Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its parent and ultimate holding company is Perfect Zone International Limited ("PZIL") (incorporated in the British Virgin Islands). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information of the annual report.

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") are property development, property investment and hotel operation. The details of the Company's principal subsidiaries are set out in note 37.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been prepared on a going concern basis because its ultimate holding company, PZIL, has agreed to provide adequate funds to enable the Group to meet in full its financial obligations as they fall due in the foreseeable future.

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

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented.

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

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

[1] Effective for annual periods beginning on or after 1 January 2007

[2] Effective for annual periods beginning on or after 1 March 2006

[3] Effective for annual periods beginning on or after 1 May 2006

[4] Effective for annual periods beginning on or after 1 June 2006

[5] Effective for annual periods beginning on or after 1 November 2006

[6] Effective for annual periods beginning on or after 1 March 2007

[7] Effective for annual periods beginning on or after 1 January 2009

[8] Effective for annual periods beginning on or after 1 January 2008

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as obtain benefits from its activities.

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

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

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

Investment in an associate

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of an associate are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investment in an associate is carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment in an associate *(Continued)*

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivables for goods and services provided in the normal course of business, net of discounts and sales related tax.

Revenue from sale of properties in the ordinary course of business (including revenue from pre-completion contracts for the sale of development properties) 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.

Revenue from hotel operation is recognised when services are rendered.

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

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

Property, plant and equipment

Property, plant and equipment including hotel properties, other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account their estimated residual value, using the straight line method.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Construction in progress represents property, plant and equipment in the course of construction for production and for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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.

Leasehold land and buildings under development for future owner-occupied purpose

When the leasehold land and buildings are in the course of development for production, rental or for administrative purposes, the leasehold land component is classified as a prepaid lease payment and amortised over a straight line basis over the lease term. During the construction period, the amortisation charge provided for the leasehold land is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment propeties are measured using fair value model. Gains or losses arisng 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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

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

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 re-translation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the re-translation 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 operations in the PRC are translated into the presentation currency of the Company (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 foreign exchange 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 acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Retirement benefit costs

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as expense when employees have rendered service entitling them to the contributions.

Taxation

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

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

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

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

Impairment

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.

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

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets

The Group's financial assets are classified into loans and receivables. The accounting policies adopted 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 trade receivables, other receivables, amount due from a related company and bank balances) 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.

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 accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Convertible note

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Convertible note (Continued)

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

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

Other financial liabilities

Other financial liabilities (including trade payables, advanced proceeds received from customers, other payables, amounts due to ultimate holding company and related companies, bank borrowings, promissory notes and amount received from Suifenhe Land Reserve Centre) are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Derecognition

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payment transactions

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss with a corresponding adjustment to share options 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 forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Income taxes

As at 31 December 2006, a deferred tax asset of HK$28,871,000 in relation to unused tax losses has been recognised in the Group's balance sheet. No deferred tax asset has been recognised on the tax losses of HK$46,625,000 due to the unpredictability of future profit streams. The realisation of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in the consolidated income statement for the period in which such a reversal takes place.

Going concern

As at 31 December 2006, the Group had net current liabilities of HK$591,564,000. The directors are of the opinion that the preparation of these consolidated financial statements is based on a going concern basis and the basis of a going concern has been disclosed in note 2. Should there be any problem in the Group being a going concern, all the assets and liabilities will have to be stated at net realisable and settlement values.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

6. FINANCIAL INSTRUMENTS

(a) Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, other receivables, amount due from a related company, bank balances, trade payables, advanced proceeds received from customers, other payables, amount due to ultimate holding company, amounts due to related companies, bank borrowings, promissory notes, convertible note and amount received from Suifenhe Land Reserve Centre. 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.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The Group relies on the financial support of its ultimate holding company, PZIL, as a significant source of liquidity.

Interest rate risk

The Group's fair value interest rate risk relates primarily to fixed-rate promissory notes and convertible note. The Group's cash flow interest rate risk relates primarily to variable-rate bank borrowings. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Credit risk

The Group's maximum exposure to credit risk in the event of the failure of the counterparties to perform their obligations as at 31 December 2006 in relation to each class of recognised financial assets is the carrying amount of these assets as stated in the consolidated balance sheet.

In order to minimise the credit risk, the management of the Group has 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 trade debt 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.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

6. FINANCIAL INSTRUMENTS *(Continued)*

(a) Financial risk management objectives and policies *(Continued)*

Currency risk

The Group has engaged in certain transactions which are denominated in foreign currencies and is therefore exposed to foreign currency risk. The Group currently does not have a foreign currency hedging policy.

However, the Group's management monitors foreign exchange exposure and will consider hedging significant foreign currency exposures should the need arises. The management would seek financial consultant to advise on the investment portfolio held by the Group, if necessary.

(b) Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

7. REVENUE

An analysis of the Group's revenue is as follows:

	2006 HK$'000	2005 HK$'000
Sales of properties	**88,453**	—
Rental income	**14,186**	13,987
Revenue from hotel operation	**2,304**	—
	104,943	13,987

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

8. SEGMENT INFORMATION

Business segments

For management purposes, the Group is currently organised into three operating divisions — property development, property investment and hotel operation. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

Year ended 31 December 2006	Property development HK$'000	Property investment HK$'000	Hotel operation HK$'000	Total HK$'000
REVENUE	88,453	14,186	2,304	104,943
SEGMENT RESULTS	15,734	(44,484)	(7,908)	(36,658)
Other income				7,795
Unallocated corporate expenses				(61,293)
Share of loss of an associate	(87,158)	—	—	(87,158)
Finance costs				(41,024)
Loss before tax				(218,338)
Income tax credit				24,514
Loss for the year				(193,824)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

8. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

Year ended 31 December 2005	Property development HK$'000	Property investment HK$'000	Hotel operation HK$'000	Total HK$'000
REVENUE	—	13,987	—	13,987
SEGMENT RESULTS	(18,441)	233,117	—	214,676
Other income				1,120
Excess of fair values of net assets acquired over cost of acquisition				17,976
Unallocated corporate expenses				(43,522)
Share of profit of an associate	6,012	—	—	6,012
Finance costs				(33,154)
Profit before tax				163,108
Income tax expense				(54,099)
Profit for the year				109,009

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

8. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

BALANCE SHEET

As at 31 December 2006	Property development HK$'000	Property investment HK$'000	Hotel operation HK$'000	Total HK$'000
Assets				
Segment assets	229,087	836,360	298,089	1,363,536
Investment in an associate	25,488	—	—	25,488
Unallocated corporate assets				853,726
				2,242,750
Liabilities				
Segment liabilities	8,864	6,094	3,440	18,398
Unallocated corporate liabilities				1,595,079
Consolidated total liabilities				1,613,477

OTHER INFORMATION

	Property development HK$'000	Property investment HK$'000	Hotel operation HK$'000	Unallocated HK$'000	Total HK$'000
Capital additions	20,747	644	157,146	3,632	182,169
Depreciation and amortisation	5,708	277	6,149	10,883	23,017

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

8. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

BALANCE SHEET

As at 31 December 2005	Property development HK$'000	Property investment HK$'000	Hotel operation HK$'000	Total HK$'000
	(restated)	*(restated)*		*(restated)*
Assets				
Segment assets	263,597	947,380	—	1,210,977
Investment in an associate	112,646	—	—	112,646
Unallocated corporate assets				824,142
Consolidated total assets				2,147,765
Liabilities				
Segment liabilities	12,311	3,974	—	16,285
Unallocated corporate liabilities				1,383,608
Consolidated total liabilities				1,399,893

OTHER INFORMATION

	Property development HK$'000	Property investment HK$'000	Hotel operation HK$'000	Unallocated HK$'000	Total HK$'000
Capital additions	—	137,790	—	105,696	243,486
Depreciation and amortisation	4,968	—	—	8,061	13,029

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

8. SEGMENT INFORMATION *(Continued)*

Geographical segments

The Group's operations are mainly located in Hong Kong and the PRC.

Included in revenue of the Group was rental income received from a related company amounting to HK$997,000 (2005: Nil) (note 35) derived in Hong Kong and all the remaining revenue of the Group were derived in the PRC.

The following is an analysis of carrying amount of segment assets and capital expenditure analysis by the geographical area in which the assets are located:

	Carrying amount of segment assets		Capital expenditure	
	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000
		(restated)		*(restated)*
Hong Kong	196,132	144,331	20,764	6,423
PRC	1,167,404	1,066,646	161,405	237,063
	1,363,536	1,210,977	182,169	243,486

9. OTHER INCOME

	2006 HK$'000	2005 HK$'000
Interest on bank deposits	911	330
Business tax refunded	6,191	—
Others	693	790
	7,795	1,120

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

10. FINANCE COSTS

	2006 HK$'000	2005 HK$'000
Interest on bank borrowings wholly repayable within five years	**14,510**	6,071
Interest on bank borrowing not wholly repayable within five years	**7,003**	4,925
Imputed interest on promissory notes	**7,841**	16,434
Imputed interest on convertible note	**11,670**	5,724
	41,024	33,154

11. INCOME TAX CREDIT (EXPENSE)

	2006 HK$'000	2005 HK$'000
Current tax arising in the PRC	**(5,584)**	(420)
Deferred tax *(note 20)*	**30,098**	(53,679)
	24,514	(54,099)

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profit arising from Hong Kong for both years. Taxation arising in the PRC is calculated on the estimated assessable profit for the year at the rate of taxation prevailing in the PRC.

Pursuant to the relevant laws and regulations in the PRC, a subsidiary of the Group is exempted to pay the PRC local tax of 3% for ten years up to 2014.

In addition, a PRC subsidiary is a wholly foreign-owned enterprise and in accordance with the tax legislation applicable to foreign investment enterprises, this subsidiary is entitled to full tax exemption from enterprise income tax for the first two profit making years and 50% reduction from the full enterprise income rate of 24% for the next three profit making years, after which it will have to pay the enterprise income tax at the then prevailing tax rate.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

11. INCOME TAX CREDIT (EXPENSE) *(Continued)*

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

	2006 HK$'000	2005 HK$'000
(Loss) profit before tax	**(218,338)**	163,108
Tax at domestic rates applicable to profits of taxable entities in the region concerned	**(62,129)**	63,779
Tax effect of share of results of an associate	**28,762**	(1,443)
Tax effect of tax losses not recognised	**2,975**	1,276
Tax effect of expenses not deductible for tax purpose	**16,473**	14,478
Effect of tax holiday granted to a subsidiary	**(1,910)**	—
Tax effect of income not taxable for tax purpose	**(27)**	(3,146)
Tax effect of utilisation of tax losses previously not recognised	**(7,063)**	(1,023)
Recognition of tax losses previously not recognised	**—**	(21,410)
Others	**(1,595)**	1,588
Tax (credit) charge for the year	**(24,514)**	54,099

Note:

As the Group operates in several different tax jurisdictions, separate reconciliation using the domestic tax rate in each individual tax jurisdiction have been aggregated and presented.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

12. (LOSS) PROFIT FOR THE YEAR

(Loss) profit for the year has been arrived at after charging:

	2006 HK$'000	2005 HK$'000
Amortisation of prepaid lease payments	12,409	12,863
Less: Amount capitalised in property, plant and equipment	(422)	(4,509)
	11,987	8,354
Auditors' remuneration	1,023	955
Staff costs, including directors' emoluments	23,753	21,060
Share option expenses	2,572	—
Retirement benefits scheme contributions	687	535
Total staff costs	27,012	21,595
Depreciation of property, plant and equipment	11,030	4,675
Net exchange losses	21,850	—
and after crediting:		
Gross rental income from investment properties	14,186	13,987
Less: direct operating expenses from investment properties that generated rental income during the year	(5,669)	(5,277)
	8,517	8,710

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

13. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the 8 (2005: 11) directors were as follows:

Year ended 31 December 2006

Name of directors	Fees HK$'000	Salaries HK$'000	Discretionary bonuses HK$'000	Share-based payment HK$'000	Contributions to pension scheme HK$'000	Total HK$'000
Hui Wing Mau	120	—	—	—	—	120
Hui Mei Mei, Carol	2,016	—	504	655	12	3,187
Hui Sai Tan, Jason (resigned on 22 June 2006)	334	—	—	—	6	340
Tung Chi Shing	480	1,159	344	655	12	2,650
Chan Loo Shya	252	546	328	307	12	1,445
	3,202	1,705	1,176	1,617	42	7,742

Name of independent non-executive directors	Fees HK$'000	Salaries HK$'000	Discretionary bonuses HK$'000	Share-based payment HK$'000	Contributions to pension scheme HK$'000	Total HK$'000
Liu Hing Hung	120	—	—	—	—	120
Lee Chack Fan	120	—	—	—	—	120
Zhu Wenhui	120	—	—	—	—	120
	360	—	—	—	—	360

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For the year ended 31 December 2006

13. DIRECTORS' EMOLUMENTS *(Continued)*

Year ended 31 December 2005

Name of directors	Fees HK$'000	Salaries HK$'000	Discretionary bonuses HK$'000	Share-based payment HK$'000	Contributions to pension scheme HK$'000	Total HK$'000
Hui Wing Mau	350	—	150	—	12	512
Chung Shui Ming, Timpson (resigned on 1 October 2005)	375	2,477	—	—	9	2,861
Hui Mei Mei, Carol	1,680	—	560	—	12	2,252
Hui Sai Tan, Jason	1,095	—	560	—	12	1,667
Tung Chi Shing (appointed on 19 February 2005)	209	456	400	—	11	1,076
Chan Loo Shya (appointed on 19 February 2005)	203	299	215	—	11	728
	3,912	3,232	1,885	—	67	9,096

Name of independent non-executive directors	Fees HK$'000	Salaries HK$'000	Discretionary bonuses HK$'000	Share-based payment HK$'000	Contributions to pension scheme HK$'000	Total HK$'000
Liu Hing Hung	120	—	—	—	—	120
Lee Chack Fan	120	—	—	—	—	120
Zhu Wenhui	120	—	—	—	—	120
Lu Hong Bing (resigned on 19 February 2005)	8	—	—	—	—	8
Yu Hon To, David (resigned on 19 February 2005)	25	—	—	—	—	25
	393	—	—	—	—	393

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For the year ended 31 December 2006

14. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2005: four) were executive directors of the Company whose emoluments are included in the disclosures in Note 13 above. The emoluments of the remaining two (2005: one) individuals were as follows:

	2006 HK$'000	2005 HK$'000
Salaries and other benefits	2,186	1,009
Retirement benefit scheme contributions	24	12
	2,210	1,021

Their emoluments were within the following bands:

	Number of employees	
	2006	2005
Below HK$1,000,000	1	—
HK$1,000,001 — HK$1,500,000	1	1

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15. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share attributable to the ordinary equity holders of the parent is based on the following data:

	2006 HK$'000	2005 HK$'000
		(restated)
(Loss) earnings		
(Loss) earnings for the purposes of basic (loss) earnings per share	**(193,824)**	109,009
Effect of dilutive potential ordinary shares:		
Interest on convertible note	**11,670**	5,724
(Loss) earnings for the purposes of diluted (loss) earnings per share	**(182,154)**	114,733
Number of shares		
Weighted average number of ordinary shares for the purposes of basic (loss) earnings per share	**827,639,886**	827,639,886
Effect of dilutive potential ordinary shares:		
Convertible note	**—**	96,397,768
Share options	**—**	—
Weighted average number of ordinary shares for the purposes of diluted (loss) earnings per share	**827,639,886**	924,037,654

The computation of diluted loss per share does not assume the conversion of the Company's outstanding convertible note and share options since their exercise would result in an decrease in loss per share from operations.

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For the year ended 31 December 2006

16. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1 January 2005	220,000
Exchange adjustments	4,231
Transfers from prepaid lease payments	233,516
Transfers from property, plant and equipment	119,437
Net increase in fair value recognised in the consolidated income statement	224,642
At 31 December 2005	801,826
Exchange adjustments	32,074
Transfers from prepaid lease payments	44,626
Transfers from property, plant and equipment	5,375
Net decrease in fair value recognised in the consolidated income statement	(53,001)
At 31 December 2006	**830,900**

The fair value of the Group's investment properties at 31 December 2006 have been arrived at on the basis of a valuation carried out on that date by Savills Valuation and Professional Services Limited, independent qualified professional valuers not connected with the Group. Savills Valuation and Professional Services Limited is a member of the Institute of Valuers, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation which conforms to International Valuation Standards, was arrived at by reference to market value of the property. The market value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

16. INVESTMENT PROPERTIES *(Continued)*

The Group has pledged certain of its investment properties, amounting to approximately HK$307,798,000 (2005: Nil) and assigned certain of its rental income, to secure banking facilities granted to the Group.

During the year, prepaid lease payments were transferred at valuation amounting to HK$44,626,000 to investment properties and the revaluation surplus of HK$21,363,000, after netting off the corresponding deferred taxation of HK$4,500,000, was charged to the revaluation reserve.

The carrying value of investment properties shown above comprises:

	2006 HK$'000	2005 HK$'000
Land in Hong Kong:		
Long lease	**52,500**	—
Land in the PRC:		
Medium-term lease	**778,400**	801,826
	830,900	801,826

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17. PROPERTY, PLANT AND EQUIPMENT

	Buildings and hotel HK$'000	Construction in progress HK$'000	Leasehold improvements HK$'000	Furniture and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
COST						
At 1 January 2005	93,633	—	7,894	1,000	1,442	103,969
Exchange adjustments	—	1,847	—	296	—	2,143
Additions	—	141,314	3,601	862	—	145,777
Disposals	—	—	—	—	—	—
Acquisition of a subsidiary *(note 38)*	—	96,030	—	1,679	—	97,709
Transfer to investment properties	—	(119,437)	—	—	—	(119,437)
At 31 December 2005	93,633	119,754	11,495	3,837	1,442	230,161
Exchange adjustments	—	4,790	36	106	—	4,932
Additions	—	158,432	20,658	3,079	—	182,169
Transfer	282,976	(282,976)	—	—	—	—
Transfer to investment properties	(5,816)	—	—	—	—	(5,816)
At 31 December 2006	**370,793**	**—**	**32,189**	**7,022**	**1,442**	**411,446**
DEPRECIATION						
At 1 January 2005	2,716	—	2,150	444	453	5,763
Exchange adjustments	—	—	—	262	—	262
Charge for the year	1,870	—	2,094	423	288	4,675
At 31 December 2005	4,586	—	4,244	1,129	741	10,700
Exchange adjustments	—	—	8	18	—	26
Charge for the year	7,438	—	2,516	788	288	11,030
Transfer to investment properties	(441)	—	—	—	—	(441)
At 31 December 2006	**11,583**	**—**	**6,768**	**1,935**	**1,029**	**21,315**
CARRYING VALUES						
At 31 December 2006	**359,210**	**—**	**25,421**	**5,087**	**413**	**390,131**
At 31 December 2005	89,047	119,754	7,251	2,708	701	219,461

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

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

The above items of property, plant and equipment are depreciated on a straight line basis over their estimated useful lives and after taking into account their estimated residual value as follows:

Buildings and hotel	shorter of the lease term or 50 years
Leasehold improvements	5 years or over the relevant lease period
Furniture and office equipment	5 to 13 years
Motor vehicles	5 years

The carrying value of buildings and hotel shown above comprises:

	2006 HK$'000	2005 HK$'000
Land in Hong Kong:		
Long lease	81,866	89,047
Land in the PRC:		
Medium-term lease	277,344	—
	359,210	89,047

The Group has pledged its buildings and hotel having a net carrying value of approximately HK$90,133,000 (2005: HK$89,047,000) to secure general banking facilities granted to the Group.

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For the year ended 31 December 2006

18. PREPAID LEASE PAYMENTS

	2006 HK$'000	2005 HK$'000
The Group's prepaid lease payments comprise:		
Leasehold land in Hong Kong:		
Long lease	**263,620**	285,596
Leasehold land in the PRC		
Medium-term lease	**410,862**	403,904
	674,482	689,500
Analysed for reporting purposes as:		
Current asset	**12,235**	11,622
Non-current asset	**662,247**	677,878
	674,482	689,500

	HK$'000
As at 1 January 2006	689,500
Exchange adjustment	16,154
Revaluation of certain prepaid lease payments immediately prior to the transfer to investment properties	25,863
Amortisation for the year	(12,409)
Amount transferred to investment properties	(44,626)
As at 31 December 2006	**674,482**

The Group has pledged its prepaid lease payments of approximately HK$278,239,000 (2005 HK$285,595,000).

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19. INVESTMENT IN AN ASSOCIATE

	2006 HK$'000	2005 HK$'000
Cost of investment in an associate	**293,103**	293,103
Share of post-acquisition losses	**(269,825)**	(182,667)
Exchange differences	**2,210**	2,210
	25,488	112,646

As at 31 December 2006, the Group had investment in the following associate:

Name of entity	Place of establishment/ operation	Proportion of registered capital held by the Group	Principal activity
Shanghai Shimao Hubin Real Estate Company Limited ("Shimao Hubin")	The PRC	50%	Property development

Shimao Hubin is a sino-foreign equity joint venture for a period of 20 years commencing 19 April 2002. It is established in the Pudong New Area, Shanghai of the PRC and is required to pay income tax at a preferential rate of 15%.

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For the year ended 31 December 2006

19. INVESTMENT IN AN ASSOCIATE *(Continued)*

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

	2006 HK$'000	2005 HK$'000
Total assets	**335,268**	349,386
Total liabilities	**(284,292)**	(124,094)
Net assets	**50,976**	225,292
Group's share of net assets of an associate	**25,488**	112,646
Revenue	**22,827**	69,029
(Loss) profit for the year	**(174,316)**	12,024
Group's share of results of an associate for the year	**(87,158)**	6,012

Under the Provisional Regulations on Land Appreciation Tax ("LAT") implemented upon the issuance of the regulations on 27 January 1995 in the PRC, all gains arising from the transfer of real estate property in the PRC effective from 1 January 1994 are subject to LAT at progressive rates of up to 60%. Notwithstanding these provisions, an exemption to LAT for a period of five years is applicable for property development contracts which were signed before 1st January 1994. This exemption to LAT expired on 31 December 1998.

For the year ended 31 December 2005, no provision for LAT has been made in the financial statements since Shimao Hubin had not been required by the relevant authorities to pay LAT and the directors of Shimao Hubin consider that it is unlikely to receive demands from the tax authorities in the PRC for payment of the LAT.

Upon the issuance and announcement of the state regulation on 28 December 2006 and 16 January 2007, respectively, with regard to LAT, the directors of Shimao Hubin consider that it is probable that the tax authorities in the PRC will demand payment for LAT and thus LAT amounting to approximately HK$206,475,000 was provided for the year ended 31 December 2006.

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20. DEFERRED TAXATION

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior years:

	Tax losses HK$'000	Accelerated depreciation allowances HK$'000	Revaluation of properties HK$'000	Total HK$'000
At 1 January 2005	914	(4,955)	(57,348)	(61,389)
Exchange differences	17	(94)	(2,723)	(2,800)
Acquisition of subsidiary	—	—	(141,623)	(141,623)
Credit (charge) to consolidated income statement for the year	22,676	(3,096)	(73,259)	(53,679)
At 31 December 2005	23,607	(8,145)	(274,953)	(259,491)
Exchange differences	—	—	(9,322)	(9,322)
Arising on revaluation of prepaid lease payments upon transfer to investment properties	—	—	(4,500)	(4,500)
Credit (charge) to consolidated income statement for the year	5,264	5,974	18,860	30,098
At 31 December 2006	**28,871**	**(2,171)**	**(269,915)**	**(243,215)**

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2006 HK$'000	2005 HK$'000
Deferred tax assets	**28,871**	21,410
Deferred tax liabilities	**(272,086)**	(280,901)
	(243,215)	(259,491)

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20. DEFERRED TAXATION *(Continued)*

At the balance sheet date, the Group had unused tax losses of HK$211,606,000 (2005: HK$192,986,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$164,981,000 (2005: HK$134,901,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$46,625,000 (2005: HK$58,085,000) due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

A deferred tax asset of HK$28,871,000 has been recognised with respect of tax losses of a subsidiary of the Group as this subsidiary is expected to generate future profits to utilise all tax losses upon the sale of properties.

21. PROPERTIES HELD FOR SALE

The Group has pledged its properties held for sale amounting to approximately HK$143,633,000 (2005: Nil) to secure general banking facilities granted to the Group.

22. TRADE RECEIVABLES

The Group normally allows an average credit period of 30 days to its trade customers.

The following is an aged analysis of trade receivables as at the balance sheet date:

	2006 HK$'000	2005 HK$'000
0–60 days	464	720
61–90 days	218	96
Over 90 days	586	—
	1,268	816

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For the year ended 31 December 2006

23. CURRENT ACCOUNTS WITH RELATED COMPANIES AND ULTIMATE HOLDING COMPANY

The amounts are unsecured, non-interest bearing and recoverable/repayable on demand.

Particulars of the amount due from a related company as disclosed under Section 161B of the Hong Kong Companies Ordinance are as follows:

	Balance at 31.12.2006 HK$'000	Balance at 1.1.2006 HK$'000	Maximum amount outstanding during the year HK$'000
Beijing Jingao Real Estate Development Company Limited	3,610	—	3,803

Mr. Hui Wing Mau has controlling interest in this related company.

24. BANK BALANCES AND CASH

Bank balances carry interest at market rates which range from 0.7% to 2.7% (2005: 0.7% to 2.7%).

25. TRADE PAYABLES

The following is an aged analysis of trade payables as at the balance sheet date:

	2006 HK$'000	2005 HK$'000
0–60 days	**46,546**	84,976
61–90 days	**47**	—
Over 90 days	**784**	—
	47,377	84,976

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26. SECURED BANK BORROWINGS

The Group has variable-rate bank borrowings which carry interest at 5.4% to 6.2% (2005: 5.53% to 5.65%) per annum and are repayable as follows:

	2006 HK$'000	2005 HK$'000
On demand within one year	**201,946**	136,720
More than one year, but not more than two years	**22,181**	136,942
More than two years, but not more than three years	**37,431**	17,177
More than three years but not more than four years	**36,530**	17,426
More than four years but not more than five years	**33,133**	16,525
More than five years	**134,717**	82,849
	465,938	407,639
Less: Amount due within one year shown under current liabilities	**(201,946)**	(136,720)
Amount due after one year	**263,992**	270,919

The contracted interest rates are at 90% of Renminbi Basic Rate, Hong Kong Prime Rate minus 1.75% and Hong Kong Interbank Offer Rate plus 1.25% to 1.5%.

During the year, the Group obtained new loans totaling HK$195,000,000 of which HK$60,000,000 was at the Hong Kong Interbank Offer Rate plus 1.25% and the remaining amount was at 90% of Renminbi Basic Rate. The new loans amounting to HK$60,000,000 will be repayable within one year and the remaining amount will be repayable by instalments and fully repayable in 2016. The proceeds were used to finance the construction of property, plant and equipment.

The borrowings are secured by certain of its investment properties, buildings, prepaid lease payments, and properties held for sale of the Group (notes 16, 17, 18 and 21) and guaranteed by a director of the group (note 35).

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27. SHARE CAPITAL

	2006 & 2005 HK$'000
Authorised:	
10,000,000,000 ordinary shares of HK$0.1 each	1,000,000
Issued and fully paid:	
827,639,886 ordinary shares of HK$0.1 each	82,764

28. PROMISSORY NOTES

The Company issued promissory notes to a related company, Dynamic Keen Development Limited ("Dynamic Keen"), a company controlled by Mr. Hui Wing Mau with principal amount of HK$246,220,000 on 24 June 2005. It is unsecured, bears interest at 2% per annum and wholly repayable on 24 June 2009. During the year, HK$350,000 (2005: HK$92,000,000) was repaid and the outstanding balance at 31 December 2006 is of principal amount of HK$153,870,000 (2005: HK$154,220,000).

The fair value of the promissory notes at 31 December 2006 is calculated using cash flows discounted at a rate based on the borrowings rate of 6.37%. The directors consider that the carrying amount of promissory note approximates to the fair value.

Interest expense on the note is calculated using the effective interest method by applying the effective interest rate of 5.76%.

29. CONVERTIBLE NOTE

The Company issued redeemable convertible note in the aggregate amount of HK$250,000,000 on 24 June 2005 to a related company, Dynamic Keen. The convertible note is denominated in Hong Kong dollars. The note bears interest at 1% per annum and will mature on 24 June 2007 at their nominal value of HK$250,000,000. The note entitles the holder to convert the note into the Company's shares at a conversion price of HK$1.35 per share after 24 June 2006, or redeemable at the option of the Company.

The convertible note primarily contains two components, liability and equity. The equity component is presented in equity heading "convertible note equity reserve". The effective interest rate of the liability component is 4.94%.

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29. CONVERTIBLE NOTE *(Continued)*

The movement of the liability component of the convertible note for the year is set out below:

	2006 HK$'000	2005 HK$'000
Carrying amount at the beginning of the year	**236,134**	—
Issued during the year	—	231,660
Interest charge	**11,670**	5,724
Interest payable	**(2,500)**	(1,250)
Carrying amount at the end of the year	**245,304**	236,134

30. AMOUNT RECEIVED FROM SUIFENHE LAND RESERVE CENTRE

Pursuant to two agreements dated 18 March 2004 and 21 July 2004, the Group was appointed to construct the ancillary facilities and infrastructure in the area of the Intertrading Zone on behalf of the Municipality of Suifenhe, the PRC. An aggregate balance of HK$131,795,000 was received in advance from Suifenhe Land Reserve Centre ("SLRC"), which is non-interest bearing. The development costs incurred for the ancillary facilities and surrounding infrastructure will be reimbursed on an actual basis against the advances received up to a total of HK$131,795,000. Any shortfall will be borne by the Group while any surplus will be refunded to SLRC. The actual reimbursement will be fixed with SLRC upon completion of the ancillary facilities and surrounding infrastructure.

In the opinion of the directors, the total costs required for the construction of the ancillary facilities and surrounding infrastructure are estimated at approximately HK$126,588,000 (2005: HK$127,686,000). This estimation will be revised on a timely basis as more construction contracts are entered into and the development progresses.

31. SHARE OPTIONS

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 13 June 2005 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 12 June 2015. Under the Scheme, the Board of 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.

At 31 December 2006, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 32,470,000 (2005: Nil), representing approximately 3.9% (2005: Nil) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at the date of adoption of the scheme. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

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31. SHARE OPTIONS *(Continued)*

A consideration of HK$1 is payable on the grant of an option. According to the resolution passed, there is a requirement to hold the option for a certain period before it can be exercised. The exercise price is determined by the directors of the Company, and will not be less than the highest of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

Details of options are as follows:

	Date of grant	Vesting period	Exercise period	Exercise Price
2006	8 August 2006	8 August 2006 to 31 March 2007	1 April 2007 to 31 March 2012	HK$0.59 per share

The following table discloses movements of the number of share options held by directors and employees during the year:

Option type	Outstanding at 1 January 2006	Granted during the year	Outstanding at 31 December 2006
Held by directors:			
2006	—	20,420,000	20,420,000
Held by employees:			
2006	—	12,050,000	12,050,000
	—	32,470,000	32,470,000
Exercisable at the end of the year			—
Weighted average exercise price			HK$0.59

No options were exercised or lapsed during the year.

The estimated fair values of the options granted is HK$4,157,000 of which HK$2,572,000 was charged to the consolidated income statement during the year.

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31. SHARE OPTIONS *(Continued)*

These fair values were calculated using the Binomial model. The inputs into the model were as follows:

	2006
Exercise price and closing share price immediately before and at the date of grant	HK$0.59
Expected volatility	40%
Life of the option	5.65 years
Annual risk-free rate	4.337%
Expected dividend yield	5%

The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share average prices of the Company over one year immediately preceding the grant date. The 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 underlying shares.

Life of the options represents the period from date of grant to expiry date of share options.

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

32. CAPITAL COMMITMENTS

	2006 HK$'000	2005 HK$'000
Capital expenditure in respect of properties development and properties investment in the PRC contracted for but not provided in the consolidated financial statements	12,289	186,682

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33. OPERATING LEASE

Property rental income earned during the year was approximately HK$14,186,000 (2005: HK$13,987,000). All of the properties held have committed tenants for 0.5 to 20 years.

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

	2006 HK$'000	2005 HK$'000
Within one year	**10,598**	7,544
In the second to fifth year inclusive	**21,968**	15,776
After five years	**29,030**	15,077
	61,596	38,397

34. RETIREMENT BENEFIT SCHEMES

The Group participates in a Mandatory Provident Fund Scheme (the "MPF Scheme") under the rules and regulations of the Mandatory Provident Fund Scheme Ordinance for all employees in Hong Kong since 1 December 2000.

The contributions to the MPF Scheme are based on minimum statutory contribution requirement of 5% of eligible employees' relevant aggregate income.

The employees of the Group's subsidiaries which operate in the PRC are members of a state-managed retirement benefit scheme operated by the local government. These PRC subsidiaries are required to contribute 22% of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

The assets of all retirement schemes are held separately from those of the Group in independently administered funds.

The total cost charged to the consolidated income statement amounting to HK$687,000 (2005: HK$535,000) represents contributions paid or payable to these schemes by the Group in respect of the current accounting period.

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35. RELATED PARTY TRANSACTIONS

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

Nature of transactions	Relationship	2006 HK$'000	2005 HK$'000
Rental income received from Shimao Property Holdings Limited ("Shimao Property")	*Note (i)*	997	—

Note:

(i) The Chairman of the Group is also the Chairman of Shimao Property.

(b) On 20 April 2006, the Group obtained an additional unsecured revolving facility of HK$100,000,000 from the ultimate holding company for a period of 6 months. This facility was not utilised as at balance sheet date.

(c) A director of the Company has given guarantees to banks amounting to HK$520,700,000 for banking facilities granted to the Group.

(d) Compensation of key management personnel

The remuneration of directors during the year was set out in note 13 which is determined by reference to the performance of individuals and market trends.

Details of balances with related parties and transactions other than above are set out in the consolidated balance sheet on pages 32 and 33 and notes 23, 28, 29 and 38.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

36. BALANCE SHEET OF THE COMPANY

	2006 HK$'000	2005 HK$'000
Non-current Assets		
Investments in subsidiaries	253,188	253,188
Current Assets		
Amounts due from subsidiaries	849,028	668,014
Other receivables	175	171
Bank balances and cash	1,343	3,165
	850,546	671,350
Current Liabilities		
Other payables	1,548	1,747
Amount due to ultimate holding company	198,003	40
Amounts due to subsidiaries	149	7,107
Amount due to a related company	8,797	3,220
Convertible note	245,304	—
	453,801	12,114
Net Current Assets	396,745	659,236
Total Assets less Current Liabilities	649,933	912,424
Capital and Reserves		
Share capital	82,764	82,764
Reserves	426,329	457,099
Total equity	509,093	539,863
Non-Current Liabilities		
Promissory notes	140,839	136,427
Convertible note	—	236,134
	140,839	372,561
	649,932	912,424

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

37. INVESTMENTS IN SUBSIDIARIES

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

Name of subsidiary	Place of incorporation/ registration/ establishment	Paid up issued ordinary share/ registered capital	Proportion ownership interest held by the Company		Principal activities
			Directly	Indirectly	
Champ Master Management Limited	Hong Kong	HK$2	—	100%	Property investment
Lanzhou Xinglong Real Estate Development Co., Ltd. *(note (a))*	PRC	RMB20,000,000	—	100%	Property investment
Shimao (Genesis) Company Limited	British Virgin Islands ("BVI")	US$1	—	100%	Property investment and development
Shimao HK Management Company Limited	Hong Kong	HK$2	100%	—	Management services
Shimao (Hong Kong) Investment Limited	BVI	US$1	—	100%	Property holding
Suifenhe Shimao Development & Construction Company Limited *(note (b))*	PRC	US$29,800,000	—	100%	Property investment and development
Value Ahead Investments Limited	BVI	US$1	100%	—	Investment holding
Vast Union Investments Limited	BVI	US$1	100%	—	Investment holding

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

37. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Notes:

(a) Established as a wholly-owned foreign enterprise for a period of 20 years commencing 2 December 1992.

(b) Established as a wholly-owned foreign enterprise for a period of 40 years commencing 13 April 2004.

None of the subsidiaries had issued any debt securities at the end of the year.

38. ACQUISITION OF A SUBSIDIARY

On 24 June 2005, the Group acquired 100% of the interest in a subsidiary for a consideration of HK$496,220,000, satisfied by way of issuance of promissory notes (note 28) and convertible note (note 29) with a nominal value of HK$246,220,000 and HK$250,000,000 respectively.

The net assets acquired an the transaction are as follows:

	Carrying amount HK$'000	Fair value adjustment HK$'000	Fair value HK$'000
Property, plant and equipment	97,709	—	97,709
Prepaid lease payments	235,596	427,021	662,617
Property under development	40,302	30,433	70,735
Other receivables	4,823	—	4,823
Bank balances and cash	19,093	—	19,093
Trade payables	(46,974)	—	(46,974)
Advanced proceeds received from customers	(44,371)	—	(44,371)
Other payables	(11,360)	—	(11,360)
Tax liabilities	—	(30,809)	(30,809)
Amount received from Suifenhe Land Reserve Centre	(114,065)	—	(114,065)
Deferred tax liabilities	—	(141,623)	(141,623)
Net assets acquired	180,753	285,022	465,775
Satisfied by consideration at fair value			
Promissory notes			214,190
Convertible note			
— Equity component			1,949
— Liability component			231,660
			447,799
Excess of fair values of net assets acquired over cost of acquisition			17,976

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For the year ended 31 December 2006

38. ACQUISITION OF A SUBSIDIARY *(Continued)*

Excess arose because the project will only bring future benefit to this area after several years from the date of acquisition on completion of property under development. Accordingly, the consideration paid was at a discount.

This subsidiary contributed revenue and net profit of HK$10,000 and HK$129,088,000 (include fair value gain on investment properties) respectively from the date of acquisition to 31 December 2005. If the acquisition had occurred on 1 January 2005, the revenue and net profit of this subsidiary would have been HK$10,000 and HK$118,699,000 (include fair value gain on investment properties) respectively for the year ended 31 December 2005. The proforma information is for illustrative purposes only and is not necessarily an indiction of revenue and results of the Group that actually would have been achieved had the acquisition been completed on 1 January 2005, nor is it intended to be a projection of further results.

39. COMPARATIVE FIGURES

As described in note 30, the Group's engaged to carry out certain construction work on behalf of the Municipality of Suifenhe. Expenditure incurred for such construction work shall be offset against the "Amounts received from Suifenhe Land Reserve Centre". As at 31 December 2005, HK$10,594,000 incurred on such construction work was inadvertently debited to "Properties held for sale". Accordingly, the comparative figures in respect of "Properties held for sale" and "Amounts received from Suifenhe Land Reserve Centre" have been restated in the current year's financial statements.

40. POST BALANCE SHEET EVENT

On 22 February 2007, the Group obtained a bank loan of HK$77,000,000 which is secured by investment properties of HK$52,500,000, property, plant and equipment of HK$5,310,000, prepaid lease payments of HK$18,588,000 and the assignment of rental income of the corresponding investment properties. In addition, a corporate guarantee of HK$77,000,000 was given by the Company to the bank. The loan will be repayable by monthly instalment and fully repayable in 2022.