-	5,517	(3,007)	(74,927)	(2,054)	(74,471)
Attributable to:						
Equity holders of the Company	-	5,149	(2,868)	(55,746)	(2,054)	(55,519)
Minority interests	-	368	(139)	(19,181)	-	(18,952)
	-	5,517	(3,007)	(74,927)	(2,054)	(74,471)
Earnings per share (HK cents)						
Basic	-	0.26	(0.15)	(2.81)	(0.10)	(2.80)
Diluted	-	0.26	(0.15)	(2.79)	(0.10)	(2.78)

The effects of the changes in the accounting policies on the consolidated balance sheet as at 30th June 2005 are summarised below:

	Increase/(decrease)				Total
	Effect of adopting				
	HKAS 17	HKAS 40	HKAS 32	HK-Int 2 & HKAS 16	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Property, plant and equipment	(210,566)	29,761	–	(457,080)	(637,885)
Investment properties	–	(59,005)	–	146,728	87,723
Land use rights	210,566	10,500	–	195,000	416,066
Properties held for development	(1,347)	–	–	–	(1,347)
Associated companies	(30)	(738)	–	(15,932)	(16,700)
Jointly controlled entities	(8,230)	(6,737)	–	(10,612)	(25,579)
Other non-current assets	–	–	(2,229)	–	(2,229)
Hotel inventories	–	–	–	(6,504)	(6,504)
Completed properties held for sale	(10,516)	–	–	–	(10,516)
	(20,123)	(26,219)	(2,229)	(148,400)	(196,971)
Long term borrowings	–	–	(1,114)	–	(1,114)
Deferred tax liabilities	–	(3,256)	–	(1,512)	(4,768)
Current portion of long term borrowings	–	–	(1,115)	–	(1,115)
	–	(3,256)	(2,229)	(1,512)	(6,997)
Net assets	(20,123)	(22,963)	–	(146,888)	(189,974)
Reserves	(19,143)	(21,931)	–	(110,772)	(151,846)
Minority interests	(980)	(1,032)	–	(36,116)	(38,128)
Total equity	(20,123)	(22,963)	–	(146,888)	(189,974)

Notes to the Financial Statements

2. Basis of preparation (continued)

Standards, amendments and interpretations to published standards which are not yet effective

Certain new standards, amendments and interpretations to published standards that are mandatory for accounting periods beginning on or after 1st January 2006 or later periods but which the Group has not yet adopted, are as follows:

Effective for the year ending 30th June 2007

HKAS 19 Amendment	Employee benefits – Actuarial gains and losses, group plans and disclosures
HKAS 39 Amendment	Cash flow hedge accounting of forecast intragroup transactions
HKAS 39 Amendment	The fair value option
HKAS 39 Amendment and HKFRS 4	Financial instruments: Recognition and measurement and insurance contracts – Financial guarantee contracts
HKFRS 1 Amendment and 6	First-time adoption of Hong Kong Financial Reporting Standards and exploration for and evaluation of mineral resources
HKFRS 6	Exploration for and evaluation of mineral resources
HKFRS-Int 4	Determining whether an arrangement contains a lease
HKFRS-Int 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds
HK (IFRIC)-Int 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment
HK (IFRIC)-Int 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK (IFRIC)-Int 8	Scope of HKFRS 2
HK (IFRIC)-Int 9	Reassessment of embedded derivatives

Effective for the year ending 30th June 2008

HKAS 1 Amendment	Capital disclosures
HKFRS 7	Financial instruments: disclosures

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

3. Principal accounting policies

(a) Consolidation

The consolidated financial statements incorporate the financial statements of the Company and all of its subsidiaries made up to 30th June, and include the Group's share of the results for the year and undistributed post-acquisition reserves of its associated companies and jointly controlled entities. The results of subsidiaries, associated companies and jointly controlled entities acquired or disposed of during the year are dealt with in the consolidated income statement from the effective dates of acquisition and up to the effective dates of disposal respectively.

(i) Subsidiaries

Subsidiaries are companies, including equity and co-operative joint ventures in the PRC, in which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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

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

Inter-company transactions, balances and unrealised gains 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.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the share of net assets attributable to the Group together with any goodwill carried in the balance sheet.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(ii) *Minority interests*

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

(iii) *Associated companies*

An associated company is a company other than a subsidiary and a jointly controlled entity, in which the interest of the Group is held for the long term and substantial and significant influence is exercised through representatives on the board of directors.

Investments in associated companies are accounted for by the equity method of accounting and are initially recognised at cost. Investments in associated companies include goodwill (net of any accumulated impairment loss) identified on acquisition.

The share of post acquisition profits or losses of associated companies is recognised in the income statement, and the share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the share of losses in an associated company equals or exceeds its interest in the associated company, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated company.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the interest in the associated companies held by the Group. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associated companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

3. Principal accounting policies *(continued)***(a) Consolidation** *(continued)**(iv) Joint ventures*

A jointly controlled entity is a joint venture established as a corporation, partnership or other entity in which the venturers have their respective interests and establish a contractual arrangement among them to define their joint control over the economic activity of the entity.

Interests in jointly controlled entities are stated at cost plus the share of post-acquisition results and reserves and goodwill on acquisition less provision for impairment losses. The share of post-acquisition results and reserves is based on the relevant profit sharing ratios which vary according to the nature of the jointly controlled entities explained as follows:

Equity joint ventures

Equity joint ventures are joint ventures in respect of which the capital contribution ratios of the venturers are defined in the joint venture contracts and the profit sharing ratios of the venturers are in proportion to the capital contribution ratios.

Co-operative joint ventures

Co-operative joint ventures are joint ventures in respect of which the profit sharing ratios of the venturers and share of net assets upon the expiration of the joint venture periods are not in proportion to their capital contribution ratios but are as defined in the joint venture contracts. Where the Group is not entitled to share the net assets of a co-operative joint venture at the end of the joint venture period, the cost of investment in such co-operative joint venture is amortised over the joint venture period.

Companies limited by shares

Companies limited by shares are limited liability companies in respect of which each shareholder's beneficial interests therein is in accordance with the amount of the voting share capital held thereby.

The Group recognises the portion of gains or losses on the sale of assets by the Group to the jointly controlled entity that it is attributable to the other venturers. The Group does not recognise its share of profits or losses from the jointly controlled entity that result from the purchase of assets from the jointly controlled entity until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

(b) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the attributable share of the net identifiable assets of the acquired subsidiaries, associated companies or jointly controlled entities at the date of acquisition.

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associated companies and jointly controlled entities is included in investments in associated companies and jointly controlled entities respectively. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of all or part of the entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(c) Assets under leases*(i) Finance leases*

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in liabilities. The finance charges are charged to the income statement over the lease periods.

Assets held under finance leases are depreciated on the basis described in note (f)(ii) below.

The investment properties acquired under finance leases are carried at their fair value.

(ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the income statement on a straight-line basis over the lease periods.

(d) Land use rights

The upfront prepayments made for the land use rights are expensed in the income statement on a straight-line basis over the period of the rights or when there is impairment, the impairment is expensed in the income statement.

(e) Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the Group, is classified as investment property.

Investment property comprises land held under operating leases and buildings held under finance leases. Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs. After initial recognition, investment property is carried at fair value. Fair value is determined by professional valuation conducted as at the balance sheet date. Changes in fair values are recognised in the income statement.

3. Principal accounting policies (continued)

(f) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Initial cost includes expenditure that is directly attributable to the acquisition of items. Subsequent costs are included in the carrying amount of the assets 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 repair and maintenance costs are expensed in the income statement during the period in which they are incurred. The carrying amount of an asset is written down immediately to its recoverable amount if the carrying value of an asset is greater than its estimated recoverable amount.

(i) Assets under construction

All direct and indirect costs relating to the construction of property, plant and equipment, including financing costs and foreign exchange differences on the related borrowed funds during the construction period are capitalised as the costs of the assets.

(ii) Depreciation

No depreciation is provided on assets under construction.

Depreciation of other property, plant and equipment is calculated to write off their cost or carrying value less accumulated impairment losses to their residual values over their estimated useful lives or, if shorter, the relevant finance lease periods, using the straight-line method. Estimated useful lives are summarised as follows:

Buildings	20 – 40 years
Leasehold improvement	5 – 10 years or over the relevant lease period
Furniture, fixtures and equipment	5 years
Motor vehicles	3 years

The residual values and useful lives of the assets are reviewed, and adjusted if appropriate, at each balance sheet date.

(iii) Gain or loss on disposal

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 income statement.

(g) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount of an asset is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. An impairment loss is recognised in the income statement for the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped as cash-generating units for which there are separately identifiable cash flows.

(h) Investments

Following the adoption of HKAS 32 and 39, the Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments are acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

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

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within twelve months of the balance sheet date.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities more than twelve months after the balance sheet date which are classified as non-current assets.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within twelve months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are realised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Available for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

Notes to the Financial Statements

3. Principal accounting policies (continued)

(i) Properties held for/under development

Properties under development comprise prepayments for land use rights, development expenditure and borrowing costs capitalised. In the course of property development, the amortisation charge of land use rights is included as part of the costs of the property under development. In all other cases, the amortisation charge is recognised in the income statement.

(j) Completed properties held for sale

Completed properties held for sale are initially measured at the carrying amount of the property at the date of reclassification from properties under development. Subsequently, the prepaid leasehold land component is stated at cost less accumulated amortisation and impairment losses; the building component is carried at the lower of cost and net realisable value. The amortisation of land use rights is recognised in the income statement. Net realisable value is determined by reference to management estimates based on prevailing market conditions.

(k) Hotel inventories

Hotel inventories comprise primarily food, beverages and operating supplies and are stated at the lower of cost and net realisable value. Cost is calculated on the weighted average basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(l) 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 provision for impairment. A provision 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 provision is the difference between the carrying amount of the assets and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the consolidated income statement.

(m) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less from date of investment and bank overdrafts.

(n) Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, and it is more likely than not that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where a provision is expected to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(o) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(p) Deferred taxation

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associated companies and jointly controlled entities, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(q) Borrowing

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

(r) Borrowing costs

Borrowing costs incurred for the construction of any qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

(s) Employee benefits*(i) Employee leave entitlements*

Employee entitlement 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.

(ii) Pension obligations

The Group's contributions to the defined contribution retirement scheme are expensed as incurred.

(iii) Share-based compensation

The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions.

(t) Foreign currencies*(i) Functional and presentation currency*

Items included in the financial statements of each of the entities of the Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Company's functional currency is Renminbi. The consolidated financial statements are presented in Hong Kong dollars to facilitate analysis of financial information by the holding company.

(ii) Transactions and balances

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

3. Principal accounting policies (continued)

(t) Foreign currencies (continued)

(iii) Group companies

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

- (1) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (2) income and expenses for each income statement are translated at average exchange rates; and
- (3) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(u) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

In accordance with the internal financial reporting of the Group, the Group has determined that business segments be presented as the primary reporting. No geographical segment analysis is presented as the majority of the assets and operation of the Group are located in the PRC, which is considered as one geographical location in an economic environment with similar risk and returns.

(v) Revenue recognition

Revenue is recognised when it is probable that future economic benefits will flow to the Group and these benefits can be measured reliably on the following bases:

(i) Property sales

Revenue from sale of properties is recognised upon the transfer of risks and rewards of ownership. Deposits and instalments received on properties sold prior to their completion are included in current liabilities.

(ii) Rental income

Rental income is recognised on a straight line accrual basis over the terms of lease agreements or on a specified basis according to the terms of lease agreements in respect of contingent rental income.

(iii) Hotel operations income

Hotel operations income is recognised when the services are rendered.

(iv) Project management fee income

Project management fee income in respect of management services provided to associated companies and jointly controlled entities engaged in property development during the development periods is deferred and recognised on the same basis as property sales (note (v) (i)) above.

(v) Property management services fee income

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

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

(w) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders/directors.

(x) Insurance contracts

The Group assesses at each balance sheet date the liabilities under its insurance contracts using current estimates of future cash flows. Changes in carrying amount of these insurance liabilities are recognised in the income statement.

The Group regards its financial guarantee contracts in respect of mortgage facilities provided to certain property purchasers and guarantee provided to its related parties as insurance contracts.

4. Financial risk management and fair value estimation

(a) Financial risk management

The Group conducts its operation in the PRC and accordingly is subject to special consideration and risk exposure under an unique political, economic and legal environment. The Group's activities expose it to a variety of financial risks and the Group's overall risk management policy seeks to minimise potential adverse effects on the Group's financial performance. The Group continues to control financial risk in a conservative approach to safeguard the interest of shareholders.

(i) *Interest rate risk*

The interest rate risk of the Group relates principally to floating rate loans which will be affected by fluctuation of prevailing market interest rates. To mitigate the risk, the Group has maintained fixed and floating rate debts. The Group aims to minimise level of long term bank borrowings which exposes the Group to high interest rate risk. The Group has not used any derivative instruments to hedge its exposure to interest rate risk.

(ii) *Currency risk*

The currency risk of the Group is primarily attributable to the net investments in the PRC. The Group seeks to finance these investments by Renminbi borrowings. The Group monitors foreign exchange exposure and will consider to enter into forward foreign exchange contracts to reduce exposure should the market conditions require.

(iii) *Credit risk*

The credit risk of the Group mainly arises from rental receivables and receivables on sale of properties. The exposures to these credit risks are closely monitored on an ongoing basis by established credit policies in each of its core businesses.

(iv) *Liquidity risk*

It is the policy of the Group to regularly monitor current and expected liquidity requirements and to ensure that adequate funding is available for operating, investing and financing activities.

The Group also maintains undrawn committed credit facilities to further reduce liquidity risk in meeting funding requirements.

(b) Fair value estimation

The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

The carrying amounts less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year, including debtors, deposits and other receivables, cash and cash equivalents, amounts due from/to group companies, trade and other payables and current portion of long term borrowings are assumed to approximate their fair values due to the short term maturities of these assets and liabilities.

5. Critical accounting estimates and judgements

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant effect on carrying amounts of assets and liabilities are as follows:

(a) Valuation of investment properties

The fair value of each investment property is individually determined at each balance sheet by independent valuers based on a market value assessment, on an existing use basis. The valuers have relied on the discounted cash flow analysis and the capitalisation of income approach as their primary methods, supported by the direct comparison method. These methodologies are based upon estimates of future results and a set of assumptions specific to each property to reflect its tenancy and cashflow profile. The fair value of each investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property.

(b) Provision for properties held for/under development and for sale

The Group assesses the carrying amounts of properties held for/under development and for sale according to their estimated to net realisable value based on the realisability of these properties, taking into account costs to completion based on past experience and net sales value based on prevailing market conditions. Provision is made when events or changes in circumstances indicate that the carrying amounts may not be realised. The assessment requires the use of judgement and estimates.

(c) Income taxes

The Group is subject to income and other taxes in the PRC. Significant judgement is required in determining the provision for taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises taxes based on estimates of the likely outcome with reference to current tax laws and practices. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the provision for income and other taxes and deferred tax in the period in which such determination is made.

Recognition of deferred tax assets, which principally relate to tax losses, depends on the management's expectation of future taxable profit that will be available against which tax losses can be utilised. The outcome of their actual utilisation may be different.

(d) Share-based payments

The fair value of options granted is estimated by independent professional valuers based on various assumptions on volatility, life of options, dividend paid out rate and annual risk-free interest rate, excluding the impact of any non-market vesting conditions, which generally represent the best estimate of the fair value of the share options at the date of grant.

(e) Impairment of goodwill

The Group tests annually for impairment of goodwill in accordance with accounting policy as stated in note 3(g). The recoverable amounts of cash-generating units have been determined based on higher of the fair value and value in use calculation of the underlying assets, mainly properties. These calculations require the use of estimates, such as discount rates, future profitability and growth rates.

(f) Financial guarantees and tax indemnity

The Group assesses at each balance sheet date the liabilities under insurance contracts, using current estimates of future cash flows.

In respect of the financial guarantee contracts provided to property purchasers, the Group considers the net realisable value of the relevant properties against the outstanding mortgage principal and interest.

6. Turnover and segment information

- (a) The Group is principally engaged in investment and development of property projects in the PRC. Turnover comprises gross proceeds from sale of properties, revenue from rental and hotel operations, property management services fee income and project management fee income.

	2006 HK\$'000	2005 HK\$'000
Sale of properties	1,231,136	1,244,647
Rental income	240,174	190,961
Income from hotel operation	189,677	165,668
Property management services fee income	27,610	16,451
Project management fee income	2,723	296
	1,691,320	1,618,023

- (b) The Group is organised into four main business segments, comprising property sales, rental operation, hotel operation and property management services. There is no other significant identifiable separate business segment. Segment assets consist primarily of property, plant and equipment, investment properties, land use rights, properties held for/under development, debtors, deposits and other receivables, and completed properties held for sale. They exclude cash and bank balances held at corporate office and prepayment for proposed development projects. Segment liabilities comprise mainly creditors and accruals, bank and other loans and other payable. They exclude other creditors and accruals, and short term and long term borrowings at corporate office.

Notes to the Financial Statements

6. Turnover and segment information (continued)

(b) (continued)

No geographical segment analysis is presented as the majority of the assets and operations of the Group are located in the PRC, which is considered as one geographical location in an economic environment with similar risks and returns.

	Property sales HK\$'000	Rental operation HK\$'000	Hotel operation HK\$'000	Property management services HK\$'000	Other operations HK\$'000	Total HK\$'000
Year ended						
30th June 2006						
Segment revenues	1,233,859	256,561	189,677	11,223	-	1,691,320
Segment results	387,705	365,233	17,825	(2,410)	(12)	768,341
Bank and other interest income						111,844
Corporate expenses						(173,496)
Operating profit before financing						706,689
Finance costs						(187,275)
Share of results of Associated companies	(2,198)	122,974	2,082	(937)	-	121,921
Jointly controlled entities	125,673	184,213	(3,240)	731	(2,028)	305,349
Profit before taxation						946,684
Taxation charge						(190,266)
Profit for the year						756,418
Capital expenditure	234,435	209,578	20,373	626	1,026	466,038
Depreciation and amortisation	16,403	36,696	62,955	677	1,551	118,282
Provision for/(write back of provision for) amounts due from jointly controlled entities, associated companies and an investee company	(57,525)	1,653	-	-	-	(55,872)
Provision for properties	2,664	-	-	-	-	2,664
Impairment of goodwill	-	8,629	18,326	-	-	26,955

	Property sales HK\$'000	Rental operation HK\$'000	Hotel operation HK\$'000	Property management services HK\$'000	Other operations HK\$'000	Total HK\$'000
Year ended 30th June 2005 (Restated)						
Segment revenues	1,244,943	186,147	180,125	6,808	–	1,618,023
Segment results	251,723	32,315	(17,696)	(348)	(1,922)	264,072
Bank and other interest income						50,464
Corporate expenses						(109,361)
Operating profit before financing						205,175
Finance costs						(97,636)
Share of results of						
Associated companies	5,466	41,551	(3,244)	(828)	–	42,945
Jointly controlled entities	(5,991)	73,561	(4,746)	(1,844)	94	61,074
Profit before taxation						211,558
Taxation charge						(44,976)
Profit for the year						166,582
Capital expenditure	3,870	93,040	20,997	1,217	2,250	121,374
Depreciation and amortisation	12,978	24,661	61,973	561	2,379	102,552
Provision for/(write back of provision for) amounts due from jointly controlled entities, associated companies and an investee company	(55,255)	1,994	(5,315)	–	–	(58,576)
Write back of provision for properties	(9,000)	–	–	–	–	(9,000)
Impairment loss on property, plant and equipment	–	–	6,154	–	–	6,154

Notes to the Financial Statements

6. Turnover and segment information (continued)

(b) (continued)

	Property sales HK\$'000	Rental operation HK\$'000	Hotel operation HK\$'000	Property management services HK\$'000	Other operations HK\$'000	Total HK\$'000
As at 30th June 2006						
Segment assets	15,157,755	4,877,082	960,077	55,040	6,839	21,056,793
Associated companies and jointly controlled entities	5,836,334	5,783,071	351,587	(7,898)	12,625	11,975,719
Unallocated assets						969,644
Total assets						34,002,156
Segment liabilities	5,071,960	1,093,364	915,398	31,142	3,193	7,115,057
Unallocated liabilities						2,675,403
Total liabilities						9,790,460
	Property sales HK\$'000	Rental operation HK\$'000	Hotel operation HK\$'000	Property management services HK\$'000	Other operations HK\$'000	Total HK\$'000
As at 30th June 2005 (Restated)						
Segment assets	10,220,324	3,550,533	964,597	27,546	4,878	14,767,878
Associated companies and jointly controlled entities	5,961,915	5,139,407	362,807	(10,611)	10,152	11,463,670
Unallocated assets						5,372,283
Total assets						31,603,831
Segment liabilities	4,523,988	1,883,189	874,086	18,461	5,490	7,305,214
Unallocated liabilities						1,190,752
Total liabilities						8,495,966

7. Other gains, net

	2006 HK\$'000	Restated 2005 HK\$'000
Bank and other interest income	155,345	90,115
Write back of provision for amount due from an investee company	60,545	66,632
Excess of fair value of net assets acquired over cost of acquisition of subsidiaries and jointly controlled entities	135,513	46,853
Impairment of goodwill	(26,955)	–
Loss on disposal of a subsidiary	(6,411)	–
Tax indemnity from the ultimate holding company (note 12)	34,773	–
Net foreign exchange losses	(48,995)	(1,324)
(Provision for)/write back of provision for properties under development and completed properties held for sale	(2,664)	9,000
Write back of provision for amount due by an associated company	–	5,315
Impairment loss on property, plant and equipment	–	(6,154)
Provision for investments in/amounts due by jointly controlled entities	(4,673)	(13,371)
	296,478	197,066

8. Operating profit before financing

	2006 HK\$'000	Restated 2005 HK\$'000
Operating profit before financing is arrived at after crediting:		
Gross rental income from investment properties	119,572	78,465
and after charging:		
Cost of properties sold	921,229	972,875
Staff costs (note 10)	141,511	129,699
Depreciation of property, plant and equipment	111,244	95,299
Amortisation of land use rights (note)	7,038	7,253
Outgoings in respect of investment properties	45,090	43,742
Rental for leased premises	36,618	34,726
Loss on disposal of property, plant and equipment	2,457	11,694
Auditors' remuneration	5,384	4,184

Note: Amortisation of land use rights is stated after deduction of amount capitalised in properties held for development, properties under development and assets under construction of HK\$32,911,000 (2005: HK\$22,389,000), HK\$25,417,000 (2005: HK\$12,738,000) and HK\$6,600,000 (2005: HK\$3,198,000) respectively.

There is no contingent rent included in rental income for both years.

Notes to the Financial Statements

8. Operating profit before financing (continued)

	2006 HK\$'000	2005 HK\$'000
The future minimum rental payments receivable under non-cancellable operating leases are as follows:		
Within one year	154,080	133,401
Between two and five years	336,450	301,129
Beyond five years	779,293	857,231
	1,269,823	1,291,761

Generally the Group's operating leases are for terms of two to five years except for six (2005: seven) long term leases which are beyond five years.

9. Finance costs

	2006 HK\$'000	2005 HK\$'000
Interest on bank borrowings		
– wholly repayable within five years	139,712	127,471
– not wholly repayable within five years	17,519	–
Interest on loans from fellow subsidiaries wholly repayable within five years	118,298	43,261
Interest on loans from minority shareholders not wholly repayable within five years	5,199	4,803
Interest on short term borrowings	9,963	16,517
	290,691	192,052
Amount capitalised in properties held for/under development and assets under construction	(85,032)	(76,353)
Reimbursement from an associated company	(18,384)	(18,063)
	187,275	97,636

10. Staff costs

	2006 HK\$'000	Restated 2005 HK\$'000
Wages, salaries and other benefits	133,250	123,920
Pension costs – defined contribution plans (note)	4,061	3,725
Share-based payments	4,200	2,054
	141,511	129,699

Staff costs include directors' emoluments other than benefit-in-kind from the exercise of share options.

Note: The Group has established a defined contribution retirement scheme under the Occupational Retirement Scheme Ordinance for all employees in Hong Kong since September 1999. The contributions to the scheme are based on a percentage of the employees' salaries ranging from 5% to 10%, depending upon the length of service of the employees. The Group's contributions to the scheme are expensed as incurred and are not forfeited in respect of those employees who leave the scheme prior to vesting fully in the contributions.

With the implementation of the Mandatory Provident Fund ("MPF") Scheme Ordinance on 1st December 2000, the Group established a new MPF Scheme. Except for employees who commenced employment after 1st October 2000, all the existing employees were given an option to select between the existing defined contribution retirement scheme and the MPF Scheme. The employees who commenced employment after 1st October 2000 are required to join the MPF Scheme. The Group's contributions to the MPF Scheme are based on fixed percentages of members' salary, ranging from 5% of MPF relevant income to 10% of the basic salary. Members' mandatory contributions are fixed at 5% of MPF relevant income.

The Group also contributes to retirement plans for its employees in the PRC at a percentage in compliance with the requirements of the respective municipal governments in the PRC.

The assets of all retirement schemes are held separately from those of the Group in independently administered funds. The total pension costs charged to the consolidated income statement for the year amounted to HK\$4,061,000 (2005: HK\$3,725,000).

11. Directors' and senior management remuneration

(i) Details of the directors' emoluments are as follows:

For the year ended 30th June 2006

Name of director	Fees	Other emoluments	Retirement benefits	Share option benefits (note)	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Dr. Cheng Kar-shun, Henry	50	-	-	19,913	19,963
Mr. Doo Wai-hoi, William	50	1,000	-	11,451	12,501
Mr. Cheng Kar-shing, Peter	50	-	-	3,824	3,874
Mr. Leung Chi-kin, Stewart	50	-	-	-	50
Mr. Chow Kwai-cheung	50	-	-	411	461
Mr. Chow Yu-chun, Alexander	50	-	-	8,713	8,763
Mr. Fong Shing-kwong, Michael	50	240	12	1,768	2,070
Ms. Ngan Man-ying, Lynda	50	1,290	69	-	1,409
Mr. Fu Sze-shing	50	-	-	-	50
Mr. Cheng Wai-chee, Christopher	100	-	-	-	100
Mr. Tien Pei-chun, James	100	-	-	-	100
Mr. Lee Luen-wai, John	100	-	-	-	100
	750	2,530	81	46,080	49,441

Notes to the Financial Statements

11. Directors' and senior management remuneration (continued)

(i) (continued)

For the year ended 30th June 2005

Name of director	Fees	Other emoluments	Share option benefits (note)	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Dr. Cheng Kar-shun, Henry	50	–	–	50
Mr. Doo Wai-hoi, William	50	1,000	–	1,050
Mr. Cheng Kar-shing, Peter	50	–	1,074	1,124
Mr. Leung Chi-kin, Stewart	50	–	435	485
Mr. Chow Kwai-cheung	50	–	668	718
Mr. Chow Yu-chun, Alexander	50	–	–	50
Mr. Fong Shing-kwong, Michael	50	–	–	50
Mr. Fu Sze-shing	50	–	–	50
Mr. Lo Hong-sui	50	–	–	50
Mr. Cheng Wai-chee, Christopher	100	–	–	100
Mr. Tien Pei-chun, James	100	–	–	100
Mr. Lee Luen-wai, John	100	–	–	100
Mr. Chan Kam-ling	–	–	99	99
	750	1,000	2,276	4,026

None of the directors has waived his right to receive his emoluments (2005: Nil).

Note: Share option benefits represent the aggregate difference between the exercise prices and the market prices of share options exercised at the dates of exercise.

(ii) The five individuals whose emoluments were the highest in the Group for the year include three (2005: Nil) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2005: five) individuals during the year are as follows:

	2006 HK\$'000	2005 HK\$'000
Salaries, discretionary bonus, other allowances and other benefits in kind	3,809	8,321
Share option benefits	10,830	5,330
Contribution to retirement benefit scheme	299	603
	14,938	14,254

The emoluments fall within the following bands:

	Number of individuals	
	2006	2005
HK\$2,000,001 – HK\$2,500,000	-	1
HK\$2,500,001 – HK\$3,000,000	-	3
HK\$3,500,001 – HK\$4,000,000	-	1
HK\$5,000,001 – HK\$5,500,000	1	-
HK\$9,500,001 – HK\$10,000,000	1	-
	2	5

12. Taxation charge

	2006	Restated
	HK\$'000	2005
		HK\$'000
PRC income tax – current	102,522	16
PRC income tax – deferred		
Origination and reversal of temporary differences	(40,848)	44,960
Revaluation of investment properties	128,592	-
	190,266	44,976

Share of taxation of associated companies and jointly controlled entities for the year ended 30th June 2006 of HK\$73,565,000 (2005: HK\$9,061,000) and HK\$91,913,000 (2005: HK\$20,844,000) respectively are included in the consolidated income statement as share of results of associated companies and jointly controlled entities.

Notes to the Financial Statements

12. Taxation charge (continued)

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the rate of taxation prevailing in the PRC in which the Group operates as follows:

	2006 HK\$'000	Restated 2005 HK\$'000
Profit before taxation	946,684	211,558
Share of results of		
Associated companies	(121,921)	(42,945)
Jointly controlled entities	(305,349)	(61,074)
	519,414	107,539
Calculated at a taxation rate of 33% (2005: 33%)	171,407	35,488
Income not subject to taxation	(120,338)	(43,908)
Expenses not deductible for taxation purposes	129,591	53,003
Tax losses not recognised	46,032	54,347
Utilisation of previously unrecognised tax losses	(15,886)	(24,100)
Temporary differences not recognised	(20,540)	(29,854)
Taxation charge	190,266	44,976

No provision for Hong Kong profits tax has been made within the Group as the Group has no assessable profits in Hong Kong for the year (2005: Nil). PRC income tax has been provided on the estimated assessable profits of subsidiaries, associated companies and jointly controlled entities operating in the PRC at 33% (2005: 33%).

In July 1999, a deed of tax indemnity was entered into between NWD, the ultimate holding company and the Company whereby the ultimate holding company undertakes to indemnify the Group in respect of, inter alia, certain PRC income tax ("IT") and Land Appreciation Tax ("LAT") payable in consequence of the disposal of certain properties held by the Group as at 31st March 1999. During the year, tax indemnity amounting to HK\$34,773,000 (2005: Nil) was effected.

13. Dividend

	2006 HK\$'000	2005 HK\$'000
Final dividend proposed of HK\$0.04 (2005: HK\$0.03) per share	153,103	113,236

At a meeting held on 10th October 2006, the directors recommended a final dividend of HK\$0.04 per share. This proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of contributed surplus for the year ending 30th June 2007.

14. Earnings per share

The calculation of earnings per share is based on the profit attributable to shareholders of HK\$740,512,000 (2005 restated: HK\$166,025,000) and the weighted average of 3,797,947,714 shares (2005: 1,980,770,048 shares) in issue during the year.

Diluted earnings per share is based on profit attributable to shareholders of HK\$740,512,000 (2005 restated: HK\$166,025,000) divided by 3,801,355,330 (2005: 1,999,832,094) shares which is the weighted average number of shares in issue of 3,797,947,714 (2005: 1,980,770,048) shares plus the weighted average of 3,407,616 (2005: 19,062,046) potential shares deemed to be issued at no consideration assuming all outstanding share options had been exercised.

15. Property, plant and equipment

	Group					Total HK\$'000
	Other properties HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Assets under construction HK\$'000	
For the year ended						
30th June 2006						
Cost						
At 1st July 2005, as restated	653,505	222,851	403,965	34,945	499,716	1,814,982
Translation difference	18,451	6,325	11,570	980	14,415	51,741
Additions	28,886	2,472	9,858	7,292	213,817	262,325
Acquisition of subsidiaries	100,166	-	3,385	1,027	-	104,578
Disposals/write off	(35,112)	(10,564)	(4,547)	(2,330)	-	(52,553)
Disposal of a subsidiary	-	-	(233)	(395)	-	(628)
Reclassification	16,929	-	-	-	(727,948)	(711,019)
At 30th June 2006	782,825	221,084	423,998	41,519	-	1,469,426
Accumulated depreciation and impairment						
At 1st July 2005, as restated	69,289	97,203	226,174	24,066	-	416,732
Translation difference	2,536	2,754	6,431	607	-	12,328
Charge for the year	35,707	23,557	48,748	3,232	-	111,244
Disposals/write off	(2,498)	(5,429)	(3,832)	(1,758)	-	(13,517)
Disposal of a subsidiary	-	-	(206)	(355)	-	(561)
At 30th June 2006	105,034	118,085	277,315	25,792	-	526,226
Net book value						
At 30th June 2006	677,791	102,999	146,683	15,727	-	943,200

Notes to the Financial Statements

15. Property, plant and equipment (continued)

	Group					
	Other properties HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Assets under construction HK\$'000	Restated Total HK\$'000
For the year ended 30th June 2005 (Restated)						
Cost						
At 1st July 2004, as restated	585,607	226,093	449,123	34,266	-	1,295,089
Additions	21,117	1,064	1,199	2,421	75,606	101,407
Acquisition of subsidiaries	-	-	238	32	-	270
Transfer from property under development/deposits	28,589	-	-	-	683,122	711,711
Disposals/write off	-	(4,306)	(46,595)	(1,774)	-	(52,675)
Reclassification	18,192	-	-	-	(259,012)	(240,820)
At 30th June 2005	653,505	222,851	403,965	34,945	499,716	1,814,982
Accumulated depreciation and impairment						
At 1st July 2004, as restated	51,942	74,747	204,682	22,263	-	353,634
Charge for the year	11,193	24,298	56,751	3,057	-	95,299
Impairment charge	6,154	-	-	-	-	6,154
Disposals/write off	-	(1,842)	(35,259)	(1,254)	-	(38,355)
At 30th June 2005	69,289	97,203	226,174	24,066	-	416,732
Net book value						
At 30th June 2005	584,216	125,648	177,791	10,879	499,716	1,398,250

As at 30th June 2006, certain other properties and furniture, fixtures and equipment with the carrying amount of HK\$534,049,000 (2005: HK\$588,792,000) were pledged as securities for the Group's long term borrowings.

16. Investment properties

	Group	
	2006	Restated
	HK\$'000	2005
		HK\$'000
At valuation		
At the beginning of the year, as restated	2,886,030	2,364,359
Additions	285	22,895
Translation difference	83,886	–
Transfer from properties under development	139,393	22,245
Transfer from assets under construction/land use rights	912,632	290,000
Increase in fair value	348,926	186,531
	4,371,152	2,886,030

The investment properties were revaluated at 30th June 2006 on an open market value basis by Knight Frank Petty Limited, independent professional valuers, and are held in the PRC under the following leases:

	Restated	
	2006	2005
	HK\$'000	HK\$'000
Leases of over 50 years	63,510	25,093
Leases of between 10 to 50 years	4,307,642	2,860,937
	4,371,152	2,886,030

As at 30th June 2006, certain investment properties with the carrying value of HK\$1,651,688,000 (2005: HK\$767,186,000) were pledged as securities for the Group's long term borrowings.

Notes to the Financial Statements

17. Land use rights

	Group	
	2006 HK\$'000	Restated 2005 HK\$'000
At the beginning of the year, as restated	416,066	217,146
Translation differences	12,003	–
Transfer from deposits	–	257,192
Acquisition of a subsidiary	105,450	–
Amortisation	(5,516)	(5,894)
Capitalised in assets under construction	(6,600)	(3,198)
Reclassification	(201,613)	(49,180)
At the end of the year	319,790	416,066

The Group's interests in land use rights represent prepaid operating lease payments and are held in the PRC under the following leases:

	2006 HK\$'000	2005 HK\$'000
Leases of over 50 years	3,694	4,189
Leases of between 10 to 50 years	316,096	411,877
	319,790	416,066

As at 30th June 2006, land use rights with the carrying amount of HK\$139,900,000 (2005: HK\$137,472,000) were pledged as securities for the Group's bank borrowings.

18. Goodwill

	Group	
	2006 HK\$'000	2005 HK\$'000
At the beginning of the year	–	–
Acquisitions of subsidiaries	60,237	–
Acquisitions of additional interest in a subsidiary company	40,438	–
Impairment	(26,955)	–
At the end of the year	73,720	–

Goodwill is allocated to the Group's cash generating units identified according to business segment. As at 30th June 2006, goodwill of HK\$60,237,000, HK\$4,316,000 and HK\$9,167,000 is allocated to the segments of property sales, rental operation and hotel operation respectively.

The recoverable amount of goodwill is determined based on value-in-use calculations. The key assumptions used in the value-in-use calculations are based on the best estimate of growth rates and discount rates.

19. Subsidiaries

	2006 HK\$'000	2005 HK\$'000
Unlisted shares, at cost (2006 and 2005: HK\$10)	-	-
Amounts due by subsidiaries, net of provision	21,418,798	17,043,436
Amounts due to subsidiaries	-	(150,068)
	21,418,798	16,893,368

Details of principal subsidiaries are given in note 44.

20. Properties held for development

	2006 HK\$'000	Group Restated 2005 HK\$'000
Land use rights	1,658,887	1,282,528
Development and incidental costs	2,492,731	2,482,799
Interest capitalised	91,998	153,341
	4,243,616	3,918,668

The analysis of the carrying value of land use rights held in the PRC included in the properties held for development is as follows:

	2006 HK\$'000	2005 HK\$'000
Leases of over 50 years	1,207,374	816,199
Leases of between 10 to 50 years	451,513	466,329
	1,658,887	1,282,528

As at 30th June 2005, the aggregate carrying value of properties held for development were pledged as securities for long term borrowings amounts to HK\$974,721,000.

Notes to the Financial Statements

21. Associated companies

	2006	Group
	HK\$'000	Restated 2005 HK\$'000
Group's shares of net assets	330,955	195,324
Amounts due by associated companies, net of provision (note (i))	1,452,215	1,417,727
Amounts due to associated companies (note (i))	(184,606)	(85,858)
	1,598,564	1,527,193

(i) The amounts receivable and payable are unsecured, interest free and have no specific repayment terms except for an amount receivable of HK\$269,231,000 (2005: HK\$286,604,000) which carries interest at 6.12% (2005: 5.76%) per annum and is repayable by instalments up to 2016.

(ii) The Group's share of revenues, results, assets and liabilities of Group's associated companies are as follows:

	2006	2005
	HK\$'000	HK\$'000
Revenues	179,074	154,404
Profit for the year	121,921	42,945
Non-current assets	2,331,959	2,163,646
Current assets	472,231	194,089
Total assets	2,804,190	2,357,735
Non-current liabilities	(1,954,240)	(1,706,405)
Current liabilities	(518,995)	(456,006)
Total liabilities	(2,473,235)	(2,162,411)

(iii) Details of principal associated companies are given in note 44.

22. Jointly controlled entities

	2006	Restated
	HK\$'000	2005 HK\$'000
Equity joint ventures		
Group's share of net assets	72,418	113,744
Amounts due by jointly controlled entities		
Interest bearing (note (i))	76,621	120,634
Non-interest bearing (note (ii))	67,537	85,523
Amounts due to jointly controlled entities (note (ii))	(45,821)	(44,991)
	170,755	274,910
Co-operative joint ventures		
Cost of investments	4,776,128	3,705,069
Goodwill	12,704	12,704
Share of undistributed post-acquisition results and reserves	(345,246)	(440,052)
	4,443,586	3,277,721
Amounts due by jointly controlled entities, net of provision		
Interest bearing (note (iii))	5,576,028	5,896,364
Non-interest bearing (note (ii))	348,040	543,099
Amounts due to jointly controlled entities (note (ii))	(709,107)	(261,240)
	9,658,547	9,455,944
Companies limited by shares		
Group's share of net liabilities	(31,514)	(270,676)
Amounts due by jointly controlled entities, net of provision		
Interest bearing (note (iv))	122,437	162,777
Non-interest bearing (note (ii))	581,248	313,522
Amounts due to jointly controlled entities (note (ii))	(182,010)	-
	490,161	205,623
Deposits for proposed joint ventures (note (v))	57,692	-
	10,377,155	9,936,477

Notes:

- (i) The amount receivable is unsecured, carries interest at 10% (2005: ranging from 5.85% to 5.94%) per annum and has repayment terms as specified in the relevant loan agreements.
- (ii) The amounts receivable and payable are unsecured, interest free and have repayment terms as specified in the joint venture contracts.
- (iii) The amounts receivable are unsecured, carry interest ranging from 1% over London Interbank Offered Rate ("LIBOR") to 12% (2005: 1% over LIBOR to 12%) per annum and have repayment terms as specified in the joint venture contracts.

Notes to the Financial Statements

22. Jointly controlled entities (continued)

- (iv) The amounts receivable are unsecured, carry interest at 1.5% above Hongkong Interbank Offered Rate ("HIBOR") (2005: 1.5% above HIBOR) per annum and have repayment terms as specified in the joint venture contracts.
- (v) The balances represented payments on account of proposed joint ventures for which the agreement is pending the approval from the relevant government authority. Upon the completion of registration of the joint venture company, the relevant amount will be reclassified to joint venture balance.
- (vi) The Group's share of revenues, results, assets and liabilities of Group's jointly controlled entities are as follows:

	2006 HK\$'000	2005 HK\$'000
Revenues	2,520,541	1,567,705
Profit for the year	305,349	61,074
Non-current assets	4,292,176	5,405,372
Current assets	13,539,797	7,114,765
Total assets	17,831,973	12,520,137
Non-current liabilities	(9,204,270)	(6,298,253)
Current liabilities	(4,155,917)	(3,113,799)
Total liabilities	(13,360,187)	(9,412,052)

- (vii) Details of principal jointly controlled entities are given in note 44.

23. Other investments

	Group 2006 HK\$'000	2005 HK\$'000
Investment securities		
Unlisted shares, at cost (note)	-	350
Amount due from an investee company, net of provision	-	115,526
	-	115,876

Note: In March 2006, the Group acquired 65% additional equity interest in the investee company which became a subsidiary of the Group since then.

24. Cash and bank balances

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Restricted balances included under non-current assets	121,041	166,896	-	50,277
Restricted balances included under current assets	368,630	650,621	52,062	487,500
Unrestricted balances	2,362,227	5,534,354	375,511	3,586,150
	2,851,898	6,351,871	427,573	4,123,927

The effective interest rate on short-term bank deposits was ranging from 1.38% to 5.08% (2005: 1.62% to 3.33%), these deposits have an average maturity of 3 to 7 days.

The carrying amount of the cash and bank balances of the Group are denominated in the following currencies:

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Hong Kong dollar	291,151	4,753,784	259,039	3,625,186
Renminbi	1,436,857	704,105	-	-
United States dollar	1,123,890	893,982	168,534	498,741
	2,851,898	6,351,871	427,573	4,123,927

Restricted bank balances are funds which are pledged to secure certain short term and long term borrowings.

25. Debtors, deposits and other receivables

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Trade debtors (note a)	212,208	195,925	-	-
Deposits, prepayments and other receivables (note b)	2,692,927	642,622	67,490	27,957
	2,905,135	838,547	67,490	27,957

Notes to the Financial Statements

25. Debtors, deposits and other receivables (continued)

- (a) Trade debtors mainly include sales proceed receivables, rental receivables and property management fee receivables. Sales proceed receivables in respect of sales of properties are settled in accordance with the instalment schedules as stipulated in the sale and purchase agreements. Monthly rental in respect of rental properties are payable in advance by tenants in accordance with the lease agreements. Monthly property management fee are payable in advance in accordance with the agreements. The ageing analysis of trade debtors is as follows:

	Group	
	2006 HK\$'000	2005 HK\$'000
0 to 30 days	74,265	111,234
31 to 60 days	28,318	11,175
61 to 90 days	50,296	5,737
Over 90 days	59,329	67,779
	212,208	195,925

The carrying amounts of the trade debtors of the Group are mainly denominated in Renminbi.

- (b) Deposits, prepayments and other receivables include utility and other deposits, interest and other receivables and prepayment for the land cost and proposed development projects. The carrying amounts of deposits, prepayments and other receivables of the Group and the Company are mainly denominated in Renminbi.

26. Amounts due from/to group companies

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Amounts due from group companies (note a)	97,578	31,234	53,606	19,755
Amounts due to group companies (note b)	(328,746)	(481,991)	(538,173)	(162,750)
	(231,168)	(450,757)	(484,567)	(142,995)

- (a) The amounts due from group companies are unsecured, interest free and repayable within 30 days.

The carrying amounts of amounts due from group companies are denominated in the following currencies:

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Hong Kong dollar	-	-	53,606	19,755
Renminbi	97,578	31,234	-	-
	97,578	31,234	53,606	19,755

- (b) The amounts due to group companies are unsecured, interest free and repayable on demand.

The carrying amounts of amounts due to group companies are denominated in the following currencies:

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Hong Kong dollar	(25,454)	(133,438)	(538,173)	(162,750)
Renminbi	(303,292)	(348,553)	-	-
	(328,746)	(481,991)	(538,173)	(162,750)

27. Properties under development

	Group	
	2006 HK\$'000	Restated 2005 HK\$'000
Land use rights	1,601,155	583,696
Development and incidental costs	3,123,878	2,112,657
Interest capitalised	238,031	117,918
	4,963,064	2,814,271
Less: provision	(35,819)	(199,779)
	4,927,245	2,614,492

The analysis of the carrying value of land use rights held in the PRC included in the properties under development is as follows:

	2006 HK\$'000	2005 HK\$'000
Leases of over 50 years	956,493	217,246
Leases of between 10 to 50 years	644,662	366,450
	1,601,155	583,696

The aggregate carrying value of properties under development were pledged as securities for long term loans amounts to HK\$53,577,000 (2005: HK\$328,425,000).

Notes to the Financial Statements

28. Completed properties held for sale

	2006	Restated
	HK\$'000	2005
		HK\$'000
Land use rights	100,278	201,995
Development cost	1,132,827	1,305,316
Interest capitalised	58,881	60,424
	1,291,986	1,567,735

The analysis of the carrying value of land use rights held in the PRC included in the completed properties held for sale is as follows:

	2006	2005
	HK\$'000	HK\$'000
Leases of over 50 years	98,522	199,516
Leases of between 10 to 50 years	1,756	2,479
	100,278	201,995

29. Share capital

	2006	2005
	HK\$'000	HK\$'000
Authorised: 8,000,000,000 shares of HK\$0.1 each	800,000	800,000
Issued and fully paid: 3,825,783,832 shares of HK\$0.1 each (2005: 3,768,248,832 shares of HK\$0.1 each)	382,578	376,825

Details of the movement in the issued share capital of the Company are summarised as follows:

	Number of shares of HK\$0.1 each	HK\$'000
At 30th June 2004	1,488,862,294	148,886
Exercise of share options (note (i))	24,092,000	2,409
Rights issue (note (ii))	2,255,294,538	225,530
At 30th June 2005	3,768,248,832	376,825
Exercise of share options (note (i))	57,535,000	5,753
At 30th June 2006	3,825,783,832	382,578

Notes:

- (i) Pursuant to the share option schemes adopted on 18th December 2000 and 26th November 2002, the Company may grant options to executive directors and employees of the Company to subscribe for shares in the Company. The movements in the number of share options granted during the year and the balance outstanding at 30th June 2006 are as follows:

Date of offer to grant	Exercise price per share HK\$ (note 1)	Number of shares				At 30th June 2006
		At 1st July 2005	Granted during the year	Exercised during the year	Lapsed during the year	
5th February 2001	1.782	50,042,400	–	(49,746,800)	(295,600)	–
2nd May 2001	2.375	560,000	–	(560,000)	–	–
29th June 2001	2.910	3,195,000	–	(1,918,000)	–	1,277,000
31st August 2001	2.170	947,000	–	(906,000)	–	41,000
26th March 2002	2.065	742,000	–	(295,600)	(112,400)	334,000
3rd January 2003	1.212	1,210,200	–	(480,000)	–	730,200
12th May 2003	0.912	2,659,700	–	(557,800)	(105,000)	1,996,900
28th October 2003	1.650	69,000	–	–	–	69,000
18th December 2003	1.668	1,625,000	–	(1,625,000)	–	–
25th March 2004	2.252	1,992,200	–	(158,200)	(294,800)	1,539,200
18th June 2004	1.650	883,000	–	(290,800)	(277,800)	314,400
4th November 2004	2.484	707,000	–	(171,200)	(279,000)	256,800
22nd December 2004	2.689	1,234,000	–	(436,400)	–	797,600
13th July 2005	2.300	–	2,217,600	(379,600)	–	1,838,000
7th November 2005	2.620	–	48,800	(9,600)	–	39,200
28th March 2006	3.915	–	3,384,000	–	–	3,384,000
		65,866,500	5,650,400	(57,535,000)	(1,364,600)	12,617,300

Notes:

- (1) Except for the 1,400,000 share options with exercise price per share of HK\$2.300 which are divided into 2 tranches and exercisable within a period of 2 years commencing on the expiry of one month after the dates on which the options were accepted, all the share options are divided into 5 tranches and exercisable within a period of 5 years commencing on the expiry of one month after the dates on which the options were accepted.
- (2) Fair value of options and assumptions
The fair value of options granted during the year determined using the Binomial Model was HK\$6,917,000. The significant inputs to the model was share price ranging from HK\$2.300 to HK\$3.875 at the grant dates, exercise prices ranging from HK\$2.300 to HK\$3.915, volatility of the share of ranging from 52% to 53%, expected life of options of 2 and 5 years, expected dividend yield of 0%, risk-free interest rate ranging from 3.18% to 4.50% and suboptimal exercise factor of 1.55 times of the exercise prices (which accounts for the early exercise behaviour of the option holders). The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices of the Company over the past 5 years.
- (ii) For the year ended 30th June 2005, 2,255,294,538 shares of HK\$0.1 each were issued at HK\$2.8 per share by way of rights issue on the basis of three rights shares for every two existing shares.

Notes to the Financial Statements

30. Reserves
Group

	Contributed surplus HK\$'000	Share premium HK\$'000	Investment properties revaluation reserve HK\$'000	Hotel properties revaluation reserve HK\$'000	Other reserve HK\$'000	Share option reserve HK\$'000	Exchange reserve HK\$'000	Revenue reserve HK\$'000	Total HK\$'000
As at 30th June 2005, as previously reported	14,722,334	7,404,883	902,257	19,054	49,369	-	14,226	(212,186)	22,899,937
Effects of changes in accounting policies									
- HKAS 17	-	-	-	-	-	-	-	(19,143)	(19,143)
- HKAS 40	-	-	(6,611)	-	-	-	-	(15,320)	(21,931)
- HKFRS 2	-	-	-	-	-	2,625	-	(2,625)	-
- HK-Int 2 & HKAS 16	-	-	26,246	(19,054)	-	-	-	(117,964)	(110,772)
As at 30th June 2005, as restated	14,722,334	7,404,883	921,892	-	49,369	2,625	14,226	(367,238)	22,748,091
Opening adjustments:									
- HKAS 39	-	-	-	-	-	-	-	(2,559)	(2,559)
- HKAS 40	-	-	(921,892)	-	-	-	-	921,892	-
As at 1st July 2005, as restated	14,722,334	7,404,883	-	-	49,369	2,625	14,226	552,095	22,745,532
Profit for the year	-	-	-	-	-	-	-	740,512	740,512
Premium on issue of shares	-	99,517	-	-	-	-	-	-	99,517
Share issue expenses	-	(12)	-	-	-	-	-	-	(12)
Acquisition of subsidiaries	-	-	-	-	58,968	-	-	202	59,170
Share-based payments	-	-	-	-	-	4,200	-	-	4,200
Transfer of reserve upon exercise and lapse of share options	-	1,427	-	-	-	(2,107)	-	680	-
Dividend paid	(113,553)	-	-	-	-	-	-	-	(113,553)
Translation differences	-	-	-	-	-	-	117,071	-	117,071
As at 30th June 2006 before proposed final dividend	14,608,781	7,505,815	-	-	108,337	4,718	131,297	1,293,489	23,652,437
Representing:									
As at 30th June 2006 after proposed final dividend	14,455,678	7,505,815	-	-	108,337	4,718	131,297	1,293,489	23,499,334
2006 proposed final dividend	153,103	-	-	-	-	-	-	-	153,103
	14,608,781	7,505,815	-	-	108,337	4,718	131,297	1,293,489	23,652,437

Group

	Contributed surplus	Share premium	Investment properties revaluation reserve	Other reserve	Share option reserve	Exchange reserve	Revenue reserve	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 30th June 2004, as previously reported	14,722,334	1,294,729	622,956	-	-	14,047	(433,730)	16,220,336
Effects of changes in accounting policies								
- HKAS 17	-	-	-	-	-	-	(24,292)	(24,292)
- HKAS 40	-	-	-	-	-	-	(12,452)	(12,452)
- HKFRS 2	-	-	-	-	571	-	(571)	-
- HK-Int 2 & HKAS 16	-	-	-	-	-	-	(62,218)	(62,218)
As at 30th June 2004, as restated	14,722,334	1,294,729	622,956	-	571	14,047	(533,263)	16,121,374
Profit for the year	-	-	-	-	-	-	166,025	166,025
Premium on issue of shares	-	6,133,520	-	-	-	-	-	6,133,520
Share issue expenses	-	(23,366)	-	-	-	-	-	(23,366)
Release of reserve upon disposal of properties	-	-	10,099	-	-	-	-	10,099
Revaluation surplus								
Company and subsidiaries	-	-	121,098	-	-	-	-	121,098
Associated companies	-	-	98,329	-	-	-	-	98,329
Jointly controlled entities	-	-	69,410	-	-	-	-	69,410
Acquisition of subsidiaries	-	-	-	49,369	-	-	-	49,369
Share-based payments	-	-	-	-	2,054	-	-	2,054
Translation differences	-	-	-	-	-	179	-	179
As at 30th June 2005 before proposed final dividend	14,722,334	7,404,883	921,892	49,369	2,625	14,226	(367,238)	22,748,091
Representing:								
As at 30th June 2005 after proposed final dividend	14,609,098	7,404,883	921,892	49,369	2,625	14,226	(367,238)	22,634,855
2005 proposed final dividend	113,236	-	-	-	-	-	-	113,236
	14,722,334	7,404,883	921,892	49,369	2,625	14,226	(367,238)	22,748,091

Notes to the Financial Statements

30. Reserves (continued)
Company

	Contributed surplus HK\$'000	Share premium HK\$'000	Exchange reserve HK\$'000	Share option reserve HK\$'000	Revenue reserve HK\$'000	Total HK\$'000
As at 30th June 2005, as previously reported	14,742,495	7,404,883	-	-	(1,652,971)	20,494,407
Effect of changes in accounting policies: - HKFRS 2	-	-	-	2,625	(2,625)	-
As at 30th June 2005, as restated	14,742,495	7,404,883	-	2,625	(1,655,596)	20,494,407
Premium on issue of shares	-	99,517	-	-	-	99,517
Share issue expenses	-	(12)	-	-	-	(12)
Loss for the year	-	-	-	-	(536,194)	(536,194)
Share-based payments	-	-	-	4,200	-	4,200
Transfer of reserve upon exercise and lapse of share options	-	1,427	-	(2,107)	680	-
Dividend paid	(113,553)	-	-	-	-	(113,553)
Translation differences	-	-	572,038	-	-	572,038
As at 30th June 2006 before proposed final dividend	14,628,942	7,505,815	572,038	4,718	(2,191,110)	20,520,403
Representing:						
As at 30th June 2006 after proposed final dividend	14,475,839	7,505,815	572,038	4,718	(2,191,110)	20,367,300
2006 proposed final dividend	153,103	-	-	-	-	153,103
	14,628,942	7,505,815	572,038	4,718	(2,191,110)	20,520,403
As at 30th June 2004, as previously reported	14,742,495	1,294,729	-	-	(1,561,375)	14,475,849
Effect of changes in accounting policies: - HKFRS 2	-	-	-	571	(571)	-
As at 30th June 2004, as restated	14,742,495	1,294,729	-	571	(1,561,946)	14,475,849
Premium on issue of shares	-	6,133,520	-	-	-	6,133,520
Share issue expenses	-	(23,366)	-	-	-	(23,366)
Share-based payments	-	-	-	2,054	(2,054)	-
Loss for the year	-	-	-	-	(91,596)	(91,596)
As at 30th June 2005	14,742,495	7,404,883	-	2,625	(1,655,596)	20,494,407
Representing:						
As at 30th June 2005 after proposed final dividend	14,629,259	7,404,883	-	2,625	(1,655,596)	20,381,171
2005 proposed final dividend	113,236	-	-	-	-	113,236
	14,742,495	7,404,883	-	2,625	(1,655,596)	20,494,407

The contributed surplus of the Company represents the excess of the consolidated net asset value of the subsidiaries acquired, over the nominal value of the share capital of the Company issued in exchange thereof as a result of a reorganisation that took place in 1999.

31. Long term borrowings

	Group		Company	
	2006 HK\$'000	Restated 2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Bank loans (note (i))				
Secured	1,679,603	1,217,031	-	-
Unsecured	958,927	778,934	492,320	-
Loans from fellow subsidiaries (note (ii))	2,939,989	2,756,161	-	-
Loans from minority shareholders (note (iii))	145,965	131,295	-	-
	5,724,484	4,883,421	492,320	-
Current portion included in current liabilities	(911,341)	(810,394)	-	-
	4,813,143	4,073,027	492,320	-

Notes:

(i) The bank loans are repayable as follows:

	Secured		Group Unsecured		Total	Company Unsecured	
	2006 HK\$000	Restated 2005 HK\$000	2006 HK\$000	Restated 2005 HK\$000		2006 HK\$000	2005 HK\$000
Within one year	294,317	191,536	24,039	130,841	318,356	322,377	-
Between one and two years	239,250	405,316	250,000	264,916	489,250	670,232	-
Between two and five years	1,002,134	458,185	684,888	355,140	1,687,022	813,325	492,320
After five years	143,902	161,994	-	28,037	143,902	190,031	-
	1,679,603	1,217,031	958,927	778,934	2,638,530	1,995,965	492,320

Included in bank loans of the Group is an amount of HK\$269,231,000 (2005: HK\$286,604,000) which is repayable by instalments up to December 2016 and has been on-lent to an associated company on the same terms of the bank loan (note 21).

Notes to the Financial Statements

31. Long term borrowings (continued)

(ii) The loans from fellow subsidiaries are repayable as follows:

	2006 HK\$'000	Group 2005 HK\$'000
Within one year	592,985	488,017
Between one and two years	370,207	2,268,144
Between two and five years	1,976,797	–
	2,939,989	2,756,161

The loans from fellow subsidiaries are unsecured and bear interest ranging from 0.5% above three months HIBOR to 1% above London Interbank Offered Rate ("LIBOR") (2005: three months HIBOR to 1% above LIBOR) per annum.

(iii) The loans from minority shareholder are unsecured, bear interest at 5% to 5.85% (2005: 5% to 5.76%) per annum and have repayment terms as specified in the joint venture contracts.

(iv) The effective interest rates of borrowings are as follows:

	2006			2005		
	Hong Kong dollar	Renminbi	United States dollar	Hong Kong dollar	Renminbi	United States Dollar
Bank borrowings	5.14%	5.76%	6.14%	2.27%	5.34%	5.31%
Loans from fellow subsidiaries	4.68%	–	5.95%	3.32%	–	3.95%
Loans from minority shareholders	5.00%	5.78%	–	5.00%	5.76%	–

(v) The carrying amounts of bank borrowings, loans from fellow subsidiaries and loans from minority shareholders approximate their fair values.

(vi) The carrying amounts of the borrowings are denominated in the following currencies:

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Hong Kong dollar	2,482,788	2,051,487	492,320	–
Renminbi	2,011,708	1,677,884	–	–
United States dollar	1,229,988	1,154,050	–	–
	5,724,484	4,883,421	492,320	–

(vii) Except for the loans from minority shareholders of HK\$145,965,000 (2005: HK\$131,295,000) which reprice in more than five years, the rest of the borrowings reprice or mature (whichever is earlier) in one year or less.

32. Long term payable

Long term payable is repayable as follows:

	Group
	2006
	2005
	HK\$'000
	HK\$'000
Within one year	72,440
Between one and two years	72,986
Between two and five years	123,364
	268,790
	202,036

The long term payable is denominated in Renminbi and the carrying amount approximates its fair value.

33. Deferred tax liabilities

Deferred taxation is provided in full, using the liability method, on temporary differences using the rate of taxation prevailing in the PRC in which the Group operates.

The movement in deferred tax assets and liabilities during the year is as follows:

Group

Deferred tax assets/(liabilities)

	Accelerated tax depreciation	Revaluation of properties	Recognition of income from sale of properties	Fair value adjustment arising from acquisition	Tax losses	Provisions	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 30th June 2004, as restated	(97,878)	(92,824)	(38,742)	-	86,291	8,010	(135,143)
(Charged)/credited to income statement	(29,991)	-	(42,198)	-	20,431	6,798	(44,960)
Charged to investment properties revaluation reserve	-	(47,913)	-	-	-	-	(47,913)
Acquisition of subsidiaries	-	-	-	(83,696)	-	-	(83,696)
At 30th June 2005, as restated	(127,869)	(140,737)	(80,940)	(83,696)	106,722	14,808	(311,712)
Exchange differences	(3,689)	(4,062)	(2,335)	(2,414)	1,722	427	(10,351)
(Charged)/credited to income statement	(4,997)	(128,592)	41,560	-	4,285	-	(87,744)
Acquisition of subsidiaries	-	-	-	(97,345)	-	-	(97,345)
At 30th June 2006	(136,555)	(273,391)	(41,715)	(183,455)	112,729	15,235	(507,152)

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profits is probable. The Group has unrecognised tax losses of HK\$470,587,000 (2005: HK\$398,326,000) to carry forward against future taxable income.

These tax losses will expire at various dates up to and including 2011 (2005: 2010).

Notes to the Financial Statements

34. Creditors and accruals

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Trade creditors (note a)	665,901	726,320	-	-
Other creditors and accruals (note b)	676,426	397,927	33,993	31,025
	1,342,327	1,124,247	33,993	31,025

(a) The ageing analysis of trade creditors is as follows:

	Group	
	2006 HK\$'000	2005 HK\$'000
0 to 30 days	257,390	232,733
31 to 60 days	96,282	23,212
61 to 90 days	41,472	88,074
Over 90 days	270,757	382,301
	665,901	726,320

The carrying amounts of the trade creditors of the Group are mainly denominated in Renminbi as at 30th June 2006 and 2005.

(b) Other creditors and accruals included retention payables of construction costs, other payables and various accruals. The carrying amounts of other creditors and accruals of the Group and the Company are mainly denominated in Renminbi and Hong Kong dollar respectively.

35. Short term bank loans

	Group	
	2006 HK\$'000	2005 HK\$'000
Short term bank loans		
Secured	288,462	557,807
Unsecured	83,280	9,346
	371,742	567,153

The effective interest rate of the short term bank loans ranges from 4.7% to 5.02% (2005: 5.02% to 6.14%). Their carrying amounts approximate their fair values.

The short term bank loans are denominated in Renminbi as at 30th June 2006 and 2005.

36. Amounts due to minority shareholders

The amounts due to minority shareholders are unsecured, interest free and repayable on demand. The carrying amounts of the balances are mainly denominated in Renminbi as at 30th June 2006 and 2005 and approximate their fair values.

37. Taxes payable

	Group	
	2006	2005
	HK\$'000	HK\$'000
Income tax payable	34,178	6,161
Withholding tax payable	86,849	74,967
Other PRC taxes payable	17,380	22,325
	138,407	103,453

38. Contingent liabilities**(i) Corporate guarantees for banking facilities***Group*

The Group has contingent liabilities of approximately HK\$1,279,322,000 (2005: HK\$2,057,808,000) relating to corporate guarantees given in respect of bank loan facilities extended to certain associated companies and jointly controlled entities. As at 30th June 2006, the Group's attributable portion of the outstanding amount under these bank loan facilities granted to the associated companies and jointly controlled entities was approximately HK\$918,985,000 (2005: HK\$1,440,955,000).

Company

The Company has contingent liabilities relating to corporate guarantees given in respect of bank loan facilities extended to certain subsidiaries, associated companies and jointly controlled entities of approximately HK\$1,785,083,000 (2005: HK\$1,489,966,000), HK\$1,039,629,000 (2005: HK\$242,894,000) and HK\$239,693,000 (2005: HK\$1,814,914,000) respectively.

(ii) Guarantees in respect of mortgage facilities

As at 30th June 2006, the Group had provided guarantees in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of properties developed by certain subsidiaries of the Group and the outstanding mortgage loans under these guarantees amounted to HK\$407,066,000 (2005: HK\$388,535,000). Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage principals together with accrued interest owed by the defaulted purchasers to the banks and the Group is entitled to take over the legal title and possession of the related properties.

Notes to the Financial Statements

39. Commitments**(i) Capital expenditure commitments**

(a) The capital expenditure commitments of the Group are as follows:

	Group	
	2006 HK\$'000	2005 HK\$'000
Authorised but not contracted for Purchase consideration for a proposed development project	108,000	–
Contracted but not provided for Property, plant and equipment	7,870	153,895
Purchase consideration for proposed development projects	665,589	–
	673,459	153,895
	781,459	153,895

(b) The Group did not have any share of capital commitments of the jointly controlled entities (2005: Nil).

(ii) Lease commitments

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000

As at 30th June 2006, future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings are as follows:

The first year	37,429	35,815	3,906	3,457
The second to fifth years	134,278	133,790	–	3,457
After five years	352,872	375,742	–	–
	524,579	545,347	3,906	6,914

40. Notes to consolidated cash flow statement

(a) Reconciliation of operating profit before financing to net cash used in operations

	2006 HK\$'000	Restated 2005 HK\$'000
Operating profit before financing	706,689	205,175
Interest income	(155,345)	(90,115)
Depreciation and amortisation	118,282	102,552
Share-based payments	4,200	2,054
Loss on disposal of property, plant and equipment	2,457	11,694
Provision for investments in/amounts due by jointly controlled entities	4,673	13,371
Excess of fair value of net assets acquired over cost of acquisition of interests in subsidiaries and jointly controlled entities	(135,513)	(46,853)
Tax indemnity from the ultimate holding company	(34,773)	–
Provision for/(write back of provision for) properties under development and completed properties held for sale	2,664	(9,000)
Write back of provision for amount due by an associated company	–	(5,315)
Impairment loss on property, plant and equipment	–	6,154
Impairment of goodwill	26,955	–
Loss on disposal of a subsidiary	6,411	–
Write back of provision for amount due from an investee company	(60,545)	(66,632)
Increase in fair value of investment properties	(348,926)	–
Net foreign exchange losses	48,995	1,324
Operating profit before working capital changes	186,224	124,409
Increase in properties held for/under development and completed properties held for sale	(849,713)	(79,572)
Increase in debtors, deposits and other receivables	(1,955,399)	(185,257)
Decrease in balances with group companies	(202,958)	(87,995)
Increase in deposits received on sale of properties	474,933	142,332
Increase/(decrease) in creditors and accruals	167,627	(4,927)
Net cash used in operations	(2,179,286)	(91,010)

Notes to the Financial Statements

40. Notes to consolidated cash flow statement (continued)

(b) Acquisition of subsidiaries

	2006 HK\$'000	2005 HK\$'000
Net assets acquired		
Property, plant and equipment	104,578	270
Land use rights	105,450	–
Properties held for development	1,477,853	–
Properties under development	–	743,925
Completed properties held for sale	25,735	–
Debtors, deposits and other receivables	42,109	96
Cash and bank balances	46,779	3,895
Creditors and accruals	(50,456)	(93,231)
Balances with group companies	(289,395)	(2,660)
Deferred tax liabilities	(97,345)	(83,696)
Taxes payable	(5,975)	(110)
Long term bank borrowings	(259,615)	–
Minority interests	(107,700)	(33)
	992,018	568,456
Interest originally held by the Group as jointly controlled entities and available-for-sale financial assets	(503,972)	(127,396)
	488,046	441,060
Goodwill	60,237	–
Excess of fair value of net assets acquired over cost of acquisition of subsidiaries	(32,138)	(46,853)
	516,145	394,207
Consideration satisfied by:		
Cash	516,145	125,417
Other payable	–	268,790
	516,145	394,207

(c) Analysis of net outflow of cash and cash equivalents in respect of acquisition of subsidiaries

	2006 HK\$'000	2005 HK\$'000
Cash consideration	(516,145)	(125,417)
Cash and bank balances acquired	46,779	3,895
Net outflow of cash and cash equivalents in respect of acquisition of subsidiaries	(469,366)	(121,522)

(d) Disposal of a subsidiary

	2006 HK\$'000	2005 HK\$'000
Net assets disposed		
Property, plant and equipment	67	-
Properties under development	12,257	-
Debtors, deposits and other receivables	324	-
Amount due to minority shareholder	(6,129)	-
Minority interests	(108)	-
	6,411	-
Loss on disposal of a subsidiary	(6,411)	-
	-	-
Consideration satisfied by cash	-	-

Notes to the Financial Statements

41. Business combinations

- (a) In January 2006, the Group acquired additional 8% equity interest in Jinan New World Sunshine Development Limited which is engaged in property development for a total consideration of HK\$21,119,000. Details of net liabilities acquired and goodwill are as follows:

	2006 HK\$'000
Purchase consideration	21,119
Fair value of net liabilities acquired	(10,298)
Goodwill	31,417

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

	Fair value HK\$'000	Acquirees' carrying amount HK\$'000
Property, plant and equipment	2,280	2,280
Properties held for development	880,738	771,116
Debtors, deposits and other receivables	28,438	28,438
Completed properties held for sale	25,735	25,735
Cash and bank balances	36,259	36,259
Creditors and accruals	(45,812)	(45,812)
Balances with group companies	(289,395)	(289,395)
Deferred tax liabilities	(36,175)	-
Taxes payable	(5,975)	(5,975)
Long term borrowings	(259,615)	(259,615)
	<u>336,478</u>	<u>263,031</u>
Minority interests	(52,853)	
Interest originally held by the Group as jointly controlled entities	(293,923)	
Net liabilities acquired	<u>(10,298)</u>	

The acquired subsidiary contributed revenue of approximately HK\$2,860,000 and incurred net loss of approximately HK\$666,000 for the period since the date of acquisition. If the acquisition had occurred on 1 July 2005, the Group's revenue would have been HK\$1,711,175,000, and profit for the year would have been HK\$755,316,000.

The goodwill can be attributable to the anticipated profitability of the acquired business.

- (b) In March 2006, the Group acquired additional 65% of the equity interest and the related shareholder's loan of Wing Shan International Country Club Co., Ltd. ("Wing Shan"), a 27.5% owned investee company of the Group, for a consideration of HK\$456,555,000. Wing Shan, through its subsidiaries, is principally engaged in property development and operation of a golf club in Foshan, the PRC. Details of net assets acquired and the excess of fair value of net assets acquired over cost of acquisition are as follows:

	2006 HK\$'000
Purchase consideration	456,555
Fair value of net assets acquired	488,693
Excess of fair value of net assets acquired over cost of acquisition of subsidiaries	32,138

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

	Fair value HK\$'000	Acquirees' carrying amount HK\$'000
Property, plant and equipment	102,298	102,298
Land use rights	105,450	101,001
Properties held for development	597,115	416,201
Debtors, deposits and other receivables	1,966	1,966
Cash and bank balances	446	446
Creditors and accruals	(4,535)	(4,535)
Deferred tax liabilities	(61,170)	-
	741,570	617,377
Minority interest	(42,828)	
Interest originally held by the Group as available-for-sale financial assets	(210,049)	
Net assets acquired	488,693	

The acquired subsidiaries contributed revenue of approximately HK\$3,741,000 and incurred net loss of approximately HK\$2,199,000 for the period since the date of acquisition. If the acquisition had occurred on 1 July 2005, the Group's revenue would have been HK\$1,702,544,000, and profit for the year would have been HK\$749,821,000.

Excess of fair value of net assets acquired over the cost of acquisition of subsidiaries was resulted since the business combination had been accomplished through a debt restructure exercise for Wing Shan's subsidiaries. The Group was able to actively involve in the exercise and through which enabled the Group to sustain a better position in respect of ascertaining more favourable terms for the cost of acquisitions, majority of which was determined by debt restructuring cost.

Notes to the Financial Statements

41. Business combinations *(continued)*

- (c) In May 2006, the Group acquired 75% equity interest in Beijing Dongfang Huamei Real Estate Development Co., Ltd. which is engaged in land development, for a consideration of HK\$38,471,000. Details of net assets acquired and goodwill are as follows:

	2006 HK\$'000
Purchase consideration	38,471
Fair value of net assets acquired	9,651
Goodwill	28,820

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

	Fair value HK\$'000	Acquirees' carrying amount HK\$'000
Debtors, deposits and other receivables	11,705	11,705
Cash and bank balances	10,074	10,074
Creditors and accruals	(109)	(109)
	21,670	21,670
Minority interests	(12,019)	
Net assets acquired	9,651	

The acquired subsidiary contributed net loss of approximately HK\$944,000 for the period since the date of acquisition. If the acquisition had occurred on 1 July 2005, the Group's profit would have been HK\$755,474,000.

The goodwill can be attributable to the anticipated profitability of the acquired business.

42. Related party transactions

(i) Transactions with related parties

The following is a summary of significant related party transactions during the year carried out by the Group in the normal course of its business:

	Note	2006 HK\$'000	2005 HK\$'000
Interest on loans from fellow subsidiaries	(a)	118,298	43,261
Rental for leased premises to a fellow subsidiary	(b)	3,906	3,366
Rental for leased premises to an associated company	(b)	29,808	28,972
Property agency fee to a fellow subsidiary	(c)	1,981	5,437
Underwriting commission to the ultimate holding company	(d)	-	20,516
Interest income from jointly controlled entities	(e)	(36,738)	(41,827)
Estate management fee income from a fellow subsidiary and jointly controlled entities	(f)	(9,958)	(8,354)
Rental income from fellow subsidiaries	(g)	(56,661)	(52,896)
Rental income from an associated company	(g)	(5,769)	(5,607)

Notes:

- (a) Interest is charged at rates as specified in note 31(ii) on the outstanding balances due to certain fellow subsidiaries.
- (b) The rental is charged at fixed monthly or annual fees in accordance with the terms of the tenancy agreements.
- (c) The property agency fee is charged by the fellow subsidiary in accordance with the terms of the property agency agreement.
- (d) The underwriting commission was charged at 1% of the total issue price of shares issued from rights issue underwritten by the ultimate holding company.
- (e) This represents interest income in respect of loan financing provided to jointly controlled entities. These loans are unsecured and carry interest at rates as specified in note 22.
- (f) The estate management fees are charged at fixed amounts to a fellow subsidiary and certain jointly controlled entities as specified in the management contracts.
- (g) The rental income is charged at fixed monthly fees in accordance with the terms of the tenancy agreements.
- (h) Total fees for the provision of project management, construction and engineering consultancy services in respect of certain of the Group's property projects and payable to certain fellow subsidiaries amount to HK\$173,946,000 (2005: HK\$296,810,000). Such fees are charged at fixed amounts in accordance with the terms of the respective contracts.
- (i) A deed of tax indemnity was entered into between the ultimate holding company and the Group whereby the ultimate holding company undertakes to indemnify the Group in respect of IT and LAT payable in consequence of the disposal of certain properties. During the year, tax indemnity amounting to HK\$34,773,000 (2005: Nil) was effected (note 12).

(ii) Key management compensation

	2006 HK\$'000	2005 HK\$'000
Salaries and other short-term employee benefits	17,519	14,811
Pension costs	1,062	989
Share option benefits	63,672	8,198
	82,253	23,998

Key management includes directors, financial controller, regional executives and assistant general managers of the Group.

(iii) Balances with related parties

Balances with associated companies, jointly controlled entities and group companies are disclosed in notes 21, 22 and 26 respectively.

Notes to the Financial Statements

43. Post balance sheet event

On 11th September 2006, the Company entered into a participation agreement with a fellow subsidiary and the ultimate holding company whereby the Company agreed the participation of the fellow subsidiary in 50% of the total interest in the property projects undertaken by several subsidiaries of the Group. The fellow subsidiary agreed to share 50% of the costs payable by the Group in connection with the property projects totalling approximately HK\$5,910 million. The participation agreement is conditional upon the approval by the independent shareholders of the Company.

44. Particulars of principal subsidiaries, associated companies and jointly controlled entities

Details of the principal subsidiaries, associated companies and jointly controlled entities which materially affect the results for the year and/or assets of the Group as at 30th June 2006 are set out below:

Company name	Issued/registered and fully paid up share capital	Attributable interest held (note)				Principal activities
		By the Company		By the Group		
		2006	2005	2006	2005	
Subsidiaries						
<i>Incorporated and operating in Hong Kong</i>						
Billion Huge (International) Limited	HK\$950,001 950,001 ordinary shares of HK\$1 each	–	–	100%	100%	Investment holding
Billion Park Investment Limited	HK\$1,000,000 1,000,000 ordinary shares of HK\$1 each	–	–	78.6%	78.6%	Investment holding
China Joy International Limited	HK\$2 2 ordinary shares of HK\$1 each	–	–	100%	100%	Investment holding
Dragon Joy (China) Limited	HK\$1 1 ordinary share of HK\$1	–	–	100%	–	Investment holding
Lingal Limited	HK\$2,000 1,800 ordinary shares of HK\$1 each 200 non-voting deferred shares of HK\$1 each	–	–	100%	100%	Investment holding
Max Charm Investment Limited	HK\$2 2 ordinary shares of HK\$1 each	–	–	100%	100%	Investment holding
New World Development (China) Limited	HK\$4 2 ordinary shares of HK\$1 each 2 non-voting deferred shares of HK\$1 each	100%	100%	100%	100%	Investment holding
Sunny Trend Development Limited	HK\$2 2 ordinary shares of HK\$1 each	–	–	100%	100%	Investment holding

Company name	Issued/registered and fully paid up share capital	Attributable interest held (note)				Principal activities
		By the Company		By the Group		
		2006	2005	2006	2005	
Trend Island Limited	HK\$2 2 ordinary shares of HK\$1 each	–	–	100%	100%	Investment holding
Wing Shan International Country Club Co. Limited	HK\$1,000,000 1,000,000 ordinary shares of HK\$1 each	–	–	92.50%	–	Investment holding
<i>Incorporated in the British Virgin Islands</i>						
Banyan Developments Limited	US\$1 1 share of US\$1	–	–	100%	100%	Investment holding
Conful Enterprises Limited	US\$1 1 share of US\$1	–	–	100%	100%	Investment holding
Ever Brisk Limited	US\$1 1 share of US\$1	–	–	100%	100%	Investment holding
Fu Hong Investments Limited	US\$1 1 share of US\$1	–	–	100%	100%	Investment holding
Hinto Developments Limited	US\$1 1 share of US\$1	–	–	100%	100%	Investment holding
Keep Bright Limited	US\$1 1 share of US\$1	–	–	100%	100%	Investment holding
Lucky Win Development Limited	US\$1 1 share of US\$1	–	–	100%	100%	Investment holding
Magic Chance Limited	US\$1 1 share of US\$1	–	–	100%	100%	Investment holding
Radiant Glow Limited	US\$1 1 share of US\$1	–	–	100%	100%	Investment holding
Sparkling Rainbow Limited	US\$1 1 share of US\$1	–	–	100%	100%	Investment holding
Stand Fame Enterprises Limited	US\$1 1 share of US\$1	–	–	100%	100%	Investment holding
Sweet Prospects Enterprises Limited	US\$1 1 share of US\$1	–	–	100%	100%	Investment holding
Triumph Hero International Limited	US\$1 1 share of US\$1	–	–	100%	–	Investment holding
True Blue Developments Limited	US\$1 1 share of US\$1	–	–	100%	100%	Investment holding
Twin Glory Investments Limited	US\$1 1 share of US\$1	–	–	100%	100%	Investment holding

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44. Particulars of principal subsidiaries, associated companies and jointly controlled entities (continued)

Company name	Issued/registered and fully paid up share capital	Attributable interest held (note)				Principal activities
		By the Company		By the Group		
		2006	2005	2006	2005	
Subsidiaries (continued)						
<i>Incorporated and operating in the PRC</i>						
Beijing Dongfang Huamei Real Estate Development Co., Ltd.	RMB50,000,000	–	–	75%	–	Land development
Beijing Lingal Real Estates Development Co., Ltd.	US\$13,000,000	–	–	100%	100%	Property development
Chengdu Xinyi Real Estate Development Co., Ltd.	RMB30,000,000	–	–	60%	–	Property development
Dalian New World Hotel Co., Ltd.	RMB217,000,000	–	–	100%	100%	Hotel investment
Dalian New World Plaza International Co., Ltd.	RMB58,000,000	–	–	88%	88%	Property investment and development
Dalian New World Tower Co., Ltd.	RMB55,200,000	–	–	100%	100%	Property investment and development
Fung Seng Estate Development (Shanghai) Co., Ltd.	US\$10,000,000	–	–	70%	70%	Property development
Guangzhou Xin Hua Chen Real Estate Co., Ltd.	RMB200,000,000	–	–	100%	100%	Property development
Guangzhou Xin Hua Jian Real Estate Co., Ltd.	RMB244,000,000	–	–	100%	100%	Property development
Guangzhou Xin Sui Tourism Centre Ltd.	HK\$100,000,000	–	–	100%	100%	Property development
Guangzhou Xin Yi Development Limited	HK\$286,000,000	–	–	90.5%	90.5%	Property investment and development
Guiyang New World Real Estate Co., Ltd.	US\$33,000,000	–	–	100%	–	Property development
Foshan Country Club Co., Ltd.	US\$52,923,600	–	–	78.62%	–	Golf club operation and property development
Huamei Wealth (Beijing) Technology Co., Ltd.	RMB40,000,000	–	–	100%	–	Investment holding
Jinan New World Real Estates Limited	US\$9,700,000	–	–	100%	–	Investment holding
Jinan New World Sunshine Development Ltd.	US\$29,980,000	–	–	73%	–	Property development
Nanjing Huawei Real Estate Development Co., Ltd.	US\$12,000,000	–	–	92%	92%	Property development

Company name	Issued/registered and fully paid up share capital	Attributable interest held (note)				Principal activities
		By the Company		By the Group		
		2006	2005	2006	2005	
New World Anderson (Tianjin) Development Co., Ltd.	US\$10,000,000	–	–	100%	100%	Property investment and development
New World China Land Investments Company Limited	US\$30,000,000	–	–	100%	100%	Investment holding
New World China Land (Haikou) Limited	US\$100,000,000	–	–	100%	–	Property development
New World Development (Wuhan) Co., Ltd.	US\$16,000,000	–	–	100%	100%	Property investment and development
New World (Shenyang) Property Development Limited	RMB97,720,000	–	–	90%	90%	Property development
New World (Shenyang) Property Development No. 2 Limited	RMB97,720,000	–	–	90%	90%	Property development
New World (Shenyang) Property Development No. 3 Limited	RMB164,600,000	–	–	90%	90%	Property development
New World (Shenyang) Property Development No. 4 Limited	RMB97,720,000	–	–	90%	90%	Property development
New World (Shenyang) Property Development No. 5 Limited	RMB99,320,000	–	–	90%	90%	Property development
New World (Shenyang) Property Development No. 6 Limited	RMB97,720,000	–	–	90%	90%	Property development
Shanghai Heyu Properties Co., Ltd.	US\$12,000,000	–	–	–	64%	Property development
Shanghai Juyi Real Estate Development Co., Ltd.	RMB418,862,780	–	–	70%	70%	Property development
Shanghai Ramada Plaza Ltd.	US\$42,000,000	–	–	75%	65%	Property investment and hotel operation
Shenyang New World Hotel Co., Ltd.	RMB229,400,000	–	–	100%	100%	Hotel operation
Shenzhen Topping Real Estate Development Co., Ltd.	HK\$182,000,000	–	–	90%	90%	Property development
Shenyang Trendy Property Company Limited	US\$27,880,000	–	–	100%	–	Property investment
Wuhan New Eagle Properties Co., Limited	US\$2,830,000	–	–	95%	95%	Property investment
Wuhan Xinhan Development Co., Ltd.	US\$16,000,000	–	–	70%	70%	Property development
Zhuhai New World Housing Development Limited	US\$8,000,000	–	–	100%	100%	Property development

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44. Particulars of principal subsidiaries, associated companies and jointly controlled entities (continued)

Company name	Issued/registered and fully paid up share capital	Attributable interest held (note)				Principal activities
		By the Company		By the Group		
		2006	2005	2006	2005	
Associated companies						
<i>Incorporated and operating in Hong Kong</i>						
Global Perfect Development Limited	HK\$1,000,000 1,000,000 ordinary shares of HK\$1 each	-	-	50%	50%	Investment holding
Sun City Holdings Limited	HK\$8,000,000 8,000,000 ordinary shares of HK\$1 each	-	-	30.6%	30.6%	Investment holding
<i>Incorporated in the British Virgin Islands</i>						
Faith Yard Property Limited	US\$2 2 shares of US\$1 each	-	-	50%	50%	Property investment
Fortune Star Worldwide Limited	US\$100 100 shares of US\$1 each	-	-	40%	40%	Investment holding
Grand Make International Limited	US\$100 100 shares of US\$1 each	-	-	45%	45%	Investment holding
<i>Incorporated and operating in the PRC</i>						
Shanghai New World Huai Hai Property Development Co., Ltd.	US\$108,500,000	-	-	44.1%	44.1%	Property investment
Zhaoqing New World Property Development Limited	US\$13,750,000	-	-	40%	40%	Property development

Company name	Issued/registered and fully paid up share capital	Attributable interest held (note)				Principal activities
		By the Company		By the Group		
		2006	2005	2006	2005	
Jointly controlled entities						
<i>Incorporated in the British Virgin Islands</i>						
Concord Properties Holding (Guangzhou) Limited	US\$10 10 shares of US\$1 each	–	–	40%	40%	Investment holding
<i>Incorporated and operating in the PRC</i>						
Beijing Chong Wen – New World Properties Development Co., Ltd	US\$192,100,000	–	–	70%	70%	Property investment and development
Beijing Chong Yu Real Estate Development Co., Ltd	US\$171,840,000	–	–	70%	70%	Property investment and development
Beijing Xin Kang Real Estate Development Co., Ltd	US\$12,000,000	–	–	70%	70%	Property investment and development
Beijing Xin Lian Hotel Co., Ltd.	US\$12,000,000	–	–	55%	55%	Hotel operation
China New World Electronics Ltd.	US\$57,200,000	–	–	70%	70%	Property investment and development
Fortune Leader Overseas Chinese (Daiyawan) Investment Co. Ltd.	US\$16,950,000	–	–	39%	34.1%	Golf club and resort operation
Fortune Leader Overseas Chinese (Daiyawan) Real Estate Development Co. Ltd.	US\$13,880,000	–	–	59%	34.1%	Property development
Guangzhou Bosson Real Estate Co., Ltd.	RMB20,003,000	–	–	60%	60%	Property development
Guangzhou Fong Chuen New World Property Development Co., Ltd	RMB330,000,000	–	–	60%	60%	Property development
Guangzhou Fucheng Property Development Co., Ltd	HK\$80,000,000	–	–	60%	60%	Property development
Guangzhou Hemsell Real Estate Development Co., Ltd.	RMB79,597,000	–	–	60%	60%	Property development
Guangzhou Jixian Zhuang New World City Garden Development Limited	US\$24,000,000	–	–	60%	60%	Property development

Notes to the Financial Statements

44. Particulars of principal subsidiaries, associated companies and jointly controlled entities (continued)

Company name	Issued/registered and fully paid up share capital	Attributable interest held (note)				Principal activities
		By the Company		By the Group		
		2006	2005	2006	2005	
Jointly controlled entities (continued)						
<i>Incorporated and operating in the PRC (continued)</i>						
Haikou New World Housing Development Limited	US\$8,000,000	–	–	60%	60%	Property development
Huizhou New World Housing Development Limited	RMB80,000,000	–	–	62.5%	62.5%	Property development
Jinan New World Sunshine Development Ltd.	US\$29,980,000	–	–	–	65%	Property development
Tianjin New World Housing Development Co., Ltd	RMB80,000,000	–	–	60%	60%	Property development
Tianjin New World Properties Development Co., Ltd.	US\$12,000,000	–	–	70%	70%	Property development
Wuhan New World Housing Development Limited	RMB96,000,000	–	–	60%	60%	Property development
Wuhan Wuxin Hotel Co. Ltd.	US\$13,500,000	–	–	60%	60%	Hotel investment

Note:

Represent equity interest in case of companies incorporated outside the PRC or the percentage of equity interest in case of equity joint ventures or profit sharing ratio in accordance with the joint venture contracts in case of co-operative joint ventures in the PRC.

45. Comparative figures

Certain comparative figures have been reclassified to conform with the presentation of the current year.