Notes to the Financial Statements

For the year ended 31 December 2006

1. GENERAL INFORMATION

China Fair Land Holdings Limited (the "Company") is a limited liability company incorporated and domiciled in Bermuda. The address of its registered office is Cannon's Court, 22 Victoria Street, Hamilton HM12, Bermuda and, its principal place of business is in the People's Republic of China (the "PRC"). The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "SEHK").

The principal activities of the Company and its subsidiaries (the "Group") include the property letting, sales of land use rights and developed properties and investment holding. The immediate holding company of the Company is Chance Fair International Development Limited ("Chance Fair"), which is incorporated in Hong Kong. The directors consider the ultimate holding of the Company to be Future Opportunity Limited ("Future Opportunity"), which is incorporated in the British Virgin Islands (the "BVI").

The financial statements on page 26 to 83 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants. The financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the SEHK (the "Listing Rules").

The financial statements for the year ended 31 December 2006 were approved for issue by the board of directors on 25 April 2007.

Notes to the Financial Statements

For the year ended 31 December 2006

2. ADOPTION OF NEW OR AMENDED HKFRSs

2.1 From 1 January 2006, the Group has adopted all the new and amended HKFRSs which are first effective on 1 January 2006 and relevant to the Group. The adoption of these HKFRSs did not result in significant changes in the Group's accounting policies.

2.2 New or amended HKFRSs that have been issued but are not yet effective

The Group has not early adopted the following HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the adoption of such HKFRSs will not result in material financial impact on the Group's financial statements.

Amendment to HKAS 1	Presentation of Financial Statements — Capital Disclosures [5]
HKFRS 7	Financial Instruments: Disclosures [5]
HKFRS 8	Operating Segments [8]
HK(IFRIC) Interpretation 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies [1]
HK(IFRIC) Interpretation 8	Scope of HKFRS 2 [2]
HK(IFRIC) Interpretation 9	Reassessment of Embedded Derivatives [3]
HK(IFRIC) Interpretation 10	Interim Financial Reporting and Impairment [4]
HK(IFRIC) Interpretation 11	Group and Treasury Share Transactions [6]
HK(IFRIC) Interpretation 12	Service Concession Arrangements [7]

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all years presented unless otherwise stated.

The financial statements have been prepared on the historical cost basis except for investment properties and leasehold properties which are stated at fair values. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

3.2 Basis of consolidation

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

3.3 Subsidiaries

Subsidiaries are entities (including special purpose entities) over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

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

3.3 Subsidiaries *(Continued)*

Business combinations (other than combining entities under common control) are accounted for by applying the purchase method. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in preparing the consolidated financial starements. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the Company's balance sheet, subsidiaries are carried at cost less impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

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

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

3.4 Foreign currency translation

The financial statements are presented in Hong Kong Dollars ("HK$"), which is also the functional currency of the Company.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the balance sheet date retranslation of monetary assets and liabilities are recognised in the income statement.

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

3.4 Foreign currency translation *(Continued)*

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

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into HK$. Assets and liabilities have been translated into HK$ at the closing rates at the balance sheet date. Income and expenses have been converted into the HK$ at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been dealt with separately in the translation reserve in equity. Goodwill and fair value adjustments arising on the acquisition of a foreign operation on or after 1 January 2005 have been treated as assets and liabilities of the foreign operation and translated into HK$ at the closing rates. Goodwill arising on the acquisitions of foreign operations before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

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

3.5 Revenue recognition

Revenue arising from the sales of properties held for sale is recognised upon the properties have been delivered to the purchasers and collectibility of related receivables is reasonably assured. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the balance sheet under customers' deposits received.

Sales of land use rights is recognised when the title has passed or when the sale contracts signed become unconditional, whichever is earlier.

Rental income receivable under operating leases is recognised in the income statement in equal instalments over the accounting periods covered by the lease terms, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

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

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

3.6 Borrowing costs

Borrowing costs incurred for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed.

3.7 Goodwill

Goodwill arising on acquisition of a subsidiary represents the excess of the cost of business combination or an investment over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment.

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

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

3.8 Investment properties

Investment properties are land and buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use.

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease.

On initial recognition, investment property is measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment property is stated at fair value. Fair value is determined by external professional valuers, with sufficient experience with respect to both the location and the nature of the investment property. The carrying amounts recognised in the balance sheet reflect the prevailing market conditions at the balance sheet date.

Gains or losses arising from either changes in the fair value or the sale of an investment property is included in the profit or loss for the period in which they arise.

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

3.9 Property, plant and equipment

Leasehold properties are stated at revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent impairment losses.

Fair value is determined in appraisals by external professional valuers with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. Leasehold properties are valued on a market value basis or a depreciated replacement cost basis, as appropriate. The depreciated replacement costs is defined as the land value in its existing use and an estimate of the new replacement costs of the buildings and structures, including fees and finance charges, from which deductions are then made to allow for age, condition and functional obsolescence. All other property, plant and equipment are stated at acquisition cost less accumulated depreciation and accumulated impairment losses.

Any surplus arising on revaluation of leasehold properties is credited to the property, plant and equipment revaluation reserve in equity, unless the carrying amount of that asset has previously suffered a revaluation decrease or impairment loss as described in note 3.10. To the extent that any decrease has previously been recognised in income statement, a revaluation increase is credited to income statement with the remaining part of the increase dealt with in the property, plant and equipment revaluation reserve. A decrease in net carrying amount of leasehold properties arising on revaluations or impairment testing is charged against any revaluation surplus in the revaluation reserve relating to the same asset and the remaining decrease recognised in income statement.

Depreciation is provided to write off the cost or revalued amounts, less their estimated residual values, over their estimated useful lives, using straight-line method, as follows:

Leasehold properties	The shorter of the lease terms and 20 years
Leasehold improvements	The shorter of the lease terms and 5 years
Furniture, fixtures and equipment	5 to 10 years
Plant and machinery	10 years
Motor vehicles	5 years

The gain or loss on retirement or disposal is determined as the difference between the net sales proceeds and the carrying amount of the asset and is recognised in the income statement. Any revaluation surplus remaining in equity is transaction to retained profits on the disposal of leasehold properties.

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 costs, such as repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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

3.10 Impairment of assets

Property, plant and equipment, goodwill and investments in subsidiaries, are subject to impairment testing. They are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

Goodwill and other intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount unless the relevant asset is carried at a revalued amount under the Group's accounting policy, in which case the impairment loss is treated as a revaluation decrease according to that policy (refer to note 3.9 for details). The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest lever within the Group at which the goodwill is monitored for internal management purpose.

Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

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

3.11 Properties under development

Properties under development for future sale in the ordinary course of business, are included in current assets and stated at the lower of cost and net realisable value. Cost comprises the acquisition cost of land, aggregate cost of development, materials and supplies, wages and other direct expenses, an appropriate proportion of overheads and borrowing costs capitalised *(note 3.6)*.

Net realisable value is the estimated selling price in the ordinary course of business less estimated cost of completion and estimated selling expenses.

No depreciation is provided on properties under development.

On completion, the properties are transferred to properties held for sale.

3.12 Properties held for sale

In case of completed properties developed by the Group, cost is determined by apportionment of the total development costs for that development project, attributable to the unsold properties. The cost of completed properties held for sale comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

Properties held for sale are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less estimated selling expenses.

3.13 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the exception of property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease *(see note 3.8)*.

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

3.13 Leases *(Continued)*

(ii) Operating lease charges as the lessee

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement on a straight line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rental are charged to the income statement in the accounting period in which they are incurred.

(iii) Assets leased out under operating leases as the lessor

Assets leased out under operating leases are measured and presented according to the nature of the assets. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the rental income.

Rental income receivable from operating leases is recognised in profit or loss on a straight-line basis over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

3.14 Financial assets

The Group's accounting policies for financial assets other than investments in subsidiaries are set out below.

Financial assets other than hedging instruments are classified into the following categories:

— held-to-maturity investments
— financial assets at fair value through profit or loss
— loans and receivables
— available-for-sale financial assets

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

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

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

3.14 Financial assets *(Continued)*

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

(i) Loans and receivables

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

(ii) Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. All financial assets within this category are subsequently measured at fair value. Gain or loss arising from a change in the fair value is recognised directly in equity, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in equity would be recognised in profit or loss. Interest calculated using the effective interest method is recognised in profit or loss. Upon disposal, the cumulative gain or loss previously recognised in equity is transferred to the income statement.

For available-for-sale investments in equity securities 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.

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

3.14 Financial assets *(Continued)*

Impairment of financial assets

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

(i) Financial assets carried at amortised cost

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

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

(ii) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, an amount is removed from equity and recognised in profit or loss as impairment loss. That amount is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Reversals in respect of investment in equity instruments classified as available-for-sale are not recognised in the income statement. The subsequent increase in fair value is recognised directly in equity. Impairment losses in respect of debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversal of impairment losses in such circumstances are recognised in profit or loss.

(iii) Financial assets carried at cost

The amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

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

3.15 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement.

Deferred tax is calculated using the liability method on temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

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

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised in the income statement, or in equity if they relate to items that are charged or credited directly to equity.

3.16 Cash and cash equivalents

Cash and cash equivalents include cash at banks and in hand, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

3.17 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

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

3.18 Retirement benefit costs and short term employee benefits

Defined contribution plan

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

The employees of the Group's subsidiary which operates in the PRC are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Short-term employee benefits

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

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

3.19 Share-based employee compensation

All share-based payment arrangements granted after 7 November 2002 and had not vested on 1 January 2005 are recognised in the financial statements. The Group operates equity-settled share-based compensation plans for remuneration of its employees.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share options awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

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

3.19 Share-based employee compensation *(Continued)*

All share-based compensation is ultimately recognised as an expense in income statement, with a corresponding increase in equity (share option reserve). If vesting periods or other vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are exercised than originally vested.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

3.20 Financial liabilities

The Group's financial liabilities include account and other payables, customers' deposits received, bank borrowings and amounts due to a director, an intermediate holding company, minority shareholders and related companies.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised as an expense in finance costs in the income statement.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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

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

Bank borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

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

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

3.21 Provisions and contingencies

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

All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

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, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Contingent liabilities are recognised in the course of the allocation of purchase price to the assets and liabilities acquired in a business combination. They are initially measured at fair value at the date of acquisition and subsequently measured at the higher of the amount that would be recognised in a comparable provision as described above and the amount initially recognised less any accumulated amortisaton, if appropriate.

3.22 Financial guarantees issued

A financial guarantee contract is a contract that requires the issuer (or guarantor) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee and the amount of that claim on the Group is expected to exceed the current carrying amount, i.e. the amount initially recognised less accumulated amortisation, where appropriate.

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

3.23 Related parties

A party is considered to be related to the Group if:

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

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

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

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

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

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

3.24 Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format

In respect of business segment reporting, unallocated costs represent corporate expenses. Segment assets consist primarily of investment properties, property, plant and equipment, properties under development, properties held for sale, receivables and operating cash, and mainly exclude corporate assets and available-for-sale investment. Segment liabilities comprise operating liabilities and exclude items such as provision for tax and certain corporate borrowings.

Capital expenditure comprises additions to investment properties and property, plant and equipment, including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, revenue is based on the country in which the customer is located and total assets and capital expenditure are where the assets are located.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

4.1 Critical accounting estimates and assumptions

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

(i) Income taxes

The Group is subject to income taxes in the PRC. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provision in the period in which such determination is made.

(ii) Investment properties and leasehold properties

The investment properties and leasehold properties of the Group were stated at fair value in accordance with the accounting policy stated in notes 3.8 and 3.9 respectively. The fair value of the investment properties and leasehold properties are determined by Savills Valuation and Professional Services Limited ("Savills"), a firm of independent qualified professional surveyors, and the fair value of investment properties and leasehold properties as at respective year end were set out in notes 15 and 16 respectively. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

In making the judgement, consideration has been given to assumptions that are mainly based on market conditions existing at the balance sheet dates and appropriate capitalisation rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group.

(iii) Properties held for sale

Properties held for sale are valued using the cost method, which value properties held for sale at the lower of cost or net realisable value. Cost is determined using the weighted average method. The estimated net realisable value is generally market price less selling expenses. Provision is made when net realisable value of properties held for sale is assessed to be below cost. This assessment requires the use of estimates.

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

4.1 Critical accounting estimates and assumptions *(Continued)*

(iv) Land appreciation tax ("LAT")

The Group is subject to LAT in the PRC. However, the implementation and settlement of this tax varies among various tax jurisdictions in cities of the PRC, and the Group has not finalised its LAT calculation and payments with any local tax authorities in the PRC. Accordingly, significant judgement is required in determining the amount of the land appreciation and its related LAT. The Group recognised LAT based on management's best estimates according to the understanding of the tax rules.

(v) Account receivables

Management considered detailed procedures have been in place to monitor the risk that a significant proportion of the Group's working capital is devoted to account receivables. In determining whether allowance for bad and doubtful debts is required, the Group takes into consideration the aged status and the likelihood of collection. Following the identification of doubtful debts, the responsible sales personnel discuss with the relevant customers and report on the recoverability. Specific allowance is only made for account receivables that are unlikely to be collected. In this regard, the directors of the Company are satisfied that this risk is minimal and adequate allowance for doubtful debts has been made in the consolidated financial statements in light of the historical records of the Group and the circumstances of the industry of sales of land use rights and sales of properties as a whole.

4.2 Criteria judgments in applying the entity's accounting policies

Revenue recognition

The Group has recognised revenue from sale of properties held for sale during the year as disclosed in note 5. The assessment of when an entity has transferred the significant risks and rewards of ownership to buyer requires examination of the circumstances of the transaction. In most cases, the transfer of risks and rewards of ownership coincides with the transfer of the legal title or the passing of possession to the buyer or a completion certificate is issued by the relevant government authorities. The Group believes that its recognition basis of sales as set out in note 3.5 is appropriate and is the current practice in the PRC.

5. REVENUE AND OTHER INCOME

Revenue and other income of the Group during the year are as follows:

	2006 HK$'000	2005 HK$'000
Revenue from the Group's principal activities		
Property letting	**19,707**	15,413
Sales of land use rights	**—**	30,639
Sales of developed properties	**36,975**	61,047
	56,682	107,099
Other income		
Bank interest income	**243**	1,287
Compensation received on termination (net of costs incurred) of a property development project	**4,000**	—
Exchange gains	**5,522**	2,237
Others	**294**	401
	10,059	3,925

6. SEGMENT INFORMATION

Primary reporting segment — business segments

The Group's principal activities are property letting, sales of land use rights and sales of developed properties. These three business segments are the basis on which the Group reports its primary segment information. Segment information about these businesses is presented as below:

2006

	Property letting *HK$'000*	Sales of land use rights *HK$'000*	Sales of developed properties *HK$'000*	Group *HK$'000*
Revenue	19,707	—	36,975	56,682
Segment results	18,530	—	9,079	27,609
Unallocated income				6,059
Unallocated expenses				(31,744)
Operating profit				1,924
Additional land appreciation tax attributable to sales in prior years				(57,332)
Finance costs				(3,749)
Loss before income tax				(59,157)
Income tax credit				20,047
Loss for the year				(39,110)
Segment assets	164,318	77,706	272,462	514,486
Unallocated assets				128,222
Total assets				642,708
Segment liabilities	—	—	150,766	150,766
Unallocated liabilities				181,636
Total liabilities				332,402
Capital expenditure	—	—	9	9
Depreciation	170	—	3,880	4,050
Unallocated portion				13
				4,063
Amortisation charges	—	—	90	90
Other non-cash expenses	492	—	1,086	1,578

6. **SEGMENT INFORMATION** *(Continued)*

Primary reporting segment — business segments *(Continued)*

2005

	Property letting *HK$'000*	Sales of land use rights *HK$'000*	Sales of developed properties *HK$'000*	Group *HK$'000*
Revenue	15,413	30,639	61,047	107,099
Segment results	46,265	18,546	(6,836)	57,975
Unallocated income				3,925
Unallocated expenses				(29,600)
Operating profit				32,300
Finance costs				(5,393)
Profit before income tax				26,907
Income tax expense				(2,163)
Profit for the year				24,744
Segment assets	156,017	71,622	231,151	458,790
Unallocated assets				188,564
Total assets				647,354
Segment liabilities	—	—	85,593	85,593
Unallocated liabilities				225,585
Total liabilities				311,178
Capital expenditure	885	—	4,799	5,684
Depreciation	180	—	3,378	3,558
Unallocated portion				13
				3,571
Amortisation charges	—	—	52	52
Other non-cash expenses	—	—	737	737
Unallocated portion				313
				1,050

6. SEGMENT INFORMATION *(Continued)*

Secondary reporting segment — geographical segments

All of the Group's revenue for both years was generated in the PRC and over 90% (2005: over 90%) of the Group's segment assets were located in the PRC. Accordingly, no geographical segment information is presented.

During the year, over 90% (2005: over 90%) of the Group's capital expenditure took place in the PRC.

7. OPERATING PROFIT

	2006	2005
	HK$'000	*HK$'000*
Operating profit has been arrived at after charging/(crediting):		
Staff costs		
Directors' remuneration *(note 14)*	**4,066**	4,088
Staff retirement benefits scheme contributions	**456**	552
Other staff costs	**5,553**	4,907
Total staff costs	**10,075**	9,547
Depreciation of property, plant and equipment	**4,063**	3,571
Operating lease charges in respect of		
— land and buildings	**603**	884
— office equipment	**11**	11
— prepaid lease payments	**90**	52
Auditors' remuneration		
— current year	**715**	1,064
— underprovision/(overprovision)	**680**	(140)
Provision for impairment on account receivables	**1,086**	737
Rental income less outgoings	**(19,022)**	(14,709)

The Group's cost of properties held for sale recognised as expense for both years is equal to the cost of sales shown in the consolidated income statement.

Depreciation of property, plant and equipment has been expensed in administrative expenses.

8. ADDITIONAL LAND APPRECIATION TAX ATTRIBUTABLE TO SALES OF LAND USE RIGHTS AND PROPERTIES IN PRIOR YEARS

Pursuant to tax notice issued by the relevant local tax authority, the Group commenced paying LAT at rates ranging from 1% to 3% on proceeds of the sale and pre-sale of properties from 2003. In prior years, except for this amount paid to the local tax authorities, no further provision for LAT had been made. The directors considered that the relevant tax authorities would unlikely to impose additional LAT levies other than the amount already paid based on the relevant percentages of the proceeds from the sale and pre-sale of the Group's properties.

Based on the recent announcement of LAT regulations from tax authorities, the Group provided the additional LAT provision in the amount of HK$57,332,000 in respect of the sales of land use rights and properties in prior years in accordance with the latest implementation and administration requirements of LAT regulations.

In 2002, upon the reorganisation and the listing of the Company, Mr. So Pang Gen, International Offshore Development Limited, Chance Fair and Future Opportunity (hereinafter collectively referred to as the "Convenantors"), the beneficial owners of the Company, entered into a deed of tax indemnity with the Company whereby the Convenantors have on joint and several basis, under certain terms and conditions, undertaken to indemnify the Company in respect of the LAT which might be payable by any member of the Group resulting from or by reference to any income, profits or gains earned, accrued or received on or before the date of listing of the Company's shares on the SEHK (the "Listing Date") or by reference to any act, transaction or event occurring or deemed to occur on or before the Listing Date. As at 31 December 2006, the indemnity of LAT from the Convenantors is estimated by the directors of the Company to be HK$7,324,000 which has been included in other receivables *(note 23)* and capital reserve of the Company and of the Group.

9. FINANCE COSTS

	2006	2005
	HK$'000	*HK$'000*
Interest charges on:		
— bank loans wholly repayable within five years	**3,324**	5,194
— amounts due to minority shareholders wholly repayable within five years	**425**	199
	3,749	5,393
Less: Amount capitalised in properties under development	**—**	—
	3,749	5,393

10. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made as the Group had no assessable profit arising from or derived in Hong Kong for both years. The PRC Enterprise Income Tax is calculated at rates applicable to respective subsidiaries.

	2006 *HK$'000*	2005 *HK$'000*
Current tax		
The PRC		
— tax for the year	**454**	1,956
— overprovision in respect of prior years	**—**	(10,207)
	454	(8,251)
Deferred tax		
Current year *(note 32)*	**(20,501)**	10,414
Total income tax (credit)/expense	**(20,047)**	2,163

Reconciliation between income tax expense and accounting (loss)/profit at applicable tax rates:

	2006 *HK$'000*	2005 *HK$'000*
(Loss)/profit before income tax	**(59,157)**	26,907
Tax at PRC income tax rate of 33% (2005: 33%)	**(19,522)**	8,879
Tax effect of non-deductible expenses	**1,571**	462
Tax effect of non-taxable revenue	**(5,717)**	(3,144)
Tax effect of unrecognised tax losses	**3,858**	6,177
Effect of different tax rates of subsidiaries operating in the other jurisdictions	**(389)**	19
Overprovision and reversal of provisions in respect of prior years	**—**	(10,207)
Others	**152**	(23)
Income tax (credit)/expense	**(20,047)**	2,163

11. LOSS/PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY FOR THE YEAR

Of the consolidated loss attributable to the equity holders of the Company of HK$22,469,000 (2005: profit of HK$20,459,000), a loss of HK$7,701,000 (2005: HK$8,096,000) has been dealt with in the financial statements of the Company.

12. DIVIDENDS

(a) Dividends attributable to the year

	2006	2005
	HK$'000	*HK$'000*
Proposed final dividend of HK Nil cent per share (2005: HK1.0 cent)	—	2,926

No final dividend has been proposed for the year. For the year ended 31 December 2005, the final dividend proposed after the balance sheet date had not been recognised as a liability at the balance sheet date, but reflected as an appropriation of retained profits for the year ended 31 December 2005.

(b) Dividends attributable to the previous financial year, approved and paid during the year

	2006	2005
	HK$'000	*HK$'000*
Final dividend in respect of the previous financial year, of HK1.0 cent per share (2005: HK1.0 cent)	**2,926**	2,926

13. LOSS/EARNINGS PER SHARE

The calculation of basic loss/earnings per share is based on the loss attributable to equity holders of the Company of HK$22,469,000 (2005: profit of HK$20,459,000) and on 292,600,000 (2005: 292,600,000) ordinary shares in issue during the year.

Diluted loss per share for the year ended 31 December 2006 and diluted earnings per share for the year ended 31 December 2005 were not presented because the impact of the exercise of the share options was anti-dilutive.

14. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

Details of directors' remuneration on a named basis are as follows:

	Fees	Salaries, allowances and other benefits	Equity settled share based payment expenses	Retirement benefits costs	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2006					
Executive directors					
Mr. So Pang Gen	**—**	**1,930**	**—**	**—**	**1,930**
Mr. Lam Hon-Keung, Keith	**—**	**390**	**—**	**—**	**390**
Mr. Choi Dun Woo	**—**	**872**	**—**	**12**	**884**
Mr. Su Bangyuan	**—**	**650**	**—**	**12**	**662**
Independent non-executive directors					
Mr. Hui Yip Wing, David	**80**	**—**	**—**	**—**	**80**
Mr. Kee Wah Sze	**60**	**—**	**—**	**—**	**60**
Mr. Ku Siu Fung, Stephen	**60**	**—**	**—**	**—**	**60**
	200	**3,842**	**—**	**24**	**4,066**
2005					
Executive directors					
Mr. So Pang Gen	—	1,785	22	—	1,807
Mr. Lam Hon-Keung, Keith	—	390	31	4	425
Mr. Choi Dun Woo	—	846	58	12	916
Mr. Su Bangyuan	—	758	42	12	812
Independent non-executive directors					
Mr. Hui Yip Wing, David	30	—	19	—	49
Mr. Kee Wah Sze	30	—	19	—	49
Mr. Ku Siu Fung, Stephen	30	—	—	—	30
Total emoluments	90	3,779	191	28	4,088

14. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

For the year ended 31 December 2006, the five highest paid individuals of the Group included four directors (2005: four directors), details of which are included above. The emoluments of the remaining one highest paid individual (2005: one individual) is as follows:

	2006	2005
	HK$'000	*HK$'000*
Salaries, allowances and other benefits	**325**	347
Share option benefits expenses	**—**	15
Performance related incentive payments	**12**	12
	337	374

The emoluments of the remaining one individual (2005: one individual) fall within the band of nil to HK$1,000,000.

No emoluments were paid by the Group to the directors or highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2005: Nil). None of the directors waived or agreed to waive any emoluments during the year (2005: Nil).

15. INVESTMENT PROPERTIES — GROUP

All of the Group's property interest held under operating leases to earn rentals or for capital appreciation purpose are measured using the fair value model and are classified and accounted for as investment properties.

Changes to the carrying amount presented in the balance sheet can be summarised as follows:

	2006	2005
	HK$'000	*HK$'000*
Carrying amount at 1 January	**150,296**	14,123
Currency realignment	**5,430**	272
Additions	**—**	885
Disposals	**(1,606)**	—
Transfer from properties under development	**—**	91,325
Transfer from properties held for sale	**592**	12,135
(Loss)/gain on change in fair value	**(492)**	31,556
Carrying amount at 31 December	**154,220**	150,296

15. INVESTMENT PROPERTIES — GROUP *(Continued)*

The Group's interests in investment properties at their carrying amount are analyzed as follows:

	2006	2005
	HK$'000	*HK$'000*
Under long term leases	**23,020**	21,924
Under medium term leases	**131,200**	128,372
Carrying amount at 31 December	**154,220**	150,296

The Group's investment properties are situated in the PRC and majority of the investment properties are rented out under operating leases. The investment properties were valued on market value basis at 31 December 2006 by Savills. The market value which would define as intended to mean the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The decrease in fair value of investment properties of approximately HK$492,000 (2005: increase in HK$31,556,000) has been charged (2005: credited) to the consolidated income statement.

At 31 December 2006, certain investment properties with net carry amount of approximately HK$119,500,000 (2005: HK$116,346,000) were pledged to secure bank loans of the Group *(note 31)*.

Notes to the Financial Statements

For the year ended 31 December 2006

16. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold properties *HK$'000*	Leasehold improvements *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Plant and machinery *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
At 1 January 2005						
Cost or valuation	26,385	4,892	2,993	278	3,713	38,261
Accumulated depreciation	(1,654)	(823)	(1,452)	(90)	(2,559)	(6,578)
Net book amount	24,731	4,069	1,541	188	1,154	31,683
Year ended 31 December 2005						
Opening net book amount	24,731	4,069	1,541	188	1,154	31,683
Currency realignment	476	63	28	3	23	593
Additions	2,551	—	135	—	—	2,686
Transfer	4,132	(4,132)	—	—	—	—
Revaluation	245	—	—	—	—	245
Transfer from properties under development	6,696	—	—	—	—	6,696
Depreciation	(3,178)	—	(220)	(13)	(160)	(3,571)
Closing net book amount	35,653	—	1,484	178	1,017	38,332
At 1 January 2006						
Cost or valuation	41,110	—	3,184	283	3,785	48,362
Accumulated depreciation	(5,457)	—	(1,700)	(105)	(2,768)	(10,030)
Net book amount	35,653	—	1,484	178	1,017	38,332
Year ended 31 December 2006						
Opening net book amount	35,653	—	1,484	178	1,017	38,332
Currency realignment	900	—	59	7	40	1,006
Additions	8	—	1	—	—	9
Revaluation	1,384	—	—	—	—	1,384
Depreciation	(3,524)	—	(410)	(13)	(116)	(4,063)
Closing net book amount	34,421	—	1,134	172	941	36,668
At 31 December 2006						
Cost or valuation	44,462	—	2,940	294	3,936	51,632
Accumulated depreciation	(10,041)	—	(1,806)	(122)	(2,995)	(14,964)
Net book amount	34,421	—	1,134	172	941	36,668

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

The Group's leasehold properties are situated in the PRC and were valued at 31 December 2006 at the value of HK$34,421,000 (2005: HK$35,653,000) by Savills on a market value basis or a depreciated replacement cost basis, as appropriate. The revaluation surplus of approximately HK$1,384,000 (2005: HK$245,000) has been credited to the property, plant and equipment revaluation reserve.

If leasehold properties had not been revalued, they would have been included in these financial statements at historical cost less accumulated depreciation of approximately HK$37,749,000 (2005: HK$39,305,000).

At the balance sheet date, the building ownership certificates of certain leasehold properties of approximately HK$25,509,000 (2005: HK$24,337,000) have not yet been obtained. The land use rights certificates of these leasehold properties have already been obtained and the net carrying amount of HK$4,151,000 (2005: HK$4,064,000) have been included in prepaid lease payments *(note 17)*. In the opinion of the independent PRC legal advisors of the Group, the Group is entitled to obtain the building ownership certificates without legal impediment.

The analysis of the cost or valuation of the above assets is as follows:

	Leasehold properties *HK$'000*	Leasehold improvements *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Plant and machinery *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
At 31 December 2005						
— at cost	—	—	3,184	283	3,785	7,252
— at valuation	41,110	—	—	—	—	41,110
	41,110	—	3,184	283	3,785	48,362
At 31 December 2006						
— at cost	—	—	2,940	294	3,936	7,170
— at valuation	44,462	—	—	—	—	44,462
	44,462	—	2,940	294	3,936	51,632

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

Company

	Furniture, fixtures and equipment HK$'000
At 1 January 2005	
Cost	63
Accumulated depreciation	(26)
Net book amount	37
Year ended 31 December 2005	
Opening net book amount	37
Depreciation	(13)
Closing net book amount	24
At 1 January 2006	
Cost	63
Accumulated depreciation	(39)
Net book amount	24
Year ended 31 December 2006	
Opening net book amount	24
Additions	1
Depreciation	(12)
Closing net book amount	13
At 31 December 2006	
Cost	64
Accumulated depreciation	(51)
Net book amount	13

17. PREPAID LEASE PAYMENTS — GROUP

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

	2006	2005
	HK$'000	*HK$'000*
Opening net carrying amount	**4,862**	2,749
Currency realignment	**195**	52
Additions	**—**	2,113
Annual charges of prepaid lease payments	**(90)**	(52)
Closing net carrying amount	**4,967**	4,862
Current portion	**(90)**	(86)
Non-current portion	**4,877**	4,776

18. AVAILABLE-FOR-SALE FINANCIAL ASSETS — GROUP

	2006	2005
	HK$'000	*HK$'000*
Unlisted investment, at cost	**2,000**	—

The investment represents the Group's interest in unlisted equity holding in 中國房地產開發集團投資有限公司 (the "Investee"), a company established in the PRC. The Group held a 2% effective equity interest in the Investee. The investment has no fixed maturity date.

19. INVESTMENTS IN SUBSIDIARIES — COMPANY

	2006	2005
	HK$'000	*HK$'000*
Unlisted investments, at cost	**128,074**	128,074
Due from subsidiaries	**—**	64,056
Interests in subsidiaries	**128,074**	192,130

The balances with subsidiaries are unsecured, interest-free and repayment on demand. The directors of the Company consider that the amounts due from subsidiaries at 31 December 2005 were not repayable within the next twelve months from 31 December 2005.

19. INVESTMENTS IN SUBSIDIARIES — COMPANY *(Continued)*

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

Name	Place/country of incorporation/ establishment and operations	Particulars of issued/ registered capital	Percentage of issue/registered capital held by the Company	Principal activities
長春長信國際房地產開發有限公司 Changchun Changxin International Real Estate Development Co., Ltd [1]	PRC for a term of 15 years commencing from 1993	RMB40,000,000	80%	Property development
China Fair Land (Changchun) Limited	Hong Kong	Ordinary HK$2 Non-voting deferred HK$10,001 [2]	100%	Investment holding
China Fair Land (Qingdao) Limited	Hong Kong	Ordinary HK$2	100%	Investment holding
China Fair Land (Shenyang) Limited	Hong Kong	Ordinary HK$2	100%	Investment holding
China Fair Land (Suzhou) Limited	Hong Kong	Ordinary HK$2	100%	Investment holding
China Fair Land (Nanjin) Limited	Hong Kong	Ordinary HK$10,002	100%	Investment holding
China Fair Land (Ningbo) Limited ("China Fair Land Ningbo")	Hong Kong	Ordinary HK$2 Non-voting deferred HK$10,000 [2]	100%	Investment holding
China Fair Land Properties Limited	BVI	Ordinary US$221	100%	Investment holding
China Fair Land (Shanghai) Limited	Hong Kong	Ordinary HK$2 Non-voting deferred HK$10,002 [2]	100%	Investment holding

19. INVESTMENTS IN SUBSIDIARIES — COMPANY *(Continued)*

Name	Place/country of incorporation/ establishment and operations	Particulars of issued/ registered capital	Percentage of issue/registered capital held by the Company	Principal activities
Falcon Fair Development Limited	Hong Kong	Ordinary HK$2 Non-voting deferred HK$10,002 [2]	100%	Investment holding and property investment
青島正輝廣夏房地產開發有限公司 Qingdao Zhenghuiguangsha Real Estate Development Co., Ltd. [1]	PRC for a term of 20 years commencing from 2003	RMB20,000,000	70%	Inactive
寧波拓展房地產開發有限公司 Ningbo Tuozhan Real Estate Development Co., Ltd. ("Ningbo Tuozhan") [1]	PRC for a term of 15 years commencing from 1989	RMB20,000,000	37.5% [3]	Property development
上海正輝房地產開發有限公司 Shanghai Chance Fair Real Estate Development Co., Ltd. [1]	PRC for a term of 70 years commencing from 1999	US$3,000,000	98%	Property development
寧波市江北眾城房地產開發有限公司	PRC for a term of 10 years commencing from 2004 [1]	RMB10,000,000	33.75% [4]	Property development
寧波盛世置業有限公司	PRC for a term of 20 years commencing from 2005	RMB6,000,000	26.25% [5]	Property development
Co-operative joint venture:				
幸福苑合作發展開發項目 Fortune Garden Joint Venture Project [1]	PRC for a period of time to complete the project commencing from 1992	US$12,112,472	65.63%	Property development

19. INVESTMENTS IN SUBSIDIARIES — COMPANY *(Continued)*

[1] These are equity joint ventures established in the PRC.

[2] The rights and restrictions of the non-voting deferred shares of these subsidiaries are out in paragraph (c) of the section headed "Group reorganisation" in Appendix VI of prospectus dated 22 May 2002 issued by the Company.

[3] On 15 September 1995, China Fair Land Ningbo, a wholly-owned subsidiary of the Company, entered into an irrecoverable agreement (the "1995 Agreement") with 中國房地產開發公司寧波公司 ("Ningbo CSREDC"), a 25% joint venture owner of Ningbo Tuozhan at the time of the 1995 Agreement. Pursuant to the 1995 Agreement, Ningbo CSREDC agreed to cooperate with China Fair Land Ningbo in the management of Ningbo Tuozhan, including the voting by the directors appointed to the board of Ningbo Tuozhan by Ningbo CSREDC, and acting-in-concert with the directors appointed by China Fair Land Ningbo.

On 11 May 2001, China Fair Land Ningbo and Ningbo CSREDC entered into a confirmation and agreement (the "2001 Confirmation") confirming that the directors appointed to the board of Ningbo Tuozhan by Ningbo CSREDC since the signing of the 1995 Agreement have always been voting in concert with and in accordance with the instructions of the directors appointed by China Fair Land Ningbo.

In 2003, Ningbo CSREDC transferred its entire 25% equity interest in Ningbo Tuozhan to four of its employees who became the new 25% joint venture owners of Ningbo Tuozhan (the "New 25% Owners"). On 30 September 2003, China Fair Land Ningbo entered into an agreement with the New 25% Owners that the New 25% Owners agreed to continue to cooperate with China Fair Land Ningbo in accordance with the 1995 Agreement and the 2001 Confirmation, including the voting by the directors appointed to the board of Ningbo Tuozhan by the New 25% Owners and acting-in-concert with the directors appointed by China Fair Land Ningbo.

Based on the above-mentioned documents, the Company's directors consider that the Group holds more than one half of the voting power in the board of directors of Ningbo Tuozhan and effectively controls the financial and operating policies of Ningbo Tuozhan. Accordingly, the Company regards Ningbo Tuozhan as a subsidiary and accounts for as such in these financial statements.

[4] Ningbo Tuozhan holds 90% equity interest in this company and the Company's directors consider that the Group holds more than one half of the voting power in the board of directors of this company.

[5] Ningbo Tuozhan holds 70% equity interest in this company and the Company's directors consider that the Group holds more than one half of the voting power in the board of directors of this company.

20. PROPERTIES UNDER DEVELOPMENT — GROUP

	2006	2005
	HK$'000	*HK$'000*
Carrying amount of leasehold land	**166,234**	88,644
Development costs	**3,821**	1,506
Borrowing costs capitalised	**—**	—
Carrying amount at 31 December	**170,055**	90,150

The amount of properties under development expected to be recovered after more than one year is HK$144,985,000 (2005: HK$90,150,000). All of the other properties under development are expected to be recovered within one year.

20. PROPERTIES UNDER DEVELOPMENT — GROUP *(Continued)*

The properties under development are situated in the PRC and held under the following lease terms:

	2006	2005
	HK$'000	*HK$'000*
Under long term leases	**1,515**	2,237
Under medium term leases	**168,540**	87,913
Carrying amount at 31 December	**170,055**	90,150

21. PROPERTIES HELD FOR SALE — GROUP

Properties held for sale included leasehold interests in land located in the PRC with lease terms expiring from 33 years to 70 years.

At 31 December 2006, certain properties held for sale in the carrying amount of HK$5,534,000 (2005: HK$5,534,000) were held under the name of Mr. Su Chi Ming ("Mr. CM Su") on behalf of the Group. Mr. CM Su is a brother of Mr. Su Bangyuan, a director of the Company. On 12 November 2005, the Group entered into an agreement with Mr. CM Su in connection with the execution of the aforesaid arrangement (the "CM Su Agreement"). In the opinion of the PRC legal advisors of the Group, the CM Su Agreement is legally binding and enforceable in accordance with the PRC jurisdictions.

At 31 December 2006, certain properties held for sale with net carrying amount of approximately HK$25,776,000 (2005: HK$46,017,000) were pledged to secure bank loans of the Group *(note 31)*.

22. ACCOUNT RECEIVABLES — GROUP

	2006 *HK$'000*	2005 *HK$'000*
Account receivables	**34,973**	39,408
Less: Provision for impairment of account receivables	**(2,116)**	(1,030)
	32,857	38,378

An aged analysis of the net account receivables is as follows:

	2006 *HK$'000*	2005 *HK$'000*
Within three months	**5,831**	7,276
Four months to one year	**4,534**	17,490
Between one to two years	**12,920**	7,211
Over two years	**9,572**	6,401
	32,857	38,378

There is no concentration of credit risk with respect to account receivables, as the Group has a large number of customers.

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2006 ***HK$'000***	2005 *HK$'000*	**2006** ***HK$'000***	2005 *HK$'000*
Prepayments	**28,370**	44,875	**—**	—
Deposits	**9,751**	28,963	**246**	86
Other receivables *	**42,084**	33,630	**7,324**	—
	80,205	107,468	**7,570**	86

* Included in other receivables of the Company and of the Group as at 31 December 2006, approximately HK$7,324,000 (2005: Nil) is the estimated amount indemnified by the Convenantors in relation to the LAT attributable to sales of properties before the Listing Date *(note 8)*.

24. BALANCES WITH AN INTERMEDIATE HOLDING COMPANY — GROUP AND COMPANY

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

25. BALANCES WITH RELATED COMPANIES — GROUP AND COMPANY

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

Particulars of amounts due from related companies, disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, are as follows:

Group

	China Fair Land (Wuhan) Limited *HK$'000*	China Fair Land (Tianjin) Limited *HK$'000*	南京華僑房產開發建設有限公司 *HK$'000*	Total *HK$'000*
At 31 December 2006	**3**	**10**	**50**	**63**
At 1 January 2006	—	—	—	—
Maximum amount outstanding during the year	**3**	**10**	**50**	

Company

	China Fair Land (Wuhan) Limited *HK$'000*	China Fair Land (Tianjin) Limited *HK$'000*	Total *HK$'000*
At 31 December 2006	**2**	**10**	**12**
At 1 January 2006	—	7	7
Maximum amount outstanding during the year	**2**	**10**	

Mr. So Pang Gen, a director of the Company, is connected with these related companies.

26. CASH AT BANKS AND IN HAND — GROUP

Cash at banks earns interest at floating rates based on daily bank deposit rates.

Included cash at banks and in hand of the Group is HK$16,952,000 (2005: HK$49,386,000) of bank balances denominated in Renminbi ("RMB") placed with banks in the PRC. RMB is not a freely convertible currency. However, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

27. ACCOUNT PAYABLES — GROUP

The aging analysis of account payables as at 31 December 2006 is as follows:

	2006	2005
	HK$'000	*HK$'000*
Within three months	**366**	341
Four months to one year	**—**	318
Over one year	**34,843**	49,437
	35,209	50,096

28. CUSTOMERS' DEPOSITS RECEIVED, ACCRUED EXPENSES, OTHER PAYABLES AND PROVISIONS

	Group		**Company**	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Customers' deposits received	**2,030**	983	**—**	—
Accrued expenses	**3,248**	119	**2,486**	2,361
Other payables	**94,125**	61,368	**—**	—
Provisions	**60,617**	—	**—**	—
	160,020	62,470	**2,486**	2,361

Customers' deposits received represented instalments of sales proceeds received from buyers in connection with the Group's pre-sale of properties. Customers' deposits received are expected to be recognised as revenue of the Group within one year.

29. DUE TO A DIRECTOR — GROUP AND COMPANY

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

30. DUE TO MINORITY SHAREHOLDERS — GROUP

	2006	2005
	HK$'000	*HK$'000*
Interest bearing advances	**6,474**	2,497
Non-interest bearing advances	**168**	83
	6,642	2,580

The amounts due are unsecured and have no fixed terms of repayment. The interest paid was charged at interest rate of 6.12% (2005: 5.85%) per annum on the interest bearing advances.

31. BANK BORROWINGS

	Group		**Company**	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Non-current				
Bank loans, secured	**—**	29,546	**—**	—
Current				
Bank loans, secured	**39,988**	39,418	**—**	—
Bank overdrafts, unsecured	**—**	5	**—**	5
	39,988	39,423	**—**	5
Total bank borrowings	**39,988**	68,969	**—**	5

31. BANK BORROWINGS *(Continued)*

At 31 December 2006, the Group's bank borrowings were repayable as follows:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within one year	**39,988**	39,423	**—**	5
In the second year	**—**	29,546	**—**	—
	39,988	68,969	**—**	5

Bank loans of the Group are secured by the pledge of certain of the investment properties and properties held for sale of the Group. The aggregate carrying value of the investment properties and properties held for sale at 31 December 2006 pledged amounted to approximately HK$119,500,000 *(note 15)* and HK$25,776,000 *(note 21)* respectively.

At the balance sheet date, the Group had outstanding bank borrowings of HK$39,988,000 (2005: HK$68,969,000) of which HK$21,000,000 (2005: HK$39,423,000) carry fixed interest rate at 5.49% per annum (2005: ranging from 5.31% to 5.49% per annum) and the remaining HK$18,988,000 (2005: HK$29,546,000) bear floating interest rate at HIBOR plus 2.4% (2005: HIBOR plus 2.4%) per annum.

The Group's bank borrowings are denominated in the following currencies:

	2006	2005
	HK$'000	*HK$'000*
Hong Kong dollars	**18,988**	29,551
Renminbi	**21,000**	39,418
	39,988	68,969

The carrying amounts of the Group's bank borrowings approximate to their fair value.

32. DEFERRED TAX — GROUP

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 33% (2005: 33%).

The movement on deferred tax liabilities during the year is as follows:

	Revaluation of properties	
	2006	2005
	HK$'000	*HK$'000*
At 1 January	**13,557**	3,055
Currency realignment	**493**	8
(Credited)/charge to income statement *(note 10)*	**(497)**	10,414
Charged to property, plant and equipment revaluation reserve	**365**	30
Charged to minority interests	**92**	50
At 31 December	**14,010**	13,557

The movement on deferred tax assets during the year is as follows:

	Provisions	
	2006	2005
	HK$'000	*HK$'000*
At 1 January	**—**	—
Credited to the income statement *(note 10)*	**20,004**	—
At 31 December	**20,004**	—

At the balance sheet date, the Group had estimated unused tax losses of approximately HK$14,727,000 (2005: HK$196,000) available to offset against future assessable profits. No deferred taxation asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. The tax losses arose in the PRC can be carried forward for five years and the tax losses arose elsewhere other than in the PRC can be carried forward indefinitely.

33. SHARE CAPITAL

	2006		2005	
	Number of shares	***HK$'000***	*Number of shares*	*HK$'000*
Authorised:				
Ordinary shares of HK$0.10 each	**1,000,000,000**	**100,000**	1,000,000,000	100,000
Issued and fully paid:				
Ordinary shares of HK$0.10 each	**292,600,000**	**29,260**	292,600,000	29,260

34. SHARE-BASED EMPLOYEE COMPENSATION

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 15 May 2002 (the "Adoption Date") for the primary purpose of providing incentives to directors and eligible employees. Under the Scheme, the directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. The Scheme will remain in force for ten years from the Adoption Date (the "Scheme Period").

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

Options granted are exercisable in accordance with the terms of the Scheme at any time during a period of 2 years commencing on the date on which the offer of the grant of the options is made, which must not exceed the last day of the Scheme Period, upon payment of HK$1 per option within a vesting period of 28 days from the offer of the grant of the options.

The exercise price is determined by the directors of the Company, and would not be less than the higher of the average closing price of the shares on the Stock Exchange on the five trading days immediately preceding the date of offer of the options; the closing price of the shares on the Stock Exchange on date of offer; and the nominal value of the shares.

All share-based employee compensation will be settled in equity. The Group has no legal or constructive obligation to repurchase or settle the options.

34. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

Movement of options granted under the Scheme in a prior year is as follows:

	Exercise price HK$	Date of grant	Vesting period	Exercise period	Outstanding at 1 January 2006	Lapsed during the year	Outstanding at 31 December 2006
Executive directors of the Company	0.36	27 September 2005	27 September 2005 to 25 October 2005	27 September 2005 to 26 September 2007	1,980,000	—	1,980,000
Independent non-executive directors of the Company	0.36	27 September 2005	27 September 2005 to 25 October 2005	27 September 2005 to 26 September 2007	500,000	—	500,000
Employees of the Group	0.36	27 September 2005	27 September 2005 to 25 October 2005	27 September 2005 to 26 September 2007	1,570,000	(70,000)	1,500,000
					4,050,000	(70,000)	3,980,000

During the year, no option has been granted by the Company nor exercised by the grantee under the Scheme. 70,000 options granted to an employee of the Group were lapsed during the year, following the termination of her employment contract with the Group.

In accordance with HKFRS 2, fair value of share options granted to employees determined at the date of grant is expensed over the vesting period, with a corresponding adjustment to the Group's share option reserve. In the current year, no share option expense with a corresponding adjustment made in the Group's share options reserve has been recognised in the income statement (2005: HK$313,000).

The fair value of the share options determined at the date of grant using the Black-Scholes option pricing model, taken into account the terms and conditions upon which the share options were granted.

The following assumptions were used to calculate the fair value of share options granted on 27 September 2005.

Weighted average share price	HK$0.36
Exercise price	HK$0.36
Expected life of options	1 year
Expected volatility	55%
Expected dividend yield	2.78%
Risk free rate	3.91%
Estimated fair value of option at grant date	HK$0.08
Closing share price immediately before date of grant	HK$0.36

34. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

Notes:

(i) The volatility measured at the standard deviation of expected share price returns is based on a statistical analysis of daily share prices over 1 year immediately preceding the grant date.

(ii) The above calculation is based on the assumption that there is no material difference between the expected volatility over the whole life of the options and the historical volatility of the shares in the Company set out above.

(iii) Because the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate.

35. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 32 of the financial statements.

Special reserve

The special reserve of the Group represents the difference between the aggregate nominal value of the share capital of the Company's subsidiaries acquired and the nominal value of the shares issued by the Company prior to a group reorganisation.

35. RESERVES *(Continued)*

(b) Company

	Share premium HK$'000	Special reserve HK$'000	Capital reserve HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2005	33,450	127,961	—	—	(39,577)	121,834
Equity settled share based payment expenses	—	—	—	313	—	313
Loss for the year	—	—	—	—	(8,096)	(8,096)
Proposed final dividends	—	—	—	—	(2,926)	(2,926)
At 31 December 2005 and 1 January 2006	33,450	127,961	—	313	(50,599)	111,125
Forfeiture of lapsed shares under share option scheme	—	—	—	(5)	5	—
Capital contributions arising on shareholders' indemnity *(note 8)*	—	—	7,324	—	—	7,324
Loss for the year	—	—	—	—	(7,701)	(7,701)
At 31 December 2006	33,450	127,961	7,324	308	(58,295)	110,748

The special reserve of the Company represents the difference between the aggregate of the net assets value of the Company's subsidiaries acquired and the nominal value of the shares issued by the Company prior to a group reorganisation.

36. OPERATING LEASE COMMITMENTS

At 31 December 2006, the total future minimum lease payments under non-cancellable operating leases are payable by the Group as follows:

	2006		2005	
	Office premises **HK$'000**	**Office equipment** **HK$'000**	Office premises HK$'000	Office equipment HK$'000
Within one year	**898**	**—**	173	11
In the second to fifth years	**408**	**—**	173	8
	1,306	**—**	346	19

The Company does not have any significant operating lease commitments.

37. FUTURE OPERATING LEASE ARRANGEMENTS

At 31 December 2006, the Group had future aggregate minimum lease receipts under non-cancellable operating leases as follows:

	2006	2005
	HK$'000	*HK$'000*
Within one year	**15,703**	12,886
In the second to fifth years	**62,092**	51,543
After fifth years	**122,284**	114,898
	200,079	179,327

The Group leases its investment properties *(note 15)* under operating lease arrangements which run for an initial period of 2 to 15 years, with an option to renew the lease terms at the expiry date or at dates as mutually agreed between the Group and the respective tenants. The terms of the leases generally also require the tenants to pay security deposits.

The Company does not have any minimum lease receipts under non-cancellable operating leases.

38. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with related parties:

	2006	2005
	HK$'000	*HK$'000*
Finance costs paid to minority shareholders *(note 9)*	**425**	199
Rental expenses paid to an intermediate holding company	**193**	382

The Group entered into a sub-tenancy agreement with an intermediate holding company on 22 May 2001 pursuant to which the intermediate holding company agreed to sub-lease a portion of the office premises to the Group. The sub-tenancy agreement was renewed for a term commencing from 22 May 2004 to 21 May 2005 (both dates inclusive) and 22 May 2005 to 21 May 2006 (both dates inclusive) at a monthly rental of approximately HK$32,000, exclusive of other charges. The agreement has been expired during the year.

38. RELATED PARTY TRANSACTIONS *(Continued)*

Key management personnel compensation

Included in staff costs are key management personnel compensation and comprises the following categories:

	2006	2005
	HK$'000	*HK$'000*
Short term employee benefits	**4,403**	4,256
Equity settled share based payment expenses	**—**	206
	4,403	4,462

39. CONTINGENT LIABILITIES

(a) At 31 December 2006, the Group provided guarantees of approximately HK$16,030,000 (2005: HK$15,394,000) to banks in favour of its customers in respect of the mortgage loans provided by the banks to such customers for 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 loan granted. At the balance sheet date, no provision for the Group's obligation under these guarantee contracts have been made as the directors considered that it was not probable that the repayment of the loan would be in default.

The directors consider that in case of default in payments, the net realizable value of the related properties can cover the repayment of the outstanding mortgage principals together with the accrued interest and penalty and therefore no provision has been made in the financial statements for the guarantees.

(b) The State Administration of Taxation of the PRC issued a circular as Guo Shui Han [2004] No. 938 on 2 August 2004, to strengthen levy of LAT on property developers. In the opinion of the directors, after consulting with the Group's PRC tax consultants and meeting with the officials responsible for LAT of the local tax authorities of the relevant cities in which the Group has property development projects, LAT will not be levied in respect of properties already completed in certain cities, while for other cities, land appreciation is calculated according to certain deemed rates assessed by the local tax bureaux. Accordingly, full provisions for LAT have not been made in the consolidated financial statements in prior years. The Group has not, however, been able to secure written confirmations from the relevant local tax authorities.

39. CONTINGENT LIABILITIES *(Continued)*

(b) Under the Implementation Regulations on the Provisional Regulations of the PRC on LAT promulgated on 13 December 1993, all appreciation values from transfer of real estate in the PRC from 1 January 1994 is subject to LAT at progressive rates up to 60%. Based on the circular issued by the Ministry of Finance of the PRC on 27 January 1995, an exemption to LAT is applicable to those property development contracts signed before 1 January 1994, or those related project proposals approved before 1 January 1994 and whose capital for the development has been injected according to the contract. The exemption to LAT in respect of the first transfer of real estate expired on 31 December 1998. On 24 December 1999, the Ministry of Finance of the PRC issued a circular to further extend the exemption period of LAT from 1 January 1999 to 31 December 2000. The directors of the Company consider that, after taking into consideration of the opinion obtained from its legal advisors in the PRC and other professional advisors, and the results of discussions with local tax authorities in the PRC, the Group is eligible for the application of the exemption to LAT for the sales of land use rights and developed properties before 31 December 2000. Should such levies take place, then LAT for the period from 1 January 2001 to 31 December 2006 has to be provided for in the consolidated financial statements. In prior years, the estimated LAT amounts had been disclosed as contingent liabilities.

However, the State Administration of Taxation recently issued a circular Guo Shui Han [2006] No. 187 (the "Circular 187") to tighten up the implementation and administration of the LAT. In order to comply with the Circular 187, during the year, the directors of the Company assessed and provided for the estimated LAT amounts attributable to sales of land use rights and properties in prior years *(note 8)*. As at 31 December 2006, there is no contingent liabilities regarding LAT.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks which result from both its operating and investing activities. The Group's risk management is coordinated at its headquarters, in close co-operation with the board of directors, and focuses on actively securing the Group's short to medium term cash flows by minimising the exposure to financial markets.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed to are described below.

40.1 Cash flow and interest rate risks

The Group has no significant interest bearing assets apart from cash at banks. The Group currently has amounts due to minority shareholders and bank borrowings with fixed and floating interest rates as disclosed in notes 30 and 31 respectively.

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

40.2 Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual amount due from group companies and account receivable at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

40.3 Foreign currency risk

The Group collects all of its revenue in RMB and most of the expenditure incurred in the operation as well as capital expenditure are also denominated in RMB.

Most account and other receivables and certain bank borrowings of the Group are denominated in RMB. 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 arises.

40.4 Fair values

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

41. POST BALANCE SHEET EVENTS

On 15 February 2007, the Group entered into an agreement with the local government in Ningbo, the PRC in regard to a compensation received amounting to RMB21,000,000 for a return of land use rights previously granted by the local authority.

Except as those disclosed elsewhere in the financial statements, the Group had no other significant post balance sheet events.