Notes to the Financial Statements

For the year ended 31 December 2005

1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability under Companies Act 1981 of Bermuda (as amended) and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Future Opportunity Limited, incorporated in the British Virgin Islands and its intermediate holding company is Chance Fair International Development Limited, incorporated in Hong Kong. The address of the registered office and principal place of business of the Companies are disclosed in the corporate information of the annual report.

The financial statements are presented in Hong Kong dollars while the functional currency is Renminbi. The reason for selecting Hong Kong dollars as its presentation currency because the Company is a public company incorporated in Hong Kong with the shares listed on the Stock Exchange, where most of its investors are located in Hong Kong.

The Company acts as an investment holding company. The principal activities of the Company's subsidiaries and co-operative joint venture are set out in note 35.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (HKFRSs), Hong Kong Accounting Standards (HKASs) and Interpretations (hereinafter collectively referred to as the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are effective for accounting periods beginning on or after 1 January 2005. The application of new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and the consolidated statement of changes in equity. In particular, the presentation of minority interests has been changed. The change in presentation have been applied retrospectively.

The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and prior accounting years are prepared and presented:

Business combinations

In the current year, the Group has applied HKFRS 3 Business Combinations.

In previous years, goodwill arising on acquisitions prior to 1 January 2001 was held in reserves. The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously recognised in reserves of HK$7,669,000 has been transferred to the Group's accumulated profits on 1 January 2005. Comparative figures for 2004 have not been restated *(see note 3 for the financial impact)*.

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

Share-based payments

In the current year, the Group has applied HKFRS 2 Share-based Payment which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors', employees' and other participants' share options of the Company, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on after 1 January 2005 and all the equity-settled share based payment arrangement of the Group is granted after 1 January 2005, and accordingly, there is no change to the previous figures *(see note 3 for the financial impact)*.

Owner-occupied leasehold interest in land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the revaluation model. In the current year, the Group has applied HKAS 17 Leases. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. The change in accounting policy has been applied retrospectively *(see note 3 for the financial impact)*.

Investment properties

In the current year, the Group has, for the first time, applied HKAS 40 "Investment Property". The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the year in which they arise. In previous years, investment properties under the predecessor standard were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the consolidated income statement. Where a decrease had previously been charged to the consolidated income statement and revaluation subsequently arose, that increase was credited to the consolidated income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1 January 2005 onwards. The amount held in the investment property revaluation reserve at 1 January 2005 has been transferred to the Group's accumulated profits *(see note 3 for the financial impact)*.

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of changes in the accounting policies described above on the results for the current prior years are as follows:

	2005 HK$'000	2004 HK$'000
Gain on change in fair value of investment properties	31,556	—
Amortisation of prepaid lease payments included in administrative expenses	—	(396)
Expenses in relation to share options granted to employees included in administrative expenses	(313)	—
Increase (decrease) in profit for the year	31,243	(396)
Attributable to:		
Equity holders of the Company	22,260	(368)
Minority interests	8,983	(28)
	31,243	(396)

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(Continued)*

The cumulative effects of the application of the new HKFRSs as at 31 December 2004 and 1 January 2005 are summarised below:

	31.12.2004 HK$'000 (Originally stated)	Retrospective adjustments HK$'000	31.12.2004 HK$'000 (Restated)	Opening adjustments HK$'000	**1.1.2005 HK$'000 (Restated)**
Balance sheet items					
Property, plant and equipment	39,623	(7,940)	31,683	—	**31,683**
Prepaid lease payments	—	2,749	2,749	—	**2,749**
Deferred taxation liabilities	(5,032)	1,977	(3,055)	—	**(3,055)**
Total effect on assets and liabilities	34,591	(3,214)	31,377	—	**31,377**
Accumulated profits	140,066	(488)	139,578	(2,287)	**137,291**
Goodwill	(7,669)	—	(7,669)	7,669	**—**
Investment property revaluation reserve	5,382	—	5,382	(5,382)	**—**
Leasehold land and building revaluation reserve	1,813	(883)	930	—	**930**
Minority interests	—	70,899	70,899	—	**70,899**
Total effects on equity	139,592	69,528	209,120	—	**209,120**
Minority interests	72,742	(72,742)	—	—	**—**
	212,334	(3,214)	209,120	—	**209,120**

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(Continued)*

The cumulative effects of the application of the new HKFRSs as at 31 December 2003 and 1 January 2004 are summarised below:

	31.12.2003 *HK$'000*	Adjustment *HK$'000*	1.1.2004 *HK$'000*
Accumulated profits	133,463	(120)	133,343
Leasehold land and building revaluation reserve	551	(89)	462
Minority interests	—	39,011	39,011
Total effects on equity	134,014	38,802	172,816
Minority interests	39,345	(39,345)	—
	173,359	(543)	172,816

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective.

HKAS 1 (Amendment)	Capital disclosure [1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures [2]
HKAS 21 (Amendment)	Net investment in a foreign operation [2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transaction[s] [2]
HKAS 39 (Amendment)	The fair value option [2]
HKAS 39 and HKFRS 4 (Amendments)	Financial guarantee contracts [2]
HKFRS 6	Exploration for and evaluation of mineral resources [2]
HKFRS 7	Financial instruments: Disclosures [1]
HK(IFRIC) — INT 4	Determining whether an arrangement contains a lease [2]
HK(IFRIC) — INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds [2]
HK(IFRIC) — INT 6	Liabilities arising from participating in a specific market — waste electrical and electronic equipment [3]
HK(IFRIC) — INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies [4]

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 January 2006.
[3] Effective for annual periods beginning on or after 1 December 2005.
[4] Effective for annual periods beginning on or after 1 March 2006.

The management anticipates the application of these new standards, interpretations and amendments will have no material impact on the Group's financial statements except for HKFRS 4 (Amendments), which requires recognition of financial guarantee contracts, may have effect the Company's financial position.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for the revaluation of investment properties and leasehold properties, which are measured as fair values, as explained in accounting policies set out below.

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

Basis of consolidation

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

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

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

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

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

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 are recognised at their fair values at the acquisition date.

Goodwill

Goodwill arising on an acquisition of a subsidiary for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition.

Goodwill arising on acquisitions prior to 1 January 2005

As explained in note 2 above, goodwill arising on acquisition prior to 1 January 2005 has been transferred to the accumulated profits as at 1 January 2005.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

Revenue from sale of properties in the ordinary course of business is recognised when all of the following criteria are met:

— the significant risks and rewards of ownership of the properties are transferred to buyers;

— neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the properties are retained;

— the amount of revenue can be measured reliably;

— it is probable that the economic benefits associated with the transaction will flow to the Group; and

— the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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

Sale of developed properties is recognised upon execution of the sale agreements.

When a development property is sold in advance of completion, income is recognised only when the property is completed and has passed the inspection process. Deposits received from the purchasers prior to this stage are recorded as customers' deposits and included in current liabilities.

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

Property, plant and equipment

Property, plant and equipment, other than leasehold properties, are stated at cost less subsequent accumulated depreciation and any identified impairment loss.

Leasehold properties are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and amortisation, and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of leasehold properties is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Depreciation is provided to write off the cost or valuation of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method.

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

Impairment (other than goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amounts, in which case the reversal of the impairment loss is treated as a revaluation increase.

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

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing

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

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

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

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

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

Borrowing costs

Borrowing costs directly attributable to the properties under development, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

4. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Taxation

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

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

Deferred taxation is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred taxation liabilities are generally recognised for all taxable temporary differences and deferred taxation assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

Deferred taxation is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised base on the tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred taxation is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred taxation is also dealt with in equity.

Properties under development

Properties under development are stated at cost less any identified impairment loss. Cost comprises the cost of the land together with direct costs attributable to the development of the properties and borrowing costs capitalised during the period of development.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost comprises the cost of the land together with direct costs attributable to the completion of the properties. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

4. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Financial instruments

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

Financial assets

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

Loans and receivables

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

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities other than financial liabilities at fair value through profit or loss ("Other financial liabilities"). The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Other financial liabilities

Other financial liabilities including bank borrowings, customers' deposits received, creditors and accrued charges, amount due to a director, amount due to an intermediate holding company, amounts due to minority shareholders and amount due to a related company are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

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

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to directors, employees of the Company and other participants

The fair value of services received determined by reference to the fair value of share options granted at the grant date is recognised as an expense in full when the share options granted and vest after 28 days, with a corresponding increase in share option reserve.

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

Retirement benefit contributions

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, which are described in note 4, management had made the following estimates that have the most significant effect on the amounts recognised in the consolidated financial statements.

Property sale receivables and other receivables

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

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include property sales receivables, property held for sale, other debtors and deposits, creditor and accrued charges, bank balances and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

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

Certain property sale receivables, other receivables and borrowings of the Group are denominated in RMB. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual amount due from group companies and trade receivable at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

7. TURNOVER

Rental income are reclassified as part of the turnover of the Group. The directors of the Company are of the opinion that such reclassification is necessary to give a better understanding of the performance of the Group and the comparative amounts presented have been restated to conform with the revised classification.

Turnover represents the amount received and receivable on rental income, sales of land use rights and sales of developed properties, net of sales tax.

8. SEGMENT INFORMATION

Business segments

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

	Property letting *HK$'000*	Sales of land use rights *HK$'000*	Sales of developed properties *HK$'000*	Total *HK$'000*
For the year ended 31 December 2005				
Turnover	**15,413**	**30,639**	**61,047**	**107,099**
Result				
Segment result	**14,709**	**18,546**	**(6,836)**	**26,419**
Other operating income				**3,925**
Gain on change in fair value of investment properties				**31,556**
Unallocated corporate expenses				**(29,600)**
Profit from operations				**32,300**
Finance costs				**(5,393)**
Profit before taxation				**26,907**
Taxation				**(2,163)**
Profit for the year				**24,744**

8. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

	Property letting	Sales of land use rights	Sales of developed properties	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 December 2005				
Balance sheet				
Assets				
Segment assets	156,017	71,622	231,151	458,790
Unallocated corporate assets				188,564
Total assets				647,354
Liabilities				
Segment liabilities	—	—	85,593	85,593
Unallocated corporate liabilities				225,585
Total liabilities				311,178
Other information				
Additions of property, plant and equipment				2,686
Additions of investment properties				885
Amortisation of prepaid lease payments				53
Depreciation of property, plant and equipment				3,571

8. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

	Property letting *HK$'000*	Sales of land use rights *HK$'000*	Sales of developed properties *HK$'000*	Total *HK$'000*
For the year ended 31 December 2004 — restated				
Turnover	1,518	—	260,429	261,947
Result				
Segment result	1,354	—	73,898	75,252
Other operating income				13,602
Unallocated corporate expenses				(28,192)
Profit from operations				60,662
Finance costs				(1,193)
Profit before taxation				59,469
Taxation				(21,850)
Profit for the year				37,619

8. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

	Property letting *HK$'000*	Sales of land use rights *HK$'000*	Sales of developed properties *HK$'000*	Total *HK$'000*
As at 31 December 2004 — restated				
Balance sheet				
Assets				
Segment assets	11,793	74,844	317,191	403,828
Unallocated corporate assets				226,072
Total assets				629,900
Liabilities				
Segment liabilities	—	—	98,900	98,900
Unallocated corporate liabilities				214,558
Total liabilities				313,458
Other information				
Additions of property, plant and equipment				6,881
Amortisation of prepaid lease payments				52
Depreciation of property, plant and equipment				3,160

Geographical segments

All of the Group's turnover for both years was generated in the PRC and over 90% (2004: over 90%) of the Group's segment assets were located in the PRC. Accordingly, no geographical segment information is presented.

During the year, over 90% (2004: over 90%) of the Group's additions to property, plant and equipment took place in the PRC.

9. DIRECTORS' AND EMPLOYEES' REMUNERATION

The emoluments paid or payable to each of the seven (2004: seven) directors were as follows:

Year 2005

	So Pan Gen	Lam Hon-Keung, Keith	Choi Dun Woo	Su Bang Yuan	Hui Yip Wing, David	Kee Wah Sze	Ku Siu-Fung, Stephen	Total 2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fees	—	—	—	—	30	30	30	90
Other emoluments								
Salaries and other benefits	1,785	390	846	758	—	—	—	3,779
Retirement benefit scheme contributions	—	4	12	12	—	—	—	28
Share option benefits expenses	22	31	58	42	19	19	—	191
Total emoluments	1,807	425	916	812	49	49	30	4,088

Year 2004

	So Pan Gen	Lam Hon-Keung, Keith	Choi Dun Woo	Su Bang Yuan	Hui Yip Wing, David	Kee Wah Sze	Ku Siu-Fung, Stephen	Total 2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fees	—	—	—	—	30	30	30	90
Other emoluments								
Salaries and other benefits	1,780	390	841	758	—	—	—	3,769
Retirement benefit scheme contributions	—	12	12	12	—	—	—	36
Total emoluments	1,780	402	853	770	30	30	30	3,895

No remuneration has ever been paid by the Group to the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. No directors have ever waived any emoluments.

10. EMPLOYEES' REMUNERATION

The five highest paid individuals in the Group for the year ended 31 December 2005 included four (2004: four) executive directors of the Company, whose emoluments are included in note 9. The details of the emoluments paid to the other one (2004: one) highest paid individuals were as follows:

	2005 *HK$'000*	2004 *HK$'000*
Salaries and other benefits	347	271
Performance related incentive payments	12	12
Share option benefits expenses	15	—
	374	283

Their emoluments were within the following bands:

	Number of individuals 2005	 2004
Nil to HK$1,000,000	4	4
HK$1,500,001 to HK$2,000,000	1	1

11. FINANCE COSTS

	2005 *HK$'000*	2004 *HK$'000*
Interest on:		
Bank borrowings wholly repayable within five years	(5,194)	(2,938)
Amounts due to minority shareholders	(199)	(122)
Loans from minority shareholders	—	(464)
	(5,393)	(3,524)
Less: Amount capitalised in properties under development	—	2,331
	(5,393)	(1,193)

12. TAXATION

	2005 HK$'000	2004 HK$'000
PRC Enterprise Income Tax and land appreciation tax		
— Current year	**(1,956)**	(23,694)
— Overprovision and reversal of provision in prior years	**10,207**	1,844
	8,251	(21,850)
Deferred taxation charge *(note 26)*	**(10,414)**	—
	(2,163)	(21,850)

The PRC Enterprise income tax is calculated at rates applicable to respective subsidiaries.

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profit arising from or derived in Hong Kong for both years.

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

	2005 HK$'000	2004 HK$'000 (Restated)
Profit before taxation	**26,907**	59,469
Tax rate of 33% applicable to the Group's subsidiaries in the PRC (2004: 33%)	**(8,879)**	(19,625)
Tax effect of expenses not deductible for tax purpose	**(462)**	(1,632)
Tax effect of income not taxable for tax purpose	**3,144**	824
Overprovision and reversal of provision in prior years	**10,207**	1,844
Tax effect of unrecognised tax losses	**(6,177)**	(1,800)
Land appreciation tax ("LAT") paid and payable	**—**	(2,149)
Effect of different tax rates of subsidiaries operating in the other jurisdictions	**(19)**	818
Others	**23**	(130)
Taxation charge for the year	**(2,163)**	(21,850)

13. PROFIT FOR THE YEAR

	2005 HK$'000	2004 HK$'000 (Restated)
Profit for the year has been arrived at after charging:		
Directors' remuneration *(note 9)*	4,088	3,895
Other staff's retirement benefit scheme contributions	552	1,159
Other staff costs	4,907	7,090
Total staff costs	9,547	12,144
Auditors' remuneration		
— current year	1,064	1,080
— overprovision in prior year	(140)	(40)
Prepaid lease payments	52	52
Depreciation of property, plant and equipment	3,571	3,160
Operating lease rentals in respect of		
— land and buildings	884	844
— office equipment	11	11
and after crediting:		
Interest income	1,287	679

14. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to equity holders of the Company of approximately HK$20,459,000 (2004: HK$15,013,000) and 292,600,000 (2004: 292,600,000) shares in issue during the year.

The computation of diluted earnings per share does not assume the exercise of the Group's outstanding share options as the exercise price of those options is higher than the average market price for shares both years.

Changes in the Group's accounting policies during the year are described in detail in note 3. To the extent that those changes have had an impact on results reported for 2005 and 2004, they have had an impact on the amounts reported for earnings per share. The following table summarises that impact on both basic and diluted earnings per share:

	Impact on basic earnings per share	
	2005	2004
	cents	*cents*
Figures before adjustments	**6.91**	5.26
Adjustments arising from changes in accounting policies	**0.08**	(0.13)
As reported/restated	**6.99**	5.13

15. INVESTMENT PROPERTIES

	2005 HK$'000	2004 HK$'000
Valuation at 1 January	**14,123**	13,868
Addition in current year	**885**	—
Transfer from properties held for sale	**12,135**	—
Transfer from properties under development	**91,325**	—
Currency realignment	**272**	—
Increase in fair value	**31,556**	255
Valuation at 31 December	**150,296**	14,123

The Group's investment properties are held under the following lease terms:

	2005 HK$'000	2004 HK$'000
Under long leases	21,924	2,330
Under medium term leases	128,372	11,793
	150,296	14,123

The Group's investment properties are situated in the PRC and majority of the investment properties are rented out under operating leases. The investment properties were valued on market value basis at 31 December 2005 by Savills Valuation and Professional Services Limited, a firm of international property consultants. The market value which would define as intended to mean the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The increase in fair value of investment properties of approximately HK$31,556,000 has been credited to the consolidated income statement. While, the increase in fair value of investment properties of approximately HK$255,000 as at 31 December 2004 has been credited to the investment properties reserves.

Notes to the Financial Statements

For the year ended 31 December 2005

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold properties HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Total HK$'000
COST OR VALUATION						
At 1 January 2004	6,730	—	1,834	278	2,883	11,725
Additions	—	4,892	1,159	—	830	6,881
Transferred from properties held for sales	2,997	—	—	—	—	2,997
Transferred from properties held under development	15,683	—	—	—	—	15,683
Revaluation	975	—	—	—	—	975
At 31 December 2004	26,385	4,892	2,993	278	3,713	38,261
Currency realignment	508	78	56	5	72	719
Additions	2,551	—	135	—	—	2,686
Transfer	4,970	(4,970)	—	—	—	—
Transferred from properties held under development	6,696	—	—	—	—	6,696
Revaluation	—	—	—	—	—	—
At 31 December 2005	41,110	—	3,184	283	3,785	48,362
Comprising:						
— at cost	—	—	3,184	283	3,785	7,252
— at valuation	41,110	—	—	—	—	41,110
	41,110	—	3,184	283	3,785	48,362
DEPRECIATION AND AMORTISATION						
At 1 January 2004	—	—	1,249	78	2,426	3,753
Provided for the year	1,989	823	203	12	133	3,160
Elimination on revaluation	(335)	—	—	—	—	(335)
At 31 December 2004	1,654	823	1,452	90	2,559	6,578
Currency realignment	32	15	28	2	49	126
Transfer	838	(838)	—	—	—	—
Provided for the year	3,178	—	220	13	160	3,571
Eliminated on revaluation	(245)	—	—	—	—	(245)
At 31 December 2005	**5,457**	**—**	**1,700**	**105**	**2,768**	**10,030**
NET BOOK VALUES						
At 31 December 2005	**35,653**	**—**	**1,484**	**178**	**1,017**	**38,332**
At 31 December 2004 (Restated)	24,731	4,069	1,541	188	1,154	31,683

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

Items of property, plant and equipment are depreciated and amortised on a straight-line basis at the following rates per annum:

Buildings	Over the remaining terms of the leasehold land or 10-50 years, whichever is applicable
Leasehold improvements	20%
Furniture, fixtures and equipment	20%
Plant and machinery	10%
Motor vehicles	20%

The Group's leasehold properties situated in the PRC are held under the following lease terms:

	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Under long leases	**16,980**	15,289
Under medium term leases	**18,673**	9,442
	35,653	24,731

The Group's leasehold properties are situated in the PRC land use rights and were valued on a market value basis at 31 December 2005 by Savills Valuation and Professional Services Limited, a firm of international property consultants. In respect of leasehold properties of HK$35,653,000, there are HK$24,337,000 of the clubhouses without market-based evidence of fair value. Because of the specialised nature of the clubhouses which are rarely sold, except as part of a continuing business, the clubhouses are valued on the basis of depreciated replacement cost.

The depreciated replacement costs was defined as the land value in the existing use and an estimate of the new replacement costs of the buildings and structures, including fees and finance charges, from which deductions are then made to allow for age, condition and functional obsolescence. The depreciated replacement cost approach generally provides the most reliable indication of the value for property in the absence of a known market based on comparable sales. The Group's share of revaluation surplus of approximately HK$245,000 (2004: HK$975,000) has been credited to the leasehold land and building revaluation reserve.

If leasehold properties had not been revalued, they would have been included in these financial statements at historical cost less accumulated depreciation of approximately HK$33,591,000 (2004: HK$21,228,000).

At the balance sheet date, approximately HK$24,337,000 (2004: HK$11,645,000) of the leasehold properties are in the process of obtaining the building ownership certificate.

17. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments represent interests in leasehold lands outside Hong Kong under medium-term leases.

	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Analysed for reporting purposes as:		
Current asset	**86**	52
Non-current asset	**4,776**	2,697
	4,862	2,749

Interest in leasehold lands are amortised over the unexpired terms of the leases on a straight-line basis.

18. PROPERTIES UNDER DEVELOPMENT

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
The properties under development are due for completion:		
Within one year	**19,702**	69,943
More than one year	**70,448**	69,927
	90,150	139,870

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

	2005	2004
	HK$'000	*HK$'000*
Under long leases	**2,237**	69,943
Under medium term leases	**87,913**	69,927
	90,150	139,870

As at 31 December 2005, no finance costs (2004: HK$7,122,000) was capitalised in properties under development.

19. PROPERTY SALE RECEIVABLES

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
An aged analysis of the property sale receivables is as follows:		
Within three months	**4,226**	43,431
Four months to one year	**14,820**	4,480
Between one to two years	**7,211**	12,100
Over two years	**6,401**	1,388
	32,658	61,399

Under the Group's current credit policy on sales of developed properties, individual customer has to fully settle the purchase consideration before the Group transfers the title of the property to the customers. The outstanding unsettled balances are repayable on demand.

The fair value of the Group's property sale receivables approximate to the corresponding carrying amount at the balance date.

20. CREDITORS AND ACCRUED CHARGES

	2005	2004
	HK$'000	*HK$'000*
An aged analysis of the trade creditors, included in the creditors and accrued charges, is as follows:		
Within three months	341	75,669
Four months to one year	318	1,042
Over one year	49,437	9,995
	50,096	86,706

The fair value of the creditors and accrued charges approximates to the corresponding carrying amount at the balance sheet date.

21. AMOUNT DUE TO A DIRECTOR

The amount is unsecured, interest-free and repayable on demand.

The fair value of the amount due to a director approximates to the carrying amount at the balance sheet date.

22. AMOUNT DUE FROM (TO) AN INTERMEDIATE HOLDING COMPANY

The amount is unsecured, interest-free and repayable on demand.

The fair value of the amount due from (to) an intermediate holding company approximates to the carrying amount at the balance sheet date.

23. AMOUNTS DUE TO MINORITY SHAREHOLDERS

	2005 ***HK$'000***	2004 *HK$'000*
Interest bearing advances	**2,497**	587
Non-interest bearing advances	**83**	265
	2,580	852

The amounts are unsecured and have no fixed terms of repayment. The interest paid was charged at interest rate of 5.85% (2004: 5.85%) per annum on the interest bearing advances.

The fair value of the amounts due to minority shareholders approximates to the corresponding carrying amount at the balance sheet date.

24. AMOUNT DUE TO A RELATED COMPANY

The amount is due to a company in which Mr. So Pang Gen, a director of the Company, has a beneficial interest. The amount is unsecured, interest-free and repayable on demand.

The fair value of the amount due to a related company approximates to the carrying amount at the balance sheet date.

25. BANK BORROWINGS

	2005 HK$'000	2004 HK$'000
Bank loans	68,969	73,584
Bank overdraft	—	92
	68,969	73,676
Secured	68,969	73,584
Unsecured	—	92
Total	68,969	73,676
The bank borrowings are repayable as follows:		
Within one year	39,423	44,431
Between one to two years	29,546	29,245
	68,969	73,676
Less: Amount due within one year shown under current liabilities	(39,423)	(44,431)
	29,546	29,245

At the balance sheet date, the Group had outstanding bank borrowings of HK$68,969,000 of which HK$39,423,000 carry fixed interest rate at a range from 5.31% to 5.49% per annum and the remaining HK$29,546,000 bear floating interest rate above HIBOR +2.4% per annum.

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

	2005 HK$'000	2004 HK$'000
Hong Kong dollars	29,546	—
Renminbi	39,423	73,676
	68,969	73,676

The fair value of the Group's bank borrowings approximates to the corresponding carrying amount at the balance sheet date.

26. DEFERRED TAXATION

The following is the major deferred taxation liability recognised by the Group and movements thereon during the current and prior years:

	Revaluation of properties HK$'000 (Restated)
Balance at 1 January 2004	2,910
Charge to revaluation reserves	107
Charge to minority interests	38
Balance at 1 January 2005	3,055
Currency realignment	8
Charge to consolidated income statement	10,414
Charge to revaluation reserves	30
Charge to minority interests	50
At 31 December 2005	13,557

At the balance sheet date, the Group had unused tax losses of approximately HK$196,000 (2004: HK$196,000) available to offset against future assessable profits. No deferred taxation asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. The losses may be carried forward indefinitely.

The Company did not have any significant unprovided deferred taxation during the year or at the balance sheet date.

27. SHARE CAPITAL

	Number of ordinary shares of HK$0.10 HK$	Amount HK$'000
Authorised	1,000,000,000	100,000
Issued and fully paid	292,600,000	29,260

28. DIVIDEND

For the year ended 31 December 2005, the directors of the Company proposed a final dividend of HK1.0 cent (2004: HK1.0 cent) per share, which is subject to approval by the shareholders in the forthcoming annual general meeting.

29. SHARE OPTIONS SCHEME

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

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

Options granted must be exercised in accordance with the terms of the Scheme at any time during a period of 2 years commencing on the date on which the offer of the grant of the options is made, which must not be more than 10 years from the date of offer of the grant of the option, upon payment of HK$1 per option.

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

Options granted are exercisable within a period of two years within which there is a total vesting period of 28 days.

Movement of options granted under the Scheme in 2005 is as follows:

	Exercise price *HK$*	Date of grant	Vesting period	Exercise period	Outstanding at 1.1.2005	Granted during the year and outstanding at 31.12.2005
Directors of the Company	0.36	27.9.2005	27.9.2005 — 25.10.2005	27.9.2005 — 26.9.2007	—	1,980,000
Independent non-executive directors of the Company	0.36	27.9.2005	27.9.2005 — 25.10.2005	27.9.2005 — 26.9.2007	—	500,000
Employees of the Company	0.36	27.9.2005	27.9.2005 — 25.10.2005	27.9.2005 — 26.9.2007	—	1,570,000
					—	4,050,000

29. SHARE OPTIONS SCHEME *(Continued)*

As mentioned in note 2, the Group has, for the first time, applied HKFRS 2 Share-based Payment to account for equity-settled share-based payment transactions. In accordance with HKFRS 2, fair value of share options granted to employees determined at the date of grant is expensed over the vesting period, with a corresponding adjustment to the Group's share option reserve. In the current year, an amount of share option expense of HK$313,000 (2004: HK$ Nil) has been recognised in the income statement, with a corresponding adjustment made in the Group's share options reserve.

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

The following assumptions were used to calculate the fair value of share options granted in current year.

	27.9.2005
Weighted average share price	HK$0.36
Exercise price	HK$0.36
Expected life of options	1 year
Expected volatility	55%
Expected dividend yield	2.78%
Risk free rate	3.91%
Estimated fair value of option at grant date	HK$0.08
Closing share price immediately before date of grant	HK$0.36

Notes:

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

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

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

30. PLEDGE OF ASSETS

At the balance sheet date, the Group pledged certain of its investment properties and properties held for sales to banks in the PRC to secure the bank loans of approximately HK$68,969,000 (2004: HK$73,584,000) granted by this bank. The aggregate carrying value of the investment properties and properties held for sales at 31 December 2005 pledged amounted to approximately HK$116,346,000 and HK$46,017,000 (2004: HK$nil and HK$69,919,000) respectively.

31. CONTINGENT LIABILITIES

At 31 December 2005, the Group provided guarantees of approximately HK$15,394,000 (2004: HK$13,198,000) to banks in favour of its customers in respect of the mortgage loans provided by the banks to such customers for purchase of the Group's developed properties. These guarantees provided by the Group to the banks would be released upon receiving the building ownership certificate of the respective property by the banks from the customers as a pledge for security to the mortgage loan granted.

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

Under the Implementation Regulations on the Provisional Regulations of the PRC on LAT promulgated on 13 December 1993, all added value from transfer of real estate in the PRC from 1 January 1994 is subject to LAT at progressive rates up to 60 per cent. Based on the Circular issued by the Ministry of Finance of the PRC on 27 January 1995, an exemption to LAT is applicable to those property development contracts signed before 1 January 1994, or those related project proposals approved before 1 January 1994 and whose capital for the development has been injected according to the contract. The exemption to LAT in respect of the first transfer of real estate expired on 31 December 1998. On 24 December 1999, the Ministry of Finance of the PRC issued a circular to further extend the exemption period of LAT from 1 January 1999 to 31 December 2000. The directors of the Company consider that, after taking into consideration of the opinion obtained from its legal advisors in the PRC and other professional advisors, and the results of discussions with local tax authorities in the PRC, the Group is eligible for the application of the exemption to LAT for the sales of land and developed properties before 31 December 2000. Should such levies take place, then land appreciation tax amounting to approximately HK$65,790,000 (2004: HK$57,200,000) for the period from 1 January 2001 to 31 December 2005 has to be provided for in these consolidated financial statements.

32. OPERATING LEASE COMMITMENTS

The Group as lessee

At the balance sheet date, the Group were committed to make the following minimum lease payments under non-cancellable operating leases with average lease terms of 2 years which fall due as follows:

	2005		2004	
	Rented premises	**Office equipment**	Rented premises	Office equipment
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Operating leases which expire:				
Within one year	**173**	**11**	149	11
In the second to fifth year inclusive	**173**	**8**	—	19
	346	**19**	149	30

The Group as lessor

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	2005	2004
	HK$'000	*HK$'000*
Within one year	**12,886**	12,888
In the second to fifth year inclusive	**51,543**	50,703
After five years	**114,898**	125,373
	179,327	188,964

All the properties held have committed tenants ranged from 2 years to 15 years.

33. RELATED PARTY TRANSACTION

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

Relationship	**Transactions**	**2005** *HK$'000*	2004 *HK$'000*
Minority shareholders	Finance costs paid by the Group	**199**	586
Intermediate holding company	Rental expenses paid by the Group *(Note)*	**382**	355

Note:

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

The above transaction was carried out in accordance with the terms of the relevant agreement governing such transaction.

Compensation of key management personnel

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

	2005 *HK$'000*	2004 *HK$'000*
Short-term benefits	**4,256**	4,202
Share-based payments	**206**	—
	4,462	4,202

The remuneration of the directors and key management is determined by the remuneration committee having regard to the performance of individuals and market trends.

34. RETIREMENT BENEFIT SCHEME

The Group operates a Mandatory Provident Fund Scheme (the "Hong Kong Scheme") for all qualifying employees in Hong Kong. The assets of the Hong Kong Scheme are held separately from those of the Group in funds under control of trustee. The Group contributes 5% of relevant payroll costs to the Hong Kong Scheme, which contribution is matched by employees.

The employees of the Group's PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the relevant local government authorities in the PRC. All employees are entitled to an annual pension equal to a fixed portion of their individual final basic salaries at their retirement date. The Group is required to make contributions to the retirement schemes at rates ranging from 4% to 5% of the basic salaries of its employees.

During the year, the Group contributed in amount of approximately HK$552,000 (2004: HK$1,159,000) for the above mentioned retirement benefit schemes.

35. SUBSIDIARIES AND CO-OPERATIVE JOINT VENTURE

Details of the Company's subsidiaries and co-operative joint venture at 31 December 2005 are as follows:

Name of company	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Proportion of equity interest held by the Company		Principal activity
			Directly	*Indirectly*	
Subsidiary:					
長春長信國際房地產開發有限公司 Changchun Changxin International Real Estate Development Co., Ltd.	PRC for a term of 15 years commencing from 1993 *	RMB40,000,000	—	80%	Property development
China Fair Land (Changchun) Limited	Hong Kong	Ordinary HK$2 Non-voting deferred ** HK$10,001	—	100%	Investment holding
China Fair Land (Qingdao) Limited	Hong Kong	Ordinary HK$2	—	100%	Investment holding
China Fair Land (Shenyang) Limited	Hong Kong	Ordinary HK$2	—	100%	Investment holding

35. SUBSIDIARIES AND CO-OPERATIVE JOINT VENTURE *(Continued)*

Name of company	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Proportion of equity interest held by the Company *Directly*	Proportion of equity interest held by the Company *Indirectly*	Principal activity
China Fair Land (Suzhou) Limited	Hong Kong	Ordinary HK$2	—	100%	Investment holding
China Fair Land (Nanjin) Limited	Hong Kong	Ordinary HK$10,002	—	100%	Investment holding
China Fair Land (Ningbo) Limited ("China Fair Ningbo")	Hong Kong	Ordinary HK$2 Non-voting deferred ** HK$10,000	—	100%	Investment holding
China Fair Land Properties Limited	British Virgin Islands	Ordinary US$221	100%	—	Investment holding
China Fair Land (Shanghai) Limited	Hong Kong	Ordinary HK$2 Non-voting deferred ** HK$10,002	—	100%	Investment holding
Falcon Fair Development Limited ("Falcon Fair")	Hong Kong	Ordinary HK$2 Non-voting deferred ** HK$10,002	—	100%	Investment holding and property investment
青島正輝廣廈房地產開發有限公司 Qingdao Zhenghuiguangsha Real Estate Development Co. Ltd.	PRC for a term of 20 years commencing from 2003 *	RMB20,000,000	—	70%	Inactive
寧波拓展房地產開發有限公司 Ningbo Tuozhan Real Estate Development Co., Ltd. ("Ningbo Tuozhan")	PRC for a term of 15 years commencing from 1989 *	RMB20,000,000	—	37.50%***	Property development
上海正輝房地產開發有限公司 Shanghai Chance Fair Real Estate Development Co., Ltd.	PRC for a term of 70 years commencing from 1999 *	US$3,000,000	—	98%	Property development

35. SUBSIDIARIES AND CO-OPERATIVE JOINT VENTURE *(Continued)*

Name of company	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Proportion of equity interest held by the Company *Directly*	*Indirectly*	Principal activity
寧波市江北眾房地產開發有限公司	PRC for a term of 10 years commencing from 2004 *	RMB10,000,000	—	33.75%****	Property development
寧波盛世置業有限公司	PRC for a term of 20 years commencing from 2005 *****	RMB6,000,000	—	32.50%******	Property development
Co-operative joint venture:					
幸福苑合作發展開發項目 Fortune Garden Joint Venture Project	PRC for a period of time to complete the project commencing from 1992 *	US$12,112,472	—	65.63%	Property development

*	These are equity joint ventures established in the PRC.

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

***	On 15 September 1995, China Fair Ningbo, a wholly-owned subsidiary of the Company, entered into an irrevocable agreement (the "1995 Agreement") with Ningbo CSREDC, a 25% joint venture owner of Ningbo Tuozhan. Pursuant to the 1995 Agreement, Ningbo CSREDC agreed to cooperate with China Fair Ningbo in the management of Ningbo Tuozhan, including the voting by the directors appointed to the board of Ningbo Tuozhan by Ningbo CSREDC, and acting-in-concert with the directors appointed by China Fair Ningbo.

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

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

****	Ningbo Tuozhan holds 90% equity interest in this company.

*****	This is a foreign enterprises investment in the PRC.

******	Ningbo Tuozhan holds 70% equity interest in this company.

None of the subsidiaries had issued any debt securities at 31 December 2005 or at any time during the year.

36. BALANCE SHEET INFORMATION OF THE COMPANY

Balance sheet information of the Company at the balance sheet date includes:

	2005 *HK$'000*	2004 *HK$'000*
Non-current assets		
Property, plant and equipment	**24**	37
Interests in subsidiaries	**192,130**	171,204
	192,154	171,241
Current assets		
Other deposits and prepayments	**93**	90
Bank balances and cash	**7**	11
	100	101
Current liabilities		
Other creditors and accrued charges	**2,361**	1,604
Amount due to a director	**74**	—
Amount due to an intermediate holding company	**41,972**	8,262
Amounts due to subsidiaries	**4,531**	7,364
Bank overdraft	**5**	92
	48,943	17,322
Net current liabilities	**(48,843)**	(17,221)
	143,311	154,020
Capital and reserves		
Share capital	**29,260**	29,260
Reserves	**114,051**	124,760
Equity attributable to equity holders of the Company	**143,311**	154,020

Profit of the Company for the year ended 31 December 2005 amounted to approximately HK$8,167,000 (2004: HK$7,866,000).

36. BALANCE SHEET INFORMATION OF THE COMPANY *(Continued)*

The Company's resources available for distribution to shareholders at the balance sheet date are as follows:

	2005	2004
	HK$'000	*HK$'000*
Contributed surplus	**107,479**	110,405
Deficit	**(27,191)**	(19,095)
	80,288	91,310