NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

1. ORGANISATION

Shanghai Real Estate Limited (the "Company") was incorporated in Bermuda with limited liability on 11 August 1999 as an exempted company under the Companies Act 1981 of Bermuda. Pursuant to a group reorganisation (the "Reorganisation") in connection with the listing of the Company's shares on Hong Kong Exchanges and Clearing Limited (the "SEHK"), the Company became the ultimate holding company of the other companies comprising the Group on 12 November 1999. Further details of the Reorganisation are set out in the Company's prospectus dated 30 November 1999. The shares of the Company were listed on the SEHK on 10 December 1999. The address of the Company's registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

As at 31 December 2005, the consolidated accounts of the Group include the accounts of the Company and the following principal subsidiaries and associated companies:

Name	Place and date of incorporation or establishment	Percentage of equity interest attributable to the Group 2005	2004	Issued and paid-up capital	Authorised share capital	Principal activities
Subsidiaries:						
Shanghai Xin Dong Industry Co., Ltd. ("Xin Dong")	People's Republic of China ("PRC") 28 May 1993	**98%**	98%	United States Dollars ("US$") 3,457,729	US$3,457,729	Property leasing and real estate agency
Shanghai Cosco-Xin Dong Real Estate Development Co., Ltd. ("Cosco-Xin Dong")	PRC 16 September 1996	**49%**	49%	RMB50,000,000	RMB50,000,000	Property development
Shanghai Oasis Garden Real Estate Co., Ltd. ("Oasis Garden")	PRC 29 September 1998	**98.75%**	98.75%	US$19,600,000	US$19,600,000	Property development
Sinopower Investment Limited	British Virgin Islands ("BVI") 1 October 1998	**100%**	100%	US$52	US$50,000	Investment holding
Powerland Investment Limited	BVI 31 May 1999	**100%**	100%	US$11	US$50,000	Investment holding
Dragon Time Investment Limited	BVI 2 July 1999	**100%**	100%	US$11	US$50,000	Investment holding
Eastin Resources Ltd.	BVI 21 July 1999	**100%**	100%	US$11	US$50,000	Investment holding
Wellwide Ltd.	BVI 21 July 1999	**100%**	100%	US$21	US$50,000	Investment holding

(Amounts expressed in Hong Kong dollars unless otherwise stated)

1. ORGANISATION (continued)

Name	Place and date of incorporation or establishment	Percentage of equity interest attributable to the Group 2005	2004	Issued and paid-up capital	Authorised share capital	Principal activities
Subsidiaries: (continued)						
Wingo Investment Ltd.	BVI 21 July 1999	**100%**	100%	US$1	US$50,000	Investment holding
Shanghai Wingo Infrastructure Co., Ltd. ("Wingo Infrastructure")	PRC 4 August 1999	**97.96%**	97.96%	US$10,000,000	US$10,000,000	Development of technology for housing and provision of construction services
Super-power.com Ltd.	BVI 4 January 2000	**100%**	100%	US$1	US$50,000	Investment holding
Shanghai Zhufu Property Development Co., Ltd. ("Zhufu")	PRC 11 August 2000	**50.36%**	50.36%	RMB10,000,000	RMB10,000,000	Property development
Anderson Land (Shanghai) Ltd. ("Anderson Shanghai")	BVI 29 September 2001	**52%**	52%	US$100	US$100	Investment holding
Kolsun Enterprises Ltd. ("Kolsun")	BVI 2 January 2002	**100%**	100%	US$1	US$1	Investment holding
Onfair Holding Ltd.	BVI 27 March 2002	**100%**	100%	US$1	US$1	Investment holding
Shanghai Anderson Fuxing Land Co., Ltd. ("Anderson Fuxing")	PRC 16 April 2002	**51.48%**	51.48%	US$20,000,000	US$20,000,000	Property development
Shanghai Hangtou Govern Real Estate Co., Ltd. ("Hangtou Govern")	PRC 14 June 2002	**98%**	98%	US$10,000,000	US$10,000,000	Property development
Shanghai Jinwu Real Estate Co., Ltd. ("Shanghai Jinwu")	PRC 12 August 2002	**96.52%**	95.79%	RMB133,360,000	RMB133,360,000	Property development

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

1. ORGANISATION (continued)

Name	Place and date of incorporation or establishment	Percentage of equity interest attributable to the Group 2005	2004	Issued and paid-up capital	Authorised share capital	Principal activities
Subsidiaries: (continued)						
Shanghai Skyway Oasis Garden Hotel and Condominium Co., Ltd. ("Skyway")	PRC 9 December 2002	**56%**	56%	RMB200,000,000	RMB200,000,000	Property development
Associated companies:						
Shanghai Internet Information Technology Co., Ltd. ("Shanghai Internet")	PRC 9 January 1995	**48.98%**	48.98%	RMB20,000,000	RMB20,000,000	Development of information system for intelligent building
Good Property Gain Property Management Co., Ltd. (formerly known as "Shanghai Trans-ocean Property Management Co., Ltd.") ("Good Property Management")	PRC 1 September 1995	**40.33%**	40.33%	RMB3,000,000	RMB3,000,000	Property management
Shanghai Housing Industry New Technology Development Co., Ltd. ("New Technology")	PRC 6 May 1997	**26%**	26%	RMB100,000,000	RMB100,000,000	Research and development of housing technology
Shanghai Orda Opto-electronics Science and Technology Co., Ltd. ("Orda")	PRC 23 March 2000	**23.52%**	23.52%	RMB11,000,000	RMB11,000,000	Development and sales of photo electron products, computer hardware and software
Shanghai Telecom Broadband Networking Co., Ltd. ("Broadband")	PRC 24 October 2000	**39.19%**	39.19%	RMB50,000,000	RMB50,000,000	Development and sales of netware and construction of broad band fibre projects
Shanghai Jinluodian Real estate & Development Co., Ltd. ("Jinluodian")	PRC 26 September 2002	**45.26%**	45.26%	RMB548,100,000	RMB548,100,000	Preparation of raw land, investment properties and the operation of a golf course

(Amounts expressed in Hong Kong dollars unless otherwise stated)

1. ORGANISATION (continued)

Name	Place and date of incorporation or establishment	Percentage of equity interest attributable to the Group 2005	2004	Issued and paid-up capital	Authorised share capital	Principal activities
Associated companies: (continued)						
Shanghai Shuo Cheng Real Estate Co., Ltd. ("Shuo Cheng") (i)	PRC 29 January 2003	**44.08%**	19.59%	RMB50,000,000	RMB50,000,000	Property development

All subsidiaries and associated companies located in the PRC are limited liability entities.

(i) During the year ended 31 December 2005, Wingo Infrastructure acquired an additional 25% equity interest in Shuo Cheng at a consideration of approximately HK$12 million, which approximated the acquired share in net tangible assets of Shuo Cheng. As a result, the equity interest in Shuo Cheng attributable to the Group increased to 44.08%.

(ii) During the year ended 31 December 2005, the Group established 22 BVI companies, each with a share capital of US$1, which are not included above. One of these BVI companies holds the remaining 21 BVI companies. These 21 BVI companies in turn entered into separate pre-sale agreement to purchase residential property from Anderson Fuxing. The relevant properties were still under development as of 31 December 2005 and such transactions are eliminated upon consolidation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of Shanghai Real Estate Limited have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities (including derivative instruments) and property, plant and equipment, as well as investment properties, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

The adoption of new/revised HKFRS

In 2005, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HK-Int 3	Revenue – Pre-completion Contracts for the Sale of Development Properties
HKAS-Int 21	Income Taxes – Recovery of Revalued Non-Depreciation Assets
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

The adoption of the following new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 28, 33 and 36 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associates and other disclosures.

– HKASs 2, 7, 8, 10, 16, 23, 27, 28, 33 and 36 had no material effect on the Group's accounting policies.

– HKAS 21 had no material effect on the Group's accounting policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard.

– HKAS 24 has not affected the identification of related parties and related party disclosures.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

The adoption of new/revised HKFRS (continued)

The adoption of the revised HKAS 17 has resulted in the reclassification of leasehold land from properties held or under development for sale to operating leases. The up-front prepayments made for the leasehold land are amortised over the period of the lease on a straight line basis, and are capitalised as part of the building costs during the development period but charged to the profit and loss account for completed properties. In prior years, the leasehold land was accounted for at cost less accumulated impairment in properties held or under development for sale. Retrospective adjustments had been applied with regard to the adoption of HKAS 17.

The adoption of HKASs 32 and 39 mainly impacted the accounting for convertible bonds. Under HKAS 32, convertible bonds issued are split into their embedded derivatives, liability components and equity components at initial recognition by recognising the embedded derivatives at the fair value which is determined using valuation techniques for options, the liability component at its fair value which is determined using a market interest rate for equivalent non-convertible bonds and attributing to the equity component the difference between the proceeds from the issue and the fair value of the embedded derivatives and liability component. The transaction costs in relation to issuance of convertible bonds are allocated to the embedded derivatives, liability components and equity components in proportion to the allocation of proceeds. The embedded derivatives is subsequently carried at fair value through profit or loss. The liability component is subsequently carried at amortised cost. The equity component is recognised in the convertible bonds reserve until the bond is either converted (in which case it is transferred to share premium) or the bond is redeemed (in which case it is released directly to retained earnings). In prior years, convertible bonds were stated at face value plus the accrued redemption premium. The redemption premium was accrued using the effective interest rate method. The issuance costs incurred for the arrangement of convertible bonds were capitalised and amortised on a straight-line basis over the period of the convertible bonds. Retrospective adjustments had been applied with regard to the adoption of HKASs 32 and 39, and 2004 comparative information is restated.

The adoption of revised HKAS 40 has resulted in changes in fair values of investment properties being recorded in the income statement as part of other income. In prior years, the increases in fair value were credited to the investment properties revaluation reserve. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the income statement. In connection with the 2005 financial statements, the Group has chosen to adopt the revised accounting policy for investment properties retrospectively and to restate 2004 comparative information.

The adoption of revised HK-Int 3 has resulted in the change in accounting policy relating to revenue recognition arising from the pre-sales of properties under development. Under the revised accounting policy, revenue arising from the pre-sales of properties under development is only recognised when significant risks and rewards of ownership have been transferred to the buyers, which is usually determined as the time properties are completed and delivered to purchasers pursuant to the sales agreement. In prior years, the Group adopted the percentage of completion method to recognise revenue from the pre-sale of properties under development. The Group has chosen to apply the revised revenue recognition policy retrospectively and to restate 2004 comparative information.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

The adoption of new/revised HKFRS (continued)

The adoption of revised HKAS-Int 21 has resulted in the change in accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from the recovery of the carrying amount of the investment properties through use. In prior years, the carrying amount of the investment properties was assumed to be recovered through sale for the purpose of measuring deferred taxation.

The adoption of HKFRS 2 resulted in a change in the accounting policy for share-based payments. Until 31 December 2004, the grant of share options to employees did not result in any charges made to the income statement. Effective from 1 January 2005, the Group expenses the cost of share options in the income statement. There were no share options granted after 7 November 2002 which had not yet vested on 1 January 2005, as a result, no expenses had been charged retrospectively in the income statement of prior periods.

The adoption of HKFRS 3 and HKAS 36 resulted in a change in the accounting policy for goodwill. Until 31 December 2004, goodwill was:

– Amortised on a straight line basis over a period of 20 years; and

– Assessed for an indication of impairment at each balance sheet date.

In accordance with the transitional provisions of HKFRS 3 (Note 2.7):

– The Group ceased amortisation of goodwill from 1 January 2005;

– Accumulated amortisation as at 31 December 2004 has been offset with the original cost, resulting in a corresponding decrease in the cost of goodwill;

– From the year ended 31 December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than:

– HKAS 39 – does not permit to recognize, derecognize and measure financial assets and liabilities in accordance with this standard on a retrospective basis;

– HKFRS 2 – only retrospective application for all equity instruments granted after 7 November 2002 and not vested at 1 January 2005; and

– HKFRS 3 – prospectively after 1 January 2005.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

The adoption of new/revised HKFRS (continued)

The effects of the changes in accounting policies on the financial statements of current and prior periods are as follows:

	2005	2004
Increase/(decrease) in profits for the year		
– Retrospective adoption of HK-Int 3	**(246,629,313)**	(197,804,616)
– Retrospective adoption of HKAS 40	**191,264,187**	(7,225,722)
– Retrospective adoption of HKAS-Int 21	**728,011**	2,384,488
– Retrospective adoption of HKAS 32	**(1,841,948)**	378,774
	(56,479,063)	(202,267,076)
Increase/(decrease) in retained earnings at the beginning of year		
– Opening adjustments for the retrospective adoption of HK-Int 3	**(298,562,617)**	(169,613,569)
– Opening adjustment for the retrospective adoption of HKAS 40	**3,287,978**	9,700,608
– Opening adjustment for the retrospective adoption of HKAS-Int 21	**(1,065,829)**	(3,197,518)
– Opening adjustment for the retrospective adoption of HKAS 32	**378,774**	–
	(295,961,694)	(163,110,479)
Increase/(decrease) in reserves at the beginning of year		
– Opening adjustments for the retrospective adoption of HK-Int 3	**671,128**	1,571,120
– Opening adjustment for the retrospective adoption of HKAS 40	**(3,287,978)**	(9,700,608)
– Opening adjustment for the retrospective adoption of HKAS 32	**32,859,749**	–
	30,242,899	(8,129,488)

The effect of the aforementioned changes in accounting policies was to decrease the Company's net assets as at 1 January 2005 by HK$265,718,795. Of this amount, HK$94,478,828 relates to the year ended 31 December 2004 and HK$171,239,967 to earlier years. Further details of impact of the adoption of these accounting policies are as follow:

(i) **The adoption of revised HKAS 17 resulted in:**

	2005	2004
Decrease in properties under development for long-term investment	**124,328,609**	123,670,659
Decrease in properties held or under development for sale	**836,348,864**	846,045,559
Increase in leasehold land, non-current portion	**124,328,609**	123,670,659
Increase in leasehold land, current portion	**836,348,864**	846,045,559

No impact on basic and diluted earnings per share arose from the adoption of HKAS 17.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(ii) The adoption of HKAS 32 and HKAS 39 resulted in:

	2005	2004
Decrease in liability component of convertible bonds	48,007,055	43,649,737
Increase in derivative financial instruments	28,185,714	15,466,422
Increase in convertible bonds reserve	28,442,131	32,859,749
Increase in properties held or under development for sale, being capitalised interest of convertible bonds	5,055,208	5,055,208
Increase in other gains	4,697,152	378,774
Decrease in share capital	2,102,408	–
Increase in finance costs	6,539,100	–
(Decrease)/increase in retained earnings, ending balance	(1,463,174)	378,774
(Decrease)/increase in basic earnings per share	(0.13) cents	0.03 cents
Increase in diluted earnings per share	–	–

There was no significant impact on opening retained earnings at 1 January 2005 from the adoption of HKAS 39, as all finance costs relating to the convertible bonds were capitalised as part of properties held or under development for sale in 2004.

(iii) The adoption of revised HKAS 40 and HKAS-Int 21 mainly resulted in:

	2005	2004
Increase in retained earnings, ending balance	197,222,701	2,222,149
Decrease in investment property revaluation reserve	199,070,907	3,287,978
Decrease of minority interest (balance sheet)	1,174,574	1,311,022
Increase in deferred tax assets	1,322,157	1,293,071
Increase in deferred tax liabilities	3,022,780	3,669,922
Decrease of other gains	2,206,095	7,225,722
Increase in share of results of associates	193,470,282	–
Decrease of income tax expense	728,011	2,384,488
Decrease in minority interests (income statement)	310,912	588,837
Increase/(decrease) in basic earnings per share	13.13 cents	(0.31) cents
Increase/(decrease) in diluted earnings per share	11.00 cents	(0.27) cents

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(iv) The adoption of HK-Int 3 mainly resulted in:

	2005	2004
Decrease in turnover	629,851,541	650,579,665
Decrease in profit for the year attributable to equity holders of the Company	134,315,065	128,977,592
Decrease in minority interests (income statement)	112,314,248	68,827,024
Decrease in retained earnings, ending balance	431,827,780	298,562,617
Decrease in minority interests (balance sheet)	201,713,125	89,398,877
Decrease in basic earnings per share	9.17 cents	9.27 cents
Decrease in diluted earnings per share	7.68 cents	8.13 cents

(v) The adoption of HKFRS 2 resulted in:

	2005	2004
Increase in administrative expenses	248,495	–
Increase in other reserves	248,495	–
Decrease in basic earnings per share	0.02 cents	–
Decrease in diluted earnings per share	0.01 cents	–

There was no impact on opening retained earnings at 1 January 2005 from the adoption of HKFRS 2 as all stock options granted prior to 1 January 2005 were fully vested as of that date.

The Group had not early adopt the following new Standards or Interpretations that have been issued but are not yet effective. However, management believes that the adoption of such Standards or Interpretations will not result in substantial changes to the Group's accounting policies.

HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures
HKFRS-Int 4	Determining whether an arrangement contains a Lease
HKAS 39 (Amendment)	The fair value option
HKAS 39 and HKFRS 4 (Amendment)	Financial guarantee contract
HKAS 21 (Amendment)	Net investment in a foreign operation

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

(i) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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

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

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

(ii) Transactions with minority interests

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

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

(iii) Associated companies

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognized at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (see Note 2.7).

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

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

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

2.3 Segment reporting

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

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of the Company and its subsidiaries is RMB Yuan, as the major revenue derives from operation in mainland China. Considering the Company is listed in Hong Kong Stock Exchange, HK dollars is chosen as the presentation currency to present the consolidated financial statements.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Foreign currency translation (continued)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as investments classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognized as a separate component of equity.

On consolidation, 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 recognized in the income statement as part of the gain or loss on sale.

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

2.5 Property, plant and equipment

Hotel properties and golf course are shown at fair value, based on periodic, but at least annually, valuations by external independent valuers, less subsequent depreciation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the assets. All other property, plant and equipment, other than construction in progress, are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment (continued)

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

Increases in the carrying amount arising on revaluation of hotel properties and golf course are credited to other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are expensed in the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset expensed in the income statement and depreciation based on the asset's original cost is transferred from fair value reserve to retained earnings.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

Hotel properties	40 years
Golf course	40 years
Buildings	20 – 40 years
Leasehold improvements	Over the remaining period of the lease
Furniture, fixtures and office equipment	5 years
Motor vehicles	5 years

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Construction-in-progress represents buildings under construction and is stated at cost less accumulated impairment losses. Cost includes the costs of construction and acquisition. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

2.6 Investment properties

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

Investment property comprises land held under operating leases and related buildings.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Investment properties (continued)

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

Investment property is measured initially at its cost, including related transaction costs. After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are performed in accordance with the guidance issued by the international Valuation Standards Committee. These valuations are reviewed annually by external valuers.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

Changes in fair values are recognized in the income statement.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified and accounted for as investment property.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognized in equity as a revaluation of property, plant and equipment under IAS 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognized in the income statement.

2.7 Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate entity at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization, they are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

2.9 Financial assets

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

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

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months of the balance sheet date. During the year, the Group did not hold any investments in this category.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet (Note 2.13).

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. During the year, the Group did not hold any investments in this category.

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial assets (continued)

Regular purchases and sales of investments are recognized on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realized and unrealized gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealized gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognized in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, or other appropriate pricing models.

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

2.10 Accounting for derivative financial instruments and hedging activities

The Group issued convertible bonds, which include early redemption option. As the economic characteristics and risks of bondholders' early redemption option are not closely related to the host contract, the Company accounts for this embedded derivative separately from the host contract. The bondholders' early redemption option is initially recognized at fair value on bond issuance date as a derivative financial liability and is subsequently remeasured at their fair value through profit and loss.

2.11 Properties held or under development

Properties held or under development for sale are included in current assets at the lower of cost and net realisable value. Properties under development for long-term investment are stated at cost less any accumulated impairment losses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Properties held or under development (continued)

The costs of properties held or under development consist of construction expenditures and borrowing costs directly attributable to the construction of such properties and other direct costs. Net realisable value is based on estimated selling price in the ordinary course of business as determined by management with reference to the prevailing market conditions, less further costs expected to be incurred to completion and selling and marketing costs.

No depreciation is provided on properties held or under development for sale.

2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using weighted average method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.13 Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the income statement.

2.14 Cash and cash equivalent

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.15 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity share capital (Treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes,) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, and is included in equity attributable to the Company's equity holders.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Borrowings

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

The fair value of early redemption option of a convertible bond is determined using appropriate valuation technicals, and is recorded as a derivative financial instrument at fair value through profit and loss (Note 2.10). The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. The conversion option is recognized and included in shareholders' equity, net of income tax effects.

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.

2.17 Deferred income tax

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

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Employee benefits

(a) Pension obligations (defined contribution plan)

Pursuant to PRC laws and regulations, contributions to the basic old age insurance for the Group's local staff have been made monthly to a government agency based on 28.5% of the standard salary set by the provincial government, of which 22.5% is borne by the Group and the remainder is borne by the staff. The government agency is responsible for the pension liabilities relating to such staff on their retirement. In addition, the Company participates in the Mandatory Provident Fund Scheme, under which contributions of 5% of the Hong Kong employee's monthly salary are made by the employer and the Hong Kong employee. The provision and contributions have been included in the accompanying consolidated profit and loss account upon incurrence. The Group has no obligation for the payment of pension benefits beyond the contributions described above.

The Group provides no retirement or termination benefits other than those described above.

(b) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2.19 Provisions

Provisions are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

The Group has an obligation to contribute to a repair and maintenance fund in respect of properties sold at rates stipulated by the local government. The Group recognises a provision at the balance sheet date in respect of such obligation.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Contingent liabilities and contingent assets

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

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

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

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

2.21 Revenue recognition

Revenue comprises the fair value for the sale of goods and services in the ordinary course of the Group's activities, net of value-added tax, rebates and discounts and after eliminating sales within the Group. Revenue is recognized as follows:

(a) Sales of properties

Revenue from sale of properties is recognised upon completion of sale agreement, which refers to the time when properties are completed and delivered to the buyers. Deposits and instalments received on properties sold prior to completion of the respective sale agreements are included as advance received from pre-sale of properties under development.

(b) Sale of goods

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

(c) Construction of infrastructure for intelligent network and preparation raw land

Revenues from the construction of infrastructure for intelligent network and preparation of raw land taken by an associate company for the government are recognised in accordance with accounting policies for construction contracts in progress.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised when incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Revenue recognition (continued)

(c) Construction of infrastructure for intelligent network and preparation raw land (continued)

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognised over the period of the contract, respectively, as revenues and expenses. The Group uses the percentage of completion method to determine the appropriate amount of revenue and costs to be recognised in a given period; the stage of completion is measured by reference to the proportion that contract costs incurred for work performed to date bear to the estimated total costs for the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

(d) Rendering of other services

Sales of services are recognized in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(e) Operating rental income

Operating rental income is recognised on a straight-line basis.

(f) Interest income

Interest income is recognized on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognized either as cash is collected or on a cost-recovery basis as conditions warrant.

(g) Dividend income

Dividend income is recognised when the right to receive payment is established.

2.22 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease.

2.23 Borrowing cost

Borrowing costs that are directly attributable to the construction of any qualified assets that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 Dividend distribution

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

2.25 Comparatives

The Group previously included all properties under development in the current asset item "properties held or under development for sale". Management believes that some of such properties should be separately classified as non-current assets in order to properly reflect their intended use.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks, including credit risk, liquidity risk, interest rate risk and foreign currency exchange rate risk. The Group's overall risk management programme focuses on efforts to minimise potential adverse effects of such risks on the Group's financial performance.

(a) Credit risk

The Group's exposure to credit risk is represented by the carrying amount of each financial asset, including receivables and the guarantees provided for customer purchase of property, prior to the submission of property title to the lender banks.

The Group has no significant concentration of credit risk with any single counterparty or group of counterparties having similar characteristics. For the sale of development properties to retail customers, consideration would be settled in cash or customers' purchase would be financed by mortgage loans provided by banks. Any recognizable risks are accounted for by adequate allowances on receivables.

(b) Liquidity risk

The Group maintains sufficient liquidity at all times with a financial planning system which is used to recognize the Group's future state of liquidity as is evident from the results of the Group's strategic and planning process. A twelve-month forecast of fund requirements is updated monthly for the latest developments.

The acquisitions of land use rights are normally financed from the Group's available funds, without reliance on external financing. The major sources of funds for other project costs are bank borrowings, issuance of convertible bonds and advances from customers.

The Group has developed strategic relationship with all the major state-owned banks that will normally provide financing to the Group when relevant approval from government authorities for the commencement of a project is obtained.

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(c) Fair value and cash flow interest rate risk

The Group has significant bank borrowings and convertible bonds which brings interest-rate risk. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk. The Group has not hedged its cash flow and fair value interest rate risk. The interest rate and terms of repayments of borrowings are disclosed in Note 19.

Except for loans to associated companies (Note 37), time deposits (Note 16) and loans to other third parties (Note 14) with fixed interest-rate the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

(d) Foreign exchange risk

Majority of the subsidiaries of the Group operates in Mainland China with most of the transactions denominated in Chinese Renminbi. The Group is exposed to foreign exchange risk arising from the exposure of Chinese Renminbi against the Hong Kong dollars. It has not hedged its foreign exchange rate risk.

In addition, the conversion of Chinese Renminbi into foreign currencies is subject to the rules and regulations of the foreign exchange control promulgated by the Mainland China government.

3.2 Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value of the remaining financial instruments.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Estimations of fair value of property, plant and equipment, leasehold land, properties under development for long-term investment

Property, plant and equipment, leasehold land and properties under development for long-term investment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts of property, plant and equipment, leasehold land and properties under development for long-term investment have been determined based on the higher of their fair value less costs to sell and their value in use. These calculation and valuations require the use of judgements and estimates.

(b) Estimation of fair value of investment properties

The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its judgement, the Group considers information from a variety of sources including:

(i) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;

(ii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(iii) discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

If information on current or recent prices of investment properties is not available, the fair values of investment properties are determined using discounted cash flow valuation techniques. The Group uses assumptions that are mainly based on market conditions existing at each balance date.

The principal assumptions underlying management's estimation of fair value are those related to: the receipt of contractual rentals; expected future market rentals; void periods; maintenance requirements; and appropriate discount rates. These valuations are regularly compared to actual market yield data, and actual transactions by the Group and those reported by the market.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

4.1 Critical accounting estimates and assumptions (continued)

(b) Estimation of fair value of investment properties (continued)

The expected future market rentals are determined on the basis of current market rentals for similar properties in the same location and condition.

(c) Estimated of current taxation and deferred taxations

The Group is subject to taxation mainly in Mainland China. Significant judgement is required in determining the amount of the provision for taxation and the timing of payment of the related taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. 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 provisions in the periods in which such determination are made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred taxation assets and taxation in the periods in which such estimate is changed.

4.2 Critical judgements in applying the Company's accounting policies

Distinction between investment properties and owner-occupied properties

The Group determines whether a property qualifies as investment property. In making its judgement, the Group considers whether the property generates cash flows largely independently of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the production or supply process.

5. BUSINESS SEGMENT INFORMATION

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary and only reporting format. For management purposes, the Group conducts the majority of its business activities in the PRC. Its operations are organised under five principal business segments in year ended 31 December 2005: property development, preparation of raw land, property leasing, sale of housing-tech products and services and golf course operation.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

5. BUSINESS SEGMENT INFORMATION (continued)

An analysis by business segment is as follows:

	2005						
	Property development	Preparation of raw land	Property leasing	Housing technology	Golf course operation	Inter-segment transactions	Total
Segment results							
Sales	1,345,902,593	–	1,320,739	40,916,436	–	(8,666,975)	1,379,472,793
Segment profit	359,254,088	–	891,510	15,246,302	–	(876,435)	374,515,465
Unallocated costs							1,616,626
Operating profit							376,132,091
Finance costs							(32,566,196)
Share of net profit/(loss) of associated companies	(8,585,702)	(23,984,483)	193,470,282	5,467,015	(2,628,576)	(2,223,722)	161,514,814
Profit before income tax							505,080,709
Income tax expense	(124,041,141)	–	–	(6,942,725)	–		(130,983,866)
Profit for the year							374,096,843
Attributable to:							
Equity holders of the Company							301,172,964
Minority interests							72,923,879
							374,096,843
Other segment items included in the income statements							
Depreciation	9,774,881	–	–	1,051,089	–		10,825,970
Impairment/amortization of goodwill	–	–	–	2,729,087	–		2,729,087
Segment assets and liabilities							
Segment assets	4,931,943,790	–	48,927,451	87,091,179	–		5,067,962,420
Interests in associated companies	20,261,287	261,920,635	193,470,282	58,692,470	26,692,903	(2,223,722)	558,813,855
Deferred tax assets	19,085,090	–	–	–	–		19,085,090
Unallocated assets							436,844,261
Total assets							6,082,705,626
Segment liabilities	3,388,280,142	–	–	20,498,340	–		3,408,778,482
Deferred tax liabilities	–	–	4,383,860	–	–		4,383,860
Unallocated liabilities							1,044,333,273
Total liabilities							4,457,495,615
Capital expenditure	316,473,468	–	–	193,231	–		316,666,699

(Amounts expressed in Hong Kong dollars unless otherwise stated)

5. BUSINESS SEGMENT INFORMATION (continued)

	2004						
	Property development	Preparation of raw land	Property leasing	Housing technology	Golf course operation	Inter-segment transactions	Total
Segment results							
Sales	508,005,895	–	880,222	92,529,923	–		601,416,040
Segment profit	62,100,992	–	(1,846,092)	15,068,094	–		75,322,994
Unallocated costs							(9,924,633)
Operating profit							65,398,361
Finance costs							(901,335)
Share of net profit /(loss) of associated companies	264,369	54,361,122	–	(2,095,802)	–	(991,067)	51,538,622
Profit before income tax							116,035,648
Income tax expense	(21,594,067)	–	–	(2,034,193)	–		(23,628,260)
Profit for the year							92,407,388
Attributable to:							
Equity holders of the Company							90,248,765
Minority interests							2,158,623
							92,407,388
Other segment items included in the income statements							
Depreciation	4,784,853	–	–	1,035,900	–		5,820,753
Impairment/amortization of goodwill	–	–	–	327,160	–		327,160
Segment assets and liabilities							
Segment assets	3,708,810,306	–	136,511,996	203,375,749	–		4,048,698,051
Interests in associated companies	36,675,996	273,397,592	–	35,033,773	–	(991,067)	344,116,294
Deferred tax assets	19,389,665	–	–	16,066	–		19,405,731
Unallocated assets							137,650,580
Total assets							4,549,870,656
Segment liabilities	2,974,557,343	–	–	26,441,978	–		3,000,999,321
Deferred tax liabilities	4,832,747	–	–	–	–		4,832,747
Unallocated liabilities							415,225,041
Total liabilities							3,421,057,109
Capital expenditure	145,666,539	–	23,413,127	169,596	–		169,249,262

Unallocated costs represent corporate expenses. Inter-segment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

5. BUSINESS SEGMENT INFORMATION (continued)

Segment assets consist primarily of property, plant and equipment, investment properties, leasehold land, properties under development for long-term investment, interests in associated companies, deferred tax assets, properties held or under development for sale, inventories, receivables and operating cash, and mainly exclude receivables and operating cash of investment holding companies. Segment liabilities comprise operating liabilities and deferred tax liabilities and exclude items such as certain corporate borrowings. Capital expenditure comprised additions to investment properties, leasehold land, properties under development for long-term investments, and property, plant and equipment, including additions resulting from acquisitions through business combination.

6. PROPERTY, PLANT AND EQUIPMENT

GROUP

	2005					
	Buildings	Leasehold improvements	Furniture, fixtures and office equipment	Motor vehicles	Construction-in-progress	Total
Cost						
Beginning of year	71,978,373	1,700,738	6,824,150	22,570,155	10,092,879	113,166,295
Additions	1,375,195	–	574,557	1,826,440	–	3,776,192
Disposals	(50,132,882)	–	(720,938)	(1,603,533)	(277,901)	(52,735,254)
Exchange adjustment	1,573,947	17,044	140,262	432,706	227,024	2,390,983
Reclassified from investment properties	78,174,280	–	–	–	–	78,174,280
End of year	102,968,913	1,717,782	6,818,031	23,225,768	10,042,002	144,772,496
Accumulated depreciation and impairment losses						
Beginning of year	6,846,322	1,238,662	3,007,646	7,896,880	–	18,989,510
Charge for the year	6,282,418	169,740	1,176,372	3,197,440	–	10,825,970
Disposals	(7,326,982)	–	(394,778)	(1,370,534)	–	(9,092,294)
Exchange adjustment	153,997	17,044	58,142	154,215	–	383,398
End of year	5,955,755	1,425,446	3,847,382	9,878,001	–	21,106,584
Net book value						
Balance, end of year	97,013,158	292,336	2,970,649	13,347,767	10,042,002	123,665,912
Balance, beginning of year	65,132,051	462,076	3,816,504	14,673,275	10,092,879	94,176,785

(Amounts expressed in Hong Kong dollars unless otherwise stated)

6. PROPERTY, PLANT AND EQUIPMENT (continued)

	2004					
	Buildings	Leasehold improvements	Furniture, fixtures and office equipment	Motor vehicles	Construction-in-progress	Total
Cost						
Beginning of year	61,065,232	1,699,315	6,283,991	18,594,976	28,318,466	115,961,980
Additions	–	–	1,376,037	4,891,901	23,413,127	29,681,065
Disposals	(10,122,250)	–	(108,850)	(945,417)	–	(11,176,517)
Exchange adjustment	92,014	1,423	10,810	28,695	53,246	186,188
Reclassified to investment properties	20,943,377	–	(737,838)	–	(41,691,960)	(21,486,421)
End of year	71,978,373	1,700,738	6,824,150	22,570,155	10,092,879	113,166,295
Accumulated depreciation and impairment losses						
Beginning of year	5,740,678	1,067,500	2,155,366	5,276,817	–	14,240,361
Charge for the year	1,748,946	169,740	909,485	2,992,582	–	5,820,753
Disposals	(653,106)	–	(60,639)	(380,925)	–	(1,094,670)
Exchange adjustment	9,804	1,422	3,434	8,406	–	23,066
End of year	6,846,322	1,238,662	3,007,646	7,896,880	–	18,989,510
Net book value						
Balance, end of year	65,132,051	462,076	3,816,504	14,673,275	10,092,879	94,176,785
Balance, beginning of year	55,324,554	631,815	4,128,625	13,318,159	28,318,466	101,721,619

Depreciation expenses of HK$1,351,068 (2004: HK$632,271) had been expensed in cost of goods sold, HK$364,983 (2004: HK$88,062) in selling and marketing costs and HK$9,109,919 (2004: HK$5,100,420) in administrative expenses.

As of 31 December 2004, certain of the Group's property, plant and equipment had been pledged as collateral for the Group's bank loans and facilities. See Note 19 for details.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

6. PROPERTY, PLANT AND EQUIPMENT (continued)

COMPANY

	2005				
	Leasehold improvements	Buildings	Furniture, fixtures and office equipment	Motor vehicles	Total
Cost					
Beginning of year	943,005	–	588,547	3,333,221	4,864,773
Additions	–	–	35,457	–	35,457
End of year	943,005	–	624,004	3,333,221	4,900,230
Accumulated depreciation and impairment losses					
Beginning of year	480,930	–	422,822	1,040,848	1,944,600
Charge for the year	169,740	–	110,407	234,854	515,001
End of year	650,670	–	533,229	1,275,702	2,459,601
Net book value					
Balance, end of year	292,335	–	90,775	2,057,519	2,440,629
Balance, beginning of year	462,075	–	165,725	2,292,373	2,920,173

(Amounts expressed in Hong Kong dollars unless otherwise stated)

6. PROPERTY, PLANT AND EQUIPMENT (continued)

	Leasehold improvements	Buildings	2004 Furniture, fixtures and office equipment	Motor vehicles	Total
Cost					
Beginning of year	943,005	10,122,250	535,266	3,333,221	14,933,742
Additions	–	–	60,541	–	60,541
Disposals	–	(10,122,250)	(7,260)	–	(10,129,510)
End of year	943,005	–	588,547	3,333,221	4,864,773
Accumulated depreciation and impairment losses					
Beginning of year	311,190	526,699	328,516	805,993	1,972,398
Charge for the year	169,740	126,407	100,243	234,855	631,245
Disposals	–	(653,106)	(5,937)	–	(659,043)
End of year	480,930	–	422,822	1,040,848	1,944,600
Net book value					
Balance, end of year	462,075	–	165,725	2,292,373	2,920,173
Balance, beginning of year	631,815	9,595,551	206,750	2,527,228	12,961,344

7. INVESTMENT PROPERTIES

GROUP

	2005	2004
Beginning of year	**126,419,117**	111,944,168
Reclassified (to)/from property, plant and equipment	**(78,174,280)**	21,486,421
Fair value loss (Note 26)	**(2,206,095)**	(7,225,722)
Exchange adjustment	**2,888,709**	214,250
End of year	**48,927,451**	126,419,117

The investment properties at 31 December 2005 were revalued by independent, professionally qualified valuers – BMI Appraisals Limited. Investment properties are valued on the open market basis by the comparison approach, together with investment approach by taking into account the current rents passing or the hypothetical rents and the reversionary potential of the tenancies of the constituent units if they have been or would be let to tenants.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

7. INVESTMENT PROPERTIES (continued)

The Group's interests in investment properties at their net book values are analysed as follows:

	2005	2004
In the PRC, held on:		
Leases of over 50 years	37,051,069	112,646,436
Leases of between 10 to 50 years	11,876,382	13,772,681
	48,927,451	126,419,117

8. LEASEHOLD LAND

GROUP

	2005	2004
In the PRC, held on:		
Leases of over 50 years	893,754,983	969,716,218
Leases of between 10 to 50 years	66,922,490	–
	960,677,473	969,716,218

The Group's interests in leasehold land represent prepaid operating lease payments and their net book values are analysed as follows:

	2005	2004
Beginning of year	969,716,218	869,107,091
Additions	164,416,317	184,055,877
Disposals with the sales of completed properties	(174,577,081)	(68,539,301)
Amortisation capitalised as properties under development	(20,690,305)	(16,541,570)
Exchange adjustment	21,812,324	1,634,121
End of year	960,677,473	969,716,218
Analysed as:		
Non-current: In relation to properties under development for long-term investment	124,328,609	123,670,659
Current: In relation to properties held or under development for sale	836,348,864	846,045,559
	960,677,473	969,716,218

As of 31 December 2005 and 2004, certain of the Group's leasehold land had been pledged as collateral for the Group's bank loans and facilities. See Note 19 for details.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

9. PROPERTIES UNDER DEVELOPMENT FOR LONG-TERM INVESTMENT

	2005	2004
Opening net book amount	207,098,852	67,403,920
Additions (including capitalization of interest and amortization of leasehold land)	312,890,508	139,568,197
Exchange adjustment	4,658,380	126,735
Closing net book amount	524,647,740	207,098,852

All properties under development for long-term investment are located in Shanghai, China.

As of 31 December 2005 and 2004, certain of the Group's properties under development for long-term investment had been pledged as collateral for the Group's bank loans and facilities. See Note 19 for details.

10. INVESTMENTS IN AND ADVANCES TO SUBSIDIARIES

COMPANY

(a) Investments in subsidiaries

	2005	2004
Unlisted equity interests, at cost	510,902,054	432,902,054

Details of the principal subsidiaries at 31 December 2005 are set out in Note 1.

(b) Advances to subsidiaries

Except for an unsecured advance amounting to approximately HK$74 million (2004: HK$74 million) to Anderson Shanghai which earns interest at 3% (2004: 3%) per annum and without fixed repayment terms, the advances to other subsidiaries were unsecured, interest free and without fixed repayment terms. Details of the advance to Anderson Shanghai are as follow:

As set out in the Company's announcement dated 29 May 2002, the Group acquired a 52% interest in Anderson Shanghai from a third party vendor. According to the shareholders' agreement, the Group and the vendor (who retained the remaining 48% interest) agreed to provide shareholders' loans to Anderson Shanghai on normal commercial terms in proportion to their respective shareholding in Anderson Shanghai, an investment holding company whose sole asset is its 99% equity interest in a property development project. As of 31 December 2005, all shareholders' loans of Anderson Shanghai amounting to approximately HK$74 million were provided by the Group.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

11. INTERESTS IN ASSOCIATED COMPANIES

	Group		Company	
	2005	2004	**2005**	2004
Beginning of the year	**344,116,294**	235,544,854	**233,324,883**	186,677,763
Share of results of associates				
– Profit before taxation	**244,623,504**	76,153,137	**–**	–
– Taxation	**(83,154,915)**	(24,701,539)	**–**	–
– Minority interest	**46,225**	87,024	**–**	–
	161,514,814	51,538,622	**–**	–
Exchange difference	**994,766**	72,640	**–**	–
Increase in investments	**12,015,766**	56,960,178	**–**	46,647,120
Profit distribution	**(1,883,349)**	–	**–**	–
Other equity movements (Note 18)	**44,784,651**	–	**–**	–
Impairment of investments in associated companies	**(2,729,087)**	–	**–**	–
	53,182,747	57,032,818	**–**	46,647,120
End of the year	**558,813,855**	344,116,294	**233,324,883**	233,324,883

Breakdown of interests in associated companies were as follows:

	Group		Company	
	2005	2004	**2005**	2004
Investments (unlisted), at cost				
– Jinluodian	**233,324,883**	233,324,883	**233,324,883**	233,324,883
– New Technology	**24,397,110**	24,397,110	**–**	–
– Shuo Cheng	**21,628,376**	9,401,147	**–**	–
– Broadband	**19,225,223**	18,802,294	**–**	–
– Shanghai Internet	**9,612,612**	9,401,147	**–**	–
– Orda	**7,755,888**	7,552,881	**–**	–
– Good Property Management	**1,163,126**	1,137,539	**–**	–
	317,107,218	304,017,001	**233,324,883**	233,324,883
Representing:				
– Share of net assets at time of acquisition	**310,416,840**	297,473,803	**233,324,883**	233,324,883
– Goodwill on acquisition	**6,690,378**	6,543,198	**–**	–
	317,107,218	304,017,001	**233,324,883**	233,324,883
Accumulated impairment for investment in associates (Note 27)	**(2,729,087)**	–	**–**	–
Accumulated share of reserves and post acquisition results less distributions	**244,435,724**	40,099,293	**–**	–
	558,813,855	344,116,294	**233,324,883**	233,324,883

(Amounts expressed in Hong Kong dollars unless otherwise stated)

11. INTERESTS IN ASSOCIATED COMPANIES (continued)

Details of the associated companies as at 31 December 2005 are set out in Note 1. The Group's interests in its principal associated companies, all of which are unlisted, were as follows:

(a) Jinluodian

(i) Summarised consolidated profit and loss account of Jinluodian

	2005	2004
Turnover	799,487,779	1,551,797,190
Profit before taxation	553,975,886	173,253,168
Taxation	(183,513,109)	(53,336,910)
Profit after taxation	370,462,777	119,916,258
Minority interests	102,134	192,274
Net profit attributable to owners	370,564,911	120,108,532
Net profit attributable to the Group	167,717,679	54,361,122

Included in profit before taxation for the year ended 31 December 2005 is fair value gain from investment properties of approximately HK$643 million.

(ii) Summarised consolidated assets and liabilities of Jinluodian

	2005	2004
Assets		
Non-current assets	1,386,839,434	1,014,377,368
Current assets	2,917,344,747	2,231,379,753
	4,304,184,181	3,245,757,121
Equity and liabilities		
Capital	515,276,864	515,276,864
Reserves	97,684,206	63,043
Retained earnings	479,069,091	108,504,179
Minority interests	(59,566)	42,755
Non-current liabilities	2,370,928,801	210,053,080
Current liabilities	841,284,785	2,411,817,200
	4,304,184,181	3,245,757,121

The principal activities of Jinluodian are the preparation of raw land for the government, the holding of investment properties, the operation of hotel and conference facilities and the operation of a golf course.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

11. INTERESTS IN ASSOCIATED COMPANIES (continued)

(a) Jinluodian (continued)

Preparation of raw land for the government

Jinluodian is paid for its role in the preparation and development of raw land based on a percentage of sales when the prepared land is finally sold through auction by the government. Attributable profit for work performed is only determinable when land has been successfully auctioned. Turnover is recognised to the extent of cost incurred for work performed on land that has not been auctioned.

Holding of investment properties

Jinluodian owns a commercial street with approximately 62,600 square metres of lettable shop space, the construction of which was completed in 2005. In accordance with HKAS 40, they are classified as investment properties and subject to valuation. The properties whose historical cost amounted to approximately HK$260 million, were valued at approximately HK$903 million as of 31 December 2005 by BMI Appraisals Limited, an independent valuer, on the open market value basis. Gain of approximately HK$193 million (portion attributable to the Group net of deferred tax) has been included in the Group's consolidated profit after tax for the year ended 31 December 2005.

Operation of hotel and conference facilities

The Group's operations of hotel properties and conference facilities are currently only undertaken by Jinluodian, an associated company. The hotel properties and conference facilities whose historical cost amounted to approximately HK$642 million were revalued at approximately HK$673 million as of 31 December 2005. Valuations were made on the basis of open market value carried out by BMI Appraisals Limited, a professional independent valuer. The Group's share in the revaluation surplus net of applicable deferred income taxes amounting to approximately HK$9.25 million was credited to other reserves in shareholders' equity (Note 18).

Operation of golf course

Jinluodian also operates a 36-hole golf course. The golf course and related clubhouses whose historical cost amounted to approximately HK$440 million were revalued at approximately HK$529 million as of 31 December 2005. Valuations were made on the basis of the replacement cost method carried out by BMI Appraisals Limited, a professional independent valuer. The Group's share in the revaluation surplus, net of applicable deferred income taxes, amounting to approximately HK$27 million was credited to other reserves in shareholders' equity (Note 18).

(Amounts expressed in Hong Kong dollars unless otherwise stated)

11. INTERESTS IN ASSOCIATED COMPANIES (continued)

(b) Shuo Cheng

(i) Summarised consolidated profit and loss account of Shuo Cheng

	2005	2004
Turnover	–	–
Loss before taxation	(4,039,664)	(1,572,589)
Taxation	1,333,089	842,791
Loss after taxation	(2,706,575)	(729,798)
Minority interests	19,756	–
Net loss borne by owners	(2,686,819)	(729,798)
Net loss borne by the Group	(1,209,069)	–

(ii) Summarised consolidated assets and liabilities of Shuo Cheng

	2005	2004
Assets		
Non-current assets	3,281,340	2,231,661
Current assets	1,754,215,366	1,049,145,708
	1,757,496,706	1,051,377,369
Equity and liabilities		
Capital and reserves	43,701,188	45,397,085
Minority interests	172,274	–
Non-current liabilities	951,552,437	–
Current liabilities	762,070,807	1,005,980,284
	1,757,496,706	1,051,377,369

The principal activity of Shuo Cheng is the development of a significant residential property project in the town area of Shanghai City for sale.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

12. PROPERTIES HELD OR UNDER DEVELOPMENT FOR SALE

GROUP

	2005	2004
At cost		
– In Shanghai City, the PRC	1,543,941,810	1,293,819,789

As of 31 December 2005 and 2004, certain of the Group's properties held or under development for sale had been pledged as collateral for the Group's bank loans and facilities. See Note 19 for details.

13. PREPAYMENT AND OTHER CURRENT ASSETS

	Group		Company	
	2005	2004	2005	2004
Prepaid business tax (Note 21)	82,105,200	40,323,694	–	–
Prepaid land appreciation tax (Note 21)	7,731,750	2,366,957	–	–
Prepayments of commission to real estate agency	29,109,582	–	–	–
Prepayment for equipment purchase	4,794,721	10,948,999	–	8,500,000
Others	3,704,930	1,473,726	–	–
	127,446,183	55,113,376	–	8,500,000

14. OTHER RECEIVABLES

	Group		Company	
	2005	2004	2005	2004
Earnest money to minority shareholder of a subsidiary (a)	288,378,352	–	–	–
Term-loan (b)	44,031,190	56,628,000	44,031,190	56,628,000
Amounts due from minority shareholders of subsidiaries (c)	64,110,314	35,079,717	–	–
Interest and guarantee income receivable from Trans-ocean Group Company (d)	–	10,138,221	–	–
Others	18,365,416	20,315,976	3,296,275	2,058,117
	414,885,272	122,161,914	47,327,465	58,686,117

(Amounts expressed in Hong Kong dollars unless otherwise stated)

14. OTHER RECEIVABLES (continued)

(a) The Group and Lucky Charming Enterprises Limited ("LCE") respectively hold 52% and 48% equity interest in Anderson Shanghai, which in turn owns 99% equity interest in Anderson Fuxing, a property development company responsible for the development of a luxury residential property with shopping malls at town area of Shanghai City. The property development was still undergoing construction as of 31 December 2005.

On 10 October 2005, the Group signed a letter of intent with LCE to acquire the latter's 47.52% indirect beneficial interest in the shopping mall of the property development company for a consideration of Rmb 300 million (equivalent to approximately HK$288 million). In order to fix the acquisition consideration, the Group paid earnest money amounting to Rmb 300 million on 26 October 2005 to a domestic entity designated by LCE. The earnest money is interest free. The acquisition will be finalized upon meeting several criteria set out in the letter of intent, and the transaction is targeted to be completed by 30 June 2006 (the "Completion Date"), upon which, the earnest money will be used for the settlement of acquisition consideration. If the transaction could not be completed for any reason by the Completion Date, LCE shall return the earnest money to the Group.

(b) In May 2004, the Company granted a loan of US$7.26 million (equivalent to approximately HK$56.6 million) to a company for a period of 18 months. The sole director of this company is also the beneficial owner and director of LCE, the present minority shareholder of Anderson Shanghai. The loan earns interest at a rate of 10% per annum; the repayment date for the remaining loan balance was further extended to 30 June 2006 when it became due for repayment.

(c) Amounts due from minority shareholders of subsidiaries were interests free and without fixed repayment terms.

(d) As at 31 December 2004, the Group acted as the guarantor for Trans-ocean Group Company's bank borrowings in return for a fee of approximately HK$1.8 million. The Group also provided advances to Trans-ocean Group Company in return for interest income of approximately HK$8.3 million. The guarantee and interest income were received in year 2005.

The amounts due from minority shareholders of subsidiaries are estimated to be settled within one year. The carrying amounts of other receivables approximated their fair value.

15. ACCOUNTS RECEIVABLE

GROUP

	2005	2004
Accounts receivable	10,586,514	7,443,791
Less: Provision for doubtful accounts	–	–
	10,586,514	7,443,791

(Amounts expressed in Hong Kong dollars unless otherwise stated)

15. ACCOUNTS RECEIVABLE (continued)

An aging analysis of accounts receivable is set out below:

	2005	2004
0 – 360 days	10,586,514	7,347,766
361 – 720 days	–	96,025
	10,586,514	7,443,791

The carrying amounts of accounts receivables approximated their fair value. There is no concentration of credit risk with respect to accounts receivables, as the Group has a large base of customers.

16. CASH AND CASH EQUIVALENTS

	Group		Company	
	2005	2004	2005	2004
Cash in hand	138,476	207,199	21,688	45,132
Demand deposits	1,025,647,032	848,263,379	19,344,191	32,796,167
Time deposits	350,000,000	–	350,000,000	–
Cash and cash equivalents	1,375,785,508	848,470,578	369,365,879	32,841,299
Pledged bank deposits (Note 19)	12,330,350	133,988,755	12,330,350	12,068,972
Restricted bank deposits	7,701,156	1,439,909	–	–
Cash and bank balances	1,395,817,014	983,899,242	381,696,229	44,910,271

For the year ended 31 December 2005, the effective interest rate on time deposits was 4.07% (2004: Nil). The time deposits are with original maturity periods of one to two months.

As at 31 December 2005, bank deposits of HK$990,750 (2004: HK$1,439,909) were restricted in connection with the issuance of guarantees (see Note 35).

The carrying amounts of cash and cash balances are denominated in the following currencies:

	Group		Company	
	2005	2004	2005	2004
HK$	381,060,665	45,364,378	380,971,096	44,735,396
US$	79,527,235	13,607,064	725,133	174,875
RMB	935,229,114	924,927,800	–	–
	1,395,817,014	983,899,242	381,696,229	44,910,271

17. SHARE CAPITAL

GROUP AND COMPANY

	Number of shares (thousands)	Amount Ordinary shares	Share premium	Total
At 1 January 2004	1,354,630	135,463,000	596,031,390	731,494,390
Allotment of shares upon exercise of share options (a)	170	17,000	59,500	76,500
At 31 December 2004	1,354,800	135,480,000	596,090,890	731,570,890
Allotment of shares upon exercise of share options (a)	51,000	5,100,000	16,930,000	22,030,000
Issue of scrip dividends (b)	35,930	3,592,956	27,306,467	30,899,423
Issue of shares upon conversion of convertible bonds (c)	68,100	6,810,035	67,760,554	74,570,589
At 31 December 2005	1,509,830	150,982,991	708,087,911	859,070,902

The total authorized number of ordinary shares is 4,000 million shares (2004: 2,000 million shares) with a par value of HK$0.10 per share (2004: HK$0.10 per share). All issued shares are fully paid.

(a) Share options

The share option scheme was approved at a special general meeting held on 23 May 2002. According to this share option scheme, the directors may, at their discretion at any time during the ten years from the date of approval of the scheme, invite any executive and/or employee of the Group to take up share options of the Company. The subscription price is determined by the directors and will be determined according to the higher of (i) the average official closing price of the shares on the SEHK for the five trading days immediately preceding the relevant offer date and (ii) the official closing price of the shares on the SEHK on the relevant offer date. Options granted becomes vested immediately and are not conditional on employees' service period. An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be notified by the Board to each grantee and unless the Board shall otherwise resolve in relation to any option at the time of grant, such period of time should not exceed 3 years commencing from the expiry of six months after the date on which the option is accepted and expiring on the last day of such period or 11 November 2009, whichever is the earlier.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

17. SHARE CAPITAL (continued)

(a) Share options (continued)

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2005		2004	
	Average exercise price in HK$ per share	Options	Average exercise price in HK$ per share	Options
Beginning of year	0.43	51,000,000	0.44	50,170,000
Granted during the year (i)	0.87	1,500,000	0.53	1,000,000
Exercised during the year (ii)	0.43	(51,000,000)	0.45	(170,000)
Cancelled/lapsed during year		–		–
End of year	0.87	1,500,000	0.43	51,000,000

(i) Share options for 500,000 shares and 1,000,000 shares were granted on 4 February 2005 and 27 May 2005 (2004: 1,000,000 shares) at the exercise price of HK$0.94 and HK$0.83 respectively per share (21 May 2004: HK$0.53 per share).

(ii) Share options exercised in 2005 resulted in the issuance of 50,000,000 shares and 1,000,000 shares (2004: 170,000 shares) at HK$0.43 and HK$0.53 per share respectively (2004: HK$0.45 per share).

Share options outstanding at the end of year have the following terms:

Expiry date	Exercise price HK$ per share	Number of options 2005	Number of options 2004	Vested percentage 2005	Vested percentage 2004
4 January 2007	0.43	–	50,000,000	–	100%
21 October 2007	0.53	–	1,000,000	–	100%
4 March 2008	0.94	500,000	–	100%	–
27 June 2008	0.83	1,000,000	–	100%	–
		1,500,000	51,000,000		

The fair value of options granted during the period determined using the Black-Scholes-Merton Option Pricing Model was HK$248,495.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

17. SHARE CAPITAL (continued)

(a) Share options (continued)

The significant inputs into the model were as followed:

Granting date	4 February 2005	27 May 2005
Fair value at grant date	0.18	0.16
Weighted average share price at grant date	0.94	0.84
Exercise price	0.94	0.83
Volatility	48.86%	48.89%
Expected dividends pay out rate	3.51%	5.03%
Risk-free interest rate	1.73%	2.90%

The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last one year.

(b) Pursuant to a resolution passed at the general meeting on 20 April 2005, the Company offered its shareholders scrip dividend as an alternative to cash dividend; under which the shareholders could elect to receive ordinary shares of par value of HK$0.1 each in lieu of cash dividend (see Note 33). As a result, the following additional shares were issued during the year.

	Number of new ordinary shares issued	Issue price per ordinary share	Issue date
Final dividends for the year ended 31 December 2004 (Note 33)	35,929,561	HK$0.86	13 June 2005

(c) During the period, the following convertible bonds issued by the Company have been converted by the bondholders at a conversion price of HK$1.116 per ordinary share of the Company and following ordinary shares have been issued:

Issue date of ordinary shares	Face value of convertible bonds	Number of new ordinary shares issued
23 February 2005	10,000,000	8,960,573
25 February 2005	5,000,000	4,480,286
1 March 2005	8,000,000	7,168,458
4 March 2005	5,000,000	4,480,286
4 October 2005	10,000,000	8,960,573
7 October 2005	33,000,000	29,569,892
7 October 2005	5,000,000	4,480,286
	76,000,000	68,100,354

(Amounts expressed in Hong Kong dollars unless otherwise stated)

18. OTHER RESERVES

GROUP

	Convertible bonds	Options	Golf course and hotel properties revaluation	Investment property revaluation	Statutory surplus reserve (a)	Statutory public welfare fund (a)	Exchange translation reserve	Total
Balance at 1 January 2004, as previously reported	–	–	–	9,700,608	15,875,844	14,422,826	(3,675,334)	36,323,944
Opening adjustment for the retrospective adoption of HK-Int3	–	–	–	–	–	–	1,571,120	1,571,120
Opening adjustment for the retrospective adoption of HKAS 40	–	–	–	(9,700,608)	–	–	–	(9,700,608)
Balance at 1 January 2004, as restated	–	–	–	–	15,875,844	14,422,826	(2,104,214)	28,194,456
Currency translation differences	–	–	–	–	–	–	1,470,417	1,470,417
Issue convertible bonds-equity component (Note 20)	32,859,749	–	–	–	–	–	–	32,859,749
Appropriations	–	–	–	–	10,132,238	4,362,561	–	14,494,799
Balance at 31 December 2004, as restated	32,859,749	–	–	–	26,008,082	18,785,387	(633,797)	77,019,421
Balance at 31 December 2004, as previously reported	–	–	–	3,287,978	26,008,082	18,785,387	(1,304,925)	46,776,522
Issue convertible bonds-equity component	32,859,749	–	–	–	–	–	–	32,859,749
Opening adjustment for the retrospective adoption of HKAS 40	–	–	–	(3,287,978)	–	–	–	(3,287,978)
Opening adjustment for the retrospective adoption of HKAS-In3	–	–	–	–	–	–	671,128	671,128
Balance at 31 December 2004, as restated	32,859,749	–	–	–	26,008,082	18,785,387	(633,797)	77,019,421

(Amounts expressed in Hong Kong dollars unless otherwise stated)

18. OTHER RESERVES (continued)

	Convertible bonds	Options	Golf course and hotel properties revaluation	Investment property revaluation	Statutory surplus reserve (a)	Statutory public welfare fund (a)	Exchange translation reserve	Total
Fair value gain (net of tax) from certain assets held by an associate (Note 11)	–	–	35,945,975	–	–	–	–	35,945,975
Appropriations	–	–	–	–	9,090,774	2,840,317	–	11,931,091
Currency translation differences								
– Group	–	–	–	–	–	–	15,944,260	15,944,260
– Associates	–	–	–	–	–	–	8,838,676	8,838,676
Granting of options (Note 17)	–	248,495	–	–	–	–	–	248,495
Issue of shares upon conversion of convertible bonds-equity components (Note 20)	(8,269,342)	–	–	–	–	–	–	(8,269,342)
Issue convertible bonds-equity component (Note 20)	3,851,724	–	–	–	–	–	–	3,851,724
Balance at 31 December 2005	28,442,131	248,495	35,945,975	–	35,098,856	21,625,704	24,149,139	145,510,300

Movements in reserves of the Group are presented in the consolidated statement of changes in equity.

The PRC laws and regulations require companies registered in the PRC to provide for certain statutory reserves, which are to be appropriated from the net profit as reported in their respective statutory accounts. All statutory reserves are created for specific purposes.

Companies within the Group that are registered in the PRC are required to appropriate 10% of the net profits as reported (after offsetting any prior years' losses) in the statutory accounts to the statutory surplus reserve; such appropriation is optional when the statutory surplus reserve reaches 50% of its share capital. The statutory surplus reserve can only be used, upon approval by the relevant authority, to offset a deficit or increase share capital. However, such statutory surplus reserve shall be maintained at a minimum of 25% of share capital after such issuance.

Companies within the Group that are registered in the PRC are also required to appropriate 5% to 10% of the net profits as reported (after offsetting any prior years' losses) in the statutory accounts to the statutory public welfare fund, which can only be used for capital expenditures for the collective welfare of the employees.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

18. OTHER RESERVES (continued)

COMPANY

	Convertible bonds	Options	Others	Total
Balance at 1 January 2004	–	–	(232,785)	(232,785)
Issue convertible bonds-equity component (Note20)	32,859,749	–	–	32,859,749
Balance at 31 December 2004	32,859,749	–	(232,785)	32,626,964
Balance at 1 January 2005, as per above	32,859,749	–	(232,785)	32,626,964
Granting of options (Note 17)	–	248,495	–	248,495
Issue of shares upon conversion of convertible bonds-equity components (Note 20)	(8,269,342)	–	–	(8,269,342)
Issue convertible bonds-equity component (Note 20)	3,851,724	–	–	3,851,724
Balance at 31 December 2005	28,442,131	248,495	(232,785)	28,457,841

19. BANK LOANS

GROUP AND COMPANY

	Group		Company	
	2005	2004	**2005**	2004
Short-term bank loans				
– Secured	**20,000,000**	85,808,029	**20,000,000**	20,000,000
Long-term bank loans				
– Secured	**1,295,695,057**	876,971,158	**430,560,000**	108,973,320
The long-term bank loans are repayable as follows:				
– Within one year	**465,141,411**	98,217,908	**128,700,000**	60,613,320
– In the second year	**554,797,082**	778,753,250	**160,680,000**	48,360,000
– In the third to fifth year	**275,756,564**	–	**141,180,000**	–
	1,295,695,057	876,971,158	**430,560,000**	108,973,320
Less: Amount due within one year shown under current liabilities	**(465,141,411)**	(98,217,908)	**(128,700,000)**	(60,613,320)
	830,553,646	778,753,250	**301,860,000**	48,360,000

19. BANK LOANS (continued)

Short-term bank loans

As at 31 December 2005, approximately HK$20 million of short-term bank loan (2004: approximately HK$20 million) was secured by a standby letter of credit arranged by the Company via the pledge of a fixed deposit of approximately HK$12 million (2004: approximately HK$12 million) (Note 16).

As at 31 December 2004, remaining short-term bank loans of approximately HK$66 million were secured by pledges of the Group's leasehold land (Note 8).

Long-term bank loans

As at 31 December 2005, included in long-term bank loans is a loan of approximately HK$394 million (2004: Nil) borrowed from Shanghai Enterprise Annuity Development Centre, arranged via a bank (entrusted loan). The loan is secured by pledge of the Group's leasehold land, together with certain properties under development for long-term investment. The interest rate under this loan agreement is 6.92% per annum as at 31 December 2005 and is subject to further adjustment in line with the market.

As at 31 December 2005, long-term bank loans of approximately HK$382 million (2004: Nil) were borrowed by 21 newly established BVI subsidiaries (Note 1) for the purchase of 21 residential apartment units developed by Anderson Fuxing. The mortgage loans were secured by a joint guarantee given by the Company, the 21 BVI subsidiaries and Mr. Shi Jian, the Chairman of the Company; by pledge of ordinary shares in the 22 BVI subsidiaries (including these 21 BVI subsidiaries) held by the Group, representing approximately HK$303 million of net assets attributable to the Group; and by mortgage of the 21 residential units purchased by the 21 BVI subsidiaries. The interest rate under these loan agreements is 1.85% above the London Inter-bank Offered Rate.

As at 31 December 2005, long-term bank loans of approximately HK$48 million (2004: approximately HK$109 million) were borrowed under a syndicate loan facility agreement dated 23 May 2003 and the total loan facility granted was approximately HK$121 million for a period of 3 years from the date of the agreement. The rate of interest under this facility agreement is 1.5% above the Hong Kong Inter-bank Offered Rate. The syndicated loan was secured by pledge of ordinary shares in Super-power.com Ltd. held by the Group, representing approximately HK$178 million (2004: approximately HK$100 million) of net assets attributable to the Group.

As at 31 December 2005, long-term bank loans of approximately HK$471 million (2004: approximately HK$366 million) were secured by pledge of the Group's leasehold land, together with properties under development for long-term investment and properties held or under development for sale.

As at 31 December 2004, long-term bank loan of approximately HK$402 million was secured by joint guarantee given by the Company, Mr. Shi Jian, the chairman of the Company and the minority shareholder of Anderson Shanghai and by pledge of ordinary shares in Anderson Shanghai held by the Group and this minority shareholder and by mortgage of land and building under development for sale of the project company – Anderson Fuxing, as well as by pledge of Anderson Fuxing's bank account (Note 16). The pledged ordinary shares in Anderson Shanghai held by the Group represent approximately HK$167 million of net assets attributable to the Group. The Group fully repaid this long-term bank loan in year 2005.

As at 31 December 2004, long-term bank loan of approximately HK$0.16 million was secured by pledges of the Company's motor vehicles. The Group fully repaid this long-term bank loan in year 2005 (Note 6).

(Amounts expressed in Hong Kong dollars unless otherwise stated)

19. BANK LOANS (continued)

Overall collateral arrangements for bank loans

As at 31 December 2005, leasehold land of approximately HK$504 million (2004: approximately HK$687 million) (Note 8), and properties under development for long-term investment of approximately HK$525 million (2004: approximately HK$207 million) (Note 9), together with properties held or under development for sale of approximately HK$460 million (2004: approximately HK$504 million) (Note 12), were mortgaged as collateral for the Group's short-term bank loans, long-term bank loans and banking facilities disclosed in the preceding paragraphs.

The effective interest rates for these borrowings at the balance sheet date were as follows:

	2005			2004		
	HK$	**US$**	**RMB**	HK$	US$	RMB
Short-term bank loans	**5.5960%**	**–**	**–**	2.0872%	–	5.7600%
Long-term bank loans	**–**	**6.2175%**	**6.3339%**	2.8372%	4.2900%	5.4897%

As bank loans are all borrowed at prevailing market interest rate, which would be adjusted in line with the market, the carrying amounts of the bank loans approximate their fair value.

The carrying amounts of bank loans are denominated in the following currencies:

	Group		**Company**	
	2005	2004	**2005**	2004
HK$	**20,000,000**	329,385,188	**20,000,000**	20,163,320
US$	**430,560,000**	108,810,000	**430,560,000**	108,810,000
RMB	**865,135,057**	524,583,999	**–**	–
	1,315,695,057	962,779,187	**450,560,000**	128,973,320

The Group has the following undrawn borrowing facilities as of the balance sheet date:

	2005	2004
Floating rate facilities		
– expiring within one year	**67,675,670**	114,693,993
– expiring beyond one year	**19,500,000**	–
	87,175,670	114,693,993

(Amounts expressed in Hong Kong dollars unless otherwise stated)

20. CONVERTIBLE BONDS

GROUP AND COMPANY

On 3 May 2004, the Company issued zero coupon convertible bonds maturing on 3 May 2009 (the "Maturity Date"), in the aggregate principal amount of HK$302 million with a conversion price of HK$1.116 per ordinary share of the Company. Unless previously redeemed, converted or purchased and cancelled, the convertible bonds will be redeemed at 111.63 percent of their principal amount on the Maturity Date. ("CB 1")

On 9 November 2005, the Company issued convertible bonds maturing on 9 November 2010 (the "Maturity Date"), in the aggregate principal amount of HK$386 million with an initial conversion price of HK$1.35 per ordinary share of the Company (subject to future one time adjustment on 9 November 2006). The interest rate of this bond is 3.5% per annum, which is paid in advance at the beginning of each anniversary year. In the event of conversion or early redemption, there would be no claw back of such prepayment of interest. Unless previously redeemed, converted or purchased and cancelled, the convertible bonds will be redeemed at 110 percent of their principal amount on the Maturity Date. ("CB 2")

The fair value of the written put option (bondholders' early redemption option) and purchased call option (bond issuer's early redemption option), as well as the liability component and the equity conversion component, were determined at issuance of the bonds.

The fair value of the liability component as included in liabilities, was initially calculated using a market interest rate for an equivalent non-convertible bond and subsequently measured at amortization cost. The fair value of the put option, recorded as derivative financial liability, was revalued annually with the revaluation gain or loss charged to the income statement. The residual amount, representing the value of the equity conversion component, is included in shareholders' equity in other reserves (Note 18), net of deferred income taxes.

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

	2005			2004
	CB 1	**CB 2**	**Total**	CB1
Face value of convertible bonds issued	**302,000,000**	**386,000,000**	**688,000,000**	302,000,000
Issuing expenses	**(11,160,024)**	**(19,810,651)**	**(30,970,675)**	(11,160,024)
Written put option liabilities	**(15,845,196)**	**(17,416,444)**	**(33,261,640)**	(15,845,196)
Equity components (Note 18)	**(32,859,749)**	**(3,851,724)**	**(36,711,473)**	(32,859,749)
Liability component on initial recognition upon issuance	**242,135,031**	**344,921,181**	**587,056,212**	242,135,031
Accumulated interest expenses (Note 29)	**26,532,292**	**2,335,317**	**28,867,609**	11,012,810
Prepayment of interest expense	**–**	**(13,510,000)**	**(13,510,000)**	–
Amount converted to ordinary shares of the Company (Note 17, 18)	**(66,301,247)**	**–**	**(66,301,247)**	–
Liability component at 31 December	**202,366,076**	**333,746,498**	**536,112,574**	253,147,841
Less: amount included under current liabilities	**(202,366,076)**	**–**	**(202,366,076)**	–
Amount included under non-current liabilities	**–**	**333,746,498**	**333,746,498**	253,147,841

(Amounts expressed in Hong Kong dollars unless otherwise stated)

20. CONVERTIBLE BONDS (continued)

For CB 1, the face value of the outstanding bonds at 31 December 2005 amounted to HK$226,000,000 (2004: HK$302,000,000). The fair value of the liability component of the convertible bond at 31 December 2005 amounted to HK$209,000,000. The fair value is calculated using cash flows discounted at a rate based on the borrowings rate of 6.045%. Interest expense on CB 1 is calculated using the effective interest method by applying the effective interest rate of 6.822% to the liability component.

For CB 2, the face value of the outstanding bonds at 31 December 2005 amounted to HK$386,000,000 (2004: Nil). The fair value of the liability component of the convertible bond at 31 December 2005 amounted to HK$367,000,000. The fair value is calculated using cash flows discounted at a rate based on the borrowings rate of 6.045%. Interest expense on CB 2 is calculated using the effective interest method by applying the effective interest rate of 8.125% to the liability component.

Derivative financial instrument – written put option liability

	2005	2004
Beginning of year	15,466,422	–
Initial recognition upon issuance of bonds	17,416,444	15,845,196
Fair value gain (Note 26)	(4,697,152)	(378,774)
End of year	28,185,714	15,466,422

As the fair value of the purchased call option asset is no significant, it is not accounted for separately.

As at 31 December 2005, the derivative financial instrument was revalued by BMI Appraisals Limited. The fair value of the derivative financial instrument was determined using the Binomial Option Pricing Model.

During the year ended 31 December 2005, CB 1 with a face value HK$76,000,000 (2004: Nil) were converted into 68,100,354 ordinary shares (2004: Nil) of the Company (Note 17).

As at 31 December 2005, none of CB 2 had been converted to ordinary shares of the Company (Note 17).

As at 31 December 2005, the carrying amount of liability component of CB 1 with HK$ 202,366,076 was recorded under current liabilities, as CB 1 may be redeemed at the option of the relevant holders on 3 May 2006.

21. ADVANCES RECEIVED FROM THE PRE-SALE OF PROPERTIES UNDER DEVELOPMENT

GROUP

	2005	2004
Advances received from pre-sale of properties under development	1,996,547,754	1,712,387,993

(Amounts expressed in Hong Kong dollars unless otherwise stated)

21. ADVANCES RECEIVED FROM THE PRE-SALE OF PROPERTIES UNDER DEVELOPMENT (continued)

The Group conducts the pre-sale of properties when they are still under development. As contracted with customers, advances amounting to a substantial portion of sales consideration are paid to the Group shortly from the signing of the pre-sales contract. Such amounts held by the Group are non-interest bearing. Business tax and land appreciation tax, generally calculated at rates of 5% and 1% respectively on advances received, are imposed by the tax authorities and had been recorded in "prepayments and other current assets" as prepaid business tax and land appreciation tax (Note 13).

22. DEFERRED INCOME TAX

GROUP

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

	2005	2004
Deferred tax assets		
– Deferred tax assets to be recovered after 1 year	1,322,157	1,293,071
– Deferred tax assets to be recovered within 1 year	17,762,933	18,112,660
	19,085,090	19,405,731

	2005	2004
Deferred tax liabilities		
– Deferred tax liabilities to be recovered after 1 year	4,383,860	4,832,747
– Deferred tax liabilities to be recovered within 1 year	–	–
	4,383,860	4,832,747

The gross movement on the deferred income tax account is as follows:

	2005	2004
Balance, beginning of year	14,572,984	4,073,323
Recognised in the income statements (Note 30(a))	(197,333)	10,492,002
Exchange differences	325,579	7,659
Balance, end of year	14,701,230	14,572,984

(Amounts expressed in Hong Kong dollars unless otherwise stated)

22. DEFERRED INCOME TAX (continued)

The separate movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets:

	Tax losses carried forward	Fair value losses	Total
At 1 January 2004, as previously reported	5,233,964	–	5,233,964
Opening adjustment for the retrospective adoption of HK-Int 3	4,569,704	–	4,569,704
At 1 January 2004, as restated	9,803,668	–	9,803,668
Recognised in the income statement	8,290,558	1,293,071	9,583,629
Exchange differences	18,434	–	18,434
At 31 December 2004	18,112,660	1,293,071	19,405,731
At 1 January 2005, as previously reported	–	–	–
Opening adjustment for the retrospective adoption of HK-Int 3	18,112,660	–	18,112,660
Opening adjustment for the retrospective adoption of HK-Int 21	–	1,293,071	1,293,071
At 1 January 2005, as restated	18,112,660	1,293,071	19,405,731
Recognised in the income statement	(748,723)	–	(748,723)
Exchange differences	398,996	29,086	428,082
At 31 December 2005	17,762,933	1,322,157	19,085,090

(Amounts expressed in Hong Kong dollars unless otherwise stated)

22. DEFERRED INCOME TAX (continued)

Deferred tax liabilities:

	Different basis of revenue recognition	Fair value Gains	Others	Total
At 1 January 2004, as previously reported	79,842,888	–	979,582	80,822,470
Opening adjustment for the retrospective adoption of HK-Int 3	(79,842,888)	–	–	(79,842,888)
Opening adjustment for the retrospective adoption of HK-Int 21	–	4,750,763	–	4,750,763
At 1 January 2004, as restated	–	4,750,763	979,582	5,730,345
Recognised in the income statement	–	(1,091,417)	183,044	(908,373)
Exchange differences	–	10,576	199	10,775
At 31 December 2004	–	3,669,922	1,162,825	4,832,747
At 1 January 2005, as previously reported	160,269,002	–	1,162,825	161,431,827
Opening adjustment for the retrospective adoption of HK-Int 3	(160,269,002)	–	–	(160,269,002)
Opening adjustment for the retrospective adoption of HK-Int 21	–	3,669,922	–	3,669,922
At 1 January 2005, as restated	–	3,669,922	1,162,825	4,832,747
Recognised in the income statement	–	(728,011)	176,621	(551,390)
Exchange differences	–	80,870	21,633	102,503
At 31 December 2005	–	3,022,781	1,361,079	4,383,860

Deferred tax assets mainly represent the tax effect of temporary differences arising from tax losses carried forward and revaluation loss of investment properties to the extent that the realisation of the related tax benefit through the future taxable profits is probable.

Deferred tax liabilities represent the tax effect of temporary differences arising from revaluation gain of investment properties.

There was no material unprovided deferred tax as at 31 December 2005.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

23. ACCOUNTS PAYABLE

GROUP

	2005	2004
Accounts payable	**361,026,904**	314,405,445

An aging analysis of accounts payable is set out below:

	2005	2004
0 – 360 days	**357,238,328**	314,371,977
361 – 720 days	**3,788,576**	33,468
	361,026,904	314,405,445

Accounts payable with aging of more than one year generally represent retention monies held by the Group in connection with various property projects.

24. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2005	2004	2005	2004
Land appreciation tax payable (Note 30(b))	**35,948,917**	14,547,969	**–**	–
Sales commission	**9,921,254**	–	**–**	–
Advance from a sales agency	**7,087,765**	26,237,266	**–**	–
Deposits received from construction companies	**6,728,828**	14,101,720	**–**	–
Dividends payable to minority shareholders of subsidiaries	**6,425,665**	5,061,807	**–**	–
Business tax payable (Note 30(c))	**2,860,851**	1,145,038	**–**	–
Deposits from customers	**2,541,090**	24,409,225	**–**	6,552,000
Other tax payable (Note 30(d))	**1,431,804**	1,157,843	**–**	–
Accrued advertising fee	**–**	1,885,036	**–**	–
Others	**23,705,272**	26,588,072	**6,758,447**	1,601,429
	96,651,446	115,133,976	**6,758,447**	8,153,429

(Amounts expressed in Hong Kong dollars unless otherwise stated)

25. TURNOVER

Turnover recognised during the year are as follows:

	2005	2004
Sales and pre-sales of properties held or under development	**1,345,902,593**	508,005,895
Revenue from construction of infrastructure for intelligent network	**8,683,515**	63,441,154
Sales of network hardware and installation of intelligent home equipment	**23,565,946**	29,088,769
Revenue from property leasing	**1,320,739**	880,222
	1,379,472,793	601,416,040

26. OTHER GAINS – NET

	2005	2004
Government grant	**7,057,034**	5,321,989
Interest income		
– on bank deposit	**7,128,676**	1,816,790
– on term-loan (Note 14 (b))	**6,243,368**	–
– on loans to associated companies (Note 37(b))	**16,817,174**	–
– on advances provided to Trans-ocean Group Company	**–**	8,333,201
	30,189,218	10,149,991
Guarantee income charged to Trans-ocean Group Company	**–**	1,805,020
Gain on disposal of fixed assets, net	**6,489,923**	2,331,731
Fair value loss on investment properties (Note 7)	**(2,206,095)**	(7,225,722)
Derivative financial instruments at fair value through profit of loss:		
– fair value gain (realized and unrealized) (Note 20)	**4,697,152**	378,774
Others	**1,309,916**	216,111
	47,537,148	12,977,894

The Group received separate government grant in year 2005 in connection with its property development activities at the respective municipalities. Government grant received by a subsidiary represents financial refunds equivalent to 25% and 40% (2004: 25% and 40%) of BT and EIT paid, respectively. The refunds were all in respect of taxes paid in 2004. As the granting of financial refunds is regulated and should be approved by the State Council, there is no assurance that the Group will continue to enjoy such financial refunds. Therefore, financial refunds are recorded as government grants to the extent that the refund is received.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

27. EXPENSES BY NATURE

Expenses included in cost of goods sold, selling and marketing costs and administrative expenses are analyzed as follows:

	2005	2004
Depreciation of property, plant and equipment (Note 6)	10,825,970	5,820,753
Impairment of goodwill (Note 11)	2,729,087	–
Employee benefit expense (Note 28)	30,648,931	26,569,561
Business tax, surtaxes and land appreciation tax (Note 30(c), (b))	106,587,748	32,174,916
Cost of inventories		
– Cost of properties held or under development for sale	816,143,768	358,116,890
– Cost of construction of infrastructure	7,519,543	47,232,151
– Cost of inventory	20,274,458	27,238,436
Operating lease expenses for offices	6,895,727	1,685,759
Advertising costs	15,500,436	19,187,835
Auditors' remuneration	2,200,000	1,400,000
Provisions for maintenance fund	5,014,456	2,294,859
Exchange (gain)/loss, net	(3,406,869)	118,880

28. EMPLOYEE BENEFIT EXPENSE

	2005	2004
Salaries and wages	27,038,461	24,071,042
Pension and other social welfare	3,361,975	2,498,519
Share options granted to key management (Note 37(b))	248,495	–
	30,648,931	26,569,561

(Amounts expressed in Hong Kong dollars unless otherwise stated)

28. EMPLOYEE BENEFIT EXPENSE (continued)

(a) Directors' and senior management's emoluments

The remuneration of every director for the year ended 31 December 2005 and 2004 is set out below:

		2005	
Name of Director	**Salary**	**Other Benefits**	**Total**
Executive directors			
– Mr. Shi Jian	**2,000,000**	**–**	**2,000,000**
– Mr. Li Yao Min	**1,558,000**	**1,100,000**	**2,658,000**
– Mr. Yu Hai Sheng	**1,500,000**	**–**	**1,500,000**
– Mr. Qian Reng Hui	**1,000,000**	**–**	**1,000,000**
– Mr. Jiang Xu Dong	**970,000**	**–**	**970,000**
Non-executive directors			
– Mr. Cheung Wing Yui	**300,000**	**–**	**300,000**
– Mr. Wang Ru Li	**–**	**–**	**–**
Independent non-executive directors			
– Mr. Sang Rong Lin	**58,000**	**–**	**58,000**
– Mr. Yeung Kwok Wing	**150,000**	**–**	**150,000**
– The Lord Killearn	**200,000**	**–**	**200,000**
– Mr. Geng Yu Xiu	**120,000**	**–**	**120,000**
– Mr. E Hock Yap	**200,000**	**–**	**200,000**

		2004	
Name of Director	Salary	Other Benefits	Total
Executive directors			
– Mr. Shi Jian	2,000,000	–	2,000,000
– Mr. Li Yao Min	1,500,000	–	1,500,000
– Mr. Yu Hai Sheng	1,500,000	–	1,500,000
– Mr. Jiang Xu Dong	970,000	–	970,000
– Mr. Shi Jian Dong	–	–	–
Non-executive directors			
– Mr. Cheung Wing Yui	150,000	–	150,000
– Mr. Wang Ru Li	–	–	–
Independent non-executive directors			
– Mr. Sang Rong Lin	58,000	–	58,000
– Mr. Yeung Kwok Wing	–	–	–
– The Lord Killearn	200,000	–	200,000
– Mr. Geng Yu Xiu	120,000	–	120,000
– Mr. E Hock Yap	–	–	–

(Amounts expressed in Hong Kong dollars unless otherwise stated)

28. EMPLOYEE BENEFIT EXPENSE (continued)

(a) Directors' and senior management's emoluments (continued)

A car was given to Mr. Li Yao Min during the year ended 31 December 2005 and has been included under the "other benefits" column.

No fees, discretionary bonuses, inducement fees, employer's contribution to pension scheme or compensation for loss of office as directors were given to any of the directors during the year ended 31 December 2005 and 2004.

During the year, Mr. Wang Ru Li, non-executive director, waived to receive emolument (2004: Mr. Shi Jian Dong, executive director and Mr. Wang Ru Li, non-executive director, waived to receive emoluments).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2004: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2004: two) individuals during the year are as follows:

	2005	2004
Basic salaries, housing allowances, share options, other allowances and benefits in kind	1,548,495	912,263
Bonuses	–	–
Pension scheme	60,000	48,014
Compensation for loss of office – contractual payments	–	–
	1,608,495	960,277

The emoluments fell within the following bands:

	Number of individuals	
	2005	2004
Emoluments bands		
Nil – HK$1,000,000	–	2
HK$1,000,001 – HK$1,500,000	–	–
HK$1,500,001 – HK$2,000,000	1	–

(Amounts expressed in Hong Kong dollars unless otherwise stated)

29. FINANCE COSTS

	2005	2004
Interest expense		
Interest on bank loans – wholly repayable within five years	52,701,690	36,864,707
Interest on CB 1 – wholly repayable within five years (Note 20)	15,519,482	11,012,810
Interest on CB 2 – wholly repayable within five years (Note 20)	2,335,317	–
Arrangement fee for borrowings	1,465,779	2,712,500
Total borrowing costs incurred	72,022,268	50,590,017
Less: Amount capitalised in properties under development	(39,456,072)	(49,688,682)
Interest expense charged into the income statements	32,566,196	901,335

During the year ended 31 December 2005, the weighted average interest capitalisation rate was 5.27% (2004: 4.81%).

30. TAXATION

(a) Income tax expense

	2005	2004
Current – PRC taxation	130,786,533	34,120,262
Deferred taxation (Note 22)	197,333	(10,492,002)
Taxation charge	130,983,866	23,628,260

The Group conducts a significant portion of its business in the PRC and the applicable enterprise income tax ("EIT") rate of its subsidiaries operating in the PRC is generally 33% other than Wingo Infrastructure, a Sino-foreign equity joint venture, which is established within the technological economic development zone of an old urban district of a city, where applicable EIT rate for year 2005 is 27%.

The Company is exempted from taxation in Bermuda until 2016. There were also no Hong Kong profits tax liabilities, as the Group did not have any assessable profit in Hong Kong.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

30. TAXATION (continued)

(a) Income tax expense (continued)

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the Group's general taxation rate of 33% as follows:

	2005	2004
Profit before taxation	505,080,709	116,035,648
Less: Profit and losses of associated companies	(161,514,814)	(51,538,622)
	343,565,895	64,497,026
Calculated at a taxation rate of 33% (2004: 33%)	113,376,745	21,284,018
Effect of losses and expenses not deductible	10,058,676	300,837
Tax losses for which no deferred tax assets recognised	9,087,662	7,369,093
Utilization of previously unrecognised tax losses	–	(2,563,707)
Effect of different taxation rate of a subsidiary	(1,539,217)	(2,761,981)
Taxation charge	130,983,866	23,628,260

For the pre-sale of properties under development, the tax authorities may impose income tax ahead of the completion of transaction and revenue recognition, based on certain estimations. Prepaid income tax amounted to approximately HK$47 million as of 31 December 2005 (2004: approximately HK$14 million).

(b) Land appreciation tax ("LAT")

For the year ended 31 December 2005 and 2004, the Group accrued and paid LAT at 1 percent of sale and pre-sale of properties as required by the local tax authorities. For the year ended 31 December 2005, the Group made additional provisions for LAT, representing the directors' estimate of the additional LAT which may fall due when the Group's projects are finally assessed.

(c) Business tax ("BT") and surtaxes

The Group is subject to business tax ("BT") at 5% on the revenue from the sale/pre-sale of properties, installation of intelligent home equipment and property leasing. In addition, the Group is also subject to BT at 3% on the revenue less payments to subcontractors from the construction of infrastructure for intelligent network. On top of BT, some subsidiaries are subject to the following surtaxes:

– City development tax, a tax levied at 5% to 7% of BT or Value-Added Tax ("VAT");

– Education supplementary tax, a tax levied at 3% of BT or VAT.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

30. TAXATION (continued)

(d) Value-added Tax ("VAT")

The Group is subject to VAT, which is levied at a general rate of 17% on the gross turnover upon sale or purchase of goods. An input credit is available whereby VAT previously paid on purchases of raw materials, semi-finished products, etc., may be used to offset the VAT payable on sales to determine the net VAT payable. Sales and purchases are stated net of VAT in the consolidated profit and loss account.

31. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company for the year ended 31 December 2005 is dealt with in the accounts of the Company to the extent of HK$76,059,611 (2004: HK$40,255,532).

32. EARNINGS PER SHARE

Basic

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

	2005	2004
Profit attributable to equity holder of the Company	**301,172,964**	90,248,765
Weighted average number of ordinary shares in issue	**1,464,974,405**	1,390,716,520
Basic earnings per share	**20.56 cents**	6.49 cents

(Amounts expressed in Hong Kong dollars unless otherwise stated)

32. EARNINGS PER SHARE (continued)

Diluted

For the diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible bonds and share options. The convertible bonds are assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the interest expense and fair value gain less the tax effect. For the share options, a calculation is done to determine the number of shares that could have been acquired at market price (determined as average annual share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options to determine the ordinary shares deemed to be issued at no consideration ("bonus share"). The "bonus shares" are added to the ordinary shares outstanding but no adjustment is made to net profit.

	2005	2004
Net profit attributable to equity holders of the Company	**301,172,964**	90,248,765
Derivative financial liability at fair value through profit of loss, net of tax	**(4,697,152)**	(378,774)
Interest expense on convertible bonds, net of tax	**16,801,201**	4,469,600
Profit used to determine diluted earnings per share	**313,277,013**	94,339,591
Weighted average number of ordinary shares in issue	**1,464,974,405**	1,390,716,520
Adjustments for:		
– assumed conversion of convertible bonds	**279,345,904**	178,676,290
– share options	**4,437,425**	17,296,249
Weighted average number of ordinary shares for diluted earnings per share	**1,748,757,734**	1,586,689,059
Diluted earnings per share	**17.91 cents**	5.95 cents

33. DIVIDENDS

The dividends paid during the year ended 2005 and 2004 were HK$16,286,934 (HK$0.033 per share) and HK$22,489,680 (HK$0.0166 per share) respectively. A dividend in respect of 2005 of HK$0.043 per share was declared to shareholders whose names appear on the Register of Members of the Company on 4 May 2006, as proposed at the Meeting of Board of Directors on 23 March 2006. According to total issued ordinary shares on 23 March 2006 of 1,613,772,559 shares, the dividends declared approximate HK$69,000,000. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2006.

	2005	2004
Proposed final dividend of HK$0.043 (2004: HK$ 0.033) per ordinary share	**69,000,000**	47,186,357

Pursuant to a resolution passed at the general meeting on 20 April 2005, the Company offered to its shareholders scrip dividends as an alternative to cash dividends; under which the shareholders could elect to receive ordinary shares of par value of HK$0.1 each in lieu of a cash dividend of HK$0.033 per share. As of 24 June 2005 (date shareholders are required to elect alternatives), shareholders holding a total of 493,543,463 shares elected for cash dividend and cash dividends of HK$16,286,933 were paid, while shareholders holding a total of 936,346,140 shares elected for scrip dividend resulting in 35,929,561 shares being allotted at the price of HK$0.86 (Note 17 (b)).

(Amounts expressed in Hong Kong dollars unless otherwise stated)

34. CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of profit for the year to net cash inflow generated from operations:

	2005	2004
Profit for the year	374,096,843	92,407,388
Adjustments for:		
Tax (Note 30)	130,983,866	23,628,260
Depreciation of property, plant and equipment (Note 6)	10,825,970	5,820,753
Goodwill impairment expenses (Note 11)	2,729,087	–
Gains on disposal of property, plant and equipment (Note 26)	(6,489,923)	(2,331,731)
Share of results of associated companies	(161,514,814)	(51,538,622)
Gains on disposal of trading securities	–	(217,817)
Fair value loss on investment properties (Note 26)	2,206,095	7,225,722
Fair value gain on derivative financial instrument (Note 26)	(4,697,152)	(378,774)
Guarantee income (Note 26)	–	(1,805,020)
Interest income (Note 26)	(30,189,218)	(10,149,991)
Interest expense (Note 29)	32,566,196	901,335
Operating profit before working capital changes	350,516,950	63,561,503
(Increase)/decrease in restricted bank deposits (Note 16)	(6,261,247)	5,856,190
Decrease/(increase) in leasehold land (Note 8)	10,160,764	(115,516,576)
Increase in properties held or under development for sale	(208,323,733)	(416,401,263)
(Increase)/decrease in contracts in work-in-progress	(9,446,202)	4,464,097
(Increase)/decrease in inventories	(66,944)	1,010,879
Decrease/(increase) in amount due from related companies	39,870,589	(53,373,898)
Increase in prepayments and other current assets	(72,332,807)	(24,924,591)
Increase in other receivables	(13,663,108)	(34,573,582)
(Increase)/decrease in accounts receivable	(3,142,723)	7,065,837
Increase in accounts payable	46,621,459	205,908,853
(Decrease)/increase in other payables and accruals	(18,482,530)	40,018,421
Increase/(decrease) in amount due to related companies	390,107	(820,832)
Increase in advance received from pre-sale of properties under development	284,159,761	863,774,165
Net cash inflow generated from operations	400,000,336	546,049,203

35. CONTINGENCIES

In connection with the sale of the Group's properties, Oasis Garden provided guarantees to banks prior to the buyers providing title documents to their banks for mortgage purpose. As at 31 December 2005, such outstanding guarantees amounted to approximately HK$33 million (2004: approximately HK$48 million). Part of the Group's bank deposits amounting to HK$990,750 (2004: HK$1,439,909) (Note 16) were restricted in connection with such guarantees.

As of 31 December 2005, the Group and other investors of Jinluodian provided guarantees for Jinluodian's bank loans proportionately according to their equity interests in Jinluodian amounting to approximately HK$96 million.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

36. COMMITMENTS

(a) Capital commitment

Capital expenditures at the balance sheet date but not yet incurred is as follows:

	2005	2004
Properties under development for L-T investment		
– Contracted but not provided for	110,692,779	274,723,054
– Authorised but not contracted for	26,640,967	80,330,936
Properties held or under development for sale		
– Contracted but not provided for	526,788,271	1,247,629,733
– Authorised but not contracted for	393,868,058	824,811,451
	1,057,990,075	2,427,495,174

(b) Investment commitment

Pursuant to an Acquisition Agreement signed by Skyway with the vendor on 14 December 2005, Skyway has conditionally agreed to acquire from the vendor 40% equity interest in Shanghai Qinhai Real Estate Co., Ltd. ("Qinhai"), a company established in the PRC with limited liability, at a consideration of approximately HK$39 million.

In addition, Skyway entered into a loan agreement on 14 December 2005, pursuant to which Skyway has conditionally agreed to advance an interest free loan to Qinhai with principal of approximately HK$252 million. The loan will mature in the three years from the date of drawdown or 31 December 2009, whichever is the earlier.

Subsequently, pursuant to a Cancellation Agreement dated 21 March 2006, the vendor and Skyway agreed to terminate and release both parties' respective rights and obligations under the above Acquisition Agreement with effect from the signing of the Cancellation Agreement.

On 21 March 2006, pursuant to a revised Acquisition Agreement signed between the vendor and Shunlink Investment Limited ("Shunlink"), a company incorporated in the British Virgin Islands and a wholly owned subsidiary of the Group, Shunlink conditionally agreed to acquire from the vendor 40% equity interest in Qinhai at a consideration of approximately HK$39 million. In addition, Shunlink agreed to take over the obligation of the vendor to advance a shareholder's loan to Qinhai by virtue of such 40% equity interest.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

36. COMMITMENTS (continued)

(c) Operating leases commitment – where the Group is the lessee

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2005	2004
Within one year	3,793,936	787,851
Later than one year and not later than five years	6,747,056	70,509
	10,540,992	858,360

37. RELATED PARTY TRANSACTIONS

The Group is controlled by Good Time Resources Limited, which owns 50.87% of the Company's shares as at 31 December 2005. The remaining 49.13% of the shares are widely held. The directors regard Good Time Resources Limited, a company incorporated in British Virgin Islands, as being the ultimate holding company.

(a) Name of related party and nature of relationship

Name	Relationship with the Company
Mr. Shi Jian	The major beneficial shareholder and chairman of the Company
Jinluodian	Associated company
Shuo Cheng	Associated company
New Technology	Associated company
Good Property Management	Associated company
Broadband	Associated company
Shanghai Internet	Associated company

(b) Related party transactions carried out during the year

(i) Sales and purchases

	2005	2004
(Collection of advance)/Advance to New Technology for purchase of equipment	(61,107,455)	61,107,455
Construction of infrastructure for intelligent network for Jinluodian	17,591,721	60,666,306
Sales of goods to Broadband	14,275,745	23,119,964
Sales of properties to a director	–	4,255,370

In August 2004, the Group entered into a contract with New Technology to purchase air-conditioners amounting to approximately HK$122 million for one of the Group's property development projects. In accordance with the terms of the contract, a deposit of HK$61 million was paid to New Technology as at 31 December 2004 for the purchase. In December 2005, the Group cancelled the contract and fully recovered the advance.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

37. RELATED PARTY TRANSACTIONS (continued)

(b) Related party transactions carried out during the year (continued)

(ii) Loan guarantee

	2005	2004
Guarantee provided for loans borrowed by Jinluodian	**43,450,000**	94,000,000
The Group's bank loans guaranteed by Mr. Shi Jian (Note 19)	**382,200,000**	402,000,000

During the year ended 31 December 2005 and as of 31 December 2005, the Group and other investors of Jinluodian provided guarantees for Jinluodian's bank loans proportionately according to their equity interest in Jinluodian amounting to approximately HK$96 million.

As of 31 December 2004, the Group solely provided guarantee for Jinluodian's bank loans of approximately HK$94 million.

(iii) Key management compensation

	2005	2004
Salaries and other short-term employee benefits	**9,428,000**	6,882,263
Share-based payments	**248,495**	–
	9,676,495	6,882,263

(Amounts expressed in Hong Kong dollars unless otherwise stated)

37. RELATED PARTY TRANSACTIONS (continued)

(b) Related party transactions carried out during the year (continued)

(iv) Loans to related parties

	2005	2004
Loans to Jinluodian (a.)		
Beginning of the year	56,412,876	–
Loans advanced during year	96,126,117	56,412,876
Loans repayments	(152,538,993)	–
Interest income recognised	1,901,141	–
Interest received	(1,901,141)	–
End of the year	–	56,412,876
Loans to Shuo Cheng (b.)		
Beginning of the year	188,022,939	–
Loans advanced during year	67,288,282	188,022,939
Interest income recognised	14,916,033	–
Exchange difference	4,397,053	–
End of the year	274,624,307	188,022,939
Total loans to related parties		
Beginning of the year	244,435,815	–
Loans advanced during year	163,414,399	244,435,815
Loans repayments	(152,538,993)	–
Interest income recognised (Note 26)	16,817,174	–
Interest received	(1,901,141)	–
Exchange difference	4,397,053	–
End of the year	274,624,307	244,435,815

(a.) During 2005, the Group provided unsecured loans of approximately HK$96 million to Jinluodian (2004: approximately HK$56.4 million) at interest of 6% per annum (2004: unsecured, interest free and without fixed repayment terms). Loans to Jinluodian were fully recovered before year-end.

(b.) On 4 July 2005, the Group acquired 20% equity interest in Shuo Cheng from Trans-ocean Group Company at a consideration of approximately HK$9.4 million. On the same date, the Group entered into a shareholder's loan agreement with Shuo Cheng, pursuant to which the Group advanced shareholder's loan to Shuo Cheng, which was satisfied by converting the earnest money of approximately HK$188 million which was previously advanced by the Group to Shuo Cheng. This shareholder's loan is for a period of three years and interest would be charged at 6% per annum. Details of these transactions are set out in the circular issued by the Company dated 5 July 2005.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

37. RELATED PARTY TRANSACTIONS (continued)

(b) Related party transactions carried out during the year (continued)

(iv) Loans to related parties (continued)

On 14 December 2005, the Group entered into a share transfer agreement with another investor of Shuo Cheng, pursuant to which the Group acquired another 5% equity interest in Shuo Cheng at a consideration of approximately HK$2.4 million. Accordingly, the Group will also assume the obligation of the vendor to advance shareholder's loan to Shuo Cheng by virtue of its 5% equity interest. The Group and Shuo Cheng entered into a loan agreement on the same date, pursuant to which the Group advanced additional shareholder's loan to Shuo Cheng with a principal of approximately HK$67 million. This shareholder's loan is for a period of three years and is interest-free.

(c) The Group had the following material balances with related parties

	2005	2004
Due from associated companies		
– Shuo Cheng (Note 37(b))	274,624,307	188,022,939
– New Technology (Note 37(b))	–	61,107,455
– Jinluodian (Note 37(b))	13,605,395	56,412,876
– Broadband	5,540,636	2,398,105
– Good Property Management	4,450,645	4,358,758
	298,220,983	312,300,133
Less: non-current receivables	(274,624,307)	(188,022,939)
Current receivables	23,596,676	124,277,194
Due to associated companies		
– Shanghai Internet	1,002,115	980,070
– Jinluodian	368,062	–
	1,370,177	980,070

As at 31 December 2005, balances with related parties are unsecured and mainly arose from the above related party transactions. Other than the amount due from Jinluodian and Shuo Cheng, details of which are described in Note 37 (b), the remaining balances are interest free and are without fixed settlement period. The carrying amount of balances with related parties approximated their fair value.

38. EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to 31 December 2005 and up to the date of this report, bondholders have served conversion notices for CB 1 with face value of HK$116,000,000 which were converted to 103,942,644 ordinary shares.

39. DATE OF APPROVAL

The accounts were approved by the board of directors on 23 March 2006.