1. CORPORATE INFORMATION

The Company is a public listed company incorporated in Bermuda with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information on page 2 of the annual report.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in the following activities:

– property investment;

– provision of property management and agency services; and

– provision of design, decoration services and electrical and mechanical works.

There were no significant changes in the nature of the Group's principal activities during the year.

In the opinion of the directors, as at 31 December 2006, the Company's immediate holding company is Prime Century Investments Limited ("PCI") and the Company's ultimate holding company is Junefield (Holdings) Limited ("JHL"), a company incorporated in Hong Kong. Particulars of the Company's subsidiaries are set out in Note 17 to the financial statements.

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

In the current year, the Group has applied, for the first time, a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs has had no material effect on how the results for the current or prior accounting years are prepared and presented.

(Expressed in Hong Kong dollars)

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

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

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

Notes:

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

The Group is in the process of making an assessment of the impact of these new standards, amendment and interpretations upon initial application. So far, it has concluded that while the adoption of the HKAS 1 (Amendment), HKFRS 7 and HKFRS 8 may result in new or amended disclosures, these new standards, amendment and interpretations are unlikely to have a significant impact on the Group's results of operations and financial position.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values, as explained in the accounting policies set out below. These financial statements are presented in Hong Kong dollars (HK$) and all values are rounded to the nearest thousand except when otherwise indicated.

The preparation of financial statements in conformity with HKFRSs 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 financial statements, as disclosed in Note 5 to the financial statements.

Going concern

The Group had net current liabilities of approximately HK$41,765,000 and deficiencies in equity of approximately HK$41,918,000 at the balance sheet date. Notwithstanding the above, the Directors have prepared the financial statements on the going concern basis on the assumption that the Group will continue to operate as a going concern for the foreseeable future.

During the year ended 31 December 2006 and subsequently, the directors have taken active measures to improve the liquidity and financial position of the Group as follows:

(a) The Directors of the Company are in active negotiations with the Group's lender of a short-term other loan to seek their ongoing support to the Group. Subsequent to the balance sheet date, the Company has obtained a letter from the lender on 30 January 2007 in respect of the short-term other loan of HK$30 million to extend the repayment date to 23 August 2007. The Company will enter into supplemental loan agreement with the lender subject to terms and conditions mutually acceptable to both parties;

(b) JHL has confirmed to provide necessary funds to the Group so as to enable the Group to discharge its obligations as and when they fall due, including the short-term other loan of HK$30 million as mentioned in point (a) above;

(c) The Directors have taken action to tighten cost controls over various operating and general and administrative expenses; and

(d) The Group's capital commitment was kept at a minimal level.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Going concern (continued)

In the opinion of the Directors, in light of the various measures/arrangements implemented to date and the ongoing support from the Group's ultimate holding company, related companies and creditors, the Group will have sufficient working capital for its present requirements and to continue its operations as a going concern. Accordingly, the Directors are satisfied that it is appropriate to prepare the financial statements on the going concern basis notwithstanding the Group's financial position and tight liquidity as at 31 December 2006. However, if these measures were not to be successful or insufficient, or if the going concern basis were not be appropriate, adjustments would have to be made to the financial statements to reduce the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

Basis of consolidation

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

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

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

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

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

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly-controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly-controlled entities.

The results and assets and liabilities of jointly-controlled entities are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly-controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the jointly-controlled entities, less any identified impairment losses.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the jointly-controlled entity recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated 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 charged in the income statement during the financial period in which they are incurred.

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

Buildings	20 years
Leasehold improvements	The shorter of the lease terms and 6 years
Office equipment	5 years
Motor vehicles	3 to 6 years

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

Prepaid land lease payments

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investment properties

Property that is held for long-term 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 buildings held under finance leases.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties (continued)

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

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as expense immediately.

Impairment of assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets (continued)

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation and 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 impairment are reviewed for possible reversal of the impairment at each reporting date.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. Cost comprises direct materials and direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Properties held for sale

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

Financial instruments

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

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Loans and receivables

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss or loans and receivables. As each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial assets is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in profit or loss in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Financial liabilities and equity

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity (continued)

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

Financial liabilities

Financial liabilities (including accounts payable, accruals and other payables, bank and other borrowings) are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Derecognition

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

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

Leasing

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

The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing (continued)

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs.

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

Income tax

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

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.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Foreign currency translation

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

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

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

Equity settled share-based payment transactions

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

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The effect of the change in estimate, if any, is recognised in profit or loss with a corresponding adjustment to share-based compensation reserve.

At the time when the share options are exercised, the amount previously recognised in share based compensation reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share based compensation reserve will be transferred to retained profits.

For share options granted to suppliers in exchange for goods or services, they are measured at the fair value of the goods or services received. The fair values of the goods or services are recognised as expenses immediately, unless the goods or services qualify for recognised as assets. Corresponding adjustments have been made to equity.

Retirement benefit costs

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(i) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" above;

(ii) rental income, on a time proportion basis over the lease terms;

(iii) from the rendering of property management and agency services, when such services are rendered;

(iv) interest income, on a time proportion basis using the effective interest method; and

(v) dividend income, when the shareholders' right to receive payment has been established.

Cash and cash equivalents

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.

Related party transactions

A party is related to the Group if:

a. directly, or indirectly through one or more intermediaries, the party:

   (i) controls, is controlled by, or is under common control with, the Group;

   (ii) has an interest in the Group that gives it significant influence over the Group; or

   (iii) has joint control over the Group;

b. the party is an associate;

c. the party is a joint venture in which the Group is a venturer;

d. the party is a member of the key management personnel of the Group or its parent;

e. the party is a close member of the family of any individual referred to in (a) or (d);

f. the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

g. the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

A transaction is considered to be a related party transaction when there is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

4. FINANCIAL RISK MANAGEMENT

The Group's major financial instruments include borrowings, accounts receivable and other receivables, accounts payable and other payables, and cash and bank balances. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Certain accounts receivable and accounts payable of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure closely and will consider hedging significant foreign currency exposure should the need arise.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual accounts receivable to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management considers that the Group's credit risk is significantly reduced. The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Cash flow and fair value interest-rate risk

As 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 exposure to cash flow and fair value interest-rate risk is mainly attributable to its borrowings issued at both fixed and variable rates. The Group has not hedged its exposure to cash flow and fair value interest-rate risk. However, the management considers the risk is insignificant to the Group.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group relies on borrowings as a significant source of liquidity. The management monitors the utilisation of borrowings and ensures compliance with loan covenants.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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 amount of assets and liabilities within the next financial year are discussed below.

(a) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and consequently related depreciation charges. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the deprecation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Estimated impairment of receivables

The Group records impairment of receivables based on an assessment of the recoverability of accounts receivable and other receivables. Provisions are applied to accounts receivable and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of accounts receivable and other receivables and impairment charges in the period in which such estimate has been changed.

(c) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations.

6. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. In determining the Group's geographical segments, revenue is attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. No further geographical segment information is presented as over 90% of the Group's revenue is derived from customer based in the PRC, and over 90% of the Group's assets are located in the PRC.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the property investment segment engages in property leasing;

(b) the property management and agency services segment provides property management and agency services; and

(c) the construction segment engages in construction contract works as a main contractor or sub-contractor, primarily in respect of design, decoration, electrical and mechanical works.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

6. SEGMENT INFORMATION (continued)

Business segments

The following tables present revenue, profit and certain assets, liabilities and expenditure information for the Group's business segments for the year ended 31 December 2006 and 2005.

Group	Property investment		Property management and agency services		Construction		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment revenue:										
Sales to/revenue from external customers	309	520	6,724	1,216	20,545	34,469	–	–	27,578	36,205
Intersegment sales	–	–	–	–	–	–	–	–	–	–
Total	309	520	6,724	1,216	20,545	34,469	–	–	27,578	36,205
Segment results	(362)	(925)	(607)	(490)	3,660	(17,337)	–	–	2,691	(18,752)
Bank interest income									26	6
Other unallocated income									1,743	39
Corporate and other unallocated expenses									(15,229)	(13,083)
Operating loss									(10,769)	(31,790)
Finance costs									(8,225)	(11,959)
Share of profit of a jointly-controlled entity									26,731	44,626
Profit before income tax									7,737	877
Income tax credit/(expense)									8	(119)
Profit for the year									7,745	758

6. SEGMENT INFORMATION (continued)

Business segments (continued)

Group	Property investment		Property management and agency services		Construction		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets and liabilities:										
Segment assets	19,217	32,759	8,174	6,149	5,776	6,574	–	–	33,167	45,482
Corporate and other unallocated assets									639	384
Investment in a jointly-controlled entity									66,766	84,366
Total assets									100,572	130,232
Segment liabilities	2,040	2,646	10,330	5,726	17,749	21,526	–	–	30,119	29,898
Corporate and other unallocated liabilities									112,371	149,465
Total liabilities									142,490	179,363
Other segment information:										
Depreciation and amortisation	–	–	207	20	53	367	–	–	260	387
Corporate and other unallocated amounts									20	19
									280	406
Impairment losses recognised in the income statement	–	–	1,022	1,788	8,876	11,927	–	–	9,898	13,715
Corporate and other unallocated amounts									–	21
									9,898	13,736
Impairment losses reversed in the income statement	–	–	–	–	(1,236)	–	–	–	(1,236)	–
Changes in fair value of investment properties	548	(159)	–	–	–	–	–	–	548	(159)
Capital expenditure	–	–	2,515	5	–	18	–	–	2,515	23
Corporate and other unallocated amounts									4	62
									2,519	85

7. TURNOVER AND OTHER INCOME

The Group's turnover represents an appropriate proportion of contract revenue of construction contracts, property management fee and gross rental income received and receivable during the year.

An analysis of the Group's turnover and other income is as follows:

	Group	
	2006 HK$'000	2005 HK$'000
Turnover:		
Construction contract revenue	20,545	34,469
Gross rental income	309	520
Property management and agency fees	6,724	1,216
	27,578	36,205
Other income:		
Bank interest income	26	6
Reversal of impairment of accounts receivable	323	–
Reversal of impairment of amount due from a subsidiary's minority shareholder	913	–
Others	507	39
	1,769	45
Total revenue	29,347	36,250

8. OPERATING LOSS

The Group's operating loss is arrived at after charging/(crediting):

	Group 2006 HK$'000	Group 2005 HK$'000
Employee benefits expense		
(excluding directors' remuneration *(Note 10)*		
Salaries and wages	6,259	4,422
Pension scheme contributions *(Note (i))*	476	252
	6,735	4,674
Depreciation of property, plant and equipment *(Note 15)*	254	406
Amortisation of prepaid land lease payments *(Note 14)*	26	–
Minimum lease payments under operating leases in respect of land and buildings	26	18
Auditors' remuneration		
– current	580	500
– under-provision	100	–
Changes in fair value of investment properties *(Note 16)*	548	(159)
Foreign exchange differences, net	2,236	2,598
Gain on disposal of investment properties *(Note 38(e))*	–	(585)
Loss on disposal of property, plant and equipment	13	–
Net gain on resumption of control over a subsidiary *(Note 34(b))*	–	(1,117)
Impairment of accounts receivable *(Note (ii))*	8,876	4,145
Impairment of amounts due from contract customers *(Note (ii))*	–	4,411
Impairment of amount due from a joint venturer *(Note (ii))*	956	–
Impairment of amount due from a subsidiary's minority shareholder *(Note (ii))*	–	3,702
Impairment of other receivables *(Note (ii))*	66	1,478
Gross rental income from investment properties	(129)	(520)
Less: Direct operating expenses arising on rental-earning properties	7	60
	(122)	(460)

Notes:

(i) As at 31 December 2006, the Group has no forfeited contributions available to reduce its contributions to the pension scheme in future years (2005: Nil).

(ii) The impairment charges are included in "Other operating expenses" on the face of the consolidated income statement.

9. FINANCE COSTS

	Group 2006 HK$'000	2005 HK$'000
Interest expenses on:		
Other loans wholly repayable within five years	8,225	7,221
Loan from a jointly-controlled entity	–	4,738
	8,225	11,959

10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

(a) Directors' remuneration

For the year ended 31 December 2006	Fees HK$'000	Salaries and other benefits HK$'000	Pension scheme contributions HK$'000	Total HK$'000
Executive directors				
Mr. Zhou Chu Jian He	–	180	9	189
Mr. Yiu Yu Keung, George	–	180	9	189
Mr. Li Jong Tong, Timothy	–	180	–	180
Mr. Zhang Xiao Bing, Adam	–	180	9	189
Independent non-executive directors				
Mr. Leung Man Kit	144	–	–	144
Mr. Chan Kwok Wai	144	–	–	144
Mr. Lam Man Sum, Albert	144	–	–	144
Total	432	720	27	1,179

10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

(a) Directors' remuneration (continued)

For the year ended 31 December 2005	Fees	Salaries and other benefits	Pension scheme contributions	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Executive Directors				
Mr. Zhou Chu Jian He	–	180	9	189
Mr. Yiu Yu Keung, George	–	180	9	189
Mr. Li Jong Tong, Timothy	–	180	–	180
Mr. Zhang Xiao Bing, Adam	–	180	2	182
Independent Non-executive Directors				
Mr. Leung Man Kit	120	–	–	120
Mr. Chan Kwok Wai	120	–	–	120
Mr. Lam Man Sum, Albert	120	–	–	120
Total	360	720	20	1,100

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

(b) Five highest paid employees

All five highest paid employees during the year are not directors (2005: Nil). Details of the remuneration of the five non-directors, highest paid employees for the year are as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	2,902	2,658
Pension scheme contributions	40	45
	2,942	2,703

The number of non-director, highest paid employees whose remuneration fell within the following band is as follows:

	Group	
	2006	2005
	Number of employees	Number of employees
Nil – HK$1,000,000	5	5

During the year ended 31 December 2006, no emoluments were paid by the Group to the Directors of the Company or the five highest paid employees of the Group as an inducement to join or upon joining the Group, or as compensation for loss of office (2005: Nil).

11. INCOME TAX

Hong Kong profits tax is calculated at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. PRC subsidiaries are subject to PRC enterprise income tax at the rate of 33% (2005: 33%). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

	Group	
	2006	2005
	HK$'000	HK$'000
Current income tax:		
Hong Kong profits tax		
– over-provision in prior years	(8)	–
PRC enterprise income tax	–	67
Deferred tax *(Note 30)*	–	52
Income tax (credit)/expense for the year	(8)	119

A reconciliation of the income tax (credit)/expense applicable to profit before income tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the income tax (credit)/ expense at the Group's effective tax rates are as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Profit before income tax	7,737	877
Tax at the statutory tax rates	5,822	4,164
Income not subject to tax	(10,172)	(34,004)
Expenses not deductible for tax	3,818	20,512
Tax losses not recognised	532	8,843
Others	(8)	604
Tax (credit)/expense at the Group's effective rate	(8)	119

12. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company for the year ended 31 December 2006 includes a loss of approximately HK$16,322,000 (2005: HK$26,305,000) which has been dealt with in the financial statements of the Company.

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company of approximately HK$7,745,000 (2005: HK$2,873,000) and the weighted average of 421,934,200 (2005: 421,934,200) ordinary shares in issue during the year.

Diluted earnings per share for the years ended 31 December 2006 and 2005 have not been disclosed, as the share options outstanding during these years had an anti-dilutive effect on the basic earnings per share for these years.

14. PREPAID LAND LEASE PAYMENTS

	Group	
	2006 HK$'000	2005 HK$'000
As at 1 January 2006/2005	–	–
Additions	590	–
Recognised during the year	(26)	–
As at 31 December 2006/2005	564	–

The leasehold land is held under a medium term lease and is situated in the PRC.

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Leasehold improvements HK$'000	Office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost:					
As at 1 January 2005	–	285	205	612	1,102
Additions	–	–	85	–	85
Resumption of control over a subsidiary *(Note 34(b))*	–	166	878	172	1,216
Disposals	–	–	(73)	–	(73)
As at 31 December 2005 and 1 January 2006	–	451	1,095	784	2,330
Additions	1,888	–	41	–	1,929
Disposals	–	–	(157)	–	(157)
Exchange differences	–	7	29	48	84
As at 31 December 2006	1,888	458	1,008	832	4,186
Accumulated depreciation:					
As at 1 January 2005	–	285	105	225	615
Charge for the year	–	5	54	347	406
Resumption of control over a subsidiary *(Note 34(b))*	–	14	751	14	779
Written back on disposals	–	–	(73)	–	(73)
As at 31 December 2005 and 1 January 2006	–	304	837	586	1,727
Charge for the year	83	28	73	70	254
Written back on disposals	–	–	(144)	–	(144)
Exchange differences	2	1	35	31	69
As at 31 December 2006	85	333	801	687	1,906
Net book value:					
As at 31 December 2006	1,803	125	207	145	2,280
As at 31 December 2005	–	147	258	198	603

15. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Office equipment HK$'000
Cost:	
As at 1 January 2005	21
Additions	34
As at 31 December 2005 and 31 December 2006	55
Accumulated depreciation:	
As at 1 January 2005	4
Charge for the year	11
As at 31 December 2005 and 1 January 2006	15
Charge for the year	11
As at 31 December 2006	26
Net book value:	
As at 31 December 2006	29
As at 31 December 2005	40

16. INVESTMENT PROPERTIES

	Group HK$'000
As at 1 January 2005	38,679
Disposals *(Note 38(e))*	(24,828)
Changes in fair value of investment properties *(Note 8)*	159
As at 31 December 2005 and 1 January 2006	14,010
Changes in fair value of investment properties *(Note 8)*	(548)
Transfer to properties held for sale *(Note 20)*	(13,462)
As at 31 December 2006	–

The investment properties as at 31 December 2005 were held under medium term leases and were situated in the PRC.

16. INVESTMENT PROPERTIES (continued)

On 26 April 2005, the Group entered into a disposal and underwriting agreement with a related company, Beijing Junefield Real Estate Development Co., Ltd. ("Beijing Junefield"), a limited liability company established under the laws of the PRC and Mr. Zhou Chu Jian He ("Mr. Zhou"), the Chairman, executive director and a major shareholder of the Company, is entitled to exercise more than 30% of the voting power at its general meetings, to dispose of certain of its investment properties situated in Beijing, the PRC on a fully underwritten basis. Details of which are set out in Note 38(e) to the financial statements.

During the year ended 31 December 2006, the investments properties of the Group were reclassified as properties held for sale under current assets. For the transfer from investment properties to properties held for sale, the deemed cost of property for subsequent accounting was its fair value at the date of change in use. The investment properties were revalued on the date of change in use by RHL Appraisal Limited, independent professional qualified valuers, at approximately HK$13,462,000 (equivalent to RMB14,000,000), on an open market value basis by direct comparison method, investment method and depreciated replacement cost approach. A fair value loss of approximately HK$548,000 arising therefrom has been charged to the consolidated income statement.

17. INVESTMENTS IN SUBSIDIARIES

	Company	
	2006	2005
	HK$'000	HK$'000
Unlisted shares, at cost	182,079	182,079
Provision for impairment	(182,079)	(182,079)
	–	–

The amounts due from/(to) subsidiaries as shown on the Company's balance sheet are unsecured, interest-free and have no fixed terms of repayment. The fair values of the amounts due at the balance sheet date approximate their corresponding carrying amounts.

(Expressed in Hong Kong dollars)

17. INVESTMENTS IN SUBSIDIARIES (continued)

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

Name	Place of incorporation/ registration and operations	Nominal value of issued share capital/ registered capital	Percentage of equity attributable to the Company	Principal activities
Directly held				
Huaxia Group Limited	British Virgin Islands/ Hong Kong	US$50,000	100	Investment holding
Indirectly held				
Beijing Urban Construction Hudson Decoration Engineering Co., Ltd. *(Note (i))*	PRC	RMB8,000,000	51	Provision of decoration services and electrical and mechanical works
Huaxia Construction Limited	Hong Kong	HK$13,000,000	100	Investment holding
Huaxia Development Worldwide Limited	Hong Kong	HK$100	100	Investment holding
Hudson Development (H.K.) Limited ("HDHK") *(Note (ii))*	Hong Kong	HK$10 ordinary shares; HK$1,000,000 non-voting deferred shares *(Note (iii))*	100	Investment holding
Huaxia Finance Company Limited	Hong Kong	HK$30,000,000	100	Provision of financial services
Hudson International Hong Kong Limited	Hong Kong	HK$2	100	Investment holding
Huaxia Investment Worldwide Limited	Hong Kong	HK$100	100	Investment holding

(Expressed in Hong Kong dollars)

17. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued share capital/ registered capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held (continued)				
International Management Company Limited ("IMC") *(Note (ii))*	Hong Kong	HK$1,500,000	100	Investment holding
Ever Park Development Limited ("EPD") *(Note (ii))*	Hong Kong	HK$2	100	Property investment
Wuhan Huaxin Management Limited ("WHM") *(Note (i))*	PRC	RMB3,000,000	51	Property management

Notes:

(i) The subsidiaries are registered as contractual joint ventures under the PRC law. During the year ended 31 December 2005, the Group resumed control over WHM. Further details of this resumption of control over WHM are disclosed in note 23 and 34(b) to the financial statements.

(ii) As at 31 December 2006, the entire issued share capital and the assets of HDHK, IMC and EPD were pledged for a loan of HK$30 million granted to the Group and the Company *(Note 28)*.

(iii) The non-voting deferred shares do not entitle the holders thereof to receive notice of or to attend or vote at any general meeting of HDHK by virtue or in respect of their holdings of such non-voting deferred shares, except at a general meeting convened for any resolution varying or abrogating any of the rights or privileges of the said non-voting deferred shares, or when the resolution to be submitted at a general meeting directly affects the rights and privileges of such holders, or is for the purpose of reducing share capital. The holders of the non-voting deferred shares are not entitled to any dividends of HDHK unless the profit available for distribution for the financial year exceeds HK$100,000,000,000,000 and are not entitled to any participation in the profits or assets of HDHK. On a winding-up, the holders of the non-voting deferred shares are entitled, out of the surplus assets of HDHK, to a return of the capital paid-up on the non-voting deferred shares held by them after a total sum of HK$500,000,000,000,000 has been distributed in such winding-up in respect of the ordinary shares of HDHK.

The above table lists the principal subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

18. INVENTORIES

	Group	
	2006	2005
	HK$'000	HK$'000
Raw materials and consumables	315	–

19. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2006	2005
	HK$'000	HK$'000
Share of net assets	66,766	84,366
Loan from a jointly-controlled entity	(61,950)	(95,260)

Particulars of the Group's jointly-controlled entity as at 31 December 2006 are as follows:

Name	Particulars of issued shares held	Place of registration and operations	Percentage of ownership interest and profit sharing attributable to the Group	Principal activities
Wuhan Plaza Management Co., Ltd. ("WPM")*	Registered capital of US$10,290,000	PRC	49	Operation and management of a department store

* Not audited by HLB Hodgson Impey Cheng

WPM is an equity joint venture company established by IMC, an indirectly held subsidiary of the Company, and the PRC Partner (as defined in Note 23) for a period of 20 years commencing from 29 December 1993. The registered capital of WPM amounted to US$21,000,000.

The Group's share of profit of a jointly-controlled entity of approximately HK$26,731,000 for the year ended 31 December 2006, which included a share of provision of impairment on amount due from a related company, WHRED, of approximately HK$20,866,000. The provision has not yet been approved by any resolution of the board of directors of the jointly-controlled entity up to the date of approval of these financial statements.

The amount due from a jointly-controlled entity of approximately HK$2,842,000 (2005: HK$521,000) is unsecured, interest-free and has no fixed terms of repayment. The carrying amount of the amount due approximates its fair value.

19. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY (continued)

Pursuant to a debt settlement agreement on 13 February 2003, the loan from WPM was restructured into a term loan at an interest rate equivalent to that of a one-year term loan quoted by the People's Bank of China, and is repayable over five years through dividend distributions by WPM for the period up to December 2007. A resolution was passed by the board of directors of WPM on 23 May 2006 to exempt the interest for the year ended 31 December 2006.

As at 31 December 2006, a first legal charge on its 49% shareholding in WPM and a first legal charge on the 49% joint venture rights in WPM including all cash, dividends, distribution, bonuses, interests or other monies derived from the rights in WPM were pledged for a loan of HK$30 million granted to the Group and the Company *(Note 28)*.

The following table illustrates the summarised financial information of the Group's jointly-controlled entity based on its PRC unaudited management accounts:

	2006 HK$'000	2005 HK$'000
Income	638,794	557,345
Expenses	(612,063)	(512,719)
Current assets	290,248	187,778
Non-current assets	3,270	50,423
Current liabilities	(226,752)	(153,835)

20. PROPERTIES HELD FOR SALE

The Group's properties held for sale as at 31 December 2006 are held under medium term leases in the PRC and are pledged to secure loan facility granted to the Group *(Note 28)*.

21. ACCOUNTS RECEIVABLE

Included in the accounts receivable are the amounts due from contract customers of approximately HK$115,000 (2005: HK$1,706,000) and other accounts receivable of approximately HK$4,941,000 (2005: HK$2,413,000).

(a) The amounts due from contract customers represent the excess of contract costs incurred to date by the Group plus recognised profits, over recognised losses and progress billings raised by the Group for respective contracts at the balance sheet date:

	Group	
	2006	2005
	HK$'000	HK$'000
Contract costs incurred plus recognised profits less recognised losses to date	115	28,938
Less: Progress billings	–	(22,821)
	115	6,117
Provision for impairment	–	(4,411)
Amounts due from contract customers	115	1,706

As at 31 December 2006, there was no retention monies held by customers for contract works (2005: Nil). Receivables from construction contracts are predetermined in accordance with the provisions of relevant agreements and are contractually payable to the Group within a specified period.

(b) An aged analysis of the Group's other accounts receivable as at the balance sheet date, based on the invoice date, is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Less than one month	1,314	2,253
One to three months	3,999	–
More than three months	12,649	4,305
	17,962	6,558
Provision for impairment	(13,021)	(4,145)
	4,941	2,413

Accounts receivable are non-interest-bearing. An impairment charge is made on accounts receivable based on a review of all outstanding amounts on regular basis when collection of the amounts is in doubt. Bad debts are written off when identified.

The carrying amounts of the accounts receivable approximate their fair values.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000
Deposits paid for acquisition of leasehold land and buildings	–	2,293	–	–
Other receivables, prepayments and deposits	2,690	1,830	290	13
	2,690	4,123	290	13
Provision for impairment	(1,544)	(1,478)	–	–
	1,146	2,645	290	13

An impairment loss is made on deposits and other receivables based on a review of all outstanding amounts on regular basis when collection of the amounts is in doubt. Bad debts are written off when identified.

The carrying amounts of prepayments, deposits and other receivables approximate their fair values.

23. AVAILABLE-FOR-SALE INVESTMENT

	Group	
	2006 HK$'000	2005 HK$'000
Unlisted equity investment, at cost	31,642	31,642
Provision for impairment	(31,642)	(31,642)
	–	–

Particulars of the available-for-sale investment as at 31 December 2006 are as follows:

Name	Place of registration and operations	Particulars of issued shares held	Percentage of equity attributable to the Company	Principal activities
WHRED	PRC	Registered capital of US$4,080,000	51	Property development and investment

23. AVAILABLE-FOR-SALE INVESTMENT (continued)

The above investment in equity securities, which is designated as an available-for-sale financial asset, has no fixed maturity date or coupon rate.

The unlisted equity investment was stated at cost less impairment because the range of reasonable fair value estimates is so significant that the Directors are of the opinion that its fair value cannot be measured reliably.

The Group owns a 51% equity interest in each of WHRED and WHM, which were accounted for as subsidiaries of the Company in prior years up to 31 December 2003. WHRED and WHM, which are also owned as to 49% each by Wuhan Department Store Group Co., Ltd. (the "PRC Partner"), are collectively referred to as the "Wuhan Companies".

As disclosed in the Company's financial statements for the year ended 31 December 2003, in October 2003, the Group informed the Wuhan Companies and the PRC Partner that the then existing directors nominated by the Group for the Wuhan Companies would be replaced by other persons nominated by the Group. However, as the request to nominate the directors had not been met, the Group accordingly commenced arbitration proceedings in Beijing, the PRC, in January 2004 against the PRC Partner relating to the above nomination of directors.

In addition, as disclosed in the Company's financial statements for the year ended 31 December 2003, on 19 December 2003, the Group received two arbitration awards issued by the Arbitration Commission of Wuhan (the "Arbitration Awards") from the PRC Partner. The PRC Partner also owns a 51% equity interest in WPM, a 49%-owned jointly-controlled entity of the Group. Based on the Arbitration Award made on 26 November 2003, WHRED was ordered to repay approximately HK$216 million together with the interest accrued and the relevant expenses (the "Loan") in respect of the arbitration to the PRC Partner, and WPM was found to be liable for certain amounts, under a guarantee agreement made by WPM in favour of the PRC Partner (the "Guarantee Agreement").

A further arbitration award was made on 10 December 2003 whereby WHRED, pursuant to an indemnity agreement made by the PRC Partner in favour of WPM relating to the obligations of WPM under the Guarantee Agreement (the "Indemnity Agreement"), was ordered to transfer certain properties in Wuhan, the PRC (the "Properties") to WPM in settlement of the amount ordered to be paid by WPM to the PRC Partner.

In prior years, based on the legal opinion obtained from the Group's legal advisor, the Directors considered the Guarantee Agreement, the Indemnity Agreement, and the related arbitrations to be invalid and accordingly took legal action to reverse the Arbitration Awards.

23. AVAILABLE-FOR-SALE INVESTMENT (continued)

In 2004, as the Loan was repaid by WPM on behalf of WHRED, WPM applied to the court for enforcement of the transfer of the Properties to WPM for settlement of the outstanding balance thus arising. The court granted an order to WHRED during the year ended 31 December 2004 enforcing the transfer. In order to avoid any unnecessary costs in updating the title certificates, which the directors of WPM and WHRED consider would be very substantial, legal titles of the Properties were not transferred to WPM. Instead, WPM and WHRED mutually agreed to enter into an agreement (the "Settlement Agreement") to freeze the Properties. According to the Settlement Agreement, any sales proceeds and rental income arising from the Properties would be used to settle the amount due to WPM. In order to speed up the repayment process, WHRED further entered into underwriting agreements with an independent third party who has undertaken to sell, on behalf of WHRED, substantially all of its properties within a short period of time. In the opinion of the directors of the Company, according to the above arrangements, the Properties were in substance transferred to WPM as the risks and rewards of ownership of the Properties have been transferred.

In addition, during the year ended 31 December 2004, without informing the Group, WHRED settled the claims from its buyers, whereby certain properties were compensated to the claimants.

In December 2004, the representatives nominated by the Group were successfully appointed as directors of the Wuhan Companies, at which time the directors first became aware of the above arrangements, whereby most of the assets of the Wuhan Companies had been seized by their management and the PRC Partner for settlement of liabilities. Since the Wuhan Companies have lost their status as subsidiaries of the Company in 2004, the investments were reclassified to available-for-sale investments accordingly and their results were consolidated up to the date of reclassification.

The Directors of the Company also considered that these investments were fully impaired and, accordingly, no value has been ascribed to these investments.

In 2004 and 2005, representatives nominated by the Group were successfully appointed as directors or key management personnel of WHM, the Directors of the Company consider that the Group's representatives have been appointed to the respective boards of directors and management of WHM. Owing to the changes in operating circumstances, the Directors of the Company consider the Group has resumed its control over WHM and is able to govern the financial and operating policies of WHM. Since WHM has resumed its status as a subsidiary of the Company in 2005, the investment was reclassified as a subsidiary and included in investments in subsidiaries accordingly and its results were consolidated from the date of resume control over WHM. Details of the net assets as at the date of resumption of control over WHM are set out in Note 34(b) to the financial statements.

24. AMOUNT DUE FROM A JOINT VENTURER

	Group 2006 HK$'000	Group 2005 HK$'000
Amount due from a joint venturer	956	558
Provision for impairment	(956)	–
	–	558

The amount due from a joint venturer is unsecured, interest-free and has no fixed terms of repayment. An impairment loss of approximately HK$956,000 (2005: Nil) is made on the amount due from a joint venturer based on a review of all outstanding amounts on regular basis when collection of the amount is in doubt.

25. AMOUNT DUE FROM A RELATED COMPANY

Name of company	Name of directors having interests	Highest balance outstanding during the year HK$'000	Group 2006 HK$'000	Group 2005 HK$'000
Beijing Junefield	Mr. Zhou Chu Jian He Mr. Yiu Yu Keung, George	18,798	5,716	18,798

The amount due is unsecured, interest-free and has no fixed terms of repayment. The carrying amount of amount due approximates its fair value.

26. ACCOUNTS PAYABLE

Included in accounts payable are the amounts due to contract customers of nil (2005: approximately HK$2,615,000) and other accounts payable of approximately HK$13,212,000 (2005: HK$13,351,000).

(a) The amounts due to contract customers represent the excess of progress billings raised by the Group for the respective contracts over the contract costs incurred to date by the Group plus recognised profits less recognised losses at the balance sheet date:

	Group 2006 HK$'000	Group 2005 HK$'000
Contract costs incurred plus recognised profits less recognised losses to date	–	35,380
Less: Progress billings	–	(37,995)
Amounts due to contract customers	–	2,615

26. ACCOUNTS PAYABLE (continued)

(b) An aged analysis of the Group's other accounts payable as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Less than one month	897	2,545
One to three months	63	305
More than three months	12,252	10,501
	13,212	13,351

Accounts payable are non-interest-bearing. The carrying amounts of the accounts payable approximate their fair values.

27. ACCRUALS AND OTHER PAYABLES

	Group		Company	
	2006	2005	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000
Accruals	7,348	7,432	1,773	3,872
Business tax payable	5,037	4,382	–	–
Deposit received and deferred income	3,494	3,190	–	–
Other payables	5,417	3,718	2,576	–
	21,296	18,722	4,349	3,872

The carrying amounts of accruals and other payables approximate their fair values.

28. INTEREST-BEARING BORROWINGS

	Group		Company	
	2006	2005	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000
Other loans repayable within one year or on demand:				
Secured *(Note (a))*	30,000	35,000	30,000	35,000
Unsecured *(Note (b))*	4,630	4,630	4,630	4,630
	34,630	39,630	34,630	39,630

28. INTEREST-BEARING BORROWINGS (continued)

As at 31 December 2006, details of the Group's loan facilities were as follows:

(a) The secured other loan is denominated in Hong Kong dollars, bears interest at a rate of 2% per month and is secured by:

(i) a debenture incorporating a floating charge on all assets of the Company and a first legal charge on the entire issued capital of IMC and HDHK, subsidiaries of the Company;

(ii) a debenture incorporating a floating charge on all assets of IMC and a first legal charge on its 49% shareholding in WPM;

(iii) a first legal charge on the 49% joint venture rights in WPM including all cash, dividends, distribution, bonuses, interests or other monies derived from the rights in WPM;

(iv) a debenture incorporating a floating charge on all assets of HDHK and a first legal charge on its 51% shareholding in WHRED;

(v) a first legal charge on the 51% joint venture rights in WHRED, including all cash, dividends, distribution, bonuses, interests on other monies derived from the rights in WHRED;

(vi) a share mortgage executed by Yield Point Investments Limited and Huaxia Nominees Limited in respect of the two issued ordinary shares of EPD, a subsidiary of the Company;

(vii) a debenture incorporating a first floating charge over the undertaking, properties held for sale *(Note 20)* and assets of EPD;

(viii) a deed of guarantee signed by Mr. Zhou Chu Jian He, Chairman of the Company;

(ix) a debenture incorporating a first floating charge over the undertaking, properties and assets of PCI; the immediate holding company of the Company;

(x) a share mortgage in respect of the one issued share of PCI; and

(xi) Assignment of receivables of EPD.

28. INTEREST-BEARING BORROWINGS (continued)

(a) (continued)

On 26 October 2006, the Company entered into a seventh supplemental loan agreement with, inter alia, Ranbridge Finance Limited (the "lender"). The other loan of HK$30,000,000 was due for repayment on 23 February 2007. The loan agreement (as supplemented) provides that the Company shall procure PCI to maintain its shareholding in the Company at not less than 51% during the term of the loan agreement and that PCI's shareholding in the Company shall not be reduced below 51% during such term without the prior consent of the lender. The loan agreement (as supplemented) also requires PCI to maintain a margin securities trading account ("Account") with Sun Hung Kai Investment Services Limited during the term of the loan agreement. The shares in the Company owned by PCI will be deposited into the Account and the lender is authorised to apply any credit balance in the Account to satisfy any sum due and payable but unpaid to the lender. Subsequent to the balance sheet date, the Company has obtained a letter from the lender on 30 January 2007 to extend the repayment date to 23 August 2007. The Company will enter into supplemental loan agreement with the lender subject to terms and conditions mutually acceptable to both parties.

(b) The unsecured other loan is denominated in Hong Kong dollars, bears interest at a rate of 9.5% per annum and has no fixed terms of repayment.

The Directors consider that the carrying amounts of interest-bearing borrowings approximate their fair values.

29. AMOUNT DUE FROM A SUBSIDIARY'S MINORITY SHAREHOLDER/AMOUNT DUE TO THE ULTIMATE HOLDING COMPANY

The amounts due are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of the amounts due approximate their fair values.

30. DEFERRED TAX LIABILITIES

The movements in deferred tax liabilities in respect of revaluation of properties during the year are as follows:

	Group	
	2006 HK$'000	2005 HK$'000
As at 1 January 2006/2005	7,813	7,761
Deferred tax charged to the income statement during the year *(Note 11)*	–	52
As at 31 December 2006/2005	7,813	7,813

The Group has tax losses arising in Hong Kong of approximately HK$7,562,000 (2005: HK$7,030,000) that are available indefinitely for offsetting against future profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

31. SHARE CAPITAL

	2006 HK$'000	2005 HK$'000
Authorised:		
25,000,000,000 ordinary shares of HK$0.10 each	2,500,000	2,500,000
Issued and fully paid:		
421,934,200 (2005: 421,934,200) ordinary shares of HK$0.10 each	42,193	42,193

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in Note 32 to the financial statements.

32. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") with reference to Chapter 17 of the Listing Rules for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include full-time employees of the Company or any of its subsidiaries, including any executive directors of the Company or any of its subsidiaries. The Scheme became effective on 10 November 1999 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 30% of the shares of the Company in issue at any time.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than two years commencing on the expiry of 6 months after the commencement date and expiring on the last day of the two-year period or the tenth anniversary of the adoption date, which is the earlier.

The subscription price of the share options is determined by the directors and notified to each relevant director and employee. The subscription price must be at least the higher of: (i) the closing price of the securities as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; and (ii) the average closing price of the securities as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant.

No option may be granted to any person which, if exercised in full, would result in the total number of shares already issued and issuable to him under the Scheme exceeding 10% of the aggregate number of shares issued and issuable under the Scheme for the time being.

Share options do not confer rights on the holders either to dividends or to vote at shareholders' meetings.

(Expressed in Hong Kong dollars)

32. SHARE OPTION SCHEME (continued)

Details of the movements of share options during the year are as follow:

Name or category of participants	Number of share options held As at 1 January 2006	Expired during the year	Lapsed during the year (Note (iii))	As at 31 December 2006	Date of grant of share options (Note (i))	Exercise period of share options (Note (ii))	Total consideration paid for share options granted HK$	Price per share to be paid on exercise of share options HK$
Directors								
Mr. Zhou Chu Jian He	4,218,000	(4,218,000)	–	–	12 March 2004	12 September 2004 to 11 September 2006	1	0.13
Mr. Yiu Yu Keung, George	4,218,000	(4,218,000)	–	–	12 March 2004	12 September 2004 to 11 September 2006	1	0.13
Mr. Li Jong Tong, Timothy	4,218,000	(4,218,000)	–	–	12 March 2004	12 September 2004 to 11 September 2006	1	0.13
Mr. Zhang Xiao Bing, Adam	4,218,000	(4,218,000)	–	–	12 March 2004	12 September 2004 to 11 September 2006	1	0.13
	16,872,000	(16,872,000)	–	–				
Other employees in aggregate	10,544,000	(8,436,000)	(2,108,000)	–	12 March 2004	12 September 2004 to 11 September 2006	3	0.13
	27,416,000	(25,308,000)	(2,108,000)	–				

Notes:

(i) The vesting period of the share options is from the date of grant until the commencement of the exercise period.

(ii) No share option was exercised and all outstanding options expired on expiration of the exerciseable period. No option was granted during the year ended 31 December 2006.

(iii) 2,108,000 share options were lapsed following the resignation of an employee on 8 May 2006.

33. RESERVES

Group

Details of changes in reserves of the Group are set out in the consolidated statement of changes in equity on page 28.

The contributed surplus of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Group reorganisation on 10 November 1999, over the nominal value of the Company's shares issued in exchange therefor.

Company

	Share premium HK$'000	Share-based compensation reserve HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
As at 1 January 2005	42,424	647	178,927	(297,806)	(75,808)
Loss for the year *(Note 12)*	–	–	–	(26,305)	(26,305)
As at 31 December 2005 and 1 January 2006	42,424	647	178,927	(324,111)	(102,113)
Share options lapsed/expired *(Note 32)*	–	(647)	–	647	–
Loss for the year *(Note 12)*	–	–	–	(16,322)	(16,322)
As at 31 December 2006	42,424	–	178,927	(339,786)	(118,435)

The share-based compensation reserve comprises the fair value of share options granted which are yet to be exercised. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the same reorganisation, over the nominal value of the Company's shares issued in exchange therefore.

Distributable reserves

As at 31 December 2006, the Company had no retained profits available for cash distribution and/ or distribution in specie. Under the Companies Act 1981 of Bermuda (as amended), the Company's contributed surplus is distributable in certain circumstances.

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) **Major non-cash transactions**

During the year ended 31 December 2006, the Company has received dividend from WPM of approximately HK$44,331,000 (2005: HK$15,391,000). The dividend distribution was used to settle the loan from WPM of approximately HK$35,464,000 (2005: HK$12,307,000) and the amount due to the ultimate holding company of approximately HK$8,867,000 (2005: HK$3,084,000).

(b) **Resumption of control over a subsidiary**

On 4 November 2005, the Group resumed control over a previously deconsolidated subsidiary, namely, WHM, at nil consideration. Further details of the resumption of control of WHM are disclosed in Note 23 to the financial statements. The net gain of approximately HK$1,117,000 arising from the resumption of control over WHM, being the net asset value of WHM at the date of resumption of control, has been taken to the consolidated income statement. The aggregate carrying amounts of the assets and liabilities of WHM as at the date of resumption of control were as follow:

	HK$'000
Net assets as at 4 November 2005, date of resumption of control	
Property, plant and equipment *(Note 15)*	437
Cash and bank balances	4,728
Accounts receivable	500
Prepayments, deposits and other receivables	190
Amount due from a joint venturer	539
Amount due from a related company	890
Accruals and other payables	(5,117)
Amount due to a jointly-controlled entity	(137)
Tax payable	(913)
Net assets	1,117
Net gain on resumption of control over WHM	1,117
Net cash inflow arising from resumption of control over WHM	
Cash and bank balances from WHM	4,728

During the period from 4 November 2005 to 31 December 2005, WHM contributed approximately HK$1,216,000 to the Group's turnover and a loss of approximately HK$1,693,500 to the consolidated profit after tax for the year.

35. OPERATING LEASE COMMITMENTS

(a) As lessee

The Group leases certain of its properties under operating lease arrangements, with leases negotiated for terms ranging from six months to five years.

As at 31 December 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Within one year	6	131
In the second to fifth years, inclusive	2	7
	8	138

(b) As lessor

The Group leases certain of its properties under operating lease arrangements, which leases negotiated for terms ranging from one to three years.

As at 31 December 2006, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Within one year	384	–
In the second to fifth years, inclusive	183	–
	567	–

36. CONTINGENT LIABILITIES

WHRED has given corporate guarantees to banks (the "Banks") for mortgage loans granted to the buyers of its properties in prior years.

In September 2004, due to the default payments by certain borrowers, the Banks commenced legal action against WHRED requesting WHRED to repay the guaranteed amounts. Based on the legal opinion from a PRC lawyer in Wuhan, the amounts payable of WHRED would be limited to the outstanding balances after the sales proceeds from the mortgaged properties. As at 31 December 2006, the estimated amounts payable of WHRED in respect of the default payments by certain borrowers were approximately HK$10 million. As WHRED was reclassified as an available-for-sale investment during the year ended 31 December 2004, and the Group has not provided any financial guarantee to WHRED, the directors do not expect the above claims to have any impact on the Group.

37. PENDING LITIGATION

In December 2002, a former director of a subsidiary which was disposed of in prior years commenced litigation in the PRC against the Group with total claims of approximately RMB19 million. Currently, the litigation is still in process and no conclusion has been drawn on the litigation. Based on the legal opinion from the Group's PRC lawyer, the directors are in the opinion that the court will ultimately decline such claim and, accordingly, no provision has been made. Other than the above, the Group had no litigation and claim during the year.

38. SIGNIFICANT RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these financial statements, during the year, the Group had entered into the following significant related party transactions which, the directors consider that the consideration for these related party transactions were based on rates mutually agreed with reference to the then market conditions and in the ordinary course of the Group's business.

(a) Significant transactions with related parties

	Group	
	2006 HK$'000	2005 HK$'000
Interest expenses paid to a jointly-controlled entity *(Note (i))*	–	4,738
Deposit paid for acquisition of leasehold land and buildings *(Note (ii))*	–	2,293
Acquisition of leasehold land and buildings *(Note (ii))*	2,293	–
Property management fee received from a jointly-controlled entity *(Note (iii))*	2,631	2,533

38. SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

(a) Significant transactions with related parties (continued)

Notes:

(i) During the year ended 31 December 2005, interest was paid to WPM, a jointly-controlled entity of the Group, in respect of the loan granted to a subsidiary of the Company. Further details of the loan, including the terms thereof, are set out in Note 19 to the financial statements.

(ii) During the year ended 31 December 2005, deposits of approximately HK$2,293,000 in aggregate paid to WHRED for the acquisition of leasehold land and buildings situated in Wuhan, the PRC. The aforesaid acquisition was completed during the year ended 31 December 2006.

(iii) The Group provided with WPM, a jointly-controlled entity of the Group, property management services, for which a property management fee of approximately HK$2,631,000 (2005: HK$2,533,000) was charged.

(b) Compensation to key management personnel

	Group	
	2006	2005
	HK$'000	HK$'000
Short-term employee benefits	747	740

(c) The Group's other loan facilities were supported by a deed of guarantee executed by Mr. Zhou Chu Jian He, Chairman of the Company *(Note 28)*.

(d) On 26 April 2005, Junefield Department Store (China) Limited ("Junefield China"), an indirect wholly-owned subsidiary of the Company, entered into an acquisition agreement with Wuhan Junefield Sogo Department Store ("Wuhan Sogo"), a collective enterprise established under the laws of the PRC, of which Mr. Zhou Chu Jian He has a control over its operation and financial activities, for the acquisition of a property comprising two floors of a shopping arcade situated in Wuhan City, Hubei Province, the PRC ("Wuhan Property") at a consideration of approximately RMB27.348 million (equivalent to approximately HK$25.8 million). As certain conditions precedent to completion of the acquisition agreement has not been fulfilled, the acquisition agreement has lapsed in accordance with its terms and completion of the proposed acquisition by the Group of the Wuhan Property did not proceed. Pursuant to the acquisition agreement, no deposit has been paid by Junefield China for the acquisition.

38. SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

(e) On 26 April 2005, EPD, a subsidiary of the Company, entered into a disposal and underwriting agreement with Beijing Junefield for the disposal of certain of the Group's investment properties amounted to approximately HK$24,828,000 which comprises 15 office units situated in Beijing, the PRC ("Beijing Property") on a fully underwritten basis. If any of the 15 office units of the Beijing Property remains unsold upon the expiry of the disposal agreement, Beijing Junefield as an underwriter shall purchase from EPD such unsold units and pay a sum equivalent to the minimum selling prices of those units stipulated in the disposal agreement to EPD on or before 30 December 2005, being 30 days from the expiry of the disposal agreement.

The Beijing Property has been disposed of during the year ended 31 December 2005 and accordingly, a gain on disposal of approximately HK$585,000 arising from the disposal of these investment properties has been recognised in the consolidated income statement for the year ended 31 December 2005. Pursuant to the disposal agreement, Beijing Junefield was entitled to receive a selling commission of 2.5% of the total consideration for the disposal of Beijing Property. The selling commission paid to Beijing Junefield, amounted to approximately HK$635,000, has been charged to the consolidated income statement for the year ended 31 December 2005.

39. SUBSEQUENT EVENTS

(a) WPM is a joint venture established between IMC, the Company's wholly-owned subsidiary which directly holds a 49% interest in WPM, and the PRC Partner on a 49:51 basis. WPM operates a department store at Level 1-8, No. 688 Jiefang Ave., Wuhan City, Hubei Province, the PRC (the "Premises"). There is a joint venture agreement dated 2 November 1993 ("JV Agreement") governing the respective rights and obligations of each of the joint venture partner of WPM (the "JV Partner"). Pursuant to the JV Agreement relating to the business operation of WPM, it is stipulated that WPM shall lease from the PRC Partner the Premises comprising ground floor, and levels 1-8 at No. 688 Jiefang Ave., Wuhan City with operating area of approximately 70,000 square meters and operate department store business through inviting retailing concessionaires to the Premises in line with international practices. Based on this, the Company asserts that (i) the requirement for the PRC Partner to lease the Premises to WPM as the latter's place of operation is the perquisite requirement for WPM's continued operation; and (ii) the Lease (as defined below) is a key basis of cooperation between the PRC Partner and IMC, and had direct impact on the investment interests of both parties. The board of directors of WPM comprises seven directors, three of them are appointed by IMC and the remaining four directors are appointed by the PRC Partner, namely, Wang Dong Sheng as Chairman, Liu Jiang Chao as director, Huang Jun as director, Xiao Zhou Yun as director and general manager of the WPM. The board representation is in accordance with the articles of association of the WPM.

39. SUBSEQUENT EVENTS (continued)

(a) (continued)

In order to implement the JV Agreement, on 14 January 1995, the Lease (as defined below) was entered into between WPM and the PRC Partner. The agreement has a term of 20 years (same as the joint venture tenure of WPM), commencing from the date of opening of the Wuhan Plaza Shopping Centre (the "Lease"). The Lease has a pre-agreed annual rental for the first ten years. Pursuant to the Lease, from the eleventh year onwards, either party to the Lease may negotiate to change the rental arrangements. For the ten years from the opening of Wuhan Plaza Shopping Centre in 28 September 1996 to 27 September 2006, the Lease was properly executed.

On 22 September 2006, the PRC Partner notified WPM that its shareholders had passed a resolution on 21 September 2006, requesting the annual rental be increased from RMB68,025,000 for the year ended 27 September 2006 to RMB217 million for the year ending 28 September 2007 with an annual increment of 5% for the remaining terms of the Lease.

As requested by the directors of WPM appointed by IMC, two board meetings of WPM were held on 24 October 2006 and 27 October 2006, to discuss the continued execution of the Lease for the remaining period. All the directors of WPM, except Liu Jiang Chao who had authorised Wang Dong Sheng to vote on his behalf, attended the board meetings, whereas the directors of WPM unanimously agreed to propose the new rental rate for the remaining term of the Lease, being the higher of (i) an annual rental of RMB107 million; and (ii) an annual rental calculated based on the turnover before tax generated by its principal operation on the scale of 8% on the part of turnover not exceeding RMB1.0 billion and 6% on the part exceeding RMB1.0 billion. There were two other resolutions proposed by the three directors appointed by IMC, namely Mr. Zhou Chu Jian He, Mr. Liu Zhongsheng ("Mr. Liu") and Mr. Choon Hoi Kit, Edwin, were not passed as they were voted against by the four directors appointed by the PRC Partner. The two resolutions proposed by IMC's representatives were (i) authorising Mr. Liu to directly deal with, or to engage and appoint intermediary as approved by the authorised person of WPM to deal with, the matters arising from the litigation on the Lease, pending the result of negotiations with the PRC Partner; and (ii) instructing WPM to continue to pay rents to the PRC Partner in accordance with the rental arrangement stipulated in the Lease during the period pending the matters are finally resolved.

The PRC Partner through its position as the controlling shareholder and through Mr. Wang Dong Sheng and Ms. Xiao Zhou Yun, the chairman and general manager of WPM appointed by them, who also serves as chairman and deputy general manager of the PRC Partner respectively, prevented WPM from settling its rental obligation under the Lease. In the meantime, the PRC Partner, as the Lessor, also notified WPM that its shareholders had duly approved the new annual rental be revised to RMB217 million effective from October 2006 and indicated that they would not accept anything below such amount. The Lessor has finally filed a litigation against the WPM for breach of the Lease and requested for termination of the Lease (the "Lease Litigation") on 30 January 2007.

39. SUBSEQUENT EVENTS (continued)

(a) (continued)

IMC was first notified by WPM about the Lease Litigation on 5 February 2007. The first court hearing for the Lease Litigation was held on 5 March 2007. The PRC Partner had interfered into WPM such that WPM failed to convene board meeting for the preparation of the case and also refused the request from IMC for itself to make representation to the court of the material facts surrounding of the Lease Litigation. During the first court hearing, WPM had not presented all evidences or facts to the court. No court judgement has been made up to the date of approval of these financial statements.

After consulting legal advisor, the Board of Directors of Company has decided to take appropriate legal actions in order to protect the interests of the Company as disclosed below:

Application for arbitration and termination of legal proceeding

After the filing of the Lease Litigation by the Lessor at the Jianghan District People's Court in Wuhan City, Hubei Province, PRC（湖北省武漢市江漢區人民法院）on 30 January 2007 against the Group's 49%-owned WPM for breach of the Lease, IMC has applied for an arbitration to the China International Economic And Trade Arbitration Commission (the "Arbitration Commission") on 15 February 2007 pursuant to the arbitration provision in the JV Agreement, requesting the Commission to rule that (i) the minutes of the board meeting of WPM on 27 October 2006 (the "Board Meeting") be valid and shall be complied with by the PRC Partner; (ii) the PRC Partner shall stop acting in a manner in its capacity of a controlling shareholder rendering WPM in breach of Lease by preventing WPM from executing the first resolution passed on the Board Meeting; and (iii) the arbitration fee shall be borne by the PRC Partner. The application was handled by the Arbitration Commission in Beijing on 1 March 2007. As such, IMC applied to the Jianghan District People's Court in Wuhan City. Hubei Province, the PRC（湖北省武漢市江漢區人民法院）on 7 March 2007 for the termination of legal proceeding in connection with the Lease Litigation. The application for the termination of legal proceeding is yet to be accepted by the court.

Filing of lawsuits

Lawsuit against the PRC Partner

On 25 February 2007, IMC filed a lawsuit against the PRC Partner at the Supreme People's Court of Hubei Province, PRC（湖北省高級人民法院）(the "WDS Litigation") requesting the court (i) to order the PRC Partner immediately stops making use of its advantageous position as a controlling shareholder of WPM to jeopardise the interests of WPM by (a) raising the rental payable by WPM for the remaining ten years term of Lease and hindering WPM from making rental payment so as to rendering it in breach of the Lease; (b) controlling WPM to amend the terms of Lease and terms of cooperation with suppliers; (c) exploiting the resources of WPM for the marketing of Wuhan Plaza II owned by the PRC Partner so as to damage the interests of WPM; (ii) to order the PRC Partner to pay WPM damages of RMB55 million for the loss it suffered; (iii) to order the PRC Partner to bear all the legal fee of the WDS Litigation, as well as the attorney fees, travel expenses and other costs incurred by IMC arising from the WDS Litigation. The WDS Litigation filing was accepted by the court on 7 March 2007.

39. SUBSEQUENT EVENTS (continued)

(a) Filing of lawsuits (continued)

Lawsuit against the management of WPM, which is the representative of the PRC Partner

On 7 March 2007, IMC filed another lawsuit at the Intermediate People's Court in Wuhan City, Hubei Province, the PRC（湖北省武漢市中級人民法院）(the "Director Litigation"), requesting the court: (i) to order the directors of WPM appointed by the PRC Partner ("Four Directors") immediately stop acting in ways that would damage the interests of WPM; (ii) to order the Four Directors to compensate WPM an amount of RMB 3 million; and (iii) to order the Four Directors to pay all the legal fee incurred by IMC on the Director Litigation. The Director Litigation filing was accepted by the court on 14 March 2007.

(b) Subsequent to the balance sheet date, on 26 February 2007, the Intermediate People's Court in Wuhan City, Hubei Province, PRC（湖北省武漢市中級人民法院）held that WHRED was liable to refund the purchase considerations paid by certain buyers for purchasing certain premises units at No. 688 Jiefang Avenue, Wuhan City of approximately HK$1.2 million.

As WHRED was reclassified as an available-for-sale investment, and the Group has not provided any financial guarantee to WHRED, the directors do not expect the above claims to have any impact on the Group.