1. GENERAL

New City (China) Development Limited (the "Company") was incorporated in the Cayman Islands on 10th August 1998 with limited liability. The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information section to the annual report.

The consolidated financial statements are presented in Hong Kong dollars, being the measurement currency of the Company and its subsidiaries (the "Group").

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are property development in the People's Republic of China (the "PRC").

2. BASIS OF PRESENTATION

As at 31st December 2006, the Group had net current liabilities of approximately HK$185 million (2005: HK$157 million). Also, as at the same date, the Group had net deficiencies of approximately HK$195 million (2005: HK$166 million). Further, the Group incurred a loss of approximately HK$33 million (2005: HK$21 million) for the year ended 31st December 2006.

The consolidated financial statements have been prepared on a going concern basis, notwithstanding that the Group had net deficiencies as at 31st December 2006.

As explained in Note 23, the Group has certain bank borrowings totaling approximately HK$90 million (2005: HK$163 million) and such amounts have become repayable on demand. Also, other borrowings as explained in Note 24 at the amount of approximately HK$70 million (2005: HK$210 million) become overdue during the year of 2006. In the opinion of the directors, the liquidity of the Group can be maintained in the forthcoming year, after taking into consideration of the following financing and operating measures:

In 2003, the Group entered into a conditional agreement with China Network Communications Group Corporation ("CNC"), an independent third party, in relation to certain financial and construction arrangements for the property under development for sale. Pursuant to the agreement, the Group agreed, subject to satisfaction of certain conditions precedent, to dispose to CNC the property under development upon completion for an aggregate consideration of approximately RMB2,007 million (equivalent to approximately HK$2,007 million). The consideration is to be settled by a cash consideration of approximately RMB1,557 million (equivalent to approximately HK$1,557 million) payable in eight separate installments and the remaining by properties at an agreed value of approximately RMB450

2. BASIS OF PRESENTATION *(Continued)*

million (equivalent to approximately HK$450 million). Up to 31st December 2006, installment payments from CNC of approximately RMB1,512 million (equivalent to HK$1,512 million) have been received (Note 21). The installments are to solely finance the development of the property. The conditions precedent to the completion of the sale include, among other things, passing of the examinations of the completed property by relevant government authorities and the satisfaction of certain quality standards as required by CNC. The project is currently under the preparation stage of registration. The directors consider that the remaining installment payments to be received by the Group will be sufficient to enable the Group to complete the project and the Group is able to satisfy the conditions precedent to the sale.

The management of the Group is negotiating with its bankers and creditors for the rescheduling or extension of the existing loan facilities and amounts due to creditors. The directors are confident that, on the basis that the disposal of the property under development for sale will be successfully completed and the property as described above be self-financing, and assumed the negotiations with the bankers and creditors can be satisfactorily concluded, the Group will be able to meet in full its overdue loans and financial obligations as they fall due in the foreseeable future.

During the year, the directors have taken actions to tighten cost controls over various general and administrative expenses. The directors expect that the cost control measures adopted will improve the profitability and cash flows of the Group.

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

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are either effective for accounting periods beginning on or after 1st December 2005 or 1st January 2006. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following area:

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

Financial guarantee contracts

In the current year, the Group has applied Hong Kong Accounting Standard ("HKAS") 39 and HKFRS 4 (Amendments) "*Financial guarantee contracts*" which is effective for annual periods beginning on or after 1st January 2006. A financial guarantee contract is defined by HKAS 39 "*Financial Instruments: Recognition and Measurement*" as "a contract that requires the issuer 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 original or modified terms of a debt instrument".

Prior to 1st January 2006, financial guarantee contracts were not accounted for in accordance with HKFRS 4 "*Insurance Contract*" and those contracts were disclosed as contingent liabilities. A provision for financial guarantee was only recognised when it was probable that an outflow of resources would be required to settle the financial guarantee obligation and the amount can be estimated reliably.

Upon the application of these amendments, a financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 "*Provisions, Contingent Liabilities and Contingent Assets*"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "*Revenue*".

In relation to a financial guarantee granted to banks over the repayment of a loan by an independent third party. The directors consider that the fair value of the financial guarantee contract at the date of grant is insignificant with reference to the valuation carried out by an independent professional valuer. Accordingly, the adoption of this HKAS 39 and HKFRS 4 (Amendments) has no material effect on how the results for the current or prior accounting periods have been prepared and presented.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective as at 31st December 2006. The directors of the Company anticipate that the application of these new standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

Hong Kong Accounting Standard ("HKAS") 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments [2]
HK(IFRIC)- Interpretation ("Int") 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC)-Int 8	Scope of HKFRS 2[4]
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives[5]
HK(IFRIC)-Int10	Interim Financial Reporting and Impairment[6]
HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury Share Transactions[7]
HK(IFRIC)-Int 12	Service Concession Arrangements[8]

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

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amounts of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Revenue recognition

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Plant and equipment

Plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Plant and equipment *(continued)*

Depreciation is provided to write off the cost of items of plant and equipment over their estimated useful lives and after taking into account of their estimated residual value of up to 10%, using the straight-line method as stated below:

Furniture, fixtures and equipment	20% to 50%
Motor vehicles	20%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Property under development for sale

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

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

Impairment losses

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment losses *(continued)*

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

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

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

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefit costs

Payments to the Group's defined contribution retirement benefits plans, state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as expense when employees have rendered service entitling them to the contributions.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are generally classified as loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policy adopted is set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including other receivables) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(continued)*

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified as other financial liabilities. The accounting policies adopted in respect of other financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including trade and other payables, advances from customers, obligations under finance lease, bank borrowings and other borrowings are subsequently measured at amortised cost, using the effective interest method.

Convertible bond

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(continued)*

Financial liabilities and equity (continued)

Convertible bond *(continued)*

Transaction costs relating to the issuance of the convertible bond are charged to the profit and loss immediately.

Equity instruments

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

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer 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 original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designed as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 "*Provisions, Contingent Liabilities and Contingent Assets*"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "*Revenue*".

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in Note 4, management has made the following judgments that have significant effect on the amounts recognised in the consolidated financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

(a) Estimated impairment on property under development for sale

As explained in Note 4, the carrying value of property under development for sale is dependent on estimating the net realisable value, which is with reference to the total outcome of the construction contract, as well as the estimated cost of completion and direct selling expenses on disposal. Based on the Group's recent experience and the nature of the construction activity undertaken by the Group, the Group makes best estimates of the costs to completion and the net realisable value of the property under development for sale. However, actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the balance sheet date, which would affect the carrying amount of the property under development for sale at 31st December 2006.

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

(b) Income taxes

As at 31st December 2006, the Group did not recognise deferred tax assets in respect of its unused tax losses of approximately HK$2,939,000 (2005: HK$2,939,000) due to the uncertainty of its utilisation in future years. Realisation primarily involves judgement regarding the future performance of the particular legal entity in which the deferred tax asset has not been recognised. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portions or all of the deferred tax assets will ultimately be realised, such as existence of taxable temporary differences and the periods in which estimated tax losses can be utilised. The Group reviews at each balance sheet date its tax position to see whether there is sufficient convincing evidence that sufficient taxable profits will be available within the utilisation periods to allow utilisation of the unused tax losses and to recognise the relevant tax assets.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments are other receivables, trade and other payables, advances from customers, obligations under finance lease, bank and other borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

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

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

6. FINANCIAL RISK MANAGMENT OBJECTIVES AND POLICIES *(Continued)*

Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing financial assets and liabilities. Interest bearing financial assets are mainly balances with banks which are short-term in nature. Interest bearing financial liabilities are mainly bank borrowings and other borrowings with floating and fixed rates, respectively (Notes 23 and 24). The Group is exposed to interest rate risk through the impact of rate changes on interest bearing bank borrowings.

Liquidity risk

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

Foreign currency risk

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

The Group is paying regular and active attention to Renminbi exchange rate fluctuation and consistently assess foreign currency risk.

Fair value of the financial assets and financial liability

The Group reviews at each balance sheet date the fair value of its financial assets (including other receivables) and financial liabilities (including trade and other payables, advances from a customer, obligations under finance lease, bank and other borrowings). Based on the best estimation of the directors, the carrying values of the financial assets and financial liabilities approximates to the corresponding carrying amount due to their short-term maturities.

7. TURNOVER AND SEGMENT INFORMATION

The Group generated no turnover for the year since the property was still under development as at 31st December 2006, no profit nor revenue was therefore recognised.

For the two years ended 31st December 2006 and 2005, the Group was only operated in property development and no business segment information is presented accordingly.

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

8. OTHER INCOME

	2006 **HK$'000**	2005 HK$'000
Interest income	**2**	279
Exchange gain	**—**	346
Reversal of impairment loss recognised in respect of other receivables	**1,495**	—
	1,497	625

9. FINANCE COSTS

	2006 **HK$'000**	2005 HK$'000
Interest on:		
— bank borrowings wholly repayable within five years	**8,558**	15,723
— other borrowings wholly repayable within five years	**10,000**	6,287
— convertible bond (Note 26)	**471**	392
— finance lease	**2**	6
Total borrowing costs	**19,031**	22,408
Less: amounts capitalised in property under development for sale	**(8,558)**	(15,723)
	10,473	6,685

Borrowing costs capitalised during the year arose on general borrowing pool and are calculated by applying a capitalisation rate of 6.336% — 10.395% per annum (2005: 6.000% — 6.336%) to expenditure on qualifying assets.

10. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the five (2005: six) directors were as follows:

For the year ended 31st December 2006

	Han Junran HK$'000	Fu Yiu Kwong HK$'000	Chan Yiu Tung, Anthony HK$'000	Wong Shing Kay, Oliver HK$'000	Zheng Qing HK$'000	Total HK$'000
Fees	—	824	120	120	120	1,184
Other emoluments						
— Salaries and other benefits	1,950	216	—	—	—	2,166
— Contributions to retirement benefits schemes	—	12	—	—	—	12
Total emoluments	1,950	1,052	120	120	120	3,362

For the year ended 31st December 2005

	Han Junran HK$'000	Fu Yiu Kwong HK$'000	Tam Biu Sing, Joseph HK$'000 (Note 1)	Chan Yiu Tung, Anthony HK$'000	Wong Shing Kay, Oliver HK$'000	Zheng Qing HK$'000	Total HK$'000
Fees	—	824	—	120	120	120	1,184
Other emoluments							
— Salaries and other benefits	1,950	216	—	—	—	—	2,166
— Contributions to retirement benefits schemes	—	12	—	—	—	—	12
Total emoluments	1,950	1,052	—	120	120	120	3,362

Note 1: Retired on 23rd June 2005

During the two years ended 31st December 2006 and 2005, no emoluments were paid by the Group to the directors as inducement to join or upon joining the Group or as compensation for loss of office. In addition, no director waived any emoluments in both years.

11. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2005: two) were directors of the Company whose emoluments are disclosed in Note 10 above. The emoluments of the remaining three (2005: three) individuals were as follows:

	2006 **HK$'000**	2005 HK$'000
Salaries and other benefits	**845**	975
Contributions to retirement benefits schemes	**33**	36
	878	1,011

Their emoluments were all within HK$1,000,000.

No emoluments have been paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group, or as compensation for loss of office during the two years ended 31st December 2006 and 2005.

12. INCOME TAX EXPENSE

Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profit for the year. No provision for Hong Kong Profits Tax has been made as the Group has no assessable profit subject to Hong Kong Profits Tax for the two years ended 31st December 2006 and 2005.

The group companies operating in the PRC are subject to the PRC enterprise income tax at a rate of 33% (2005: 33%). No provision for PRC enterprise income tax for both years as there is no assessable profit for the two years ended 31st December 2006 and 2005.

12. INCOME TAX EXPENSE *(Continued)*

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

	2006 **HK$'000**	2005 HK$'000
Loss before taxation	**(32,909)**	(21,026)
Tax at the domestic income tax rate of 33% (2005: 33%)	**(10,860)**	(6,939)
Tax effect of expenses not deductible	**7,837**	5,728
Effect of different tax rates of subsidiaries operating in other jurisdictions	**3,023**	1,211
Tax expense for the year	**—**	—

Note: The domestic tax rate which is PRC enterprise income tax in the jurisdiction whether the operation of the Group is substantially based is used.

The Group had no significant unprovided deferred taxation as at 31st December 2006 and 31st December 2005.

At 31st December 2006, the Group has unused tax losses of approximately HK$2,939,000 (2005: HK$2,939,000) available to offset against future profits. No deferred tax asset has been recognised in respect of these tax losses due to the unpredictability of future profit streams.

13. LOSS FOR THE YEAR

	2006 HK$'000	2005 HK$'000
Loss for the year has been arrived at after charging:		
Auditors' remuneration	400	420
Depreciation of plant and equipment		
— owned assets	744	929
— leased assets	20	20
	764	949
Net foreign exchange loss	6,353	—
Penalty interest for late payment for business tax in the PRC (Note)	3,117	—
Staff costs		
— salaries allowances and benefits in kind	4,834	4,670
— contribution to retirement benefits schemes	64	63
Total staff costs (including directors' remuneration)	4,898	4,733

Note: Beijing Zhong Zheng Real Estate Development Co., Limited ("BJCSB"), the subsidiary in the PRC holding the property under development for sale, is subject to the PRC business tax at 5% of advances received from CNC. The balance represented the penalty interest for the late payment to the PRC tax bureau.

14. DIVIDEND

No dividend was paid or proposed during the year ended 31st December 2006, nor has any dividend been proposed since the balance sheet date (2005: Nil).

15. LOSS PER SHARE

The calculation of the basic loss per share for the year is based on the loss for the year of approximately HK$32,909,000 (2005: HK$21,026,000) and the weighted average of 271,758,000 (2005: 271,758,000) ordinary shares in issue during the year.

No diluted loss per share has been presented for two years ended 31st December 2006 and 2005 as there were no diluting events existed during those years.

16. PLANT AND EQUIPMENT

	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
COST			
At 1st January 2005	2,630	5,727	8,357
Exchange adjustments	32	65	97
Additions	220	396	616
At 31st December 2005 and 1st January 2006	2,882	6,188	9,070
Exchange adjustments	55	108	163
Additions	116	—	116
At 31st December 2006	3,053	6,296	9,349
DEPRECIATION			
At 1st January 2005	1,404	4,130	5,534
Exchange adjustments	16	21	37
Provided for the year	596	353	949
At 31st December 2005 and 1st January 2006	2,016	4,504	6,520
Exchange adjustments	30	43	73
Provided for the year	387	377	764
At 31st December 2006	2,433	4,924	7,357
CARRYING VALUES			
At 31st December 2006	620	1,372	1,992
At 31st December 2005	866	1,684	2,550

The carrying value of motor vehicles includes an amount of approximately HK$26,000 (2005: HK$46,000) in respect of assets held under finance leases.

17. PROPERTY UNDER DEVELOPMENT FOR SALE

	2006 **HK$'000**	2005 HK$'000
At cost	**1,720,280**	1,564,583

The property under development for sale represents China Securities Plaza ("CSP"), a property development project in Beijing, the PRC. At 31st December 2006, the Group pledged the property under development for sale with an aggregate carrying value of approximately HK$1,720,280,000 (2005: HK$1,564,583,000) to secure bank loans granted and amounts payable in respect of land development cost totaling approximately HK$118,430,000 (2005: HK$190,798,000).

During the year ended 31st December 2003, the shareholders of the Company approved the disposal of 49% interest in a then wholly-owned subsidiary, Tong Sun Limited ("Tong Sun"), which holds indirectly the above property under development to Starry Joy Properties Investment Ltd ("Starry Joy"). The sale transaction includes, among other things, Starry Joy to subscribe for 49 new shares in Tong Sun and grant an interest-free loan up to HK$165 million and an interest bearing loan of HK$45 million from the holding company of Starry Joy to the Company. Details of the transaction have been disclosed in the circular to the shareholders dated 3rd June 2003. However, as the loans from Starry Joy were overdue on 31st December 2005, therefore an amount of HK$55 million included in the interest-free loan became interest bearing at an interest rate of 10% per annum as from 1st July 2005 (Note 24 (iii)).

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

The property under development for sale was valued at 31st December 2006 on an open market basis by Greater China Appraisal Limited, an independent valuer at approximately RMB2,100,000,000 (2005: RMB1,798,000,000). The directors are of the opinion that no impairment loss is necessary as at 31st December 2006 (2005: Nil).

18. PREPAYMENTS AND OTHER RECEIVABLES

	2006 HK$'000	2005 HK$'000
Interest-free loan (Note i)	**35,254**	36,783
Amount due from a minority equity owner of a subsidiary of the Group (Note 30(c))	**107,000**	102,885
Advance due from a minority equity owner of a subsidiary of the Group (Note ii)	**12,617**	12,617
Amount due from a former director (Note ii)	**2,460**	2,460
Temporary advances	**25,505**	25,260
Prepaid expenses and deposits	**2,570**	5,302
	185,406	185,307

Notes:

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

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

Included in prepayment and other receivables are the amounts denominated in a currency other than the measurement currency of the Group to which they relate:

	2006 RMB'000	2005 RMB'000
Interest-free loan	**35,254**	38,254
Amount due from a minority equity owner of a subsidiary of the Group	**107,000**	107,000
Advance due from a minority equity owner of a subsidiary of the Group	**—**	—
Amount due from a former director	**—**	—
Temporary advances	**6,270**	6,270
Prepaid expenses and deposits	**1,966**	3,687
	150,490	155,211

19. BANK BALANCES AND CASH

	2006 HK$'000	2005 HK$'000
Bank balances and cash	**64,084**	125,904

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

	2006 RMB'000	2005 RMB'000
Renminbi	**63,862**	124,573

20. TRADE PAYABLES

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

	2006 HK$'000	2005 HK$'000
Within 3 months	**73,297**	98,995
4-6 months	**—**	11,039
7-9 months	**—**	7,160
10-12 months	**—**	21,988
Over 1 year	**110,569**	80,268
	183,866	219,450

21. ADVANCES FROM A CUSTOMER

Advances from a customer mainly represent the installment payments received in respect of the property which is under development for sale (Note 17).

22. OBLIGATIONS UNDER FINANCE LEASE

	Minimum lease payments		Present value of minimum lease payments	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance leases				
Within one year	**—**	50	**—**	47
Less: Future finance charges	**—**	(3)	**—**	—
	—	47	**—**	47
Less: Amounts due within one year shown under current liabilities	**—**	—	**—**	(47)
Amounts due after one year			**—**	—

It is the Group's policy to lease certain of its plant and equipment under finance leases. The average lease term is 3 years. For the year ended 31st December 2006, the average effective borrowing rate was 3% (2005: 4.5%) p.a.. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

23. BANK BORROWINGS

	2006	2005
	HK$'000	HK$'000
Overdue bank loans — secured	**90,000**	163,462

The bank borrowings are denominated in Renminbi and repayable on demand. The bank borrowings bear annual interest rate varying from 5.28% to 9.504% per annum (2005: from 6.039% to 6.336%). The carrying value of the bank loans approximates their fair value. As explained in Note 2, pursuant to the loan agreement dated 10th November 2005, the loans should be repaid in full on 9th October 2006. The directors consider that the bank would not demand for immediate repayment as disclosed in Note 2.

24. OTHER BORROWINGS

	2006 HK$'000	2005 HK$'000
Secured interest-free loan — repayable on demand (Notes i and ii)	**110,000**	110,000
Overdue interest bearing loan (Notes i, iii and iv)	**70,000**	100,000
Interest bearing loan from the then subscriber of the convertible bond (Note v)	**30,000**	—
	210,000	210,000

Notes:

(i) The above loans represent the loans granted to the Group pursuant to the disposal of 49% interest in Tong Sun (Note 17).

(ii) As at 31st December 2006, an amount of HK$110,000,000 is secured on the shares in the Company held by a director and a former director. It was originally interest-free and for a term of 2 years from June 2003 repayable on maturity and was to be applied exclusively to finance the working capital requirements of the property under development for sale. On 25th October 2005, a second supplemental agreement ("Second Supplemental Agreement") was signed which extended the repayment date. Pursuant to the Second Supplemental Agreement, Tong Sun agreed to transfer to Starry Joy such portion of the office building owned by CNC located at Xicheng District, Beijing ("Consideration Property") to be transferred to BJCSB pursuant to the agreement dated 23rd December 2003 entered between BJCSB and CNC ("PRC Subsidiary Agreement"), to be agreed by the party/ parties which has/have an aggregate appraisal value (as determined by a professional valuer, who is an independent third party, to be engaged by Tong Sun to value the Consideration Property upon completion of the transfer to BJCSB from CNC pursuant to the PRC Subsidiary Agreement and such aggregate appraisal value shall be confirmed by Starry Joy and Tong Sun) equivalent to the full amount of the said balance as soon as practicable after completion of transfer of the Consideration Property to BJCSB.

(iii) As at 31st December 2006, an amount of HK$55,000,000 is secured on the shares in the Company held by a director and a former director. It was originally interest-free and for a term of 2 years from June 2003 repayable on maturity and was to be applied exclusively to finance the working capital requirements of the property under development for sale. On 25th October 2005, a second supplemental agreement was signed which extended the repayment date up to 31st December 2005 and the Group is under negotiation to further extend the repayment date. Due to the extension of repayment, the balance of HK$55,000,000 became interest bearing at an interest rate of 10% per annum as from 1st July 2005. The said loan was overdue since 31st December 2005 and the management of the Group is negotiating with the creditor for the rescheduling or extension of the amounts due to the creditor.

24. OTHER BORROWINGS *(Continued)*

Notes: *(continued)*

(iv) As at 31st December 2006, an amount of HK$15,000,000 (2005: HK$45,000,000) is unsecured was originally for a term of 2 years from June 2003 and borne interest at the rate of 6% per annum. Further, it was originally repayable in one lump sum upon maturity and was to be applied to finance the general working capital and settlement of trade payable of the Group. On 25th October 2005, a supplemental facility letter was signed to extend the repayment date up to 31st December 2005 and the interest rate was revised to 10% per annum with effect from 1st July 2005. The said loan was overdue since 31st December 2005 and the management of the Group is negotiating with the creditor for the rescheduling or extension of the amounts due to the creditor.

(v) As at 31st December 2006, an amount of HK$30,000,000 (2005: Nil) were unsecured, bear interest of the prime lending rate from time to time quoted by The Hongkong and Shanghai Banking Corporation Limited for Hong Kong dollar deposits (“Prime Rate”) plus 4% per annum and represented the consideration of the convertible bond received in advance (Note 33(b)).

(vi) The Group’s other borrowings are denominated in HKD.

25. PROVISIONS

The amount represents the provision for the claim from 北京太陽紅投資諮詢有限公司 (“Beijing Tai Yang Hong”) an independent third party. On 19th January 2006, the Beijing Arbitration Committee made an arbitration award in favor of Beijing Tai Yang Hong that the agreement dated 6th June 2003 for the purchase of the entire 12th Floor of the CSP entered into between Beijing Tai Yang Hong and BJCSB, the 51% indirect owned subsidiary of the Group be cancelled and that the sum of approximately RMB14 million being refund of the purchase price paid and RMB0.8 million being damages be paid by BJCSB to Beijing Tai Yang Hong. BJCSB has applied to the People’s Court in Beijing for stay of enforcement of such award and has been advised by independent qualified PRC legal advisers, Beijing Zhongpu Law Firm that it has grounds to challenge such award. The court is expected to have a ruling in around 1 year’s time during which time the award cannot be enforced. The provision amount represented the management’s best estimate of the financial impact of the claim.

26. CONVERTIBLE BOND

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

26. CONVERTIBLE BOND *(Continued)*

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

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

	2006 **HK$'000**	2005 HK$'000
Carrying amount at the beginning of the year	**11,866**	11,774
Interest expenses (Note 9)	**471**	392
Interest paid	**(360)**	(300)
Liability component at 31st December 2006	**11,977**	11,866

The fair value of the liability component of the convertible bond at 31st December 2006, determined based on the present value of the estimated future cash outflows discounted at the prevailing marketing rate for an equivalent non-convertible bond at the balance sheet date, was approximately HK$11,977,000.

27. SHARE CAPITAL

	Number of shares '000	**HK$'000**
Ordinary shares of HK$0.001 each		
Authorised:		
At 1st January 2005, 31st December 2005 and 31st December 2006	500,000	500
Issued and fully paid:		
At 1st January 2005, 31st December 2005 and 31st December 2006	271,758	272

Neither the Company nor any of the subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

28. OPERATING LEASE COMMITMENTS

The Group made approximately HK$1,824,000 (2005: HK$901,000) minimum lease payments under operating leases during the year in respect of rented premises.

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

	2006 HK$'000	2005 HK$'000
Within one year	**1,961**	3,962
In the second to fifth year inclusive	**81**	1,961
	2,042	5,923

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases for rented premises are negotiated for an average of two years (2005: two years) and rentals are fixed for an average of two years (2005: two years).

29. CAPITAL COMMITMENTS

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

	2006 HK$'000	2005 HK$'000
Expenditure in relation to the property under development for sale — contracted for but not provided in the consolidated financial statements	**—**	12,867

30. RELATED PARTY TRANSACTIONS

(a) Compensation of directors and key management personnel

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

	2006 HK$'000	2005 HK$'000
Short-term benefits	**4,195**	4,325
Post-employment benefits	**45**	48
	4,240	4,373

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

30. RELATED PARTY TRANSACTIONS

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

(c) Tong Sun, a subsidiary of the Company, Guozheng Economic Development Company Limited ("Guozheng") and Beijing Finance Street Construction & Development Co. Ltd. ("Finance Street Development") are the joint venture partners of BJCSB (the "Joint Venture Partners"). The registered capital of BJCSB was contributed by the Joint Venture Partners as follows:

Name of Joint Venture Partner	Contribution percentage
Tong Sun	66%
Guozheng	34%

The Joint Venture Partners entered into an agreement in 1999 and the parties agreed that:

i) Guozheng would give up its equity interest in BJCSB and Tong Sun would be entitled to 100% economic interest of BJCSB; and

ii) Guozheng would be entitled to a fixed return by way of ownership right of office space of gross floor area of 7,000 square meters of the property under development for sale ("Fixed Return on the Property") (Note 17).

Upon execution of the agreement, BJCSB became a wholly owned subsidiary of Tong Sun and the previous capital contribution of HK$46,642,000 (2005: HK$46,642,000) made by Guozheng was classified as current liabilities in "other payables". The total amount due from Guozheng is interest-free and has no fixed terms of repayment.

In 2004, BJCSB has entered into another agreement with Guozheng to buy back the Fixed Return on the Property with the total consideration of RMB109,060,000. As at 31st December 2006, an amount of RMB107,000,000 (2005: RMB107,000,000) was paid to Guozheng from BJCSB as advance payment on its entitlement to Fixed Return on the Property.

(d) During the year ended 31st December 2003, the Company had entered into a management contract with Million Rich Consultants Limited, of which one of the Company's substantial shareholders, Wei Ping, is also a director, for the provision of administrative and financial advisory services to the Group. Service fee in an amount of approximately HK$3,600,000 (2005: HK$3,600,000) was paid during the year ended 31st December 2006.

31. SHARE OPTION

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

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

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

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

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

No option has been granted to any directors or employees under the New Share Option Scheme since its adoption.

As at 31st December 2006 and 2005, no share options remained outstanding under the 2000 Share Option Scheme.

32. CONTINGENT LIABILITIES

(a) As at 31st December 2006, the financial guarantee given to bank in respect of the loans of the amounts USD2,500,000 which equivalent to approximately HK$19,433,000 (2005: USD2,500,000 which equivalent to approximately HK$19,383,000) granted to Beijing New Rank Real Estate Development Co., Limited (BJ New Rank"), a former subsidiary of the Group. As at 31st December 2006, the facilities utilised by BJ New Rank was approximately RMB6,990,000 (2005: RMB7,233,000).

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

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

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

33. POST BALANCE SHEET EVENT

(a) Pursuant to the agreement signed with the subscriber of the 2005 Convertible Bond (the "Subscriber") on 26th March 2007, the Company has agreed with the subscriber to extend the maturity date of the 2005 Convertible Bond to 31st August 2007 and revise its terms. An amount of HK$7,500,520 out of the principal of the 2005 Convertible Bond shall be convertible into the Company's ordinary shares (the "Share") at the agreed conversion price of HK$0.138 (as revised from HK$0.30) per Share and, from 1st March 2007 onwards, bear interest at Prime Rate. The remaining amount of HK$5,219,480 out of the principal of the 2005 Convertible Bond shall not be convertible into Shares and, from 1st March 2007 onwards, bear interest at the Prime Rate plus 2%. Apart from the above, all other terms and conditions of the 2005 Convertible Bond remain unchanged.

(b) Pursuant to the subscription agreement dated 23rd February 2007, the subscriber has agreed to subscribe for two convertible bonds upon completion thereof: (i) one convertible bond in the principal amount of up to HK$40,000,000; and (ii) one convertible bond in the principal amount of HK$23,055,000 in accordance with the terms and conditions thereof. Apart from the principal amount, the two convertible bonds have the same terms and conditions.

(c) Pursuant to another subscription agreement dated 23rd February 2007, the subscriber has agreed to subscribe for the convertible bonds up to an aggregate princpal amount of HK$24,000,000.

34. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries at 31st December 2006 are as follows:

Name of subsidiaries	Class of share held	Place of incorporation/ establishment	Place of operation	Particular of issued share capital/paid up registered capital	Attributable equity interest of the Group	Principal activities
Direct subsidiary						
NR (BVI) Holdings Limited	Ordinary	British Virgin Islands	Hong Kong	US$47,001	100	Investment holding
Polywell Finance Corporation	Ordinary	British Virgin Islands	Hong Kong	US$1	100	Inactive
Indirect subsidiary						
BJCSB	Contributed capital	PRC	PRC	US$25,000,000	100	Property development
New Rank Services Limited	Ordinary	Hong Kong	Hong Kong	HK$2	100	General management
New Rank (BVI 2) Limited	Ordinary	British Virgin Islands	Hong Kong	US$36,000	100	Investment holding
Precise Assets Limited	Ordinary	British Virgin Islands	Hong Kong	US$1	100	Inactive
Team Success Management Limited	Ordinary	British Virgin Islands	Hong Kong	US$1	100	Investment holding
Tong Sun	Ordinary	Samoa	Hong Kong	US$49 Class A Ordinary US$51 Class B Ordinary	51% (Note (i))	Investment holding
Very Best Investments Limited	Ordinary	British Virgin Islands	Hong Kong	US$1	100%	Inactive

Notes:

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

(ii) Other than BJCSB is a Sino-Foreign Co-operative joint venture, all other subsidiaries are limited liability company.

35. COMPARATIVE FIGURES

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