1. ORGANISATION

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

The Company and its subsidiaries (together the "Group") are mainly engaged in real estate development in the People's Republic of China (the "PRC").

These consolidated financial statements are presented in thousands of units of Hong Kong Dollars (HK$'000), unless otherwise stated. These consolidation financial statements have been approved for issue by the Board of Directors on 30 March 2007.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

During the year ended 31 December 2006, the Group had a negative operating cash flow of approximately HK$1,282 million (2005: positive operating cash flow of approximately HK$245 million). As at 31 December 2006, the Group's liquidity ratio is 39% (2005: 61%), and the Group is expected to have significant operating cash outflows in the year ending 31 December 2007, as most of its development projects are still under development.

Subsequent to 31 December 2006, the Group has successfully renewed some of its banking facilities and obtained additional facilities of approximately HK$995 million. In addition, the directors are currently implementing a plan to raise additional funds through disposing certain of the Group's property assets. Having considered the above factors, the directors believe the Group has the ability to the meet its future working capital and other financing requirements, and have prepared these consolidated financial statements on a going concern basis accordingly.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) Amendments to published standards effective in 2006

HKAS 19 (Amendment), Employee Benefits, is mandatory for the Group's accounting periods beginning on or after 1 January 2006. It introduces the option of an alternative recognition approach for actuarial gains and losses. As the Group has no such employer plans, adoption of this amendment has no impact on the Group's consolidated financial statements.

(b) Standards early adopted by the Group

HKFRS 7, Financial instruments: Disclosures, and the complementary Amendment to HKAS 1, Presentation of Financial Statements-Capital Disclosures, were early adopted in 2006. HKFRS 7 introduces new disclosures relating to financial instruments. This standard does not have any impact on the classification and valuation of the Group's financial instruments.

(c) Interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods that the Group has not early adopted:

- HK(IFRIC)-Int 8, Scope of HKFRS 2 (effective for annual periods beginning on or after 1 May 2006). HK(IFRIC)-Int 8 requires consideration of transactions involving the issuance of equity instruments-where the identifiable consideration received is less than the fair value of the equity instruments issued-to establish whether or not they fall within the scope of HKFRS 2. The Group will apply HK(IFRIC)-Int 8 from 1 January 2007, but it is not expected to have any impact on the Group's consolidated financial statements;

- HK(IFRIC)-Int 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). HK(IFRIC)-Int 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK(IFRIC)-Int 10 from 1 January 2007, but it is not expected to have any impact on the Group's consolidated financial statements.

(d) Interpretation to existing standards that are not yet effective and not relevant for the Group's operations

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods but are not relevant for the Group's operations:

- HK(IRFIC)-Int 7, Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006). As none of the group entities have a currency of a hyperinflationary economy as its functional currency, HK(IFRIC)-Int 7 is not relevant to the Group's operations;

- HK(IFRIC)-Int 9, Reassessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006). HK(IFRIC)-Int 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment if required. As none of the group entities have changed the terms of their contracts, HK(IFRIC)-Int 9 is not relevant to the Group's operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(e) **Standards, amendments and interpretations effective in 2006 but not relevant for the Group's operations**

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations:

- HKAS 21 Amendment – New Investment in a Foreign Operation;
- HKAS 39 Amendment – Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- HKAS 39 Amendment – The Fair Value Option;
- HKAS 39 and HKFRS 4 Amendment – Financial Guarantee Contracts;
- HKFRS 6, Exploration for and Evaluation of Mineral Resources;
- HKFRS 1 Amendment – First-time Adoption of International Financial Reporting Standards and HKFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;
- HK(IFRIC)-Int 4, Determining whether an Arrangement contains a Lease;
- HK(IFRIC)-Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
- HK(IFRIC)-Int 6, Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment.

2.2 Consolidation

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

(i) **Subsidiaries**

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

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Groups' share of the identifiable net assets acquired is recorded as goodwill (Note 2.7). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

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

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.8). The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

(ii) Transactions with minority interests

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

(iii) Associated companies

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

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

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

In the Company's balance sheet the investments in associated companies are stated at cost less provision for impairment losses (Note 2.8). The results of associated companies are accounted for by the Company on the basis of dividend received and receivable.

2.3 Segment reporting

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

(c) Group companies

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment

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

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

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

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

Hotel properties	Building 40 years, equipment 10 years, fixture and fitting 8 years
Golf course	Course 40 years, club building 40 years, club equipment 10 years, club fixture and fitting 8 years
Buildings	30 years
Leasehold improvements	Over the remaining period of the lease
Furniture, fixtures and office equipment	5-10 years
Motor vehicles	5 years

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Investment properties

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

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

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

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are reviewed annually by external valuers. Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of land classified as investment property; others, including contingent rent payments, are not recognised in the financial statements.

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

Changes in fair values are recognised in the income statement as part of the other gains/(expenses)-net.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate entity at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates and is tested annually for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

2.8 Impairment of assets

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

2.9 Financial assets

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

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

Financial assets at fair value through profit or loss include financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

If a contract contains one or more embedded derivatives, an entity may designate the entire hybrid contract as a financial assets through profit or loss upon initial recognition. Assets in this category are classified as current assets if they are expected to be realised within 12 months of the balance sheet date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial assets (continued)

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet (Note 2.13).

(c) Held-to-maturity financial investments

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

(d) Available-for-sale financial assets

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

Regular purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity financial investments are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement within other gains/(expenses)-net, in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is established.

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

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Accounting for derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designed as a hedging instrument, and if so, the nature of the item being hedged.

The Group's derivative instruments do not qualify for hedge accounting and are accounted for at fair value through profit or loss. Changes in the fair value of these derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement within other gains/(expenses)-net.

2.11 Properties held or under development

Properties held or under development for sale are included in current assets at the lower of cost and net realisable value. Properties under development for long-term investment are stated at cost less any accumulated impairment losses (Note 2.8).

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

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

2.12 Inventories

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

2.13 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within selling and marketing costs. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against selling and marketing costs in the income statement.

2.14 Cash and cash equivalent

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Share capital

Ordinary shares are classified as equity.

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

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

2.16 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.17 Borrowings

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

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

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

2.18 Deferred income tax

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Employee benefits

(a) **Pension obligations (defined contribution plan)**

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

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

(b) **Share-based compensation**

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

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

2.20 Provisions

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Contingent liabilities and contingent assets

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

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

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

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

2.22 Revenue recognition

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

(a) **Sales of properties**

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

(b) **Sale of goods**

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

(c) **Construction of infrastructure for intelligent network**

Revenue from the construction of infrastructure for intelligent network is recognised in accordance with accounting policies for construction contracts in progress.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 Revenue recognition (continued)

(d) Operating rental income

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

(e) Property management revenue

Property management revenue is recognised in the accounting period in which the services are rendered.

(f) Interest income

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

(g) Dividend income

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

(h) Sale of land infrastructure

Shanghai Golden Luodian Development Co., Ltd. ("Golden Luodian"), a significant associate company of the Group, has been given the right to carry out construction and preparation works in respect of the infrastructure of land plots and public facilities within the district of Luodian New County owned by the local government. The completed land plots are sold by the government to land buyers through public auction, tender or listing procedures from time to time, upon which Golden Luodian is entitled to receive a proportion of revenue proceeds.

Golden Luodian provides land buyers certain construction works, including the infrastructure of land plots and surrounding public facilities. As public facilities are separately identifiable from the infrastructure of land plots, which must be completed when the plots are sold to land buyers by the government, certain public facilities may not be completed at the time of the sale. Total revenue proceeds are allocated between the completed and the outstanding construction works based on their fair value.

The revenue attributable to the completed infrastructure is recognised upon the transfer of risks and rewards in connection of land plots, which refers to the time when the land plots are sold to the buyers by the government through public land auction, tender or listing procedures. The deferred revenue of outstanding construction works are recognised when the related construction works are completed.

In prior years, Golden Luodian adopted HKAS 11 – construction contracts, to recognise revenue, costs and attributable profits arising from sales of land infrastructure using the percentage of completion method during land development process, regardless of whether the land plots were sold out or not by government to land buyers. In 2006, management of Golden Luodian reassessed the business model, and considered the risks and rewards of land infrastructure are transferred when the land plots are sold out by the government through public land auction procedures. Therefore management considers HKAS 18-revenue, rather than HKAS 11, could result in the financial statements providing more reliable and relevant information for such transaction.

The change of accounting policy is applied retrospectively by Golden Luodian and the previously disclosed revenue and cost of Golden Luodian is revised accordingly (see Note12). The change of accounting policy has no impact to Golden Luodian's net profit attributable to the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Operating leases (as a lessee)

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

The Group made upfront payments to obtain operating leases of land use rights on which properties will be developed. The upfront payments of the land use rights are recorded as assets and amortised over the lease periods. The amortisation during the period of construction of the properties is capitalised as the cost of properties under development. The amortisation during the period before the commencement and after the completion of the construction of the properties is expensed in consolidated income statement. The unamortised upfront payments are recognised as cost of sales when the relevant properties are sold or transferred to the cost of investment properties upon completion of the relevant properties under development for long-term investment.

2.24 Borrowing cost

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

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

2.25 Dividend distribution

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

2.26 Comparatives

Certain comparative figures have been reclassified in accordance with the new presentation and disclosure requirements and also to conform with current year's presentation.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk, and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign currency risk

The functional currency of the Company and its subsidiaries is RMB Yuan. Foreign exchange risk arises when the future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the functional currency.

In April 2006, the Company issued United States Dollars ("US$") 200 million guaranteed notes due in April 2013 (Note 22). The Group is exposed to foreign exchange risk arising from the exposure of RMB against US$. To manage the foreign exchange risk arising from this recognised liability, the Company entered into fixed to fixed cross currency swaps, transacted with external bankers (Note 25).

(ii) Cash flow and fair value interest rate risk

Except for loans to associated companies (Note 43), short-term deposits (Note 18) and term-loan (Note 16) with fixed interest-rate, the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest-rate risk arises from long-term borrowings, guaranteed notes and convertible bonds. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk. The Group has not hedged its cash flow and fair value interest rate risk. The interest rate and terms of repayments of borrowings, guaranteed notes and convertible notes are disclosed in Note 21, Note 22 and Note 23.

(b) Credit risk

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

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

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk

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

Other than properties developed for sale, the Group also develops and holds properties for long-term operation, such as hotel properties and investment properties. Such long-term assets are with an increasing proportion of total assets in recent years, which brings liquidity risk to the Group. In order to mitigate the liquidity risk, the Group adjusted its financing strategy to get more long-term borrowings and increase share capital, through issuance of long-term guaranteed notes, convertible bonds, as well as new shares.

The Group has developed strategic relationship with all the major state-owned banks that will normally provide financing to the Group when relevant approval from government authorities for the commencement of a project is obtained. The Group also seek financing from overseas market through close cooperation with several world-wide bankers.

3.2 Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the balance sheet date.

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

The carrying value less impairment provision of trade receivables and payables are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is usually estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. If financial liabilities are traded in active market, the fair value for disclosure purpose is calculated based on quoted market prices.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

4.1 Critical accounting estimates and assumptions

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

(a) **Estimation of fair value of investment properties**

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

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

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

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

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

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

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

4.1 Critical accounting estimates and assumptions (continued)

(b) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.8. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

(c) Estimation of fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date.

(d) Estimated of income taxes (including land appreciation tax)

The Group is subject to taxation mainly in Mainland China. Significant judgement is required in determining the amount of the provision for taxation and the timing of payment of the related taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the periods in which such determination are made.

4.2 Critical judgements in applying the Company's accounting policies

Distinction between investment properties and owner-occupied properties

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

5. BUSINESS SEGMENT INFORMATION

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary and only reporting format. Its operations are mainly organised under five principal business segments in the year ended 31 December 2006: property development, sale of land infrastructure, property leasing, sale of housing-tech products and services and golf course operation.

An analysis by business segment is as follows:

	2006						
	Property development HK$'000	Sale of land infrastructure HK$'000	Property leasing HK$'000	Housing technology HK$'000	Golf course operation HK$'000	Other operations HK$'000	Total HK$'000
Segment results							
External sales	2,571,936	–	14,159	29,608	–	5,757	2,621,460
Segment result	818,407	–	590,720	9,944	–	198	1,419,269
Unallocated corporate expense							(32,609)
Operating/Segment profit							1,386,660
Finance income							115,674
Finance costs							(126,673)
Finance costs – net							(10,999)
Share of net profit/(loss) of associated companies	(7,572)	42,636	(84,007)	1,375	(9,518)	(17,192)	(74,278)
Profit before income tax							1,301,383
Income tax expense							(730,965)
Profit for the year							570,418
Other segment terms included in the income statements							
Depreciation	5,003	–	–	516	–	55	5,574
Impairment of goodwill	–	–	–	2,468	–	–	2,468
Segment assets and liabilities							
Segment assets	7,967,709	398,747	901,891	254,916	21,132	16,443	9,560,838
Interests in associated companies	434,084	39,184	12,788	61,514	2,077	–	549,647
Deferred tax assets	8,122	–	–	–	–	–	8,122
Unallocated assets							125,013
Total assets							10,243,620
Segment liabilities	4,581,604	–	15,114	74,707	–	14,102	4,685,527
Deferred tax liabilities	86,590	–	196,579	–	–	–	283,169
Unallocated liabilities							2,254,376
Total liabilities							7,223,072
Capital expenditure	2,954,644	–	309,811	59	–	952	3,265,466

5. BUSINESS SEGMENT INFORMATION (continued)

	2005						
	Property development HK$'000	Sale of land infrastructure HK$'000	Property leasing HK$'000	Housing technology HK$'000	Golf course operation HK$'000	Other operation HK$'000	Total HK$'000
Segment results							
Total gross segment sales	1,277,351	–	1,321	39,268	–	–	1,317,940
Inter-segment sales	–	–	–	(8,667)	–	–	(8,667)
External sales	1,277,351	–	1,321	30,601	–	–	1,309,273
Segment result	391,001	–	863	14,293	–	–	406,157
Unallocated corporate expense							(4,172)
Operating/Segment profit							401,985
Finance income							10,536
Finance costs							(32,567)
Finance costs – net							(22,031)
Share of net profit/(loss) of associated companies	(8,585)	(26,208)	193,470	5,467	(2,629)	–	161,515
Profit before income tax							541,469
Income tax expense							(167,372)
Profit for the year							374,097
Other segment terms included in the income statements							
Depreciation	4,649	–	–	1,051	–	–	5,700
Impairment of goodwill	–	–	–	2,729	–	–	2,729
Segment assets and liabilities							
Segment assets	4,931,944	–	48,927	87,091	–	–	5,067,962
Interests in associated companies	20,261	259,698	193,470	58,692	26,693	–	558,814
Deferred tax assets	19,085	–	–	–	–	–	19,085
Unallocated assets							436,844
Total assets							6,082,705
Segment liabilities	3,388,280	–	–	20,498	–	–	3,408,778
Deferred tax liabilities	–	–	4,384	–	–	–	4,384
Unallocated liabilities							1,044,333
Total liabilities							4,457,495
Capital expenditure	316,474	–	–	193	–	–	316,667

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

5. BUSINESS SEGMENT INFORMATION (continued)

Segment assets consist primarily of property, plant and equipment, investment properties, leasehold land, properties under development for long-term investment, intangible assets, financial assets at fair value through profit or loss, interests in associated companies, deferred tax assets, properties held or under development for sale, contracts work-in-progress, inventories, prepayments, operating receivables and operating cash. Unallocated assets comprises unallocated corporate receivables and cash. Segment liabilities comprise operating liabilities and deferred tax liabilities. Unallocated liabilities comprises items such as corporate borrowings, convertible bonds, guarantee notes and related derivative financial instruments. Capital expenditure comprised additions to property, plant and equipment, investment properties, leasehold land, properties under development for long-term investment and intangible assets, including additions resulting from acquisitions through business combination.

6. PROPERTY, PLANT AND EQUIPMENT

GROUP

	2006				
	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction-in-progress HK$'000	Total HK$'000
Cost					
Beginning of year	1,718	6,818	23,226	469,266	501,028
Acquisition of subsidiaries	–	1,131	3,062	–	4,193
Additions	–	1,204	8,544	633,448	643,196
Disposals	–	(768)	(2,662)	–	(3,430)
Exchange adjustment	61	242	823	16,629	17,755
End of year	1,779	8,627	32,993	1,119,343	1,162,742
Accumulated deprecation					
Beginning of year	1,425	3,847	10,708	–	15,980
Acquisition of subsidiaries	–	528	686	–	1,214
Depreciation charge for the year	173	1,261	4,140	–	5,574
Disposals	–	(592)	(2,030)	–	(2,622)
Exchange adjustment	53	186	329	–	568
End of year	1,651	5,230	13,833	–	20,714
Net book value					
Balance, end of year	128	3,397	19,160	1,119,343	1,142,028
Balance, beginning of year	293	2,971	12,518	469,266	485,048

6. PROPERTY, PLANT AND EQUIPMENT (continued)

GROUP (continued)

	2005					
	Buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction-in-progress HK$'000	Total HK$'000
Cost						
Beginning of year	47,185	1,701	6,824	22,571	180,379	258,660
Additions	1,375	–	575	1,826	285,108	288,884
Disposals	(50,133)	–	(721)	(1,604)	(278)	(52,736)
Exchange adjustment	1,573	17	140	433	4,057	6,220
End of year	–	1,718	6,818	23,226	469,266	501,028
Accumulated depreciation						
Beginning of year	6,846	1,239	3,008	7,897	–	18,990
Depreciation charge for the year	327	169	1,176	4,028	–	5,700
Disposals	(7,327)	–	(395)	(1,371)	–	(9,093)
Exchange adjustment	154	17	58	154	–	383
End of year	–	1,425	3,847	10,708	–	15,980
Net book value						
Balance, end of year	–	293	2,971	12,518	469,266	485,048
Balance, beginning of year	40,339	462	3,816	14,674	180,379	239,670

Depreciation expenses of approximately HK$1,523,000 (2005: approximately HK$1,351,000) had been expensed in cost of goods sold, approximately HK$168,000 (2005: approximately HK$365,000) in selling and marketing costs and approximately HK$3,883,000 (2005: approximately HK$3,984,000) in administrative expenses.

As of 31 December 2006 and 2005, certain of the Group's construction-in-progress had been pledged as collateral for the Group's bank loans and facilities, see Note 21 for details.

6. PROPERTY, PLANT AND EQUIPMENT (continued)

COMPANY

	2006			
	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost				
Beginning of year	943	624	3,333	4,900
Additions	–	33	–	33
Disposals	–	(26)	–	(26)
Exchange adjustment	33	22	119	174
End of year	976	653	3,452	5,081
Accumulated depreciation				
Beginning of year	651	533	1,275	2,459
Depreciation charge for the year	173	41	182	396
Disposals	–	(23)	–	(23)
Exchange adjustment	24	19	48	91
End of year	848	570	1,505	2,923
Net book value				
Balance, end of year	128	83	1,947	2,158
Balance, beginning of year	292	91	2,058	2,441

6. PROPERTY, PLANT AND EQUIPMENT (continued)

COMPANY (continued)

	2005			
	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost				
Beginning of year	943	589	3,333	4,865
Additions	–	35	–	35
End of year	943	624	3,333	4,900
Accumulated depreciation				
Beginning of year	481	423	1,041	1,945
Depreciation charge for the year	170	110	234	514
End of year	651	533	1,275	2,459
Net book value				
Balance, end of year	292	91	2,058	2,441
Balance, beginning of year	462	166	2,292	2,920

7. INVESTMENT PROPERTIES

GROUP

	2006 HK$'000	2005 HK$'000
Beginning of year	**48,927**	48,245
Transfer from property under development for long-term investment (Note 9)	**100,227**	–
Transfer from leasehold land (Note 8)	**36,550**	–
Fair value gain/(loss) (Note 31)	**579,540**	(2,206)
Dissolution of a subsidiary	**(13,994)**	–
Exchange adjustment	**14,078**	2,888
End of year	**765,328**	48,927

7. INVESTMENT PROPERTIES (continued)

The following amounts have been recognised in the consolidated income statement:

	2006 HK$'000	2005 HK$'000
Rental income (Note 29)	**14,886**	1,321
Direct operating expenses arising from investment properties that generate rental income	**3,802**	–
Direct operating expenses arising from investment properties that did not generate rental income	**–**	–

The valuations of investment properties are performed by management at each reporting date and reviewed at least annually by external valuer. As at 31 December 2006, investment properties were revalued by BMI Appraisals Limited, an independent and professionally qualified valuer, using discounted cash flow projections.

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

	2006 HK$'000	2005 HK$'000
In the PRC, held on:		
– Leases of over 50 years	**750,398**	37,051
– Leases of between 10 to 50 years	**14,930**	11,876
	765,328	48,927

The investment properties as at 31 December 2006 mainly represent a three-storey shopping mall at town area of Shanghai City with fair value of approximately HK$ 727 million. The period of leases of the shopping mall under operating leases is 3 to 10 years.

The future aggregate minimum rental receivables under non-cancellable operating leases of the shopping mall are as follows:

	2006 HK$'000	2005 HK$'000
Not later than 1 year	**45,808**	–
Later than 1 year and no later than 5 years	**163,306**	–
Later than 5 years	**156**	–
	209,270	–

8. LEASEHOLD LAND

GROUP

	2006 HK$'000	2005 HK$'000
In the PRC, held on:		
– Leases of over 50 years	**2,426,967**	893,755
– Leases of between 10 to 50 years	**406,651**	66,922
	2,833,618	960,677

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

	2006 HK$'000	2005 HK$'000
Beginning of year	**960,677**	969,716
Additions	**517,058**	164,416
Acquisition of subsidiaries (Note 42)	**1,716,910**	–
Disposals with the sales of completed properties	**(327,566)**	(174,577)
Amortisation capitalised as properties under development	**(25,148)**	(20,690)
Transfer to investment properties (Note 7)	**(36,550)**	–
Exchange adjustment	**28,237**	21,812
End of year	**2,833,618**	960,677
Analysed as:		
Non-current: In relation to properties under development for long-term investment	**244,827**	124,329
Current: In relation to properties held or under development for sale	**2,588,791**	836,348
	2,833,618	960,677

As of 31 December 2006 and 2005, certain of the Group's leasehold land had been pledged as collateral for the Group's bank loans and facilities, see Note 21 for details.

9. PROPERTIES UNDER DEVELOPMENT FOR LONG-TERM INVESTMENT

	2006 HK$'000	2005 HK$'000
Opening net book amount	65,423	36,812
Additions (including capitalization of interest and amortisation of leasehold land)	135,303	27,783
Acquisition of a subsidiary (Note 42)	174,508	–
Transfer to investment properties (Note 7)	(100,227)	–
Exchange adjustment	2,318	828
Closing net book amount	277,325	65,423

All properties under development for long-term investment are located in Shanghai City and Shenyang City, the PRC.

As of 31 December 2005, certain of the Group's properties under development for long-term investment had been pledged as collateral for the Group's bank loans and facilities, see Note 21 for details.

10. INTANGIBLE ASSETS

GROUP

Intangible assets comprise goodwill arising from acquisitions (Note 42):

	2006 HK$'000	2005 HK$'000
Opening balance	–	–
Goodwill arising from acquisition of a subsidiary (Note 42)	75,512	–
Closing balance	75,512	–

11. INVESTMENTS IN AND ADVANCES TO SUBSIDIARIES

COMPANY

(a) Investments in subsidiaries

	2006 HK$'000	2005 HK$'000
Unlisted equity interests, at cost	2,027,472	510,902

(Amounts expressed in Hong Kong dollars unless otherwise stated)

11. INVESTMENTS IN AND ADVANCES TO SUBSIDIARIES (continued)

(a) Investments in subsidiaries (continued)

The following is a list of the principal subsidiaries as at 31 December 2006:

Name	Place and date of incorporation or establishment	Percentage of equity interest attributable to the Group 2006	2005	Issued and paid-up capital	Authorised share capital	Principal activities
Shanghai Xin Dong Industry Co., Ltd. ("Xin Dong")	PRC 28 May 1993	98%	98%	US$3,457,729	US$3,457,729	Property leasing and real estate agency
Shanghai Real Estate Property Management Co., Ltd. (formerly known as "Good Property Gain Property Management Co., Ltd.") ("Shangzhi Property Management") (i)	PRC 1 September 1995	64.2%	40.33%	RMB5,000,000	RMB5,000,000	Property management
Shanghai Cosco-Xin Dong Real Estate Development Co., Ltd. ("Cosco-Xin Dong") (ii)	PRC 16 September 1996	–	49%	RMB50,000,000	RMB50,000,000	Property development
Shanghai Oasis Garden Real Estate Co., Ltd. ("Oasis Garden")	PRC 29 September 1998	98.75%	98.75%	US$19,600,000	US$19,600,000	Property development
Shanghai Wingo Infrastructure Co., Ltd. ("Wingo Infrastructure")	PRC 4 August 1999	98.96%	97.96%	US$20,000,000	US$20,000,000	Development of technology for housing and provision of construction services
Shanghai Zhufu Property Development Co., Ltd. ("Zhufu")	PRC 11 August 2000	50.36%	50.36%	RMB10,000,000	RMB10,000,000	Property development
Anderson Land (Shanghai) Ltd. ("Anderson Shanghai")	British Virgin Islands ("BVI") 29 September 2001	52%	52%	US$100	US$100	Investment holding
Shanghai Anderson Fuxing Land Co., Ltd. ("Anderson Fuxing")	PRC 16 April 2002	51.48%	51.48%	US$20,000,000	US$20,000,000	Property development
Shanghai Hangtou Govern Real Estate Co., Ltd. ("Hangtou Govern")	PRC 14 June 2002	98%	98%	US$10,000,000	US$10,000,000	Property development
Shanghai Jinwu Real Estate Co., Ltd. ("Shanghai Jinwu")	PRC 12 August 2002	96.80%	96.52%	US$54,962,000	US$54,962,000	Property development
Shanghai Qinhai Real Estate Co., Ltd ("Qinhai") (iii)	PRC 28 October 2002	100%	–	RMB700,000,000	RMB700,000,000	Property development

(Amounts expressed in Hong Kong dollars unless otherwise stated)

11. INVESTMENTS IN AND ADVANCES TO SUBSIDIARIES (continued)

(a) Investments in subsidiaries (continued)

Name	Place and date of incorporation or establishment	Percentage of equity interest attributable to the Group 2006	2005	Issued and paid-up capital	Authorised share capital	Principal activities
Shanghai Skyway Oasis Garden Hotel and Condominium Co., Ltd. ("Skyway")	PRC 9 December 2002	56%	56%	RMB200,000,000	RMB200,000,000	Property development
Shenyang Huarui Shiji Investment Development Limited ("Huarui Shiji") (iii)	PRC 22 December 2004	51%	–	US$62,500,000	US$62,500,000	Property development
Shenyang Huajian Real Estate Co., Ltd ("Shenyang Huajian")	PRC 3 November 2006	100%	–	US$14,500,000	US$25,000,000	Property development

Other than disclosed above, the Company has several investment holding subsidiaries incorporated in BVI with nominal issued shares. All subsidiaries located in the PRC are limited liability entities.

(i) During the year ended 31 December 2006, the Group acquired additional equity interest in Shangzhi Property Management, which increased Group's interest from 40.33% to 64.2%.

(ii) During the year ended 31 December 2006, Cosco-Xin Dong was dissolved.

(iii) During the year ended 31 December 2006, the Group acquired 51% equity interest in Huarui Shiji and 100% equity interest in Qinhai. The details of the business combination are disclosed in Note 42.

(b) Advances to subsidiaries

Except for an unsecured advance amounting to approximately HK$71.5 million (2005: HK$74 million) to Anderson Shanghai which earns interest at 3% (2005: 3%) per annum and without fixed repayment terms, the advances to other subsidiaries were unsecured, interest free and without fixed repayment terms. Details of the advance to Anderson Shanghai are as follow:

As set out in the Company's announcement dated 29 May 2002, the Group acquired a 52% interest in Anderson Shanghai from a third party vendor. According to the shareholders' agreement, the Group and the vendor (who retained the remaining 48% interest) agreed to provide shareholders' loans to Anderson Shanghai on normal commercial terms in proportion to their respective shareholding in Anderson Shanghai, an investment holding company whose sole asset is its 99% equity interest in a property development project. As of 31 December 2006, all shareholders' loans of Anderson Shanghai amounting to approximately HK$71.5 million were provided by the Group.

12. INTERESTS IN ASSOCIATED COMPANIES

GROUP AND COMPANY

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Beginning of the year	**558,814**	344,116	**233,325**	233,325
Share of results of associated companies	**(74,278)**	161,515	**–**	–
Elimination of unrealised profit arising from down-stream transaction with an associated company	**(6,984)**	–	**–**	–
Increase investment in an associated company (note (b))	**436,582**	12,016	**–**	–
Acquire an associated company (note (a))	**54,448**	–	**–**	–
Dispose interests in associated companies (note (a) and (c))	**(415,958)**	–	**(233,325)**	–
Transfer to subsidiary (Note 11(a))	**(1,068)**	–	**–**	–
Profit distribution	**–**	(1,883)	**–**	–
Movements in revaluation reserves (Note 20)	**(18,300)**	44,785	**–**	–
Impairment of goodwill	**(2,468)**	(2,729)	**–**	–
Exchange difference	**18,859**	994	**–**	–
End of the year	**549,647**	558,814	**–**	233,325

The Groups' interests in its principal associates as at 31 December 2006, all of which are unlisted, were as follows:

Name	Place and date of incorporation or establishment	Percentage of equity interest attributable to the Group 2006	2005	Issued and paid-up capital	Authorised share capital	Principal activities
Shanghai Internet Information Technology Co., Ltd. ("Shanghai Internet") (c)	PRC 9 January 1995	**–**	48.98%	RMB20,000,000	RMB20,000,000	Development of information system for intelligent building
Shanghai Housing Industry New Technology Development Co., Ltd. ("New Technology")	PRC 6 May 1997	**26%**	26%	RMB100,000,000	RMB100,000,000	Research and development of housing technology
Shanghai Orda Opto-electronics Science and Technology Co., Ltd. ("Orda")	PRC 23 March 2000	**23.52%**	23.52%	RMB11,000,000	RMB11,000,000	Development and sales of photo electron products, computer hardware and software
Shanghai Telecom Broadband Networking Co., Ltd. ("Broadband")	PRC 24 October 2000	**39.19%**	39.19%	RMB50,000,000	RMB50,000,000	Development and sales of netware and construction of broad band fibre projects

(Amounts expressed in Hong Kong dollars unless otherwise stated)

12. INTERESTS IN ASSOCIATED COMPANIES (continued)

Name	Place and date of incorporation or establishment	Percentage of equity interest attributable to the Group 2006	2005	Issued and paid-up capital	Authorised share capital	Principal activities
Shanghai Golden Luodian Development Co., Ltd. (formerly known as "Shanghai Golden Luodian Real estate & Development Co., Ltd"). ("Golden Luodian") (a)	PRC 26 September 2002	**35.59%**	45.26%	RMB548,100,000	RMB548,100,000	Land infrastructure development for sale, investment property leasing, hotel operation and golf course operation
Shanghai Shuo Cheng Real Estate Co., Ltd. ("Shuo Cheng") (b)	PRC 29 January 2003	**44.53%**	44.08%	RMB450,000,000	RMB450,000,000	Property development
China New Town Development Co., Ltd. ("CNTD") (a)	BVI 4 January 2006	**49%**	–	US$50,935,231	US$50,935,231	Investment Holding

(a) During the year ended 31 December 2006, the Group entered into an agreement with another foreign investor of Golden Luodian ("Foreign Investor") and China New Town Development Co., Ltd. ("CNTD") (the "Agreement"). Pursuant to the Agreement, the Group and the Foreign Investor disposed of their respective 45.26% and 27.37% equity interest in Golden Loudian for 4,900 CNTD shares and convertible notes of CNTD with a principal amount of HK$94,712,428.98 and a conversion price of HK$26,792.76 per CNTD share (the "Convertible Notes"), and 5,100 CNTD shares respectively. Unless converted on the earlier of (a) the date when dealings in CNTD shares first commence on a recognised exchange, as defined in the Agreement, and (b) the second anniversary of the date of issue of the Convertible Notes (the "maturity date"), the convertible notes will be redeemed at 100 percent of their principal amount on the maturity date.

Upon completion of the Agreement but prior to conversion of the Convertible Notes, the Group's attributable interest in Golden Luodian decreased from 45.26% to 35.59%.

A gain on disposal of approximately HK$189,098,000 was recorded as "other gains/(expenses)-net" in the consolidated income statement (Note 31). The Convertible Notes were recorded as "financial assets at fair value through profit or loss" in the consolidated balance sheet (Note 13).

(b) On 3 November 2006, the Group entered into a sales and purchase agreement (the "S&P Agreement") with three joint venture partners of Shuo Cheng to purchase their 55% equity interest in Shuo Cheng at total consideration of approximately HK$32.82 million. The acquisition consideration, together the Group's further capital contribution of approximately HK$398 million, were paid to Shuo Cheng by 31 December 2006. The renewed business licence of Shuo Cheng was obtained in January 2007, and approval from the Company's special shareholders' meeting was obtained in January 2007 also. Thereafter Shuo Cheng becomes a subsidiary of the Group.

(c) During the year ended 31 December 2006, the Group disposed its equity interest in Shanghai Internet. A gain on disposal of approximately HK$2,344,000 was recorded as "other gains/(expenses)-net" in the consolidated income statement (Note 31).

12. INTERESTS IN ASSOCIATED COMPANIES (continued)

Breakdown of interests in associated companies were as follows:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Investments (unlisted), at cost				
– CNTD	**54,448**	–	**–**	–
– Golden Luodian	**–**	233,325	**–**	233,325
– New Technology	**25,878**	24,397	**–**	–
– Shuo Cheng	**458,977**	21,628	**–**	–
– Broadband	**19,906**	19,225	**–**	–
– Shanghai Internet	**–**	9,613	**–**	–
– Orda	**7,825**	7,756	**–**	–
– Shangzhi Property Management	**–**	1,163	**–**	–
	567,034	317,107	**–**	233,325
Representing:				
– Share of net assets at time of acquisition	**560,107**	310,417	**–**	233,325
– Goodwill on acquisition	**6,927**	6,690	**–**	–
	567,034	317,107	**–**	233,325
Accumulated impairment for goodwill	**(5,197)**	(2,729)	**–**	–
Accumulated share of reserves and post acquisition results less distributions	**(12,190)**	244,436	**–**	–
	549,647	558,814	**–**	233,325

The Group's interests in its principal associated companies, all of which are unlisted, were as follows:

(a) Golden Luodian

(i) Summarised consolidated profit and loss account of Golden Luodian

	2006	2005
	HK$'000	HK$'000
		(restated)
Turnover	**750,092**	231,500
(Loss)/profit before taxation	**(14,744)**	553,976
Taxation	**4,958**	(183,513)
(Loss)/profit after taxation	**(9,786)**	370,463
Minority interests	**60**	102
Net (loss)/profit attributable to owners	**(9,726)**	370,565
Net (loss)/profit attributable to the Group	**(4,402)**	167,718

12. INTERESTS IN ASSOCIATED COMPANIES (continued)

(a) Golden Luodian (continued)

(ii) Summarised consolidated assets and liabilities of Golden Luodian

	2006 HK$'000	2005 HK$'000 (restated)
Assets		
Non-current assets	2,394,864	1,386,839
Current assets	2,230,393	2,917,345
	4,625,257	4,304,184
Equity and liabilities		
Capital and reserves	1,081,119	1,092,030
Minority interests	–	(60)
Non-current liabilities	2,743,293	2,370,929
Current liabilities	800,845	841,285
	4,625,257	4,304,184

The principal activities of Golden Luodian are development and sales of land infrastructure, the holding of investment properties, the operation of hotel and conference facilities and the operation of a golf course.

As stated in Note 2.22 (h), Golden Luodian changed its revenue recognition policy for sales of land infrastructure in year 2006. This change in accounting policy has been accounted for retrospectively, and the comparative summarised financial information of year 2005 has been restated.

(b) Shuo Cheng

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

	2006 HK$'000	2005 HK$'000
Turnover	–	–
Loss before taxation	(11,098)	(4,040)
Taxation	(7,016)	1,333
Loss after taxation	(18,114)	(2,707)
Minority interests	65	20
Net loss attributable to owners	(18,049)	(2,687)
Net loss attributable to the Group	(8,122)	(1,209)

12. INTERESTS IN ASSOCIATED COMPANIES (continued)

(b) Shuo Cheng (continued)

(ii) Summarised consolidated assets and liabilities of Shuo Cheng

	2006 HK$'000	2005 HK$'000
Assets		
Non-current assets	64,712	3,281
Current assets	3,033,515	1,754,215
	3,098,227	1,757,496
Equity and liabilities		
Capital and reserves	424,990	43,701
Minority interests	112	172
Non-current liabilities	547,593	951,552
Current liabilities	2,125,532	762,071
	3,098,227	1,757,496

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

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

GROUP

Financial assets at fair value through profit or loss represent the Convertible Notes issued by CNTD to the Group (see Note 12(a)).

The Convertible Notes contain one embedded derivative – conversion option. The Group has designated the entire hybrid Convertible Notes as "financial assets at fair value through profit or loss", rather than separating the conversion option from the host contract.

Financial assets at fair value through profit or loss are initially recognised at fair value. As the Convertible Notes are not traded in active market, the Company engaged BMI Appraisals Limited, an independent and professionally qualified valuer, to establish fair value by using valuation techniques.

14. PROPERTIES HELD OR UNDER DEVELOPMENT FOR SALE

GROUP

	2006 HK$'000	2005 HK$'000
At cost		
– In Shanghai City, the PRC	**2,115,706**	1,641,784
– In Shenyang City, the PRC	**259,602**	–
	2,375,308	1,641,784

As of 31 December 2006 and 2005, certain of the Group's properties held or under development for sale had been pledged as collateral for the Group's bank loans and facilities, see Note 21 for details.

15. PREPAYMENT AND OTHER CURRENT ASSETS

	Group		Company	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Prepaid business tax (Note 26)	**39,816**	82,105	**–**	–
Prepayments of sales commission to real estate agency	**12,116**	29,110	**–**	–
Prepayment for equipment purchase	**10,320**	4,794	**–**	–
Others	**3,727**	3,705	**–**	–
	65,979	119,714	**–**	–

16. OTHER RECEIVABLES

	Group		Company	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Guarantee deposit for derivative liabilities (a)	**53,272**	–	**53,272**	–
Earnest money to minority shareholder of a subsidiary (b)	**–**	288,378	**–**	–
Term-loan (c)	**–**	44,031	**–**	44,031
Amounts due from minority shareholders of subsidiaries (d)	**168,631**	64,110	**–**	–
Others	**30,886**	18,366	**2,691**	3,296
	252,789	414,885	**55,963**	47,327

(a) A credit support agreement was subscribed by the Group as annex to the derivative financial instruments made with external bankers (Note 25). Under the credit support agreement, the Group was required to pay a guarantee deposit for future settlement of the derivative liabilities, if any, arising from a drop in value of the derivative. As at 31 December 2006, the Group paid guarantee deposit of US$ 6.8 million (equivalent to approximately HK$53.2 million) to bankers pursuant to this credit support annex.

16. OTHER RECEIVABLES (continued)

(b) The Group and Lucky Charming Enterprises Limited ("LCE") respectively hold 52% and 48% equity interest in Anderson Shanghai, which in turn owns 99% equity interest in Anderson Fuxing, a property development company responsible for the development of a luxury residential property with shopping mall properties at town area of Shanghai City.

On 10 October 2005, the Group signed a letter of intent with LCE to acquire the latter's 47.52% indirect beneficial interest in the shopping mall of the property development company for a consideration of RMB 300 million (equivalent to approximately HK$288 million). In connection with this acquisition, the Group paid earnest money amounting to RMB300 million on 26 October 2005 to a domestic entity designated by LCE. The earnest money is interest free and upon completion, it will be used for the settlement of acquisition consideration. The acquisition was completed on 10 July 2006 upon getting approval from a special general meeting of the Company. On the acquisition date, LCE's indirect beneficial interest in the shopping mall was approximately HK$178.3 million. After the acquisition, LCE is no longer entitled to any profits, income and dividend and rights upon distribution of assets by Anderson Shanghai and/or Anderson Fuxing of the shopping mall properties.

(c) In May 2004, the Company granted a loan of US$7.26 million (equivalent to approximately HK$56.6 million) to a company for a period of 18 months. The sole director of this company is also the beneficial owner and director of LCE. The loan earns interest at a rate of 10% per annum; the repayment date for the loan balance was extended to 30 June 2006 when it became due for repayment. As at 31 December 2006, the loan principal together with interest charges was fully settled.

(d) Amounts due from minority shareholders of subsidiaries were interests free and without fixed repayment terms. As at 31 December 2006, RMB169 million (equivalent to approximately HK$169 million) was due from LCE.

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

17. ACCOUNTS RECEIVABLE

GROUP

	2006	2005
	HK$'000	HK$'000
Accounts receivable	**22,163**	10,587
Less: Provision for doubtful accounts	**(1,977)**	–
	20,186	10,587

17. ACCOUNTS RECEIVABLE (continued)

An aging analysis of accounts receivable is set out below:

	2006 HK$'000	2005 HK$'000
Within 1 year	**10,067**	10,587
1-2 years	**10,119**	–
Over 2 years	**1,977**	–
	22,163	10,587

The carrying amounts of the Group's accounts receivable were denominated in RMB, and approximated their fair value.

There is no concentration of credit risk with respect to accounts receivables, as the Group has a large base of customers. The maximum exposure to credit risk at reporting date is the fair value of trade receivable.

18. CASH AND CASH EQUIVALENTS

	Group		**Company**	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Cash in hand	**417**	138	**217**	22
Demand deposits	**1,010,326**	1,025,648	**61,089**	19,344
Short-term deposits	**–**	350,000	**–**	350,000
Cash and cash equivalents	**1,010,743**	1,375,786	**61,306**	369,366
Pledged bank deposits (a)	**11,068**	12,330	**–**	12,330
Restricted bank deposits	**4,093**	7,701	**–**	–
Cash and bank balances	**1,025,904**	1,395,817	**61,306**	381,696

(a) As at 31 December 2006, bank deposits of approximately HK$11 million were restricted in connection with the issue of bank notes (2005: approximately HK$12.3 million was pledged for short-term bank borrowings, see Note 21).

For the year ended 31 December 2006, the effective interest rates on demand deposits were 0.72% to 2.75% per annum (2005: 0.72% to 3% per annum). For the year ended 31 December 2005, the effective interest rate on short-term deposits was 4.07% per annum. The short-term deposits are with original maturity periods of one to two months.

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

	Group		**Company**	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
HK$	**45,330**	381,061	**45,218**	380,971
US$	**71,083**	79,527	**16,088**	725
RMB	**909,491**	935,229	**–**	–
	1,025,904	1,395,817	**61,306**	381,696

19. SHARE CAPITAL

GROUP AND COMPANY

	Number of shares (thousands)	Amount: Ordinary shares HK$'000	Amount: Share premium HK$'000	Total HK$'000
At 1 January 2005	1,354,800	135,480	596,091	731,571
Allotment of shares upon exercise of share options (a)	51,000	5,100	16,930	22,030
Issue of scrip dividends (b)	35,930	3,593	27,306	30,899
Issue of shares upon conversion of convertible bonds	68,100	6,810	67,761	74,571
At 31 December 2005	1,509,830	150,983	708,088	859,071
Allotment of shares upon exercise of share options (a)	1,500	150	1,150	1,300
Issue of scrip dividends (b)	22,925	2,293	34,892	37,185
Issue of shares upon conversion of convertible bonds (c)	398,805	39,880	431,476	471,356
Issue of shares – placement (d)	212,000	21,200	481,018	502,218
At 31 December 2006	**2,145,060**	**214,506**	**1,656,624**	**1,871,130**

The total authorised number of ordinary shares is 4,000 million shares (2005: 4,000 million shares) with a par value of HK$0.10 per share (2005: HK$0.10 per share). All issued shares are fully paid.

(a) Share options

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

(Amounts expressed in Hong Kong dollars unless otherwise stated)

19. SHARE CAPITAL (continued)

(a) Share options (continued)

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

	2006 Average exercise price in HK$ per share	2006 Options	2005 Average exercise price in HK$ per share	2005 Options
Beginning of year	**0.87**	**1,500,000**	0.43	51,000,000
Granted during the year		**–**	0.87	1,500,000
Exercised during the year (i)	**0.87**	**(1,500,000)**	0.43	(51,000,000)
End of year		**–**	0.87	1,500,000

(i) Share options exercised in 2006 resulted in the issuance of 500,000 shares and 1,000,000 shares (2005: 50,000,000 shares and 1,000,000 shares) at HK$0.94 and HK$0.83 per share respectively (2005: HK$0.43 per share and HK$0.53 per share respectively).

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

Expiry date	Exercise price HK$ per share	Number of options 2006	Number of options 2005	Vested percentage 2006	Vested percentage 2005
4 March 2008	0.94	–	500,000	–	100%
27 June 2008	0.83	–	1,000,000	–	100%
		–	1,500,000		

(b) Pursuant to a resolution passed at the general meeting on 11 May 2006, the Company offered its shareholders scrip dividend as an alternative to cash dividend; under which the shareholders could elect to receive ordinary shares of par value of HK$0.1 each in lieu of cash dividend (see Note 38). As a result, the following additional shares were issued during the year.

	Number of new ordinary shares issued	Issue price per ordinary share	Issue date
Final dividends for the year ended 31 December 2005	22,925,145	HK$1.622	12 June 2006

(Amounts expressed in Hong Kong dollars unless otherwise stated)

19. SHARE CAPITAL (continued)

(c) During the year ended 31 December 2006, the following convertible bonds issued by the Company have been converted by the bondholders at respective conversion prices and following ordinary shares have been issued:

	CB 1 at conversion price of HK$ 1.116 per ordinary share		CB 2 at conversion price of HK$ 1.35 per ordinary share	
Issue date of ordinary shares	**Face value of convertible bonds**	**Number of new ordinary shares issued**	**Face value of convertible bonds**	**Number of new ordinary shares issued**
January 2006	11,000,000	9,856,630	–	–
February 2006	62,000,000	55,555,551	–	–
March 2006	102,000,000	91,397,842	–	–
April 2006	43,000,000	38,530,464	181,000,000	134,074,071
May 2006	–	–	8,000,000	5,925,925
July 2006	8,000,000	7,168,458	–	–
September 2006	–	–	8,000,000	5,925,925
November 2006	–	–	31,000,000	22,962,961
December 2006	–	–	37,000,000	27,407,406
Total	226,000,000	202,508,945	265,000,000	196,296,288

(d) On 5 December 2006, Good Times Resources Limited, Mr. Shi Jian and the Company entered into the Placing Agreement with the Citigroup Global Markets Hong Kong Futures and Securities Limited (the "Placing Agreement"). Under the Placing Agreement, Good Times Resources Limited has conditionally agreed to subscribe for 212,000,000 new shares, representing approximately 11.12% of the existing issued share capital of the Company and approximately 10.01% of the issued share capital of the Company as enlarged by the subscription. The subscription price for the new shares was HK$2.42 per Share. The issuance cost is approximately HK$10,822,000.

20. OTHER RESERVES

GROUP

	Convertible bonds HK$'000	Options HK$'000	Golf course and hotel properties revaluation HK$'000	Statutory reserve HK$'000 (a)	Exchange translation reserve HK$'000	Total HK$'000
Balance at 31 December 2004	32,860	–	–	44,793	(634)	77,019
Fair value gain (net of tax) from certain assets held by an associated company	–	–	35,946	–	–	35,946
Appropriations	–	–	–	11,931	–	11,931
Currency translation differences	–	–	–	–	24,783	24,783
Granting of options	–	248	–	–	–	248
Issue of shares upon conversion of convertible bonds-equity components (Note 23)	(8,269)	–	–	–	–	(8,269)
Issue convertible bonds-equity component (Note 23)	3,852	–	–	–	–	3,852
Balance at 31 December 2005	28,443	248	35,946	56,724	24,149	145,510
Balance at 31 December 2005	28,443	248	35,946	56,724	24,149	145,510
Fair value loss (net of tax) from certain assets held by an associated company	–	–	(18,300)	–	–	(18,300)
Revaluation reserve transfer arising from disposal of interest in an associated company	–	–	(3,626)	–	–	(3,626)
Depreciation transfer on certain assets held by an associated company	–	–	(2,008)	–	–	(2,008)
Appropriations	–	–	–	21,170	–	21,170
Currency translation differences	–	–	–	–	39,796	39,796
Issue of shares upon conversion of convertible bonds-equity components (Note 23)	(27,235)	–	–	–	–	(27,235)
Balance at 31 December 2006	1,208	248	12,012	77,894	63,945	155,307

20. OTHER RESERVES (continued)

GROUP (continued)

(a) The PRC laws and regulations require companies registered in the PRC to provide for certain statutory reserves, which are to be appropriated from the net profit (after offsetting accumulated losses from prior years) as reported in their respective statutory accounts. All statutory reserves are created for specific purposes.

Companies within the Group, which are registered in the PRC as foreign invested entities, are required to make appropriations from statutory net profits to the reserve fund and the enterprise expansion fund, upon distribution of their post-tax profits of the current year. The percentages to be appropriated to the reserve fund and the enterprise expansion fund are determined by the board of directors of these companies.

Companies within the Group, which are registered in the PRC as domestic invested entities, are required to appropriate 10% of statutory net profits to statutory surplus reserves, upon distribution of their post-tax profits of the current year. A company may discontinue the contribution when the aggregate sum of the statutory surplus reserve is more than 50% of its registered capital. Upon contribution to the statutory surplus reserve using its post-tax profits, a company may make further contribution to the surplus reserve using its post-tax profits in accordance with a resolution of the board of directors.

COMPANY

	Convertible bonds HK$'000	Options HK$'000	Exchange translation reserve HK$'000	Others HK$'000	Total HK$'000
Balance at 1 January 2005	32,860	–	–	(233)	32,627
Granting of options (Note 19)	–	248	–	–	248
Issue of shares upon conversion of convertible bonds-equity components (Note 23)	(8,269)	–	–	–	(8,269)
Issue convertible bonds-equity component (Note23)	3,852	–	–	–	3,852
Balance at 31 December 2005	28,443	248	–	(233)	28,458
Currency translation differences	–	–	47,664	–	47,664
Issue of shares upon conversion of convertible bonds-equity components (Note 23)	(27,235)	–	–	–	(27,235)
Balance at 31 December 2006	1,208	248	47,664	(233)	48,887

21. BORROWINGS

GROUP AND COMPANY

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Short-term bank borrowings				
– Secured	**263,760**	20,000	**–**	20,000
– Unsecured	**75,000**	–	**75,000**	–
Other short-term borrowings				
– Unsecured	**17,916**	–	**–**	–
Total short-term borrowings	**356,676**	20,000	**75,000**	20,000
Long-term bank borrowings				
– Secured	**1,410,522**	1,295,695	**289,790**	430,560
The long-term bank borrowings are repayable as follows:				
– Within 1 year	**235,469**	465,141	**144,895**	128,700
– Between 1 and 2 years	**229,497**	554,797	**144,895**	160,680
– Between 2 and 3 years	**945,556**	275,757	**–**	141,180
	1,410,522	1,295,695	**289,790**	430,560
Less: long-term borrowings, current portion	**(235,469)**	(465,141)	**(144,895)**	(128,700)
Long-term borrowings	**1,175,053**	830,554	**144,895**	301,860

Short-term bank borrowings-secured

As at 31 December 2006, approximately HK$40 million of short-term bank loan (2005: nil) was secured by pledge of the Group's leasehold land.

As at 31 December 2006, approximately HK$224 million of short-term bank loan (2005: nil) was secured by joint guarantee provided by the Company and one subsidiary.

As at 31 December 2005, approximately HK$20 million of short-term bank loan was secured by a standby letter of credit arranged by the Company via the pledge of a fixed deposit of approximately HK$12 million (Note 18).

Other short-term borrowings-unsecured

As at 31 December 2006, approximately HK$18 million of unsecured short-term borrowings were borrowed from an stated-owned assets management company.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

21. BORROWINGS (continued)

Long-term bank borrowings-secured

As at 31 December 2006, long-term bank borrowings of approximately HK$1,120 million (2005: approximately HK$472 million) were secured by pledge of the Group's leasehold land, together with properties held or under development for sale and construction-in-progress.

As at 31 December 2005, long-term bank borrowings of approximately HK$382 million were borrowed by 21 newly established BVI subsidiaries for the purchase of 21 residential apartment units developed by Anderson Fuxing. The mortgage loans were secured by a joint guarantee given by the Company, the 21 BVI subsidiaries and Mr. Shi Jian, the Chairman of the Company; by pledge of ordinary shares in the 22 BVI subsidiaries (including these 21 BVI subsidiaries) held by the Group, representing approximately HK$303 million of net assets attributable to the Group; and by mortgage of the 21 residential units purchased by the 21 BVI subsidiaries. The interest rate under these loan agreements is 1.85% above the London Inter-bank Offered Rate. During the year ended 31 December 2006, the Group repaid certain guaranteed borrowings, and also disposed one BVI subsidiary and repaid the related mortgaged borrowings. As at 31 December 2006, the balance of such long-term bank borrowings decreased to approximately HK$290 million.

As at 31 December 2005, included in long-term bank borrowings is a loan of approximately HK$394 million borrowed from Shanghai Enterprise Annuity Development Centre, arranged via a bank (entrusted loan). The loan is secured by pledge of the Group's leasehold land, together with certain properties under development for long-term investment. The interest rate under this loan agreement is 6.92% per annum. The Group fully repaid this long-term bank borrowing in year 2006.

As at 31 December 2005, long-term bank borrowings of approximately HK$48 million were borrowed under a syndicate loan facility agreement dated 23 May 2003 and the total loan facility granted was approximately HK$121 million for a period of 3 years from the date of the agreement. The rate of interest under this facility agreement is 1.5% above the Hong Kong Inter-bank Offered Rate. The syndicated loan was secured by pledge of ordinary shares in Super-power.com Ltd. held by the Group, representing approximately HK$178 million of net assets attributable to the Group. The Group fully repaid this long-term bank borrowing in year 2006.

Overall collateral arrangements for bank borrowings

As at 31 December 2006, leasehold land of approximately HK$430 million (2005: approximately HK$504 million) (Note 8), properties under development for long-term investment nil (2005: approximately HK$65 million) (Note 9), and properties held or under development for sale of approximately HK$990 million (2005: approximately HK$460 million) (Note 14), together with construction-in-progress of approximately HK$1,119 million (2005: approximately HK$460 million) (Note 6), were mortgaged as collateral for the Group's short-term bank borrowings, long-term bank borrowings and banking facilities disclosed in the preceding paragraphs.

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

	2006			2005		
	HK$	**US$**	**RMB**	HK$	US$	RMB
Short-term bank borrowings	**5.5000%**	**–**	**6.1227%**	5.5960%	–	–
Other short-term borrowings	**–**	**–**	**5.5200%**	–	–	–
Long-term bank borrowings	**–**	**7.2500%**	**6.5552%**	–	6.2175%	6.3339%

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

21. BORROWINGS (continued)

Overall collateral arrangements for bank borrowings (continued)

The carrying amounts of borrowings are denominated in the following currencies:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
HK$	**75,000**	20,000	**75,000**	20,000
US$	**289,789**	430,560	**289,790**	430,560
RMB	**1,402,409**	865,135	**–**	–
	1,767,198	1,315,695	**364,790**	450,560

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

	2006	2005
	HK$'000	HK$'000
Floating rate facilities		
– expiring within 1 year	**25,000**	67,676
– expiring beyond 1 year	**179,158**	19,500
	204,158	87,176

22. GUARANTEED NOTES

GROUP AND COMPANY

	2006	
		HK$ equivalent
	US$'000	**HK$'000**
Face value of guaranteed notes	**200,000**	**1,604,718**
Less: issuing expenses	**(6,841)**	**(54,890)**
Fair value on initial recognition	**193,159**	**1,549,828**
Accumulated foreign exchange gain	**–**	**(43,188)**
Add: accumulated interest expenses (Note 34)	**12,282**	**95,802**
Less: accumulated payment of interest expenses	**(8,625)**	**(67,275)**
	196,816	**1,535,167**

On 24 April 2006, the Company issued guaranteed notes maturing on 24 April 2013 (the "Maturity Date"), in the aggregate principal amount of US$200 million with fixed interest rate of 8.625% per annum (the "Guaranteed Notes"). The Guaranteed Notes are guaranteed by all of investment holding subsidiaries of the Company which are not incorporated in the PRC (except Anderson Land (Shanghai) Limited).

22. GUARANTEED NOTES (continued)

Interests of the Guaranteed Notes are payable semi-annually in arrear on 24 April and 24 October in each year commencing on 24 October 2006. Regarding to the principal, the Company has the redemption options of:

a) prior to 24 April 2009, redeem on one or more occasions up to 35% of the aggregate principal amount of the Guaranteed Notes originally issued at a redemption price of 108.625% of principal amount, plus accrued and unpaid interest to the redemption date, with the net cash proceeds of certain equity offerings; or

b) at any time or from time to time prior to the Maturity Date, redeem all or part of the Guaranteed Notes at a redemption price equal to 100% of the principal amount thereof plus an applicable premium plus accrued and unpaid interest to such redemption date

As the fair value of the redemption options is no significant, it is not accounted for separately.

On 25 April 2006, the Guaranteed Notes were listed on The Stock Exchange of Hong Kong Limited for dealing.

As at 31 December 2006, the fair value of the Guaranteed Notes was approximately HK$1,524 million which was calculated based on market bid prices. Interest expenses on Guaranteed Notes are calculated using the effective interest method by applying the effective interest rate of 9.30% per annum.

23. CONVERTIBLE BONDS

GROUP AND COMPANY

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

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

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

The fair value of the liability component as included in liabilities, was initially calculated using a market interest rate for an equivalent non-convertible bond and subsequently measured at amortisation cost. The fair value of the put option, recorded as derivative financial liability, was revalued annually with the revaluation gain or loss charged to the income statement. The residual amount, representing the value of the equity conversion component, is included in shareholders’ equity in other reserves (Note 20), net of deferred income taxes.

23. CONVERTIBLE BONDS (continued)

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

	2006		
	CB 1	**CB 2**	**Total**
	HK$'000	**HK$'000**	**HK$'000**
Face value of convertible bonds issued	**302,000**	**386,000**	**688,000**
Issuing expenses	**(11,160)**	**(19,811)**	**(30,971)**
Written put option liabilities	**(15,845)**	**(17,416)**	**(33,261)**
Equity components (Note 20)	**(32,860)**	**(3,852)**	**(36,712)**
Liability component on initial recognition upon issuance	**242,135**	**344,921**	**587,056**
Accumulated foreign exchange gain	**(874)**	**(5,929)**	**(6,803)**
Accumulated interest expenses (Note 34)	**30,732**	**26,124**	**56,856**
Accumulated prepayment of interest expense	**–**	**(20,125)**	**(20,125)**
Accumulated amount converted to ordinary shares of the Company (Note 19, 20)	**(271,993)**	**(238,431)**	**(510,424)**
Liability component at 31 December	**–**	**106,560**	**106,560**
Less: amount included under current liabilities	**–**	**(106,560)**	**(106,560)**
Amount included under non-current liabilities	**–**	**–**	**–**

	2005		
	CB 1	CB 2	Total
	HK$'000	HK$'000	HK$'000
Face value of convertible bonds issued	302,000	386,000	688,000
Issuing expenses	(11,160)	(19,811)	(30,971)
Written put option liabilities	(15,845)	(17,416)	(33,261)
Equity components (Note 20)	(32,860)	(3,852)	(36,712)
Liability component on initial recognition upon issuance	242,135	344,921	587,056
Accumulated interest expenses (Note 34)	26,532	2,335	28,867
Prepayment of interest expense	–	(13,510)	(13,510)
Amount converted to ordinary shares of the Company (Note 19, 20)	(66,301)	–	(66,301)
Liability component at 31 December	202,366	333,746	536,112
Less: amount included under current liabilities	(202,366)	–	(202,366)
Amount included under non-current liabilities	–	333,746	333,746

For CB 1, the face value of the outstanding bonds at 31 December 2006 was nil (2005: HK$226,000,000). The fair value of the liability component of CB 1 at 31 December 2006 was nil (2005: approximately HK$209,000,000 calculated using cash flows discounted at a rate based on the borrowings rate of 6.045%). Interest expense on CB 1 is calculated using the effective interest method by applying the effective interest rate of 6.822% to the liability component.

23. CONVERTIBLE BONDS (continued)

For CB 2, the face value of the outstanding bonds at 31 December 2006 amounted to HK$121,000,000 (2005: HK$386,000,000). The fair value of the liability component of CB 2 at 31 December 2006 amounted to approximately HK$106,140,000 calculated using cash flows discounted at rates based on the borrowings rates from 8.891% to 9.045% (2005: approximately HK$367,000,000 with discount rate of 6.045%). Interest expense on CB 2 is calculated using the effective interest method by applying the effective interest rate of 8.125% to the liability component.

Derivative financial instrument – written put option liability

	2006 HK$'000	2005 HK$'000
Beginning of year	28,186	15,466
Initial recognition upon issuance of bonds	–	17,417
Fair value gain (Note 31)	(17,400)	(4,697)
End of year	10,786	28,186

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

As at 31 December 2006, the derivative financial instrument was revalued by BMI Appraisals Limited. The fair value of the derivative financial instrument was determined using the Binomial Option Pricing Model.

During the year ended 31 December 2006, CB 1 with a face value HK$226,000,000 (2005: HK$76,000,000) were converted into 202,508,945 ordinary shares (2005: 68,100,354 ordinary shares) of the Company (Note 19).

As at 31 December 2006, CB 2 with a face value HK$265,000,000 (2005: nil) were converted into 196,296,288 ordinary shares (2005: nil) of the Company (Note 19).

As at 31 December 2006, the carrying amount of liability component of CB 2 was recorded under current liabilities, as CB 2 may be redeemed at the option of the relevant holders starting 9 November 2007.

24. DEFERRED INCOME TAX

GROUP

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

	2006 HK$'000	2005 HK$'000
Deferred tax assets:		
– Deferred tax assets to be recovered after 1 year	–	1,322
– Deferred tax assets to be recovered within 1 year	8,122	17,763
	8,122	19,085

24. DEFERRED INCOME TAX (continued)

	2006 HK$'000	2005 HK$'000
Deferred tax liabilities:		
– Deferred tax liabilities to be settled after 1 year	**(268,243)**	(4,384)
– Deferred tax liabilities to be settled within 1 year	**(14,926)**	–
	(283,169)	(4,384)

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

	2006 HK$'000	2005 HK$'000
Balance, beginning of year	**14,701**	14,573
Recognised in the income statements (Note 35)	**(214,594)**	(197)
Acquisition of subsidiaries (Note 42)	**(74,596)**	–
Dissolution of a subsidiary	**2,813**	–
Exchange differences	**(3,371)**	325
Balance, end of year	**(275,047)**	14,701

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same jurisdiction, is as follows:

Deferred tax assets:

	Tax losses carried forward HK$'000	**Fair value losses** HK$'000	**Tax losses carried forward arising from business combination** HK$'000	**Total** HK$'000
At 1 January 2005	18,113	1,293	–	19,406
Recognised in the income statement	(749)	–	–	(749)
Exchange differences	399	29	–	428
At 31 December 2005	17,763	1,322	–	19,085
Recognised in the income statement	(7,210)	(1,345)	–	(8,555)
Acquisition of subsidiaries (Note 42)	–	–	4,476	4,476
Exchange differences	502	23	–	525
At 31 December 2006	11,055	–	4,476	15,531

24. DEFERRED INCOME TAX (continued)

Deferred tax liabilities:

	Fair value gains HK$'000	Others HK$'000	Fair value gains arising from business combination HK$'000	Total HK$'000
At 1 January 2005	3,670	1,163	–	4,833
Recognised in the income statement	(728)	177	–	(551)
Exchange differences	81	21	–	102
At 31 December 2005	3,023	1,361	–	4,384
Recognised in the income statement	191,248	14,791	–	206,039
Acquisition of subsidiaries (Note 42)	–	–	79,072	79,072
Dissolution of a subsidiary	(2,813)	–	–	(2,813)
Exchange differences	3,586	310	–	3,896
At 31 December 2006	195,044	16,462	79,072	290,578

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

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

There was no material unprovided deferred tax as at 31 December 2006.

25. DERIVATIVE FINANCIAL LIABILITIES

GROUP AND COMPANY

	2006 HK$'000	2005 HK$'000
Written put option liability embedded in convertible bonds (Note 23)	**10,786**	28,186
Fixed to fixed cross currency swaps (a)	**232,852**	–
	243,638	28,186

(a) **Fixed to fixed cross currency swaps**

	2006 HK$'000	2005 HK$'000
Beginning of year	**–**	–
Initial recognition	**–**	–
Periodical settlement of the swaps	**21,491**	–
Fair value loss (Note 31)	**211,361**	–
End of year	**232,852**	–

As at 31 December 2006, the fair value of swap contracts was revalued by the bankers using cash flow discount model.

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

GROUP

	2006 HK$'000	2005 HK$'000
Advances received from pre-sale of properties under development	**963,755**	1,996,548

The Group conducts the pre-sale of properties when they are still under development. As contracted with customers, advances amounting to a substantial portion of sales consideration are paid to the Group shortly from the signing of the pre-sales contract. Such amounts held by the Group are non-interest bearing. Business tax, generally calculated at a rate of 5% on advances received, are imposed by the tax authorities and had been recorded in "prepayments and other current assets" (Note 15).

27. ACCOUNTS PAYABLE

GROUP

	2006 HK$'000	2005 HK$'000
Accounts payable	**860,701**	361,027

Accounts payable represents payables arising from property constructions.

An aging analysis of accounts payable is set out below:

	2006 HK$'000	2005 HK$'000
Within 1 year	**854,779**	357,238
1-2 years	**5,175**	3,789
Over 2 years	**747**	–
	860,701	361,027

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

The carrying amounts of accounts payable approximated their fair value.

28. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Land premium payable	**719,135**	–	**–**	–
Advance from related parties of a minority shareholder	**111,092**	–	**–**	–
Deposits received	**36,575**	16,358	**–**	–
Business tax and surtaxes payable (Note 29(a))	**15,880**	4,293	**–**	–
Dividends payable to minority shareholders of subsidiaries	**13,186**	6,426	**–**	–
Sales commission payable	**1,204**	9,921	**–**	–
Others	**35,998**	23,704	**3,403**	6,759
	993,070	60,702	**3,403**	6,759

The carrying amounts of other payables and accruals approximated their fair value.

29. REVENUE

Revenue recognised during the year are as follows:

	2006	2005
	HK$'000	HK$'000
Sales of properties held or under development	**2,723,347**	1,345,903
Revenue from construction of infrastructure for intelligent network	**12,107**	8,684
Sales of network hardware and installation of intelligent home equipment	**18,674**	23,565
Revenue from property leasing (Note 7)	**14,886**	1,321
Others	**6,081**	–
	2,775,095	1,379,473
Less: sales taxes (a)	**(153,635)**	(70,200)
	2,621,460	1,309,273

(a) Sales taxes

Sales taxes represent business tax ("BT") and surtaxes.

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

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

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

30. OTHER INCOME-NET

	2006 HK$'000	2005 HK$'000
Government grant	**–**	7,057
Interest income on term-loan (Note 16 (c))	**1,958**	6,244
Interest income on loans to associated companies (Note 43(b))	**8,860**	16,817
	10,818	30,118

31. OTHER GAINS/(EXPENSES)-NET

	2006 HK$'000	2005 HK$'000
Fair value gain/(loss) on investment properties (Note 7)	**579,540**	(2,206)
Derivative financial instruments at fair value through profit or loss:		
– fair value (loss)/gain (realised and unrealised) (Note 23, 25)	**(193,961)**	4,697
(Loss)/gain on disposal of property, plant and equipment, net	**(379)**	6,490
Gain from disposal of interests in associated companies (Note 12(a) and (c))	**191,442**	–
Loss on dissolution of a subsidiary (Note 11(a))	**(5,538)**	–
Loss on transaction with minority interest (Note 16(b))	**(118,224)**	–
Gain from business combination (Note 42(a))	**17,266**	–
Others	**(2,898)**	1,310
	467,248	10,291

32. EXPENSES BY NATURE

	2006 HK$'000	2005 HK$'000
Depreciation of property, plant and equipment (Note 6)	**5,574**	5,700
Employee benefit expense – excluding directors' emoluments (Note 33)	**49,208**	30,648
Cost of inventories		
– Cost of properties held or under development for sale	**1,442,016**	821,270
– Cost of lease of investment properties	**377**	260
– Cost of construction of infrastructure of intelligent network	**12,156**	7,520
– Cost of inventory	**16,310**	20,015
– Others	**3,518**	–
Operating lease expenses for offices	**6,944**	6,896
Commission for sale of properties	**85,295**	1,261
Advertising costs	**18,603**	15,500
Auditors' remuneration	**2,966**	2,200
Provisions for maintenance fund	**7,926**	5,014
Provision for doubtful accounts	**1,977**	–
Impairment of goodwill (Note 12)	**2,468**	2,729
Net foreign exchange losses	**16,752**	411
Other expenses	**40,776**	28,273
Total cost of sales, selling and marketing costs and administrative expenses	**1,712,866**	947,697

33. EMPLOYEE BENEFIT EXPENSE

	2006 HK$'000	2005 HK$'000
Salaries and wages	**38,887**	27,038
Pension and other social welfare	**10,321**	3,362
Share options granted to key management (Note 43(b))	**–**	248
	49,208	30,648
Average number of employee	**1,154**	813

(a) Directors' and senior management's emoluments

The remuneration of every director for the year ended 31 December 2006 and 2005 is set out below:

Name of Director	2006 Salary HK$'000	Fees HK$'000	Other Benefits HK$'000	Total HK$'000
Executive directors				
– Mr. Shi Jian	1,700	–	–	1,700
– Mr. Li Yao Min	1,600	–	–	1,600
– Mr. Yu Hai Sheng	1,500	–	–	1,500
– Mr. Qian Reng Hui	1,500	–	–	1,500
– Mr. Jiang Xu Dong	240	–	–	240
Non-executive directors				
– Mr. Cheung Wing Yui	–	300	–	300
– Mr. Wang Ru Li	–	–	–	–
Independent non-executive directors				
– Mr. Sang Rong Lin	–	–	–	–
– Mr. Yeung Kwok Wing	–	150	–	150
– The Lord Killearn	–	200	–	200
– Mr. Geng Yu Xiu	–	120	–	120
– Mr. E Hock Yap	–	200	–	200

33. EMPLOYEE BENEFIT EXPENSE (continued)

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

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

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

No discretionary bonuses, inducement fees, employer's contribution to pension scheme or compensation for loss of office as directors were given to any of the directors during the year ended 31 December 2006 and 2005.

During the year of 2006, Mr. Wang Ru Li, non-executive director and Mr. Sang Rong Lin, independent non-executive directors, waived to receive emoluments (2005: Mr. Wang Ru Li waived to receive emolument).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2005:four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2005:one) individual during the year are as follows:

	2006 HK$'000	2005 HK$'000
Basic salaries, housing allowances, share options, other allowances and benefits in kind	**1,755**	1,548
Pension scheme	**12**	60
	1,767	1,608

33. EMPLOYEE BENEFIT EXPENSE (continued)

(b) Five highest paid individuals (continued)

The emoluments fell within the following bands:

	Number of individuals	
	2006	2005
Emoluments bands		
Nil – HK$1,000,000	–	–
HK$1,000,001 – HK$1,500,000	–	–
HK$1,500,001 – HK$2,000,000	1	1

34. FINANCE COSTS

	2006 HK$'000	2005 HK$'000
Interest expense:		
Interest on bank borrowings and other borrowings-wholly repayable within five years	111,015	52,702
Interest on the Guaranteed Notes-wholly repayable beyond five years (Note 22)	95,802	–
Interest on CB 1-wholly repayable within five years (Note 23)	4,200	15,519
Interest on CB 2-wholly repayable within five years (Note 23)	23,789	2,335
Arrangement fee for borrowings	1,025	1,467
Finance income – net foreign exchange gains on financing activities	(67,321)	(3,407)
Finance costs	168,510	68,616
Finance income – interest income on short-term bank deposit	(48,353)	(7,129)
Net finance costs	120,157	61,487
Less: Amount capitalised in properties under development, property under development for long term investment and construction-in-progress	(109,158)	(39,456)
Net finance costs charged into the income statements	10,999	22,031

During the year ended 31 December 2006, the weighted average interest capitalisation rate was 5.92% (2005: 5.27%).

35. INCOME TAXATION

	2006 HK$'000	2005 HK$'000
Current taxation		
– Mainland China enterprise income taxation	**227,691**	130,787
– Mainland China land appreciation taxation	**288,680**	36,388
	516,371	167,175
Transfer from/to deferred taxation (Note 24)		
– Mainland China enterprise income taxation	**214,594**	197
– Mainland China land appreciation taxation	**–**	–
	214,594	197
Taxation charge	**730,965**	167,372

(a) Mainland China enterprise income tax

The Group conducts a significant portion of its business in the PRC and the applicable enterprise income tax ("EIT") rate of its subsidiaries operating in the PRC is generally 33% other than Wingo Infrastructure, a Sino-foreign equity joint venture, which is established within the technological economic development zone of an old urban district of a city, where applicable EIT rate for year 2006 is 27%.

For the pre-sale of properties under development, the tax authorities may impose income tax ahead of the completion of transaction and revenue recognition, based on certain estimations. Prepaid income tax amounted to approximately HK$23 million as of 31 December 2006 (2005: approximately HK$47 million).

(b) Other income tax

The Company is exempted from taxation in Bermuda until 2016.

(c) Mainland China land appreciation tax ("LAT")

LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from sales of properties less deductible expenditures including land costs, borrowing costs, business taxes and all property development expenditures. The tax is incurred upon transfer of property ownership.

For the pre-sale of properties under development, the tax authorities may impose LAT ahead of the completion of transaction and revenue recognition, generally based on 1% to 2% on advances received. Prepaid LAT had been recorded in "prepaid income tax" with amount of approximately HK$4 million as of 31 December 2006 (2005: approximately HK$8 million).

35. INCOME TAXATION (continued)

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

	2006 HK$'000	2005 HK$'000
Profit before taxation	**1,301,383**	541,469
Adjust: Losses/(profits) of associated companies	**74,278**	(161,515)
	1,375,661	379,954
Calculated at a taxation rate of 33% (2005: 33%)	**453,968**	125,385
Profit not subject to profit tax	**(83,557)**	–
Effect of losses and expenses not deductible	**167,672**	10,059
Land appreciation tax deductible for calculation of income tax purpose	**(95,264)**	(12,008)
Tax losses for which no deferred tax assets recognised	**–**	9,087
Effect of different taxation rate of a subsidiary	**(534)**	(1,539)
Mainland China enterprise income tax	**442,285**	130,984
Mainland China land appreciation taxation	**288,680**	36,388
Taxation charge	**730,965**	167,372

36. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company for the year ended 31 December 2006 is dealt with in the accounts of the Company to the extent of approximately HK$52.8 million (2005: approximately HK$76.1 million).

37. EARNINGS PER SHARE

Basic

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

	2006 HK$'000	2005 HK$'000
Profit attributable to equity holder of the Company	**252,371**	301,173
Weighted average number of ordinary shares in issue (thousands)	**1,851,898**	1,487,900
Basic earnings per share (HK$ per share)	**13.63 cents**	20.24 cents

37. EARNINGS PER SHARE (continued)

Diluted

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

	2006 HK$'000	2005 HK$'000
Net profit attributable to equity holders of the Company	252,371	301,173
Written put option at fair value through profit or loss, net of tax (Note 23)	(17,400)	(4,697)
Interest expense on convertible bonds, net of tax	19,554	16,801
Profit used to determine diluted earnings per share	254,525	313,277
Weighted average number of ordinary shares in issue (thousands)	1,851,898	1,487,900
Adjustments for:		
– assumed conversion of convertible bonds (thousands)	221,453	279,346
– share options (thousands)	198	4,437
Weighted average number of ordinary shares for diluted earnings per share (thousands)	2,073,549	1,771,683
Diluted earnings per share (HK$ per share)	12.27 cents	17.68 cents

38. DIVIDENDS

The dividends paid during the year ended 2006 and 2005 were approximately HK$42,921,000 (HK$0.043 per share) and approximately HK$16,287,000 (HK$0.033 per share) respectively. A dividend in respect of 2006 of HK$0.020 per share was declared to shareholders whose names appear on the Register of Members of the Company on 27 April 2007, as proposed at the meeting of Board of Directors on 30 March 2007. According to total issued ordinary shares on 30 March 2007 of 2,154,689,921 shares, the dividends declared are approximate HK$44,000,000. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2007.

	2006 HK$'000	2005 HK$'000
Proposed final dividend of HK$0.020 (2005: HK$0.043) per ordinary share	44,000	69,000

Pursuant to a resolution passed at the general meeting on 11 May 2006, the Company offered to its shareholders scrip dividends as an alternative to cash dividends; under which the shareholders could elect to receive ordinary shares of par value of HK$0.1 each in lieu of a cash dividend of HK$0.043 per share. As of 5 June 2006 (date shareholders are required to elect alternatives), shareholders holding a total of 981,912,571 shares elected for cash dividend and cash dividends of approximately HK$42,921,000 were paid, while shareholders holding a total of 864,757,827 shares elected for scrip dividend resulting in 22,925,145 shares being allotted at the price of HK$1.622 (Note 19 (b)).

39. CONSOLIDATED CASH FLOW STATEMENT

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

	2006 HK$'000	2005 HK$'000
Profit for the year	570,418	374,097
Adjustments for:		
Tax	730,965	167,372
Depreciation and impairment of property, plant and equipment (Note 6)	5,574	5,700
Goodwill impairment expenses (Note 12)	2,468	2,729
Provision for doubtful debts (Note 17)	1,977	–
Gain arising from business combination (Note 31)	(17,266)	–
Gains on disposal of property, plant and equipment	379	(6,490)
Loss from transaction with minority interest (Note 31)	118,224	–
Fair value loss on swap contracts (Note 25)	211,361	–
Fair value gain on derivative financial liabilities (Note 23)	(17,400)	(4,697)
Loss on dissolution of a subsidiary (Note 31)	5,538	–
Gain on disposal of interests in associated companies (Note 31)	(191,442)	–
Share of results of associated companies	74,278	(161,515)
Fair value (gain)/loss on investment properties (Note 31)	(579,540)	2,206
Interest income (Note 30)	(10,818)	(23,061)
Net finance costs charged into profit and loss (Note 34)	10,999	22,031
Operating profit before working capital changes	915,715	378,372
Decrease/(Increase) in restricted bank deposits (Note 18)	3,608	(6,261)
Decrease in leasehold land	51,375	10,161
Increase in properties held or under development for sale	(587,848)	(203,197)
Decrease/(Increase) in contracts in work-in-progress	583	(9,446)
Increase in inventories	(201)	(67)
(Increase)/decrease in amount due from related companies	(2,118)	39,871
Decrease/(increase) in prepayments and other current assets	53,760	(72,333)
Decrease/(increase) in other receivables	4,250	(13,663)
Increase in accounts receivable	(11,577)	(3,143)
Increase in accounts payable	279,842	46,621
Decrease in other payables and accruals	(590,655)	(29,959)
Increase in amount due to related companies	94	390
(Decrease)/increase in advance received from pre-sale of properties under development	(1,087,111)	284,160
Net cash (outflow)/inflow generated from operations	(970,283)	421,506

40. CONTINGENCIES

In connection with the sale of the Group's properties, Oasis Garden, Hangtou Govern and Huarui Shiji provided guarantees to banks prior to the buyers providing title documents to their banks for mortgage purpose. As at 31 December 2006, such outstanding guarantees amounted to approximately HK$58 million (2005: approximately HK$33 million). Part of the Group's bank deposits amounting to approximately HK$3,655,000 (2005: approximately HK$990,000) were restricted in connection with such guarantees.

As of 31 December 2006, the Group provided guarantee for Golden Luodian's bank borrowings proportionally according to its equity interest in Golden Luodian with amount of approximately HK$35 million (Note 43(b)).

41. COMMITMENTS

(a) Capital commitment

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

	2006 HK$'000	2005 HK$'000
Properties under development for long-term investment		
– Contracted but not provided for	62,627	110,693
– Authorised but not contracted for	448,505	26,641
	511,132	137,334
Properties held or under development for sale		
– Contracted but not provided for	293,743	526,788
– Authorised but not contracted for	954,488	393,868
	1,248,231	920,656
	1,759,363	1,057,990

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

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

	2006 HK$'000	2005 HK$'000
Within 1 year	6,424	3,794
Later than 1 year and not later than 5 years	9,538	6,747
	15,962	10,541

42. BUSINESS COMBINATIONS

(a) On 1 August 2006, the Group completed its acquisition of 51% equity interest in Huarui Shiji, a property development company operating in Shenyang City, the PRC. From acquisition date to 31 December 2006, Huarui Shiji was in property development stage without revenue.

Details of net assets acquired and gain arising from the acquisition of Huarui Shiji were as follows:

	HK$'000
Purchase consideration:	
– Cash paid	203,045
Fair value of net assets of acquiree	
– shown as below	(220,311)
Gain from business combination (Note 31)	(17,266)

The assets and liabilities on acquisition date of Huarui Shiji were as follows:

	Fair value HK$'000	Acquiree's carrying amount HK$'000
Property, plant and equipment	621	621
Property under development for sale	161,084	161,084
Property under development for long-term investment	174,508	174,508
Leasehold land	914,551	743,214
Deferred tax assets	–	2,404
Other receivables	3,836	3,836
Cash and cash equivalents	3,261	3,261
Trade and other payables	700,013	700,013
Advances received from the pre-sale of properties under development	53,812	53,812
Borrowings	17,916	17,916
Deferred tax liabilities	54,137	–
Net assets	431,983	317,187
Minority interests (49%)	(211,672)	
Net assets acquired	220,311	
Purchase consideration settled in cash	203,045	
Cash and cash equivalents in subsidiary acquired	(3,261)	
Cash outflow on acquisition	199,784	

42. BUSINESS COMBINATIONS (continued)

(b) In December 2006, the Group completed its acquisition of 100% equity interest in Qinhai, a property development company located in Shanghai City, the PRC. Till 31 December 2006, Qinhai was engaged in land demolition and relocation without revenue.

Details of net assets acquired and goodwill arising from the acquisition of Qinhai were as follows:

	HK$'000
Purchase consideration:	
– Cash paid	233,901
Fair value of net assets of acquiree	
– shown as below	(158,389)
Goodwill (Note 10)	75,512

The assets and liabilities on acquisition date of Qinhai were as follows:

	Fair value HK$'000	Acquiree's carrying amount HK$'000
Property, plant and equipment	1,428	1,428
Property under development for sale	61,131	61,131
Leasehold land	802,359	734,084
Deferred tax assets	–	2,072
Other receivables	29,783	29,783
Cash and cash equivalents	1,444	1,444
Trade and other payables	717,297	717,297
Deferred tax liabilities	20,459	–
Net assets acquired	158,389	112,645
Purchase consideration settled in cash	233,901	
Cash and cash equivalents in subsidiary acquired	(1,444)	
Cash outflow on acquisition	232,457	

43. RELATED PARTY TRANSACTIONS

The Group is controlled by Good Time Resources Limited, which owns 31.30% of the Company's shares as at 31 December 2006. The remaining 68.70% of the shares are widely held.

(a) Name of related party and nature of relationship:

Name	Relationship with the Company
Mr. Shi Jian	The major beneficial shareholder and chairman of the Company
CNTD	Associated company
Golden Luodian	Associated company
Shuo Cheng	Associated company
Broadband	Associated company
Shanghai Internet	Associated company
Shangzhi Property Management	Associated company in 2005 and becomes a subsidiary of the Group in 2006 (Note 11)

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

i) Sales and purchases

	2006 HK$'000	2005 HK$'000
Purchase of land plot form Golden Luodian	437,941	–
Construction of infrastructure for intelligent network for Golden Luodian	11,544	17,592
Sales of goods to Broadband	6,750	14,276
Sales to Shuo Cheng	3,912	–

During the year ended 31 December 2006, the Group purchased a piece of land from Golden Luodian through public bidding procedure of which the government is in charge, at a total consideration amounting to approximately HK$438 million, for the purpose of property development. As at 31 December 2006, the Group has paid approximately HK$197 million pursuant to the bidding contract.

ii) Loan guarantee

	2006 HK$'000	2005 HK$'000
Guarantee provided for loans borrowed by Golden Luodian	35,424	43,450
The Group's bank borrowings guaranteed by Mr. Shi Jian (Note 21)	289,790	382,200

During the year ended 31 December 2006 and as of 31 December 2006, the Group and other investors of Golden Luodian provided guarantee for Golden Luodian's bank borrowings with an aggregate amount of approximately HK$99 million (2005: HK$96 million), proportionally according to their equity interests in Golden Luodian.

43. RELATED PARTY TRANSACTIONS (continued)

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

iii) Key management compensation

	2006 HK$'000	2005 HK$'000
Salaries and other short-term employee benefits	8,307	9,428
Share-based payments	–	248
	8,307	9,676

iv) Loans to related parties

	2006 HK$'000	2005 HK$'000
Loans to Golden Luodian (*)		
Beginning of the year	–	56,413
Loans advanced during year	69,673	96,126
Loans repayments	(69,673)	(152,539)
Interest income recognised	523	1,901
Interest received	–	(1,901)
End of the year	523	–
Loans and advances to Shuo Cheng (**)		
Beginning of the year	274,624	188,023
Loans advanced during year	218,971	67,288
Loans repayments	(278,690)	–
Interest income recognised	16,124	14,916
Exchange difference	9,731	4,397
End of the year	240,760	274,624
Total loans to related parties		
Beginning of the year	274,624	244,436
Loans advanced during year	288,644	163,414
Loans repayments	(348,363)	(152,539)
Interest income recognised (Note 30)	16,647	16,817
Interest received	–	(1,901)
Exchange difference	9,731	4,397
End of the year	241,283	274,624

(*) During the year ended 31 December 2006, the Group provided unsecured loans of approximately HK$70 million to Golden Luodian at interest of 6% per annum (2005: approximately HK$96 million, unsecured and with interest of 6% per annum). Loans to Golden Luodian were fully recovered before year-end of 2006.

43. RELATED PARTY TRANSACTIONS (continued)

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

iv) Loans to related parties (continued)

(**) On 4 July 2005, the Group entered into a shareholder's loan agreement with Shuo Cheng, pursuant to which the Group advanced shareholder's loan to Shuo Cheng of approximately HK$188 million. This shareholder's loan was for a period of three years and interest would be charged at 6% per annum. On 14 December 2005, the Group entered into another shareholder's loan agreement with Shuo Cheng, pursuant to which the Group advanced additional shareholder's loan to Shuo Cheng with a principal of approximately HK$67 million. This shareholder's loan was for a period of three years and is interest-free.

During the year ended 31 December 2006, the Group provided additional short-term financing to Shuo Cheng with maximum amount of approximately HK$219 million. These short-term financing were free of charge and were fully recovered before year-end of 2006.

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

	2006	2005
	HK$'000	HK$'000
Due from associated companies		
– Shuo Cheng (Note 43(b))	**240,760**	274,624
– Golden Luodian	**13,378**	13,605
– Broadband	**12,056**	5,541
– Shangzhi Property Management	**–**	4,451
	266,194	298,221
Less: non-current receivables	**–**	(274,624)
Current receivables	**266,194**	23,597
Due to associated companies		
– Shanghai Internet	**–**	1,002
– Golden Luodian	**–**	368
– CNTD	**1,464**	–
	1,464	1,370

As at 31 December 2006, balances with related parties are unsecured and mainly arose from the above related party transactions. Other than the amount due from Shuo Cheng, details of which are described in Note 43(b), the remaining balances are interest free and are without fixed settlement period. The carrying amount of balances with related parties approximated their fair value.

44. EVENTS AFTER THE BALANCE SHEET DATE

(a) Business combination

On 8 January 2007, the Group completed its acquisition of additional 55% equity interests in Shuo Cheng by an approval of the Company's general meeting, thereafter Shuo Cheng becomes a subsidiary of the Group (Note 12(b)).

Details of the acquisition were stated in the Company's circular dated on 22 December 2006.

(b) Transactions with related party

In March 2007, the Group purchased another land plot from Golden Luodian at total consideration of approximately HK$350 million.

(c) Restructure of Golden Luodian/CNTD

On 8 February 2007, the Company and other controlling shareholders of CNTD entered into a subscription agreement with several investors, pursuant to which the investors agreed to subscribe for convertible bonds due in February 2010 of an aggregate principal amount of RMB1,239.6 million settled in US$ (the "Bonds"). The Bonds are at the interest rate at 5% per annum, payable semi-annually. The Bonds are convertible on and from the listing date of CNTD shares in a Recognised Exchange until the redemption date or the maturity date at conversion price determined according to a predetermined formula. The details of the Bonds were stated in the announcement made by the Company on 9 February 2007.

The subscription was successfully closed on 13 February 2007.

(d) Change of mainland China enterprise income tax law

On 16 March 2007, the Enterprise Income Tax Law (the "new EIT law") was passed at the Fifth Session of the Tenth National People's Congress of the People's Republic of China. The new EIT law will be effective as of 1 January 2008, and the "Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises" and "Provisional Regulations of the People's Republic of China on Enterprise Income Tax" both of which the Group was originally subjected to will be abrogated simultaneously. The Group has already commenced an assessment of the impact of the new EIT law but is not yet in a position to state the accurate impact on the Group's results of operations and financial position in the future.

45. DATE OF APPROVAL

The accounts were approved by the board of directors on 30 March 2007.