Notes to the Financial Statements

31 December 2006

1. GENERAL

Shanghai Zendai Property Limited (the "Company") is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange"). Its registered office and principal place of business is situated at Unit 6108, 61/F, The Centre, 99 Queen's Road Central, Hong Kong.

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 49.

Its parent and the ultimate holding company is Giant Glory Assets Limited, a private company incorporated in the British Virgin Islands.

The consolidated financial statements are presented in Hong Kong dollars ("HK$") and the functional currency of the Group is Renminbi ("RMB"). The board of directors considered that it is more appropriate to present the financial statements in HK$ as the shares of the Company are listed in the Stock Exchange.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

(a) In the current year, the Group has applied, all the new and revised standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), that are relevant to its operation and effective for accounting period beginning on or after 1 January 2006. Those that are relevant to the Group's operations are as follows:

(i) HKAS 39 and HKFRS 4 (Amendments) "Financial Guarantee Contracts" (effective from 1 January 2006). This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value and subsequently measured at the higher of : (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. The directors of the Company concluded that HKAS 39 and HKFRS 4 (Amendments) would not have any significant impact to the Group's operations.

The adoption of the other new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

(b) Potential impact arising on the new accounting standards not yet effective

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

HKAS 1 Amendment	Capital Disclosures [4]
HKFRS 7	Financial Instruments: Disclosures [4]
HKFRS 8	Operating Segment [1]
HK(IFRIC) – Interpretation 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies [7]
HK(IFRIC) – Interpretation 8	Scope of HKFRS 2 [6]
HK(IFRIC) – Interpretation 9	Reassessment of Embedded Derivatives [5]
HK(IFRIC) – Interpretation 11	Group and Treasury Share transactions [3]
HK(IFRIC) – Interpretation 12	Services Concession Arrangement [2]

[1] Effective for annual periods beginning on or after 1 January 2009.
[2] Effective for annual periods beginning on or after 1 January 2008.
[3] Effective for annual periods beginning on or after 1 March 2007.
[4] Effective for annual periods beginning on or after 1 January 2007.
[5] Effective for annual periods beginning on or after 1 June 2006.
[6] Effective for annual periods beginning on or after 1 May 2006.
[7] Effective for annual periods beginning on or after 1 March 2006.

3. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting standards ("HKAS") and Interpretations (hereinafter collectively referred to as the "HKFRSs") issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation

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

The preparation of financial statements in conformity with HKFRSs requires 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 financial statements are disclosed in note 4.

(c) Basis of consolidation

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

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

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

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Basis of consolidation *(Continued)*

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, investments in subsidiaries are stated at cost less impairment loss, if any.

(d) Subsidiaries

A subsidiary is an entity over which the Company is able to exercise control. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(e) Associates

Where the Group has the power to participate in (but not control) the financial and operating policy decisions of another entity, it is classified as an associate. Associates are accounted for using the equity method except when the investment is classified as held for sale (in which case it is accounted for in accordance with HKFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations") or when the investment is designated as at fair value through profit or loss upon initial recognition or is classified as held for trading (in which case it is accounted for under HKAS 39 "Financial Instruments - Recognition and Measurement") whereby they are initially recognised in the consolidated balance sheet at cost and thereafter, they are accounted under the equity method. Their values are adjusted for the Group's share of the post-acquisition change in the Group's share of the associates' net assets except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate and subject to impairment in the same way as goodwill arising on a business combination.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale when:

- they are available for immediate sale;
- management is committed to a plan to sell;
- it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn;
- an active programme to locate a buyer has been initiated;
- the asset or disposal group is being marketed at a reasonable price in relation to its fair value; and
- a sale is expected to complete within 12 months from the date of classification.

Non-current assets and disposal groups classified as held for sale are measured at the lower of:

- their carrying amount immediately prior to being classified as held for sale in accordance with the Group's accounting policy; and
- fair value less costs to sell.

Following their classification as held for sale, non-current assets (including those in a disposal group) are not depreciated.

The results of operations disposed of during the year are included in the consolidated income statement up to the date of disposal.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(g) Goodwill

Goodwill represents the excess of the cost of a business combination over the interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired. Cost comprises the fair values of assets given, liabilities assumed and equity instruments issued, plus any direct costs of acquisition.

Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the consolidated income statement.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is credited in full to the consolidated income statement.

For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount to each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(h) Foreign currency

Transactions entered into by Group entities in currencies other than the currency of the primary economic environment in which they operate (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are similarly recognised immediately in the income statement, except for foreign currency borrowings qualifying as a hedge of a net investment in a foreign operation.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in the income statement in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences is also recognised directly in equity.

On consolidation, the results of foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rate approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations are translated at the rate ruling at the balance sheet date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised directly in equity (the "foreign exchange reserve"). Exchange differences recognised in the income statement of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the overseas operation concerned are reclassified to the foreign exchange reserve if the item is denominated in the functional currency of the Group or the overseas operation concerned.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(h) Foreign currency *(Continued)*

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

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the foreign exchange reserve.

(i) Financial instruments

(i) Financial assets

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

Financial assets at fair value through profit or loss: include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in the income statement in the period in which they arise.

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

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(i) Financial instruments *(Continued)*

(i) Financial assets (Continued)

An impairment loss is recognised in the income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets: Non-derivative financial assets not included in the above categories are classified as available-for-sale and comprise the Group's strategic investments in entities not qualifying as subsidiaries, associates or jointly controlled entities. They are carried at fair value with changes in fair value recognised directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in the income statement.

Any impairment losses on available-for-sale financial assets are recognised in the income statement, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in the income statement when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(i) Financial instruments *(Continued)*

(ii) Financial liabilities

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

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

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

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

(iii) Convertible notes

Convertible notes issued by the Group that contain both the liability and conversion option components are classified separately into their respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible loan notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the loan notes into equity, is included in equity (convertible notes reserve).

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(i) Financial instruments *(Continued)*

(iii) Convertible notes (Continued)

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Group, will remain in convertible notes reserve until the embedded option is exercised (in which case the balance stated in convertible notes reserve will be transferred to retained earnings. Where the option remains unexercised at the expiry dates, the balance stated in convertible notes equity reserve will be released to the retained earnings). No gain or loss is recognised in the income statement upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible loans are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan notes using the effective interest method.

(iv) Insurance contracts

An insurance contract is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Insurance risk is a pre-existing risk transferred from the policyholder to the insurer, and is significant only if an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction).

The Group assesses at each reporting date whether its recognised insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities is inadequate in the light of the estimated future cash flows, the entire deficiency is recognised in the income statement.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(i) Financial instruments *(Continued)*

(iv) Insurance contracts (Continued)

The Group regards its financial guarantee contracts provided in respect of mortgage facilities for certain property purchasers as insurance contracts.

(v) Derecognition

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

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

(j) Employee benefits

(i) Defined contribution retirement plan

Contributions to defined contribution retirement plans are recognised as an expense in the income statement when the services are rendered by the employees.

(ii) Termination benefits

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

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(k) Property, plant and equipment

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

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives and residual value are reviewed, and adjusted if appropriate, at each balance sheet date. The useful lives are as follows:

Motor vehicles	5 years
Leasehold improvements	5 years
Furniture and equipment	5 years

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

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

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

(l) Properties for sales

Completed properties and properties under development held for sale are stated at the lower of cost and net realisable value. Cost includes the cost of land, development expenditure, borrowing costs capitalised in accordance with the Group's accounting policy, and other attributable expenses. Net realisable value is determined by management based on prevailing market conditions.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(m) Investment properties

Investment properties are properties held for long-term rental yields or for capital appreciation and not occupied by the Group. Investment properties are carried at fair value. Changes in fair value are recognised in the income statement.

(n) Impairment of other assets

At each balance sheet date, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- investments in subsidiaries and associates (except for those classified as held for sale).

If the recoverable amount (i.e. the greater of the net selling price and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the impairment loss is treated as a revaluation decrease under that HKFRS.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the reversal of the impairment loss is treated as a revaluation increase under that other HKFRS.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(o) Revenue recognition

Sales of properties

Income from sales of properties is recognised upon the execution of a binding sales agreement or upon the issuance of an occupation permit/completion certificate by the relevant authority, whichever is the later. Deposits received from forward sales of properties are carried in the balance sheet under current liabilities.

Income from travel and related services

Income from travel and related services is recognised when the services are rendered.

Rental income

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

Dividend income

Dividend income is recognised when the rights to receive the dividend is established.

Interest income

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

(p) Leases

The Group as lessor

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(p) Leases *(Continued)*

The Group as lessee

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

(q) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax arises from temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes and is accounted for using the balance sheet liability method. Except for recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Income taxes are recognised in the income statement except when they relate to items directly recognised to equity in which case the taxes are also directly recognised in equity.

(r) Capitalisation of borrowing costs

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

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(s) Provisions and contingent liabilities

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

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 3, management has made the following judgements that have significant effect on the amounts recognised in the financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year, are also discussed below.

Impairment loss on loans and receivables

The policy for impairment of loans and receivables of the Group is based on the evaluation of collectability and ageing analysis of the loans and receivables and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these loans and receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Land appreciation taxes ("LAT")

LAT is levied at progressive rates ranging from 30% to 60% on appreciation of land value, being the proceeds of sales of properties less deductible expenditure including sales charges, borrowing costs and all property development expenditure.

The Group is subject to LAT in the People's Republic of China, other than Hong Kong and Macau (the "PRC") which has been included in tax expenses of the Group. However, the implementation of these tax varies amongst various PRC province and the Group has not finalised its LAT returns with various local tax bureaus. Accordingly, significant judgement is required in determining the amount of land appreciation and its related taxes. The ultimate tax determination is uncertain during the ordinary course of business. The Group recognises these liabilities based on management's best estimates. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on tax provisions in the period in which such determination is made.

5. TURNOVER

Turnover represents the aggregate of proceeds from sales of properties, amounts received and receivable for the provision of travel and related services, less allowances, to outside customers and rental income from investment properties, and is summarised as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Sales of properties	**1,360,648**	1,396,759
Travel and related services	**22,186**	30,143
Rental income	**18,719**	3,932
	1,401,553	1,430,834

6. SEGMENT INFORMATION

(a) Business segment

For management purpose, the Group is currently organised into three operating divisions, sales of properties, provision of travel and related services and properties investment. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

	Sales of properties		Travel and related services		Properties investment		Unallocated		Group	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Revenue – external sales	**1,360,648**	1,396,759	**22,186**	30,143	**18,719**	3,932	**–**	–	**1,401,553**	1,430,834
Results										
Segment results	**266,597**	296,145	**26**	(2,474)	**(8,948)**	3,932	**–**	–	**257,675**	297,603
Unallocated corporate income									**50,892**	3,078
Unallocated corporate expenses									**(15,044)**	(7,707)
Profit from operations									**293,523**	292,974
Share of results of associates	**(43,302)**	23,218	**–**	–	**–**	–	**–**	–	**(43,302)**	23,218
Gain on disposal of an associate	**124,182**	–	**–**	–	**–**	–	**–**	–	**124,182**	–
Finance costs									**(29,913)**	(3,941)
Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost	**80,240**	50,129	**–**	–	**–**	–	**–**	–	**80,240**	50,129
Profit before tax expenses									**424,730**	362,380
Tax expenses									**(155,867)**	(98,899)
Profit for the year									**268,863**	263,481

Notes to the Financial Statements *(Continued)*

31 December 2006

6. SEGMENT INFORMATION *(Continued)*

(a) Business segment *(Continued)*

	Sales of properties		Travel and related services		Properties investment		Unallocated		Group	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000	**2006 HK$'000**	2005 HK$'000	**2006 HK$'000**	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Assets										
Segment assets	**3,042,060**	1,512,742	**3,840**	3,881	**565,294**	292,394	**–**	–	**3,611,194**	1,809,017
Interests in associates	**–**	236,851	**–**	–	**–**	–	**–**	–	**–**	236,851
Unallocated assets									**273,055**	362,642
Total assets									**3,884,249**	2,408,510
Liabilities										
Segment liabilities	**1,182,151**	1,155,185	**2,918**	4,073	**2,630**	–	**–**	–	**1,187,699**	1,159,258
Unallocated liabilities									**1,098,608**	454,162
Total liabilities									**2,286,307**	1,613,420
Other information										
Capital expenditure	**723**	1,396	**141**	3	**–**	–	**–**	16	**864**	1,415
Depreciation and amortisation	**2,204**	1,421	**70**	171	**–**	–	**60**	57	**2,334**	1,649
Loss on disposal of property, plant and equipment	**53**	646	**–**	280	**–**	–	**–**	–	**53**	926
Loss on disposal of financial assets at fair value through profit or loss	**–**	–	**–**	–	**–**	–	**9,266**	–	**9,266**	–
Fair value loss on investment properties	**–**	–	**–**	–	**18,836**	–	**–**	–	**18,836**	–
Impairment loss on goodwill	**–**	8,605	**–**	523	**–**	–	**–**	–	**–**	9,128
Impairment loss on amount due from minority owner of a subsidiary	**15,686**	–	**–**	–	**–**	–	**–**	–	**15,686**	–
Impairment loss on deposits for property development	**–**	13,333	**–**	–	**–**	–	**–**	–	**–**	13,333
Impairment loss on other receivables	**45,518**	–	**–**	–	**–**	–	**–**	–	**45,518**	–
Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost	**80,240**	50,129	**–**	–	**–**	–	**–**	–	**80,240**	50,129
Fair value gains on financial assets at fair value through profit or loss	**–**	–	**–**	–	**–**	–	**3,177**	34	**3,177**	34
Profit on disposal on financial assets at fair value through profit or loss	**–**	–	**–**	–	**–**	–	**–**	395	**–**	395
Profit on disposal of assets classified as held for sales	**22,059**	–	**–**	–	**–**	–	**–**	–	**22,059**	–
Reversal of impairment loss on deposits for property development	**13,725**	–	**–**	–	**–**	–	**–**	–	**13,725**	–

6. SEGMENT INFORMATION *(Continued)*

(b) Geographical segment

The Group's operations are principally located in Hong Kong, Macau and the PRC. Group administration is carried out in Hong Kong and the PRC.

The following table provides an analysis of the Group's sales by geographical markets and analysis of total assets and capital expenditure by the geographical areas in which the assets are located.

Group	Turnover		Carrying amount of assets		Capital expenditure	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
PRC	**1,379,366**	1,400,691	**3,622,063**	2,041,987	**14,455**	1,396
Hong Kong	**17,574**	25,883	**260,761**	364,902	**136**	16
Macau	**4,613**	4,260	**1,425**	1,621	**5**	3
	1,401,553	1,430,834	**3,884,249**	2,408,510	**14,596**	1,415

7. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging:

	Group	
	2006	2005
	HK$'000	HK$'000
Staff costs *(Note 8)*	**30,215**	24,070
Depreciation of property, plant and equipment	**2,334**	1,649
Loss on disposal of property, plant and equipment	**53**	926
Loss on disposal of financial assets at fair value through profit or loss	**9,266**	–
Fair value loss on investment properties	**18,836**	–
Impairment loss on deposits for property development	**–**	13,333
Impairment loss on amount due from a minority owner of a subsidiary	**15,686**	–
Impairment loss on other receivables	**45,518**	–
Impairment loss on goodwill (included in other operating expenses)	**–**	9,128
Share of taxes of associates (included in share of results of associates)	**35,473**	4,446
and after crediting:		
Gross rental income from investment properties	**18,719**	3,932
Less: Direct operating expenses from investment properties that generated rental income during the year	**–**	–
	18,719	3,932
Interest income	**4,684**	3,078
Dividend income from listed equity securities	**529**	154
Fair value gains on financial assets at fair value through profit or loss	**3,177**	34
Profit on disposal of financial assets at fair value through profit or loss	**–**	395
Profit on disposal of assets classified as held for sales	**22,059**	–
Reversal of impairment loss on deposits for property development	**13,725**	–
Exchange gains, net	**548**	1,696

8. STAFF COSTS

	Group	
	2006	2005
	HK$'000	HK$'000
Staff costs (including directors) comprise:		
Wages and salaries	**29,682**	23,769
Contributions on defined contribution retirement plans	**533**	301
	30,215	24,070

9. FINANCE COSTS

	Group	
	2006	2005
	HK$'000	HK$'000
Interest on bank loans wholly repayable within five years	**25,162**	17,711
Interest on bank loans repayable after five years	**16,722**	376
Less: Amount capitalised in properties for sales	**(25,151)**	(17,711)
	16,733	376
Interest on convertible notes *(Note 37)*	**13,180**	3,565
	29,913	3,941

10. EXCESS OF THE GROUP'S INTEREST IN THE NET FAIR VALUE OF ACQUIREE'S IDENTIFIABLE ASSETS, LIABILITIES AND CONTINGENT LIABILITIES OVER COST

	Group	
	2006	2005
	HK$'000	HK$'000
Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost before provision for LAT	**160,398**	38,072
Provision for LAT	**(83,934)**	–
Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost on acquisition of additional interests from associates to subsidiaries *(Note 43a)*	**76,464**	38,072
Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost on acquisition of additional interest in a subsidiary	**3,776**	12,057
	80,240	50,129

11. DIRECTORS' AND EMPLOYEES' REMUNERATION

(a) Directors' remuneration

	Group	
	2006	2005
	HK$'000	HK$'000
Details of directors' remuneration were as follows:		
Fees:		
– Executive directors	**–**	–
– Independent non-executive directors	**360**	330
	360	330
Other emoluments		
– basic salaries and allowances for executive directors	**4,493**	2,620
– retirement benefits scheme contributions	**194**	47
	5,047	2,997

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

11. DIRECTORS' AND EMPLOYEES' REMUNERATION *(Continued)*

(a) Directors' remuneration *(Continued)*

During the year, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office.

Details of directors' remuneration for the year ended 31 December 2006 were as follows:

	Fees HK$'000	Basic salaries and allowances HK$'000	Retirement benefits schemes contributions HK$'000	Total HK$'000
Executive directors:				
Mr. Dai Zhikang	–	1,061	12	1,073
Mr. Fang Bin	–	721	34	755
Mr. Zhang Wei	–	703	34	737
Mr. Wang Xiangang	–	621	34	655
Mr. Tang Jian	–	822	46	868
Mr. Ye Wenbin	–	565	34	599
Independent non-executive directors:				
Mr. Lo Mun Lam, Raymond	120	–	–	120
Mr. Lai Chik Fan	120	–	–	120
Mr. Tse Hi Tang, Sheldon	120	–	–	120
Total	360	4,493	194	5,047

11. DIRECTORS' AND EMPLOYEES' REMUNERATION *(Continued)*

(a) Directors' remuneration *(Continued)*

Details of directors' remuneration for the year ended 31 December 2005 were as follows:

	Fees HK$'000	Basic salaries and allowances HK$'000	Retirement benefits schemes contributions HK$'000	Total HK$'000
Executive directors:				
Mr. Dai Zhikang	–	1,040	12	1,052
Mr. Zhang Wei	–	391	5	396
Mr. Tang Jian	–	416	12	428
Mr. Ye Wenbin	–	510	13	523
Mr. Zhao Hangsheng	–	263	5	268
Independent non-executive directors:				
Mr. Lo Mun Lam, Raymond	120	–	–	120
Mr. Lai Chik Fan	120	–	–	120
Mr. Tse Hi Tang, Sheldon	25	–	–	25
Mr. Ma Chi Kui, Sandroff	65	–	–	65
Total	330	2,620	47	2,997

(b) The five highest paid individuals

For the year ended 31 December 2006, the five highest paid individuals were all directors of the Company and details of their remuneration are included. For the year ended 31 December 2005, the five highest paid individuals included four directors and the remuneration of the remaining individual was within remuneration band of less than HK$1,000,000.

12. TAX EXPENSES

The amount of tax expenses in the consolidated income statement represents:

	Group	
	2006	2005
	HK$'000	HK$'000
Current tax - Hong Kong Profits Tax and Macau Complementary Income Tax		
– tax for the year	**–**	–
Current tax - PRC Enterprise Income Tax		
– tax for the year	**81,651**	85,578
– (over)/under provision in respect of prior years	**(15,902)**	865
	65,749	86,443
Current tax - LAT		
– tax for the year	**25,565**	21,660
– tax attributable to sales in prior years.	**80,444**	–
	106,009	21,660
Deferred tax *(Note 38)*		
– current year	**(15,891)**	(9,204)
	155,867	98,899

No provision for Hong Kong Profits Tax and Macau Complementary Income Tax has been made as the Group has no assessable profit in Hong Kong and Macau for the year.

PRC subsidiaries are subject to PRC Enterprise Income Tax at rate ranging from 15% to 33% (2005: 15% to 33%).

LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including costs of land and development and construction expenditures.

12. TAX EXPENSES *(Continued)*

The tax expenses for the year can be reconciled to the profit per the consolidated income statement as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Profit before tax expenses	**424,730**	362,380
Tax calculated at the Hong Kong profits tax rate of 17.5% (2005: 17.5%)	**74,328**	63,417
Tax effect of share of result of associate	**7,577**	(4,064)
Tax effect of expenses not deductible for tax purposes	**27,562**	11,145
Tax effect of revenue not taxable for tax purposes	**(25,589)**	(8,933)
Tax effect of tax losses not recognised	**4,228**	1,593
Utilisation of tax losses previously not recognised	**(8)**	(1,632)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(22,338)**	14,848
(Over)/under provision in respect of prior years	**(15,902)**	865
	49,858	77,239
LAT	**106,009**	21,660
Tax expenses	**155,867**	98,899

13. DIVIDENDS

No dividend was paid or proposed during the year, nor has any dividend been proposed since the balance sheet date (2005: Nil).

14. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

	2006 **HK$'000**	2005 HK$'000
Profit attributable to shareholders	**230,481**	201,884
Weighted average number of ordinary shares in issue (thousands)	**4,972,451**	4,772,988
Basic earnings per share (HK cents per share)	**4.6**	4.2

(b) Diluted

Diluted earnings per share is calculated based on the profit attributable to shareholders and the weighted average number of shares in issue during the year after adjusting for the number of dilutive potential ordinary shares on convertible notes issued.

	2006 **HK$'000**	2005 HK$'000
Profit attributable to shareholders	**230,481**	201,884
Adjustments for interest on convertible notes	**13,180**	3,565
Profit attributable to shareholders for diluted earnings per share	**243,661**	205,449
Weighted average number of ordinary shares in issue (thousands)	**4,972,451**	4,772,988
Effect of dilutive potential ordinary shares on convertible notes (thousands)	**879,244**	284,018
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**5,851,695**	5,057,006
Diluted earnings per share (HK cents per share)	**4.2**	4.1

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Motor vehicles HK$'000	Leasehold improvements HK$'000	Furniture and equipment HK$'000	Total HK$'000
2006				
Cost				
At 1 January 2006	5,237	341	3,300	8,878
Exchange differences	322	11	273	606
Arising from acquisition of subsidiaries	3,609	–	5,952	9,561
Additions	316	104	444	864
Disposals	(1,606)	–	(80)	(1,686)
At 31 December 2006	7,878	456	9,889	18,223
Accumulated depreciation				
At 1 January 2006	2,180	59	1,677	3,916
Exchange differences	131	–	94	225
Provided for the year	1,390	86	858	2,334
Eliminated on disposals	(1,163)	–	(31)	(1,194)
At 31 December 2006	2,538	145	2,598	5,281
2005				
Cost				
At 1 January 2005	6,807	996	3,154	10,957
Exchange differences	128	12	49	189
Arising from acquisition of subsidiaries	–	–	248	248
Additions	879	–	536	1,415
Disposals	(2,577)	(667)	(687)	(3,931)
At 31 December 2005	5,237	341	3,300	8,878
Accumulated depreciation				
At 1 January 2005	1,618	117	1,340	3,075
Exchange differences	38	–	29	67
Provided for the year	1,031	68	550	1,649
Eliminated on disposals	(507)	(126)	(242)	(875)
At 31 December 2005	2,180	59	1,677	3,916
Net book values				
At 31 December 2006	5,340	311	7,291	12,942
At 31 December 2005	3,057	282	1,623	4,962

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

Company

	Leasehold improvements HK$'000	Furniture and equipment HK$'000	Total HK$'000
2006			
Cost			
At 1 January 2006	37	244	281
Additions	–	10	10
At 31 December 2006	37	254	291
Accumulated depreciation			
At 1 January 2006	25	140	165
Provided for the year	7	51	58
At 31 December 2006	32	191	223
2005			
Cost			
At 1 January 2005	37	228	265
Additions	–	16	16
At 31 December 2005	37	244	281
Accumulated depreciation			
At 1 January 2005	18	92	110
Provided for the year	7	48	55
At 31 December 2005	25	140	165
Net book values			
At 31 December 2006	5	63	68
At 31 December 2005	12	104	116

16. INVESTMENT PROPERTIES

	Group	
	2006	2005
	HK$'000	HK$'000
Fair value		
At the beginning of year	**–**	–
Transferred from deposits for acquisition of investment properties *(Note 22)*	**257,112**	–
Transferred from properties for sale	**55,321**	–
Fair value changes	**(18,836)**	–
At the end of the year	**293,597**	–

17. ANALYSIS OF INVESTMENT PROPERTIES

(a) The analysis of the net book value of investments properties was as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Lands and buildings held in the PRC:		
– Long lease	**33,597**	–
– Medium-term lease	**260,000**	–
	293,597	–

(b) The Group's investment properties were revalued at 31 December 2006 on an open market value basis by qualified valuers, Sallmanns (Far East) Limited, an independent firm of surveyors. The investment properties were revaluated by the direct comparison approach assuming sale of the properties interest, in their existing state with the benefit of immediate vacant possession and by making reference to comparable sale transactions as available in the relevant markets.

(c) Investment properties of net book value of HK$260,000,000 were pledged to bank to secure bank loans granted to the Group *(Note 35)*.

18. GOODWILL

Group

	HK$'000
2006	
Cost	
At 1 January 2006	9,128
Transferred from interests in associates *(Note 20(b))*	41,710
Arising from acquisition of a subsidiary	512
Arising from acquisition of additional interests from associates to subsidiaries	17,559
Exchange adjustment	350
At 31 December 2006	69,259
Accumulated impairment	
At 1 January 2006 and at 31 December 2006	9,128
2005	
Cost	
At 1 January 2005	9,048
Exchange adjustment	80
At 31 December 2005	9,128
Accumulated impairment	
At 1 January 2005	–
Impairment loss	9,128
At 31 December 2005	9,128
Net book values	
At 31 December 2006	60,131
At 31 December 2005	–

Particulars regarding impairment testing on goodwill are disclosed in note 21(a).

19. INTERESTS IN SUBSIDIARIES

	Company	
	2006	2005
	HK$'000	HK$'000
Unlisted shares, at cost	**100,001**	100,001
Amounts due from subsidiaries	**791,396**	274,748
Amounts due to subsidiaries	**(200,869)**	(134,616)

Particulars of the Company's subsidiaries at 31 December 2006 are set out in note 49.

As at 31 December 2006, the amounts due from/to subsidiaries were unsecured, interest free and repayable on demand and included in the Company's current assets and current liabilities respectively.

20. INTERESTS IN ASSOCIATES

	Group	
	2006	2005
	HK$'000	HK$'000
Share of net assets other than goodwill	–	196,632
Goodwill *(Note (b))*	–	40,219
	–	236,851
Amounts due from associates *(Note (a))*	–	48,077
Amounts due to associates *(Note (a))*	–	(670)

Particulars of the Group's principal associates at 31 December 2005 are set out in note 50.

20. INTERESTS IN ASSOCIATES (Continued)

The summarised financial information in respect of the Group's associates is set out below:

	Group	
	2006	2005
	HK$'000	HK$'000
Total assets	–	1,494,519
Total liabilities	–	(982,581)
Net assets	–	511,938
Group's share of net assets of associates	–	196,632
Revenue	–	162,841
Profit for the year	–	47,383
Group's share of profits of associates for the year	–	23,218

Notes:

(a) As at 31 December 2005, the amounts due from/to associates were unsecured, interest free and repayable on demand and included in the Group's current assets and current liabilities respectively.

20. INTERESTS IN ASSOCIATES *(Continued)*

Notes: (Continued)

(b) As at 31 December 2005, included in the cost of interests in associates was goodwill of HK$40,219,000 arising from acquisition of associates. During the year, the Group had acquired further interests in associates as detailed in note 47(a) and the associates became the subsidiaries of the Group subsequent to the acquisition. The movement of goodwill is set out below:

Group

	HK$'000
2006	
Cost	
At 1 January 2006	40,219
Exchange adjustment	1,491
Transferred to goodwill of the Group *(Note 18)*	(41,710)
At 31 December 2006	–
Accumulated impairment	
At 1 January 2006 and at 31 December 2006	–
2005	
Cost	
At 1 January 2005	28,453
Arising on acquisition of an associate	11,219
Exchange adjustment	547
At 31 December 2005	40,219
Accumulated impairment	
At 1 January 2005 and at 31 December 2005	–
Net book value	
At 31 December 2006	–
At 31 December 2005	40,219

Particulars regarding impairment testing on goodwill as at 31 December 2005 are disclosed in note 21(b).

(c) In August 2006, the Group disposed of an associate to an independent third party, at a consideration of Hk$140,842,000 which resulted with a net gain of HK$124,182,000.

21. IMPAIRMENT ON GOODWILL

As explained in note 6, the Group uses business segment as its primary segment for reporting segment information. For the purpose of impairment testing, goodwill set out in notes 18 and 20 has been allocated to individual cash generating units ("CGUs").

(a) The carrying amount of goodwill (net of accumulated impairment) as at 31 December 2006 allocated to three subsidiaries in the sales of properties segment is as follows:

	2006 **HK$'000**
Sales of properties	
– 上海証大三角洲置業有限公司	**30,043**
– 上海天海有限責任公司	**29,576**
– 嘉興市東方名家房地產開發有限公司	**512**
	60,131

(b) The carrying amount of goodwill (net of accumulated impairment) as at 31 December 2005 allocated to two associates in the sales of properties segment is as follows:

	Goodwill (Included in interests in associates) 2005 HK$'000
Sales of properties	
– 上海証大三角洲置業有限公司	29,000
– 上海天海有限責任公司	11,219
	40,219

During the years ended 31 December 2005 and 2006, the management of the Group determines that there is no impairment of any of its CGUs containing goodwill.

21. IMPAIRMENT ON GOODWILL *(Continued)*

The recoverable amounts of the above CGUs have been determined on the basis of value in use calculations. Their recoverable amounts are based on certain similar key assumptions. All value in use calculations use cash flow projections based on financial budgets approved by the management covering a 5-year period, and a discount rate of 12%. Cash flow projections during the budget period for the CGUs are based on the expected gross margin during the budget period. Budgeted gross margin have been determined based on past performance and management's expectations for the market development.

22. DEPOSITS FOR ACQUISITION OF INVESTMENT PROPERTIES

The amount represents deposits paid for the acquisition of investment properties as detailed in note 47(d).

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
At the beginning of year	**288,461**	–	**134,615**	–
Exchange difference	**11,538**	–	**–**	–
Additions	**219,396**	288,461	**–**	134,615
Transfer to investment properties *(Note 16)*	**(257,112)**	–	**–**	–
Transfer to a subsidiary	**–**	–	**(134,615)**	–
At the end of year	**262,283**	288,461	**–**	134,615

23. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2006	2005
	HK$'000	HK$'000
Unlisted equity securities, at cost	**21,009**	96

23. AVAILABLE-FOR-SALE INVESTMENTS *(Continued)*

The above unlisted investments represent investments in unlisted equity securities issued by private entities established in the PRC. They are measured at cost less impairment at each balance sheet date because the directors of the Company are of the opinion that the fair value cannot be measured reliably.

	Group	
	2006	2005
	HK$'000	HK$'000
Analysed for reporting purpose as:		
Current assets *(Note)*	**3,200**	–
Non-current assets	**17,809**	96
	21,009	96

Note:

In August 2006, the Group signed an agreement with an independent third party to acquire 40% equity interest in a limited liability company ("Investee") established in the PRC at a consideration of HK$3,200,000 and advanced a loan of HK$16,800,000 to the Investee. Pursuant to the agreement, the vendor is entitled to exercise a call option to repurchase the 40% equity interests within one year and the Group is also entitled to exercise a put option to sell the 40% equity interests to the vendor after one year. Upon exercise of these options, the Group is entitled to receive from the vendor a certain sum as stipulated in the agreement. The Group is not entitled to profit distribution from the Investee.

The investment cost of HK$3,200,000 was not classified as investment in an associate under HKAS 28 "Investment in Associates", as the directors believe that the Group is not able to exercise significant influence over the financial and operational decision of the Investee. The investment cost has been classified as available-for-sales financial assets under HKAS 39 "Financial Instruments: Recognition and Measurement".

24. RESTRICTED CASH

The amount represents deposits pledged with the Government of Macau Special Administrative Region for provision of travel and related services.

25. PROPERTIES FOR SALES

	Group	
	2006	2005
	HK$'000	HK$'000
Properties for sales		
– Completed	**123,439**	49,111
– Under development	**2,236,524**	827,784
	2,359,963	876,895

Properties for sales with carrying amount of HK$1,096,350,000 (2005: HK$403,278,000) were pledged to banks to secure bank loans granted to the Group.

Finance costs of approximately HK$59,631,000 (2005: HK$34,163,000) were capitalised in the properties for sales.

26. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables *(Note)*	**80,275**	160,326	**–**	3,932
Deposits	**4,399**	1,310	**191**	190
Prepayments	**26,558**	45,468	**53**	13
Other receivables	**44,996**	59,678	**–**	–
	156,228	266,782	**244**	4,135

26. TRADE AND OTHER RECEIVABLES *(Continued)*

The Group's trade and other receivables that are denominated in currencies other than the functional currency of the Group are set out below:

	Group		Company	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
HK$	**1,543**	2,273	**244**	4,135
Macau Pataca	**570**	623	**–**	–

Note:

The Group generally grants no credit period to its customers on sales of properties, except for certain significant transactions where credit terms or settlement schedules are negotiated on an individual basis. No credit period is granted to rental receivables from leasing of investment properties. A credit period ranging from 30 to 60 days is granted to customers in travel and related services.

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

	Group		Company	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
0-30 days	**2,771**	2,051	**–**	1,050
31-60 days	**883**	1,198	**–**	571
61-90 days	**1,140**	760	**–**	571
91-180 days	**2,909**	155,116	**–**	571
Over 180 days	**72,572**	1,201	**–**	1,169
	80,275	160,326	**–**	3,932

27. DEPOSITS FOR PROPERTY DEVELOPMENT

	Group	
	2006	2005
	HK$'000	HK$'000
Deposits for purchases of land use right	**–**	140,355
Prepayment to property constructors	**64,073**	34,238
	64,073	174,593
Less:		
Impairment loss	**–**	(13,333)
Exchange differences	**–**	(128)
	64,073	161,132

28. INVESTMENTS AT FAIR VALUES THROUGH PROFIT OR LOSS

	Group	
	2006	2005
	HK$'000	HK$'000
Investments at fair value through profit or loss (held for trading)		
– Open-ended mutual funds quoted in the PRC at fair value	**4,000**	1,923
– Equity securities listed in Hong Kong at fair value	**32,086**	908
	36,086	2,831

29. AMOUNTS DUE FROM RELATED COMPANIES

Related companies	Directors having beneficial interests	Group 2006 HK$'000	Group 2005 HK$'000	Maximum amount outstanding during the year HK$'000
上海証大西鎮發展有限公司	Dai Zhikang	**10,580**	–	10,580
上海証大物業管理有限公司	Zhao Hangsheng	**–**	1,031	1,031
証大商業旅遊投資發展有限公司	Dai Zhikang	**–**	6,154	6,154
		10,580	7,185	

The amounts are unsecured, interest free, repayable on demand and in non-trading nature.

30. AMOUNT DUE FROM A MINORITY OWNER OF A SUBSIDIARY

The amount is unsecured, interest free, repayable on demand and in non-trading nature.

31. ASSETS CLASSIFIED AS HELD FOR SALE

As at 31 December 2005, the amount represented investment in 25% of unlisted equity securities issued by a private entity established in the PRC. The investment was acquired exclusively with a view to be disposed to an independent third party. During the year, the Group entered into an agreement with an independent third party to dispose of the investment and the transaction was completed with net gain of HK$22,059,000 and the gain have been included in other income.

32. TRADE AND OTHER PAYABLES

	Group		Company	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Trade payables *(Note)*	**272,459**	159,738	**–**	–
Other payables and accruals	**106,245**	63,475	**700**	347
	378,704	223,213	**700**	347

32. TRADE AND OTHER PAYABLES *(Continued)*

The Group's trade and other payables that are denominated in currencies other than the functional currency of the Group are set out below:

	Group		Company	
	2006	2005	**2006**	2005
	HK'000	HK'000	**HK'000**	HK'000
HK$	**4,793**	3,296	**700**	347
Macau Pataca	**745**	1,158	**–**	–

Note:

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

	Group	
	2006	2005
	HK$'000	HK$'000
0-30 days	**3,161**	8,106
31-60 days	**74,990**	720
61-90 days	**5,304**	38,014
91-180 days	**227**	1,383
181-360 days	**98,449**	88,706
Over 360 days	**68,328**	809
	250,459	137,738
Retention money	**22,000**	22,000
	272,459	159,738

The trade payables mainly represent accrued construction costs payable to contractors and the amounts will be paid upon the completion of cost verification process between the contractors and the Group.

33. AMOUNTS DUE TO RELATED COMPANIES

The amounts were unsecured, interest free, repayable on demand and in non-trading nature. The Company's director, Mr. Dai Zhikang, has beneficial interests in the related companies.

34. AMOUNT DUE TO A MINORITY OWNER OF A SUBSIDIARY

The amount was unsecured, interest free, repayable on demand and in non-trading nature.

35. BANK LOANS

	Group	
	2006	2005
	HK$'000	HK$'000
Secured	**769,314**	373,185
Unsecured *(Note)*	**45,000**	–
	814,314	373,185
Bank loans repayable:		
Within one year	**350,689**	162,530
In the second year	**33,169**	59,203
In the third year	**254,751**	22,113
In the forth year	**36,443**	23,578
In the fifth year	**38,252**	25,138
More than five years	**101,010**	80,623
	814,314	373,185
Less: Amount due within one year shown under current liabilities	**(350,689)**	(162,530)
Amount due after one year	**463,625**	210,655

Bank loans included approximately HK$228,000,000 (2005: HK$334,722,000) fixed-rate borrowings which carry interest ranging from 5.12% to 6.30% (2005: 5.02% to 6.43%) per annum. The remaining bank loans were variable-rate borrowings which carry interest ranging from 4.94% to 6.63% (2005: 6.05% to 6.34%) per annum.

35. BANK LOANS (Continued)

The Group's bank loans that are denominated in currencies other than the functional currency of the Group are set up below:

	Group	
	2006	2005
	HK$'000	HK$'000
HK$	**96,134**	–

Note:

Corporate guarantee had been given by 上海証大投資發展有限公司 ,which is beneficially owned by Mr. Dai Zhikang, a director and substantial shareholder of the Company.

36. TAX PAYABLE

	Group	
	2006	2005
	HK$'000	HK$'000
PRC Enterprise Income Tax payable	**24,524**	36,761
LAT provision *(Note)*		
– attributable to sales in current year	**26,076**	–
– attributable to sales in prior years	**82,052**	–
– arising from acquisition of additional interest in associates	**85,612**	–
	218,264	36,761

Note:

The Group is subject to LAT in the PRC. However, the implementation of these tax varies amongst various PRC cities and the Group has not finalised its LAT returns with various local tax bureaus except the Sichuan project.

For the year ended 31 December 2005, the local tax bureaus in Sichuan province collected the LAT of the development project in Sichuan province. Except for the amount of LAT paid in the Sichuan project, no further provision of LAT had been made for any project for the years prior to 31 December 2005 as the Group has not been required to pay LAT by other local tax bureaus.

Starting from October 2006, the local tax bureaus in Shanghai Pudong New District requested the Group to pay 1% to 2% of the proceeds from sale and pre-sale of the Group's properties in Shanghai Pudong New District. On 28 December 2006, the PRC State Administration of Taxation issued a circular, which will take effect on 1 February 2007 to request real estate developers to settle the final LAT payments in respect of their development projects that meet certain criteria, such as when 85% of a development project has been pre-sold or sold. Local tax bureau, including the Shanghai tax bureaus, are required to issue local implementation in detail. In order to minimise the uncertainties in the accounts due to exposure to the additional LAT liabilities, the Group has provided for LAT in the current year fully in according to the requirements of State Administration of Taxation even though detailed implementation rules and procedures are not issued by the relevant local tax bureaus. In the current year, the Group made LAT provision of gross HK$108,128,000, being HK$26,076,000 for properties sold in the year 2006 and HK$82,052,000 for properties sold in prior years. The remaining HK$85,612,000 was arising from acquisition of additional interest in associates.

37. CONVERTIBLE NOTES

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

	Group and Company		
	Convertible notes due 2008 *(Note (a))* HK$'000	**Convertible notes due 2009** *(Note (b))* HK$'000	**Total** HK$'000
Face value of convertible notes issued	80,000	150,000	230,000
Equity component	(1,034)	(17,769)	(18,803)
Liability component on initial recognition	78,966	132,231	211,197

The movement of liability component of convertible notes was as follows:

	Group and Company		
	Convertible notes due 2008 *(Note (a))* HK$'000	**Convertible notes due 2009** *(Note (b))* HK$'000	**Total** HK$'000
Liability component at 1 January 2005	–	–	–
Arising from initial recognition	78,966	–	78,966
Interest expense *(Note 9)*	3,565	–	3,565
Interest paid	(1,900)	–	(1,900)
Liability component at 31 December 2005	80,631	–	80,631
Arising from initial recognition	–	132,231	132,231
Interest expense *(Note 9)*	4,152	9,028	13,180
Interest paid	(3,897)	(3,000)	(6,897)
Conversion to share capital	(16,200)	–	(16,200)
Liability component at 31 December 2006	64,686	138,259	202,945

37. CONVERTIBLE NOTES *(Continued)*

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

(a) Pursuant to a subscription agreement dated 1 February 2005 made between Value Partners Limited and the Company, the convertible notes in the principal amount of HK$80,000,000 with interest bearing were issued by the Company.

The interest is payable semi-annually in arrears at specified interest rates on the principal amount outstanding from time to time accruing from the date of issue of the convertible notes on a daily basis. The specified interest rates are 4.75% per annum in the first year, 5% per annum in the second year and 5.25% per annum in the third year from 24 February 2005, the date of issue of the convertible notes.

The convertible notes are, at the option of the holder, convertible in the period from the date after three months from 24 February 2005 to 23 February 2008 inclusive, into fully paid ordinary shares of the Company with a par value of HK$0.02 per share, at an initial conversion price of HK$0.24 per share, subject to adjustment under certain events.

On 20 December 2006, the convertible notes in the principal amount of HK$16,200,000 were converted into fully paid shares at a conversion price of HK$0.24 per share, 67,500,000 shares were issued upon conversion.

The fair value of the liability component of the convertible notes at 31 December 2006 amounted to approximately HK$64,686,000. The fair value was calculated using cash flows discounted at a rate based on the borrowings rate of 5.5%.

Interest expense on the convertible notes was calculated using the effective interest method by applying the effective interest rate of 5.5% to the liability component.

37. CONVERTIBLE NOTES *(Continued)*

(b) Pursuant to a subscription agreement dated 24 February 2006 made between Penta Investment Advisers Limited ("Penta Investment") and the Company, the convertible notes in the principal amount of HK$150,000,000 with interest bearing were issued by the Company to Penta Investment.

The interest is payable semi-annually in arrears at 4% per annum in the principal amount outstanding from time to time accruing from 15 March 2006, the date of issue of the convertible notes on a daily basis.

The convertible notes are, at the option of the holder, convertible in the period from 15 March 2006 to 14 February 2009 inclusive, into fully paid ordinary shares of the Company with a par value of HK$0.02 per share, at an initial conversion price of HK$0.24 per share, subject to adjustment under certain events.

The fair value of the liability component of the convertible notes at 31 December 2006 amounted to approximately HK$138,259,000. The fair value was calculated using cash flows discounted at a rate based on the borrowings rate of 8.6%.

Interest expense on the convertible notes was calculated using the effective interest method by applying the effective interest rate of 8.6% to the liability component.

38. DEFERRED TAX LIABILITIES

Details of the deferred tax liabilities recognised and movements during the current and prior years were as follows:

	Group			
	Revaluation of investment properties	**Revaluation of properties for sale**	**Convertible notes**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2005	–	9,204	–	9,204
Credit to income statement for the year	–	(9,204)	–	(9,204)
Arising from acquisitions of additional interest from associates to subsidiaries	–	21,041	–	21,041
At 31 December 2005	–	21,041	–	21,041
Credit to income statement for the year	(2,770)	(13,121)	–	(15,891)
Charge to equity for the year	–	–	3,110	3,110
Arising from acquisitions of additional interest from associates to subsidiaries	–	95,731	–	95,731
Exchange adjustment	–	1,589	–	1,589
At 31 December 2006	(2,770)	105,240	3,110	105,580

	Company
	Convertible notes
	HK$'000
At 1 January 2005 and at 31 December 2005	–
Charge to equity for the year	3,110
At 31 December 2006	3,110

At the balance sheet date, the Group and the Company has unprovided deferred tax liabilities of approximately HK$181,000 (2005: HK$181,000) in respect of the convertible notes.

At the balance sheet date, the Group has unused tax losses of HK$42,929,000 (2005: HK$18,815,000) available for offset against future profits. No deferred tax asset in respect of the tax losses has been recognised due to the unpredictability of future profits streams. Included in unrecognised tax losses are losses of HK$34,787,000 (2005: HK$10,625,000) that will expire in five year's time. Other losses can be carried forward indefinitely.

39. CASH AND CASH EQUIVALENTS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank balances and cash	**587,055**	361,598	**97,354**	28,168

The cash and cash equivalents of the Group and the Company that are denominated in currencies other than the functional currency of the Group are set out below:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
HK$	**217,967**	38,993	**97,354**	28,168
Macau Pataca	**66**	78	**–**	–

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

- Fair value and cash flow interest rate risk
- Foreign exchange risk
- Liquidity risk
- Credit risk

The Group does not hold or issue any financial derivatives for trading purpose nor uses any derivatives or other instrument for hedging purpose.

Fair value and cash flow interest rate risk

The Group is exposed to cash flow interest rate risk on variable-rate bank loans and fair value interest rate risk on fixed-rate bank loans and convertible notes. The management monitors the related cash flow interest rate risk exposure closely and will consider hedging significant cash flow interest rate risk exposure should the need arise.

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

Foreign exchange risk

Foreign exchange risk is the risk of loss due to adverse movement in exchange rate relating to investments and transactions denominated in foreign currencies. The Group's monetary assets, liabilities and transactions are mainly denominated in RMB and HK$. Though the exchange rate between RMB and HK$ is not pegged, there is little fluctuation of exchange rate between RMB and HK$. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Liquidity risk

Internally generated cash flow, bank loans and convertible notes are the general sources of funds to finance the operations of the Group. The Group liquidity risk management includes making available standby banking facilities and diversifying the funding sources. The Group regularly reviews its major funding positions to ensure it has adequate financial resources in meeting its financial obligations.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. The Group has policies in place to determine credit limits, credit approval and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

The credit risk on bank deposits is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies or state-owned banks in the PRC.

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

Fair value

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

41. SHARE CAPITAL

	Company			
Authorised	**2006 Number**	**2006 HK$'000**	2005 Number	2005 HK$'000
Ordinary shares of HK$0.02 each	**10,000,000,000**	**200,000**	10,000,000,000	200,000
Issued and fully paid	**2006 Number**	**2006 HK$'000**	2005 Number	2005 HK$'000
Ordinary shares of HK$0.02 each				
At the beginning of the year	**4,911,238,192**	**98,225**	4,622,887,558	92,458
Other issues for cash during the year *(Note (a))*	**800,000,000**	**16,000**	288,350,634	5,767
Debt conversion rights exercised *(Note (b))*	**67,500,000**	**1,350**	–	–
At the end of the year	**5,778,738,192**	**115,575**	4,911,238,192	98,225

Notes:

During the year, the following changes in the Company's issued share capital took place:

(a) On 5 December 2006, the Company issued 800,000,000 shares at HK$0.315 per share as detailed in note 47(b). The share capital increased by HK$16,000,000 and share premium of HK$236,000,000 was credited to the share premium reserve.

(b) On 20 December 2006, the Company allotted and issued 67,500,000 shares upon the conversion of convertible notes at the conversion price of HK$0.24 per share. The share capital increased by HK$1,350,000 and share premium of HK$14,850,000 was credited to the share premium reserve.

41. SHARE CAPITAL *(Continued)*

Share option scheme

The Company has adopted a share option scheme on 18 July 2002 (the "Share Option Scheme"), for primary purpose of providing incentives to eligible participants. Details of the Share Option Scheme are as follows:

On 18 July 2002, the Company adopted the Share Option Scheme which will expire on 17 July 2012. Pursuant to the terms of the Share Option Scheme, the Company may grant options at a consideration of HK$1 to eligible participants (including directors, shareholders, eligible employees, suppliers and customers of the Company or its subsidiaries) to subscribe for shares in the Company. The exercise price is determined by the directors and shall not be less than the highest of (i) the closing price of the Company's share as quoted on the Stock Exchange on the date of grant, (ii) the average closing price of the Company's shares as quoted on the Stock Exchange for the five trading days immediately preceding the date of grant, and (iii) the nominal value of the Company's shares. Options granted are exercisable at any time during a period to be notified by the board of directors of the Company but limited to a maximum period of ten years after the date on which the options are granted. Options granted should be accepted within 28 days from the date of offer.

The maximum number of the Company's shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other option scheme of the Company shall not exceed 10% of the Company's shares in issue as at the date on which the share option scheme has been adopted (the "Scheme").

The Scheme may be refreshed at any time by the approval of the shareholders in general meeting provided that the total number of the Company's shares which may be issued upon exercise of all options to be granted under Scheme and any other share option schemes of the Company must not exceed 10% of the Company's shares in issue as at the date of such shareholders' approval. For the avoidance of doubt, options previously granted under the Scheme and any other share option schemes (including those outstanding, cancelled, lapsed or exercised in accordance with the Scheme and any other share option schemes of the Company) will not be counted for the purpose of calculating the refreshed 10% limit.

The Company may, by the approval of the shareholders in general meeting, grant options beyond the 10% limit provided that the options in excess of the 10% limit are granted only to participants specifically identified by the Company before shareholders' approval is sought.

41. SHARE CAPITAL *(Continued)*

Share option scheme *(Continued)*

Unless approved by the shareholders as set out herein, the total number of the Company's shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the Company's shares in issue. Where any further grant of options to a participant would result in the Company's shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant in aggregate exceeding 1% of the Company's shares in issue, such further grant must be separately approved by the shareholders in general meeting with such participant and his associates abstaining from voting.

However, the overall limit on the number of the Company's shares which may be issued upon exercise of all options granted under all share option schemes of the Company must not exceed 30% of the shares in issue from time to time.

At the date of this report, no share option has been granted to any participant under the Scheme.

42. RESERVES

Company

	Share premium *(Note (a))* HK$'000	Capital redemption reserve HK$'000	Contributed surplus *(Note (b))* HK$'000	Special capital reserve *(Note (c))* HK$'000	Convertible notes reserve *(Note (d))* HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2005	205,081	1,074	–	68,541	–	(221,487)	53,209
Issue of shares	44,233	–	–	–	–	–	44,233
Equity component of convertible notes	–	–	–	–	1,034	–	1,034
Profit for the year	–	–	–	–	–	129,488	129,488
At 31 December 2005	249,314	1,074	–	68,541	1,034	(91,999)	227,964
Equity component of convertible notes	–	–	–	–	17,769	–	17,769
Deferred tax liabilities	–	–	–	–	(3,110)	–	(3,110)
Reduction of share premium *(Note (b))*	(249,314)	–	157,315	–	–	91,999	–
Issue of shares	236,000	–	–	–	–	–	236,000
Transaction costs attributable to issue of new shares	(7,835)	–	–	–	–	–	(7,835)
Issue of shares upon conversion of convertible notes	14,850	–	–	–	(209)	209	14,850
Loss for the year	–	–	–	–	–	(19,774)	(19,774)
At 31 December 2006	243,015	1,074	157,315	68,541	15,484	(19,565)	465,864

Notes:

(a) Amount subscribed for share capital in excess of nominal value.

(b) Pursuant to a special resolution passed at a special general meeting held on 12 July 2006, the reduction of share premium of HK$249,314,000 was fully set off against the Company's accumulated losses of HK$91,999,000 at 31 December 2005 and the remaining balance of the credit arising therefrom of HK$157,315,000 be transferred to the Company's contributed surplus account.

42. RESERVES *(Continued)*

Notes: (Continued)

(c) The special capital reserve of the Company represents the credit arising from the effect of reduction in share capital in previous years.

(d) Amount of proceeds on issue of convertible notes relating to the equity component (i.e. option to convert the debt into share capital).

43. ACQUISITION OF SUBSIDIARIES

(a) Details of the net assets acquired by the Group during the year ended 31 December 2006 were as follows:

	上海証大三角洲置業有限公司 *(Note (aa))*			嘉興市東方名家房地產開發有限公司 *(Note (ab))*			
	Acquiree's carrying amount before combination HK$'000	**Fair value adjustment** HK$'000	**Fair value** HK$'000	**Acquiree's carrying amount before combination** HK$'000	**Fair value adjustment** HK$'000	**Fair value** HK$'000	**Total** HK$'000
Fair value of net assets acquired							
Property, plant and equipment	9,536	–	9,536	25	–	25	9,561
Goodwill	17,559	–	17,559	–	–	–	17,559
Available-for-sale investments	19,601	–	19,601	–	–	–	19,601
Properties for sales	951,409	579,831	1,531,240	22,189	–	22,189	1,553,429
Trade and other receivables	33,241	–	33,241	112	–	112	33,353
Amount due from an associate	33,410	–	33,410	–	–	–	33,410
Financial assets at fair value through profit or loss	980	–	980	–	–	–	980
Deposits for property development	61,596	–	61,596	20	–	20	61,616
Tax recoverable	4,096	12,591	16,687	–	–	–	16,687
Bank balances and cash	235,471	–	235,471	3,765	–	3,765	239,236
Trade and other payables	(196,245)	–	(196,245)	(5)	–	(5)	(196,250)
LAT payable	–	(83,934)	(83,934)	–	–	–	(83,934)
Receipts in advance	(459,204)	–	(459,204)	–	–	–	(459,204)
Amounts due to a minority owner	(87,059)	–	(87,059)	(3,800)	–	(3,800)	(90,859)
Amounts due to related companies	(455)	–	(455)	(13,159)	–	(13,159)	(13,614)
Bank loans	(350,980)	–	(350,980)	–	–	–	(350,980)
Deferred tax liabilities	(8,756)	(86,975)	(95,731)	–	–	–	(95,731)
Minority interests	(38,996)	(20,049)	(59,045)	(3,659)	–	(3,659)	(62,704)

43. ACQUISITION OF SUBSIDIARIES *(Continued)*

	上海証大三角洲置業有限公司 *(Note (aa))*			嘉興市東方名家房地產開發有限公司 *(Note (ab))*			
	Acquiree's carrying amount before combination	**Fair value adjustment**	**Fair value**	**Acquiree's carrying amount before combination**	**Fair value adjustment**	**Fair value**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Net assets acquireds	225,204	401,464	626,668	5,488	–	5,488	632,156
Interest in associates			(307,067)				(307,067)
Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost *(Note 10)*			(76,464)			–	(76,464)
Goodwill			–			512	512
Total consideration			243,137			6,000	249,137
Satisfied by:							
Cash			243,137			6,000	249,137
Net cash inflow arising on acquisition :							
Cash consideration paid			(243,137)			(6,000)	(249,137)
Cash and cash equivalent acquired			235,471			3,765	239,236
			(7,666)			(2,235)	(9,901)

43. ACQUISITION OF SUBSIDIAIRIES *(Continued)*

Notes:

(aa) The Group acquired additional 51% of the issued share capital of 上海証大三角洲置業有限公司 ("三角洲") and its subsidiaries through a 80% owned subsidiary for a consideration of HK$243,137,000 in July 2006. This transaction has been accounted for using the purchase method of accounting. 三角洲 and its subsidiaries contributed HK$320,773,000 to the Group's turnover and HK$100,965,000 to the Group's profit before tax expense for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2006, the Group's turnover for the year would have been HK$1,402,706,000 and profit for the year would have been HK$254,169,654. The proforma information is for illustrative purpose only and is not necessary and indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2006, nor is it intended to be a projection of future results.

(ab) The Group acquired 60% of the issued share capital of 嘉興市東方名家房地產開發有限公司 for a consideration of HK$6,000,000. This transaction has been accounted for using the purchase method of accounting. 嘉興市東方名家房地產開發有限公司 had no contribution to the Group's turnover and contributed loss of approximately HK$836,000 to the Group's profit before tax expense for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2006, the Group's turnover for the year would have been HK$1,401,553,000 and profit for the year would have been HK$267,804,000. The proforma information is for illustrative purpose only and is not necessary and indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2006, nor is it intended to be a projection of future results.

43. ACQUISITION OF SUBSIDAIRIES *(Continued)*

(b) Details of the net assets acquired by the Group during the year ended 31 December 2005 were as follows:

Fair value of net assets acquired	**Aquiree's carrying amount before combination** HK$'000	**Fair value adjustments** HK$'000	**Fair value** HK$'000
Property, plant and equipment	248	–	248
Properties for sales	134,350	63,763	198,113
Trade and other receivables	13,056	–	13,056
Deposits for property development	3,882	–	3,882
Tax recoverable	159	–	159
Bank balances and cash	7,649	–	7,649
Trade and other payables	(36,440)	–	(36,440)
Receipts in advance	(13,580)	–	(13,580)
Amount due to an associate	(169)	–	(169)
Deferred tax liabilities	–	(21,041)	(21,041)
Minority interests	(9,922)	(3,883)	(13,805)
	99,233	38,839	138,072
Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost *(Note 10)*			(38,072)
Total consideration			100,000
Satisfied by:			
Cash			50,000
Issue of shares *(Note)*			50,000
			100,000
Net cash outflow arising on acquisition:			
Cash consideration paid			50,000
Cash and cash equivalents acquired			(7,649)
			42,351

43. ACQUISITION OF SUBSIDIARIES *(Continued)*

Note:

On 25 June 2005, the Group acquired 100% of the issued share capital of Myway Developments Limited for a consideration of HK$100,000,000. This transaction has been accounted for using the purchase method of accounting.

As part of the consideration for the acquisition of Myway Developments Limited, 288,350,634 ordinary shares of the Company with par value of HK$0.02 each were issued at HK$0.1734 each, which is equivalent to the average closing share price of the Company's share as quoted on the Stock Exchange for the five consecutive trading days up to and including 28 April 2005, being the last trading date immediate prior to the publication of the announcement for the acquisition of subsidiaries dated 4 May 2005.

Myway Developments Limited had no contribution to the Group's turnover and contributed loss of approximately HK$2,000,000 to the Group's profit before tax for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2005, the Group's turnover for last year would have been HK$1,430,834,000 and profit for last year would have been HK$259,481,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2005, nor is it intended to be a projection of future results.

44. RETIREMENT BENEFITS SCHEMES

The Group operates a mandatory provident fund (the "MPF") scheme for all eligible employees in Hong Kong. The assets of the MPF scheme are held separately from those of the Group, in funds under the control of trustees. The retirement benefit cost charged to the consolidated income statement represents contributions payable to the MPF scheme by the Group at rates specified in rules of the MPF scheme.

The Group contributed to a local Municipal Government retirement scheme for all qualified employees in the PRC. The employer and its employees are each required to make contributions to the scheme at the rates specified in the rules. The only obligation of the Group with respect to retirement scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years. The retirement benefit scheme contributions arising from the PRC Municipal Government retirement scheme charged to the income statement represent contributions paid or payable by the Group at rates specified in the rules of the scheme.

45. LEASES

Operating leases – lessee

Minimum lease payments under operating leases of the Group recognised in the income statement during the year in respect of:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Premises	**2,287**	1,907	**761**	1,173

The total future of minimum lease payments are due as follows:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Operating leases which expire				
Within one year	**1,248**	928	**597**	539
In the second to fifth year inclusive	**1,039**	979	**164**	634
	2,287	1,907	**761**	1,173

Operating lease payments in respect of rented premises payable by the Group relate to certain of its office premises. Leases were negotiated for an average term of two years.

45. LEASES *(Continued)*

Operating leases – lessor

The Group's investment properties were leased to number of tenants with leasing period from 10 to 20 years.

The minimum rent receivable under non-cancellable operating leases were as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Within one year	**14,733**	–
In the second to fifth years inclusive	**82,907**	–
After five years	**223,218**	–
	320,858	–

46. CAPITAL COMMITMENTS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Commitments for the property development – contracted for but not provided	**779,517**	334,663	**–**	–
Commitments for acquisition of investment properties – contracted for but not provided	**160,000**	365,885	**–**	134,615

47. RELATED PARTY TRANSACTIONS

(a) On 24 May 2006, the Group entered into an agreement with 上海証大投資發展有限公司, a company in which Mr. Dai Zhikang, director of the Company, has beneficial interest, to acquire a further 51% through a 80% owned subsidiary interest in the Group's existing associate, 上海証大三角洲置業有限公司 at a consideration of RMB248,000,000 (approximately HK$243,137,000). The acquisition was completed during the year.

47. RELATED PARTY TRANSACTIONS *(Continued)*

(b) On 5 December 2006, 800,000,000 shares of the Company were issued to Giant Glory Assets Limited, a company wholly owned by Mr. Dai Zhikang, director of the Company, at HK$0.315 per share, for raising additional working capital of the Company.

(c) On 29 April 2005, the Group entered into an agreement with 上海証大投資發展有限公司, a company which is wholly owned by Mr. Dai Zhikang, a director of the Company, to acquire the entire issued share capital of Myway Developments Limited for an aggregate consideration of HK$100,000,000, which was satisfied by (i) HK$50,000,000 in cash; and (ii) HK$50,000,000 by the allotment and issue of 288,350,634 the Company's shares at HK$0.1734 each.

(d) On 30 June 2005, the Group entered into an agreement with 上海証大商業旅遊投資有限公司 ("証大商旅"), a company in which Mr. Dai Zhikang has beneficial interest, to acquire investment properties for an aggregate consideration of RMB680,000,000. Pursuant to the terms of the agreement, the Group is entitled to receive part of the rental income generated by the investment properties that would be acquired under the agreement commencing from 1 July 2005. The rental income received by the Group is determined with reference to the percentage equivalent to the amount of deposits paid over the consideration of the investment properties. Rental income arising from the deposits amounted to HK$6,228,000 (2005: HK$3,932,000). Corporate guarantee has been given by 証大商旅 to a bank to secure certain bank loans amounted to HK$179,179,000 (2005: HK$191,645,000) granted to the Group.

(e) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Short-term benefits	**4,853**	3,140
Post-employment benefits	**194**	58
	5,047	3,198

The remuneration of directors and key executives is determined by the Board of Directors having regard to the performance of individuals and market trends.

(f) Balances with related parties as at 31 December 2006 are set out in notes 20, 29, 30, 33 and 34 to the financial statements.

48. CONTINGENT LIABILITIES

The Group provided guarantees of HK$8,740,000 at 31 December 2006 (2005: HK$Nil) for customers in favour of banks in respect of the mortgage loans provided by the banks to customers for the purchase of the Group's developed properties. These guarantees provided by the Group to the banks would be released upon receiving the building ownership certificate of the respective property by the banks from the customers as a pledge for security to the mortgage loans granted.

49. SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2006 are as follows:

Name of subsidiary	Place of incorporation/ establishment and operations	Issued share capital/paid-up registered capital	Proportion of nominal value of issued share capital held indirectly by the Group	Principal activities
上海証大置業有限公司 *(Note 2)*	The PRC	RMB200,000,000	80%	Property development
上海証大三角洲置業有限公司*(Note 2)*	The PRC	RMB80,000,000	85%	Property development
上海天海有限責任公司 *(Note 3)*	The PRC	RMB80,000,000	84%	Property development
四川博覽置業有限公司 *(Note 3)*	The PRC	RMB72,000,000	56%	Property development
海門証大濱江置業有限公司 *(Note 2)*	The PRC	US$6,250,000	98%	Property development
揚州証大商旅發展有限公司 *(Note 3)*	The PRC	RMB30,000,000	64%	Property development
吉林市証大華城房地產開發有限公司 *(Note 3)*	The PRC	RMB20,000,000	54%	Property development

49. SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ establishment and operations	Issued share capital/paid-up registered capital	Proportion of nominal value of issued share capital held indirectly by the Group	Principal activities
上海証大藝中房地產開發有限公司 *(Notes 1 & 3)*	The PRC	RMB10,000,000	48%	Property development
嘉興市東方名家房地產開發有限公司 *(Notes 1 & 3)*	The PRC	RMB10,000,000	48%	Property development
上海証大五道口房地產開發有限公司 *(Note 3)*	The PRC	RMB240,000,000	85%	Property development
Wah Kong Travel Limited *(Note 3)*	Hong Kong	HK$1,250,000	60%	Sales of air tickets and provision of travel related services
Wa Kong-Tourism and Travel Agency Limited *(Note 3)*	Macau	MOP1,000,000	60%	Sales of air tickets and provision of travel related services

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

The above table lists the subsidiaries of the Company, which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

49. SUBSIDIARIES *(Continued)*

Notes:

(1) 上海証大藝中房地產開發有限公司 and 嘉興市東方名家房地產開發有限公司 are 60% owned subsidiaries of 上海証大置業有限公司.

(2) The subsidiary was registered as equity joint venture under PRC law.

(3) The subsidiary is a limited liability company.

50. PRINCIPAL ASSOCIATES

Particulars of the Group's principal associates as at 31 December 2005 are as follows:

Name of associate	Place of establishment and operations	Paid-up registered capital	Proportion of nominal value of issued capital held by the Company	Principal activities
上海証大三角洲置業有限公司 *(Note 1)*	The PRC	RMB80,000,000	44%	Property development
上海証大五道口房地產開發有限公司 *(Note 1)*	The PRC	RMB30,000,000	40%	Property development
上海加來房地產開發有限公司 *(Note 2)*	The PRC	RMB20,000,000	22%	Property development
上海天海有限責任公司 ("上海天海") *(Notes 1 & 3)*	The PRC	RMB80,000,000	51%	Property development

Notes:

(1) As detailed in note 47(a), the associates were classified as subsidiaries of the Group.

(2) The associate was disposed of during the year.

(3) Although the Group has 51% indirect effective interest in 上海天海 as at 31 December 2005, the Group has no control in this company. Accordingly, it is classified as an associate of the Group.

None of the associate had any debt securities subsisting at the end of the year or at any time during the year.

51. AMENDMENT TO COMPARATIVE INFORMATION

For the year ended 31 December 2005, LAT of HK$21,660,000 have been reclassified from cost of sales to tax expenses to the consolidated income statement in order to comply with current year presentation.

52. EVENTS AFTER BALANCE SHEET DATE

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("new tax law") which will take effect on 1 January 2008. "Certain subsidiaries in the Group are registered in the Shanghai Pudong New District in the PRC and hence enjoy a preferential income tax rate of 15%. From 1 January 2008, the income tax rate is expected to gradually increase to the standard rate of 25% over a five-year transition period. For those subsidiaries currently subjected to 33% income tax rate, it is expected that the applicable rate will be reduced to 25% from 1 January 2008. However, the new tax law has not set out the details as to how the existing tax rate will gradually increase or decrease to the standard rate of 25%. Consequently, the Group is not able to make an estimate of the expected financial effect of the new tax law on its deferred tax liabilities. The expected financial effect of the new tax law, if any, will be reflected in the Group's 2007 financial statements. The enactment of the new tax law is not expected to have any financial effect on the amounts accrued in the balance sheet in respect of current tax payable.

53. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 11 April 2007.