Notes to the Accounts

1 General information

Shimao International Holdings Limited ("the Company") and its subsidiaries (together the Group) is principally engaged in property development and property investment. The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The Company is listed on Main Board of the Stock Exchange of Hong Kong Limited.

On 19th February 2005, the Company entered into a sale and purchase agreement with Dynamic Keen Developments Limited ("Dynamic Keen"), a related company wholly-owned by Mr. Hui Wing Mau, Chairman of the Company to acquire 100% equity interest of Value Ahead Investments Limited ("Value Ahead"), together with the amount due to Dynamic Keen. The primary asset of Value Ahead is 100% interest in Suifenhe Shimao Development and Construction Company Limited ("Suifenhe Shimao"). The acquisition was approved by independent shareholders at a special general meeting held on 15th September 2005 of the Company. Details of the acquisition are set out in note 34 (c).

On 19th February 2005, the Company also entered into non-competition undertaking ("Undertaking") with certain related companies. Pursuant to the Undertaking, the parties agree to delineate their respective businesses on the terms and conditions set out therein. The transaction was approved by independent shareholders at a special general meeting held on 15th September 2005 of the Company. Details of the Undertaking are set out in note 34 (b). As a result, the name of the Company was also changed to its present name, which was approved by shareholders at the annual general meeting held on 23rd May 2005.

On 15th April 2006, the Group entered into agreements principally to invest in a large scale property investment and development project in St. Petersburg, Russia for consideration of HK$232,747,000 (the "Baltic Pearl Project"). Upon completion of the agreements, the Group will have a 33.34% interest in the Baltic Pearl Project. The transaction will be financed by a loan from the ultimate holding company of HK$232,747,000. Details of the transactions are set out in note 35.

These consolidated accounts are presented in thousands of units of HK dollars (HK$'000), unless otherwise stated.

2 Summary of significant accounting policies

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

2.1 Basis of preparation

The consolidated accounts of the Company have been prepared in accordance with the Hong Kong Financial Reporting Standards (the "HKFRS") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The consolidated accounts have been prepared under the historical cost convention, as modified by the financial assets and liabilities at fair value through profit or loss and investment properties, which are carried at fair value.

Notes to the Accounts

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

In preparing these accounts, the directors have taken into account the existing operational status and all information that could reasonably be expected to be available, and have ascertained that the Group has obtained adequate financial resources to support the Group to continue in operational existence for the foreseeable future and to finance the proposed acquisition of Baltic Pearl Project. Under these circumstances, the directors consider that it is proper to prepare the accounts on a going concern basis notwithstanding that at 31st December 2005, the Group's current liabilities exceeded its current assets by HK$57,948,000.

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

The adoption of new/revised HKFRS

In 2005, the Group adopted the new/revised HKFRS, Hong Kong Accounting Standards ("HKAS") and interpretations ("HK-Int", "HK (SIC)- Int" and "HKFRS-Int") (collectively the "new HKFRSs"), which are relevant to its operations. The 2004 comparatives are amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Investments in Joint Ventures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HK-Int 3	Revenue – Pre-completion Contracts for the Sale of Development Properties
HK(SIC)-Int 12	Consolidation – Special Purpose Entities
HK(SIC)-Int 15	Operating Leases – Incentives
HK(SIC)-Int 21	Income Taxes-Recovery of Revolved Non-Depreciated Assets
HKFRS 3	Business Combinations

Notes to the Accounts

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

The adoption of new/revised HKFRS (Continued)

(a) The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 28, 31, 33, 36, 38 and HK(SIC)-Int 12 and 15 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected the presentation of share of after-tax results of associated companies and other disclosures.

- HKASs 2, 7, 8, 10, 16, 21, 23, 27, 28, 31, 33, 36, 38 and HK(SIC)-Int 12 and 15 had no material effect on the Group's policies.

- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of the following HKFRSs, which include all HKASs and applicable HK-Int, HK(SIC)-Int and HKFRS-Ints, that necessitates material changes in accounting policies or presentations of the accounts are summarised as follows:

(b) The adoption of HKAS 17 "Leases" has resulted in a change in accounting policy relating to leasehold land which was previously included in fixed assets and completed properties held for sale and carried at cost less accumulated depreciation and impairment and the lower of cost and net realisable value, respectively. In accordance with the provisions of HKAS 17, the leasehold land is regarded as operating leases and the lease premium and other costs for acquiring the leasehold land are amortised over the terms of the leases.

(c) The adoption of HKFRS 3 "Business Combinations" and HKAS 36 "Impairment of Assets" do not permit to amortise the goodwill on a straight-line basis over a period of not exceeding 20 years. Also, goodwill is tested annually for impairment, as well as when there are indications of impairment. If the cost of acquisition is less than the fair values of the net assets acquired, the difference is recognised directly in the profit and loss account.

(d) The adoption of HKAS 40 "Investment Property" has resulted in a change in the accounting policy whereby changes in fair values of investment properties are recorded in the profit and loss account. In prior years, the increases in fair value were credited to the investment properties revaluation reserve. Decreases were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the profit and loss account.

Notes to the Accounts

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

The adoption of new/revised HKFRS (Continued)

(e) The adoption of HK(SIC)-Int 21 "Income Taxes – Recovery of Revalued Non-Depreciable Assets" has resulted in a change in the accounting policy relating to the measurement of deferred taxation liabilities arising from the revaluation of investment properties. Such deferred taxation liabilities are measured on the basis of tax consequences that would follow from recovery of carrying amount of assets through use. In prior years, carrying amount of assets was expected to be recovered through sale.

(f) The adoption of HKAS 32 "Financial Instruments: Disclosure and Presentation", HKAS 39 "Financial Instruments: Recognition and Measurement" and HKAS 39 (Amendment) "Transition and Initial Recognition of Financial Assets and Financial Liabilities" have set up the basis for recognition, measurement, derecognition and disclosure of financial instruments. Borrowings are recognised initially at fair value net of transaction costs incurred and subsequently stated at amortised cost. The fair value of the liability component of a convertible note is determined using a market interest rate for an equivalent non-convertible note and is recorded on an amortised cost basis until extinguished on conversion or maturity of the note. The remainder of the proceeds is allocated to the conversion option, which is recognised and included in reserves as an equity component of a convertible note.

(g) The adoption of HK-Int 3 "Revenue – Pre-completion Contracts for the Sale of Development Properties" has resulted in a change in accounting policy relating to the recognition of revenue from sales of properties under development in advance of completion. In prior years, sales of properties under development in advance of completion were recognised over the course of the development based on the proportion of construction work completed or if lower, the proportion of sales proceeds received. In accordance with HK-Int 3, sales of properties are recognised when the risk and rewards of the property have been passed to the customers.

All changes in the accounting policies have been made in accordance with the transitional provisions in the respective HKFRS. All standards adopted by the Group require retrospective application other than HKAS 39, HKFRS 3 and HK-Int 3 which is applied prospectively on or after 1st January 2005.

Notes to the Accounts

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

The adoption of new/revised HKFRS (Continued)

The effect of the changes in accounting policies on the Group's assets and shareholders' funds as at 1st January 2004 and 2005, the profit for the year ended 31st December 2004 and 2005 are summarised below:

	HKAS 17 *HK$'000*	HKAS 40 *HK$'000*	HK(SIC)-Int 21 *HK$'000*	HKFRS 3 *HK$'000*	Total *HK$'000*
Increase/(decrease) in profit attributable to shareholders					
For the year ended 31st December 2005					
Increase in amortisation of leasehold land and land use rights	4,424	–	–	–	4,424
Increase in fair value gains on investment properties	–	3,557	–	–	3,557
Increase in deferred taxation charge	–	–	(1,174)	–	(1,174)
	4,424	3,557	(1,174)	–	6,807
Increase/(decrease) in earnings per share, basic, HK cents	0.5	0.4	(0.1)	–	0.8
Increase/(decrease) in earnings per share, diluted, HK cents	0.5	0.4	(0.1)	–	0.8
For the year ended 31st December 2004					
Increase in fair value gains on investment properties	–	66,913	–	–	66,913
Increase in deferred taxation charge	–	–	(11,749)	–	(11,749)
	–	66,913	(11,749)	–	55,164
Increase/(decrease) in earnings per share, basic and diluted, HK cents	–	8.1	(1.4)	–	6.7

Notes to the Accounts

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

The adoption of new/revised HKFRS (Continued)

	HKAS 17 *HK$'000*	HKAS 40 *HK$'000*	HK(SIC)- Int 21 *HK$'000*	HKFRS 3 *HK$'000*	Total *HK$'000*
Increase/(decrease) in assets					
As at 31st December 2005					
Leasehold land and land use rights	285,596	–	–	–	285,596
Property, plant and equipment	(285,596)	–	–	–	(285,596)
	–	–	–	–	–
As at 31st December 2004					
Leasehold land and land use rights	288,982	–	–	–	288,982
Property, plant and equipment	(288,982)	–	–	–	(288,982)
	–	–	–	–	–
Increase/(decrease) in shareholders' funds					
As at 31st December 2005					
Capital reserves	–	–	(4,550)	(14,993)	(19,543)
Properties revaluation reserves	–	(133,441)	–	–	(133,441)
Retained profit	–	133,441	(23,116)	14,993	125,318
	–	–	(27,666)	–	(27,666)
As at 31st December 2004					
Capital reserves	–	–	(4,550)	–	(4,550)
Properties revaluation reserves	–	(68,156)	–	–	(68,156)
Retained profit	–	68,156	(11,870)	–	56,286
	–	–	(16,420)	–	(16,420)

Notes to the Accounts

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

Standards, interpretations and amendments to published standards that are not yet effective.

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1st January 2006 or later periods but which the Group has not early adopted, as follows:

- HKAS 19 (Amendment), Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures (effective from 1st January 2006). This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements.

- HKAS 39 (Amendment), Cash flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1st January 2006). This amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated accounts, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect consolidated profit or loss.

- HKAS 39 (Amendment), The Fair Value Option (effective from 1st January 2006). This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category.

- HKAS 39 and HKFRS 4 (Amendment), Financial Instruments: Recognition and Measurement and Insurance Contracts – Guarantee Contracts (effective from 1st January 2006). This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date.

Notes to the Accounts

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

- HKFRS 7, Financial Instruments: Disclosures, and a complementary Amendment of HKAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1st January 2007). HKFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces disclosure requirements in HKAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under HKFRS. The amendment to HKAS 1 introduces disclosures about the level of an entity's capital and how it manages capital.

- HKFRS-Int 4, Determining whether an Arrangement contains a Lease (effective from 1st January 2006). HKFRS-Int 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset.

The Group has already commenced an assessment of the potential impact of these new standards and amendments. Based on the preliminary assessment, the Group believes that the adoption of these HKFRSs will mainly affect disclosure and will not result in substantial changes to the Group's accounting policies.

2.2 Consolidation

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

The consolidated accounts also include the Group's attributable share of post-acquisition results and reserves of its associated company.

(i) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Notes to the Accounts

2 Summary of significant accounting policies *(Continued)*

2.2 Consolidation *(Continued)*

(i) Subsidiaries (Continued)

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

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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

(ii) Associated companies

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

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

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

Notes to the Accounts

2 Summary of significant accounting policies *(Continued)*

2.3 Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit and loss accounts during the financial period in which they are incurred.

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

Buildings	Shorter of the lease or 50 years
Leasehold improvements	5 years or over the relevant lease period
Furniture, office equipment and motor vehicles	5 years

No depreciation is provided for construction in progress.

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

The carrying amount of an asset is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gain and losses on disposal are determined as the difference between the net disposal proceeds and the carrying amounts of the assets and are dealt with in the profit and loss account.

2.4 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property. Investment property comprises land held under operating leases and the 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 valuation carried out annually by external valuers. Changes in fair values are recognised in the profit and loss account.

Notes to the Accounts

2 Summary of significant accounting policies *(Continued)*

2.4 Investment properties *(Continued)*

Investment property held for sale without redevelopment is classified within non-current assets held for sales, under HKFRS 5.

2.5 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiaries, associated companies or jointly controlled entities at the date of acquisition and, in respect of an increase in holding in a subsidiary company, the excess of the cost of acquisition and the carrying amount of the proportion of the minority interests acquired. Goodwill on acquisition of associated companies or jointly controlled entities is included in investments in associated companies or jointly controlled entities. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. If the cost of acquisition is less than the fair value of the Group's share of the net identifiable assets of the acquired company, the difference is recognised directly in the consolidated profit and loss account.

2.6 Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value of an asset 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.

2.7 Properties under development and for sale

The cost of acquiring land held under operating leases is amortised on a straight line basis over the lease term. If the property is in the course of development or re-development the amortisation charge is included as part of the costs of the property under development. In all other cases the amortisation charge for the period is recognised in profit and loss account immediately. In all other respects, inventories in respect of property development activities are carried at the lower of cost and net realisable value.

Notes to the Accounts

2 Summary of significant accounting policies *(Continued)*

2.8 Trade and other receivables

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

2.9 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.

2.10 Share capital

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

2.11 Borrowings

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

The fair value of the liability portion of a convertible note is determined using a market interest rate for an equivalent non-convertible note. This amount is recorded as a liability on an amortised costs basis until extinguished on conversion or maturity of the notes. The remaining of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

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

Notes to the Accounts

2 Summary of significant accounting policies *(Continued)*

2.12 Deferred taxation

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

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

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associated companies and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.13 Employee benefits

(i) *Employee leave entitlement*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) *Retirement scheme obligations*

Employees of the Group's subsidiaries in the People's Republic of China (the "PRC") are members of state-managed employee pension scheme operated in the PRC which undertakes to assume the retirement benefit obligations of all existing and future retired employees. The Group's obligation is to make the required contributions under the schemes. In addition, the Group also contributes to a mandatory provident fund scheme for all Hong Kong employees. All these contributions are based on a certain percentage of the staff's salary and are charged to the profit and loss account as incurred.

Notes to the Accounts

2 Summary of significant accounting policies *(Continued)*

2.14 Provisions

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

2.15 Foreign currency translation

(a) Functional and presentation currency

Items included in the accounts of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated accounts are presented in Hong Kong dollars, which is the Company's functional and presentation currency. The functional currency of the Group's subsidiaries in the PRC is Renminbi.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

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

(c) Group companies

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

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

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

Notes to the Accounts

2 Summary of significant accounting policies *(Continued)*

2.15 Foreign currency translation *(Continued)*

(c) Group companies (Continued)

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

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

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

2.16 Revenue recognition

Sales of completed properties are recognised when the risk and rewards of the property have been passed to the customers. Sales proceeds received are initially recorded as advanced proceeds received from customers under current liabilities.

Rental income under operating leases is recognised over the periods of the respective leases on a straight line basis.

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

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

2.17 Borrowing costs

Borrowing costs are expensed in the profit and loss account in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying assets commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

Notes to the Accounts

2 Summary of significant accounting policies *(Continued)*

2.18 Operating leases

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

The up-front prepayments made for the leasehold land and land use rights are expensed in the profit and loss account on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the profit and loss account.

2.19 Dividend distribution

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

2.20 Contingent liabilities and contingent assets

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

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

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

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

Notes to the Accounts

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest risk and price risk), credit risk, liquidity risk, fair value interest-rate risk and cash flow interest-rate risk.

(a) Market risk - Foreign exchange risk

The principal subsidiaries of the Group operate in Hong Kong and the PRC with almost all of the transactions settled in Hong Kong dollars and Renminbi and therefore did not have significant exposure to foreign exchange risks during the year.

(b) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of services are made to customers with an appropriate credit history.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of committed credit facilities (including facilities obtained from related companies) and the ability to close out market position.

The Group aims to maintain flexibility in funding by keeping sufficient cash and cash equivalents.

(d) 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 interest-rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk.

The Group has not used any derivative instruments to hedge its exposure to interest rate risk.

Notes to the Accounts

3 Financial risk management *(Continued)*

3.2 Fair value estimation

The fair values of trade and other receivables, cash and cash equivalents, trade and other payables and current borrowings are assumed to approximate their carrying amount due to the short-term maturities of these assets and liabilities.

The fair values of long-term borrowings are estimated using the expected future payments discounted at market interest rates.

4 Critical accounting estimates and judgements

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

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

(a) Income taxes

The Group is subject to income taxes in both Hong Kong and the PRC. Judgement is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Recognition of deferred tax assets, which principally relate to tax losses, depends on the management's expectation of future taxable profit that will be available against which tax losses can be utilised. The outcome of their actual utilisation may be different.

(b) Investment property

The fair values of investment properties are determined by independent valuers on an open market basis. In making the judgement, consideration has been given to assumptions that are mainly based on market conditions existing at the balance sheet date and appropriate capitalisation rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group.

Notes to the Accounts

5 Turnover and segment information

(a) Turnover

The Group is principally engaged in property investment and development of property projects in Hong Kong and the Mainland China. Turnover comprises gross proceeds from sales of properties and revenue from rental operation.

	2005 **HK$'000**	2004 HK$'000
Company and subsidiaries		
Rental income	**13,987**	6,612
Share of an associated company		
Sales of properties	**34,515**	598,094
	48,502	604,706

(b) Segment information

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

For management purposes, the Group is organised into two operating businesses – property development and property investment. These businesses are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

Notes to the Accounts

5 Turnover and segment information *(Continued)*

(b) Segment information *(Continued)*

Business segments

Results

Year ended 31st December 2005	Property development *HK$'000*	Property investment *HK$'000*	Total *HK$'000*
Segment turnover			
Company and subsidiaries	–	13,987	13,987
Share of an associated company	34,515	–	34,515
	34,515	13,987	48,502
Segment results	(18,441)	233,117	214,676
Excess of fair values of net assets acquired over cost of acquisition			17,976
Other gains			1,120
Corporate administrative expenses			(43,522)
Operating profit before financing			190,250
Finance costs			(33,154)
Share of profit of an associated company	6,012	–	6,012
Profit before taxation			163,108
Taxation			(54,099)
Profit attributable to shareholders			109,009

	Property development *HK$'000*	Property investment *HK$'000*	Corporate items *HK$'000*	Total *HK$'000*
Capital expenditure	–	137,790	4,463	142,253
Depreciation	–	–	4,675	4,675
Amortisation of leasehold land and land use rights	4,968	–	3,386	8,354

Notes to the Accounts

5 Turnover and segment information *(Continued)*

(b) Segment information *(Continued)*

Business segments *(Continued)*

Results *(Continued)*

Year ended 31st December 2004 (restated)	Property development *HK$'000*	Property investment *HK$'000*	Total *HK$'000*
Segment turnover			
Company and subsidiaries	–	6,612	6,612
Share of an associated company	598,094	–	598,094
	598,094	6,612	604,706
Segment results	(4,388)	71,410	67,022
Other gains			2,154
Corporate administrative expenses			(34,032)
Operating profit before financing			35,144
Finance costs			(3,516)
Share of profit of an associated company	170,025	–	170,025
Profit before taxation			201,653
Taxation			(13,850)
Profit attributable to shareholders			187,803

	Property development *HK$'000*	Property investment *HK$'000*	Corporate items *HK$'000*	Total *HK$'000*
Capital expenditure	–	12,087	3,687	15,774
Depreciation	–	–	4,234	4,234
Amortisation of leasehold land and land use rights	–	–	1,487	1,487

Notes to the Accounts

5 Turnover and segment information *(Continued)*

(b) Segment information *(Continued)*

Business segments *(Continued)*

Balance sheet

As at 31st December 2005	**Property development** ***HK$'000***	**Property investment** ***HK$'000***	**Total** ***HK$'000***
Assets			
Segment assets	**676,727**	**947,380**	**1,624,107**
Associated company			**112,646**
Unallocated corporate assets			**421,606**
			2,158,359
Liabilities			
Segment liabilities	**251,463**	**72,471**	**323,934**
Unallocated corporate liabilities			**1,086,553**
			1,410,487

As at 31st December 2004 (restated)	Property development *HK$'000*	Property investment *HK$'000*	Total *HK$'000*
Assets			
Segment assets	142,508	226,563	369,071
Associated company	293,103	–	293,103
Unallocated corporate assets			421,474
			1,083,648
Liabilities			
Segment liabilities	79,992	12,653	92,645
Unallocated corporate liabilities			329,208
			421,853

Notes to the Accounts

5 Turnover and segment information *(Continued)*

(b) Segment information *(Continued)*

Geographical segments

The Group's operations are located in Hong Kong and the Mainland China. All the turnover of the Group were derived in the Mainland China.

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

	2005 ***HK$'000***	Restated 2004 *HK$'000*
Segment results		
Hong Kong	**(4,743)**	(4,388)
Mainland China	**219,419**	71,410
	214,676	67,022
Excess of fair value of net assets acquired, over cost of acquisition	**17,976**	–
Other gains	**1,120**	2,154
Corporate administrative expenses	**(43,522)**	(34,032)
Operating profit before financing	**190,250**	35,144
Finance costs	**(33,154)**	(3,516)
Share of profit of an associated company	**6,012**	170,025
Profit before taxation	**163,108**	201,653
Taxation	**(54,099)**	(13,850)
Profit attributable to shareholders	**109,009**	187,803

Notes to the Accounts

5 Turnover and segment information *(Continued)*

(b) Segment information *(Continued)*

Geographical segments *(Continued)*

	2005 **HK$'000**	Restated 2004 *HK$'000*
Segment assets		
Hong Kong	**144,331**	142,508
Mainland China	**1,479,776**	226,563
	1,624,107	369,071
Associated company	**112,646**	293,103
Unallocated	**421,606**	421,474
Total assets	**2,158,359**	1,083,648
Capital expenditure		
Hong Kong	**2,899**	11,452
Mainland China	**139,354**	4,322
	142,253	15,774

6 Other gains

	2005 **HK$'000**	2004 *HK$'000*
Interest income from banks	**330**	2
Others	**790**	2,152
	1,120	2,154

Notes to the Accounts

7 Operating profit before financing

	2005 **HK$'000**	2004 HK$'000
Operating profit before financing is stated after crediting and charging the following:		
Crediting		
Gross rental income from investment properties	**13,987**	6,612
Interest income	**330**	2
Charging		
Amortisation of leasehold land and land use rights	**12,863**	1,487
Less: Amount capitalised	**(4,509)**	–
	8,354	1,487
Depreciation	**4,675**	4,234
Outgoings in respect of investment properties	**1,429**	785
Auditors' remuneration	**995**	580

Generally, the Group's operating leases are for terms of within one years except for three (2004: one) long-term leases which are beyond five years. There is no contingent rent included in rental income for both years.

	2005 **HK$'000**	2004 HK$'000
The future minimum rental income receivable under non-cancellable leases are as follows:		
Within one year	**6,690**	8,085
Between two and five years	**15,635**	23,882
Beyond five years	**14,812**	28,827
	37,137	60,794

Notes to the Accounts

8 Finance costs

	2005 **HK$'000**	2004 *HK$'000*
Interest on:		
Bank loans	**10,996**	3,514
Promissory notes	**16,434**	602
Convertible note	**5,724**	–
	33,154	4,116
Amount capitalised in properties under development	**–**	(600)
	33,154	3,516

9 Employee benefit expense

	2005 **HK$'000**	2004 *HK$'000*
Salaries and other benefits	**16,626**	15,732
Pension costs – defined contribution plans (Note a)	**260**	233
	16,886	15,965

(a) Pensions – defined contribution plans

The Group has operated a pension scheme under the rules and regulations of the Mandatory Provident Fund Scheme Ordinance ("MPF Scheme") for all employees in Hong Kong since 1st December 2000. The contributions to the MPF Scheme are based on minimum statutory contribution requirement of 5% of eligible employees' relevant aggregate income.

The Group also contributes to retirement plans for its employees in the Mainland China at a percentage in compliance with the requirements of the respective municipal governments in the PRC.

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

Notes to the Accounts

9 Employee benefit expense *(Continued)*

(b) Directors' and management's emoluments

(i) The remuneration of each of the directors of the Company are set out below:

31st December 2005

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

Name of Independent non-executive director	Fees *HK$'000*	Salary *HK$'000*	Discretionary bonuses *HK$'000*	Contribution to pension scheme *HK$'000*	Total *HK$'000*
Liu Hing Hung	120	–	–	–	120
Lee Chack Fan	120	–	–	–	120
Zhu Wenhui	120	–	–	–	120
Lu Hong Bing *(resigned on 19th February 2005)*	8	–	–	–	8
Yu Hon To, David *(resigned on 19th February 2005)*	25	–	–	–	25
	393	–	–	–	393

Notes to the Accounts

9 Employee benefit expense *(Continued)*

(b) Directors' and management's emoluments *(Continued)*

31st December 2004

Name of Executive directors	Fees *HK$'000*	Salary *HK$'000*	Discretionary bonuses *HK$'000*	Contribution to pension scheme *HK$'000*	Total *HK$'000*
Hui Wing Mau	1,800	–	150	12	1,962
Chung Shui Ming, Timpson	333	1,651	498	8	2,490
Hui Mei Mei, Carol	1,440	–	480	12	1,932
Hui Sai Tan, Jason	854	–	480	12	1,346
Lee Yuk Ying *(resigned on 1st June 2004)*	628	–	240	5	873
Yao Li *(resigned on 19th February 2005)*	320	–	–	–	320
Tang Ping Fai *(resigned on 19th February 2005)*	400	–	–	–	400
Ip Wai Shing *(resigned on 19th February 2005)*	440	–	–	–	440
	6,215	1,651	1,848	49	9,763

Name of Independent non-executive director	Fees *HK$'000*	Salary *HK$'000*	Discretionary bonuses *HK$'000*	Contribution to pension scheme *HK$'000*	Total *HK$'000*
Liu Hing Hung	60	–	–	–	60
Lee Chack Fan *(appointed on 1st June 2004)*	70	–	–	–	70
Zhu Wenhui *(appointed on 15th December 2004)*	5	–	–	–	5
Lu Hong Bing	60	–	–	–	60
Yu Hon To, David *(appointed on 1st June 2004)*	105	–	–	–	105
	300	–	–	–	300

None of the Directors has waived the right to receive the emoluments (2004: none).

Notes to the Accounts

9 Employee benefit expense *(Continued)*

(b) Directors' and management's emoluments *(Continued)*

(ii) Five highest paid individuals

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

	2005 ***HK$'000***	2004 *HK$'000*
Basic salaries and other emoluments	**799**	–
Bonus	**210**	–
Contribution to pension scheme	**12**	–
	1,021	–

(iii) Key management compensation

	2005 ***HK$'000***	2004 *HK$'000*
Directors' fee	**3,912**	6,215
Basic salaries and other emoluments	**6,126**	4,249
Contribution to pension scheme	**79**	61
	10,117	10,525

Notes to the Accounts

10 Taxation

	2005 **HK$'000**	2004 HK$'000
Current taxation		
Income tax in the PRC	**420**	145
Deferred taxation		
Relating to the origination and reversal of temporary differences (note 28)	**53,679**	13,705
	54,099	13,850

No provision for Hong Kong profits tax has been made within the Group as the Group has no assessable profit in Hong Kong for the year (2004: Nil). PRC income tax has been provided on the estimated assessable profits of subsidiaries operating in the PRC at the applicable rate of taxation.

The tax of the Group's profit before taxation differs from the theoretical amount that would arise using the applicable tax rates, being the weighted average of rates prevailing in the provinces in the PRC in which the Group operates, as follows:

	2005 **HK$'000**	2004 HK$'000
Profit before taxation	**163,108**	201,653
Less: share of profit of an associated company	**(6,012)**	(170,025)
	157,096	31,628
Tax calculated at applicable tax rates	**62,336**	6,592
Income not subject to tax	**(3,146)**	–
Tax losses not recognised	**15,754**	7,291
Recognition of previously unrecognised tax losses	**(21,410)**	–
Utilisation of previously unrecognised tax losses	**(1,023)**	(1,014)
Other items	**1,588**	981
Taxation charge	**54,099**	13,850

Notes to the Accounts

11 Profit attributable to equity holders of the Company

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK$167,309,000 (2004: HK$120,370,000).

12 Dividend

	2005 **HK$'000**	2004 HK$'000
Paid, final, HK$0.05 per ordinary share	–	41,382

The Board of directors do not recommend the payment of a dividend in respect of 2005.

13 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK$109,009,000 (2004: HK$187,803,000) and weighted average number of 827,639,886 (2004: 827,639,886) ordinary shares in issue during the year.

The calculation of diluted earnings per share for the year ended 31st December 2005 is based on HK$114,733,000, representating the profit attributable to shareholders of HK$109,009,000 plus interest on convertible note (note 8) saving of HK$5,724,000 and, 924,037,654 shares being the weighted average number of 827,639,886 shares in issue during the year plus 96,397,768 shares deemed to be in issue assuming the convertible note had been converted upon issuance on 24th June 2005.

The basic and diluted earnings per shares were the same for 2004 since there were no potential dilutive shares.

Notes to the Accounts

14 Investment properties

Group

	2005 **HK$'000**	2004 HK$'000
Beginning of year	**220,000**	474,000
Additions	**–**	12,087
Transfer from leasehold land and land use rights (note 16)	**233,516**	–
Transfer from construction in progress (note 15)	**119,437**	–
Exchange difference	**4,231**	–
Fair value gains	**224,642**	66,913
Reclassification (notes 15 and 16)	**–**	(333,000)
End of the year	**801,826**	220,000

Notes:

At 31st December 2005, the Group's investment properties were revalued on an open market value basis by Savills Valuation and Professional Services Limited, an independent professional valuer and were held under leases of between 10 to 50 years in the Mainland China.

Notes to the Accounts

15 Property, plant and equipment

Group

	Buildings HK$'000	Construction in progress HK$'000	Leasehold improvements HK$'000	Furniture, office equipment and motor vehicles HK$'000	Total HK$'000
At 1st January 2004					
Cost	11,633	–	4,855	1,847	18,335
Accumulated depreciation	(237)	–	(890)	(412)	(1,539)
Net book amount	11,396	–	3,965	1,435	16,796
Year ended 31st December 2004					
Opening net book amount	11,396	–	3,965	1,435	16,796
Additions	–	–	3,092	595	3,687
Write off	–	–	(43)	–	(43)
Reclassification (note 14)	82,000	–	–	–	82,000
Depreciation	(2,479)	–	(1,270)	(485)	(4,234)
Closing net book amount	90,917	–	5,744	1,545	98,206
At 31st December 2004					
Cost	93,633	–	7,894	2,442	103,969
Accumulated depreciation	(2,716)	–	(2,150)	(897)	(5,763)
Net book amount	90,917	–	5,744	1,545	98,206
Year ended 31st December 2005					
Opening net book amount	**90,917**	**–**	**5,744**	**1,545**	**98,206**
Exchange differences	**–**	**1,847**	**–**	**34**	**1,881**
Additions	**–**	**141,314**	**3,601**	**862**	**145,777**
Acquisition of a subsidiary	**–**	**96,030**	**–**	**1,679**	**97,709**
Transfer upon completion (note 14)	**–**	**(119,437)**	**–**	**–**	**(119,437)**
Depreciation	**(1,870)**	**–**	**(2,094)**	**(711)**	**(4,675)**
Closing net book amount	**89,047**	**119,754**	**7,251**	**3,409**	**219,461**
At 31st December 2005					
Cost	**93,633**	**119,754**	**11,495**	**5,279**	**230,161**
Accumulated depreciation	**(4,586)**	**–**	**(4,244)**	**(1,870)**	**(10,700)**
Net book amount	**89,047**	**119,754**	**7,251**	**3,409**	**219,461**

Notes to the Accounts

15 Property, plant and equipment *(Continued)*

At 31st December 2005, all (2004: all) buildings of the Group were pledged as collateral for the Group's borrowings (note 24).

Depreciation of HK$4,675,000 (2004: HK$4,234,000) was included in administrative expenses in the profit and loss account.

16 Leasehold land and land use rights

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

	Group	
	2005	2004
	HK$'000	*HK$'000*
Opening net book amount	**288,982**	39,469
Acquisition of subsidiary	**632,707**	–
Reclassification (note 14)	**–**	251,000
Amortisation	**(10,841)**	(1,487)
Exchange difference	**12,168**	–
Transfer to investment properties (note 14)	**(233,516)**	–
Closing net book amount	**689,500**	288,982

	2005	2004
	HK$'000	*HK$'000*
In Hong Kong held on lease of over 50 years	**285,596**	288,982
Mainland China, held on lease of between 10 to 50 years	**340,494**	–
	626,090	288,982

At 31st December 2005, leasehold land and land use rights of HK$285,596,000 (2004: HK$288,982,000) were pledged as collateral for the Group's borrowings (note 24).

The balance also includes amount paid to Municipal Government of Suifenhe in respect of the Second Phase Land (note 34 (b)) of HK$63,410,000. Upon acquisition of land use rights, this amount will be reclassified to the land costs of the respective property development projects.

Amortisation of HK$3,525,000 (2004: Nil) was capitalised in the property, plant and equipment and HK$3,386,000 (2004: HK$1,487,000) and HK$3,930,000 (2004: Nil) were included in "administrative expenses" and "other operating expenses" respectively in the profit and loss account.

Notes to the Accounts

17 Associated company

	Group	
	2005	2004
	HK$'000	*HK$'000*
Share of net assets		
Beginning of year	**293,103**	236,286
Share of results		
– Profit before taxation	**7,692**	200,030
– Taxation	**(1,680)**	(30,005)
	299,115	406,311
Exchange difference	**2,210**	–
Dividend received	**(188,679)**	(113,208)
End of year	**112,646**	293,103

At 31st December 2005, the Group had interest in the following associated company:

Name of entity	**Place of registration**	**Registered capital**	**Attributable interest**	**Principal activities**
Shanghai Shimao Hubin Real Estate Company Limited ("Shimao Hubin")	PRC	US$18 million	50%	Property development

Shimao Hubin is a sino-foreign equity joint venture for a period of 20 years commencing from 19th April 2002. It is established in the Pudong New Area of the PRC and is required to pay income tax at a preferential rate of 15% (2004: 15%).

Notes to the Accounts

17 Associated company *(Continued)*

The Group's share of assets, liabilities and results of the associated company is summarised as follows:

(a) Results

	2005 **HK$'000**	2004 HK$'000
Income	**34,515**	598,094
Expenses, including taxation	**28,503**	428,069

(b) Net assets

	2005 **HK$'000**	2004 HK$'000
Non-current assets	**3,950**	1,597
Current assets	**170,743**	494,988
Current liabilities	**(62,047)**	(203,482)
	112,646	293,103

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

No provision for LAT has been made in the accounts since Shimao Hubin had not been required by the relevant authorities to pay LAT and the directors of Shimao Hubin consider that it is unlikely to receive demands from the tax authorities in the PRC for payment of the LAT relating to the sales revenue recognised on or before 31st December 2005 which would otherwise have amounted to approximately HK$193.9 million (2004: HK$184.2 million).

Notes to the Accounts

18 Properties under development and for sale

	2005	2004
	HK$'000	*HK$'000*
Group		
Properties under development for sale, in Mainland China, held on lease of between 10 to 50 years	**129,860**	–
Completed properties held for sale, in Hong Kong held on leases of over 50 years	**144,331**	142,508
	274,191	142,508
Representing:		
Leasehold land and land use rights	**147,537**	72,776
Development costs	**126,654**	69,732
	274,191	142,508

Amortisation of leasehold land and land use rights in respect of properties under development for sale of HK$984,000 (2004: Nil) was capitalised as part of development costs, whereas amortisation of leasehold land and land use rights in respect of completed properties held for sale of HK$1,038,000 (2004: Nil) was included in "other operating expenses" in the profit and loss account.

At 31st December 2004 and 2005, all of the Group's completed properties held for sale were pledged as collateral for the Group's borrowings (note 24).

19 Subsidiaries

	Company	
	2005	2004
	HK$'000	HK$'000
Unlisted shares, at cost	**253,188**	–
Amounts due from subsidiaries, net of provision	**668,014**	486,457
Amounts due to subsidiaries	**(7,107)**	(170)

Notes to the Accounts

19 Subsidiaries *(Continued)*

Details of the principal subsidiaries at 31st December 2005 are as follows:

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

Note:

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

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

Notes to the Accounts

20 Trade receivables

The Group normally allows a credit period of one month to its trade customers. The aging analysis of trade receivables is as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Current	**316**	29
1 to 60 days	**404**	–
61 to 90 days	**96**	–
Over 90 days	**–**	75
	816	104

The carrying amounts approximate their fair value and are mainly denominated in Renminbi.

21 Bank balance and cash

The carrying amounts of the Group's bank balance and cash are denominated in the following currencies:

	2005	2004
	HK$'000	*HK$'000*
Hong Kong Dollars	**8,445**	18,072
Renminbi	**18,207**	243
Other currencies	**922**	44
	27,574	18,359

Notes to the Accounts

22 Share capital

	Number of ordinary shares of HK$0.1 each *'000*	*HK$'000*
Authorised:		
At 31st December 2004 and 2005	10,000,000	1,000,000
Issued and fully paid:		
At 31st December 2004 and 2005	827,640	82,764

23 Reserves

Group	Contributed surplus *HK$'000*	Capital reserve *HK$'000*	Properties revaluation reserve *HK$'000*	Foreign exchange translation reserve *HK$'000*	Convertible note-equity component *HK$'000*	Retained profit *HK$'000*	Total *HK$'000*
At 1st January 2005,							
as previously reported	104,478	19,543	133,441	–	–	349,235	606,697
Change in accounting policy							
– HKAS 40 (note 2.1(d))	–	–	(133,441)	–	–	133,441	–
– HK(SIC)-Int 21 (note 2.1(e))	–	(4,550)	–	–	–	(23,116)	(27,666)
	104,478	14,993	–	–	–	459,560	579,031
Opening adjustment							
– HKFRS 3 (note 2.1(c))	–	(14,993)	–	–	–	14,993	–
As restated	104,478	–	–	–	–	474,553	579,031
Currency translation adjustments							
– Group	–	–	–	14,291	–	–	14,291
– Associated company	–	–	–	2,210	–	–	2,210
Issuance of convertible note	–	–	–	–	1,949	–	1,949
Payment of final dividend	–	–	–	–	–	(41,382)	(41,382)
Profit for the year	–	–	–	–	–	109,009	109,009
At 31st December 2005	**104,478**	**–**	**–**	**16,501**	**1,949**	**542,180**	**665,108**
Retained by							
Company and subsidiaries	104,478	–	–	14,291	1,949	501,994	622,712
An associated company	–	–	–	2,210	–	40,186	42,396
At 31st December 2005	**104,478**	**–**	**–**	**16,501**	**1,949**	**542,180**	**665,108**

Notes to the Accounts

23 Reserves *(Continued)*

Group	**Share premium** *HK$'000*	**Contributed surplus** *HK$'000*	**Capital reserve** *HK$'000*	**Properties revaluation reserve** *HK$'000*	**Retained profit** *HK$'000*	**Total** *HK$'000*
At 1st January 2004, as previously reported	318,290	47,654	19,543	68,156	3,663	457,306
Change in accounting policy						
– HKAS 40 (note 2.1(d))	–	–	–	(68,156)	68,156	–
– HK(SIC)-Int 21(note 2.1(e))	–	–	(4,550)	–	(11,870)	(16,420)
As restated	318,290	47,654	14,993	–	59,949	440,886
Reduction of share premium	(318,290)	106,482	–	–	211,808	–
Payment of special dividend	–	(49,658)	–	–	–	(49,658)
Profit for the year	–	–	–	–	187,803	187,803
At 31st December 2004	–	104,478	14,993	–	459,560	579,031

Company	**Share premium** *HK$'000*	**Contributed surplus** *HK$'000*	**Convertible note-equity component** *HK$'000*	**Retained profit/ (accumulated loss)** *HK$'000*	**Total** *HK$'000*
At 31st December 2003	318,290	152,029	–	(211,808)	258,511
Reduction of share premium	(318,290)	106,482	–	211,808	–
Payment of special dividend	–	(49,658)	–	–	(49,658)
Profit for the year	–	–	–	120,370	120,370
At 31st December 2004	–	208,853	–	120,370	329,223
Issurance of convertible note	–	–	1,949	–	1,949
Profit for the year	–	–	–	167,309	167,309
Payment of final dividend	–	–	–	(41,382)	(41,382)
At 31st December 2005	**–**	**208,853**	**1,949**	**246,297**	**457,099**

Notes to the Accounts

23 Reserves *(Continued)*

The contributed surplus of the Group brought forward arose as a result of the Group reorganisation carried out in 1998, and represents the difference between the nominal value of shares of the subsidiaries acquired pursuant to the Group reorganisation, over the nominal value of the Company's shares issued in exchange therefor.

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

Under the Companies Act 1981 of Bermuda, the contributed surplus account of the Company is available for distribution. Accordingly, the distributable reserve of the Company at 31st December 2005 amounted to HK$457,099,000.

24 Borrowings

	Group		Company	
	2005 **HK$'000**	2004 HK$'000	**2005** **HK$'000**	2004 HK$'000
Non-current				
Long-term bank loans, secured	**270,919**	148,517	**–**	–
Promissory notes (note 25)	**136,427**	–	**136,427**	–
Convertible note (note 26)	**236,134**	–	**236,134**	–
	643,480	148,517	**372,561**	–
Current				
Current portion of long-term bank loans, secured	**16,720**	13,133	**–**	–
Short-term bank loan, secured	**120,000**	34,770	**–**	–
Promissory note (note 25)	**–**	40,000	**–**	10,000
	136,720	87,903	**–**	10,000
Total borrowings	**780,200**	236,420	**372,561**	10,000

All of the bank borrowings are floating rate instruments while the other borrowings are fixed rate instruments.

Notes to the Accounts

24 Borrowings *(Continued)*

The maturity of borrowings is as follows:

	Group				Company	
	Long-term bank loan *HK$'000*	**Short-term bank loan** *HK$'000*	**Convertible note** *HK$'000*	**Promissory note** *HK$'000*	**Convertible note** *HK$'000*	**Promissory note** *HK$'000*
As at 31st December 2005						
Within one year	16,720	120,000	–	–	–	–
Between one and two years	136,942	–	236,134	–	236,134	–
Between two and five years	51,128	–	–	136,427	–	136,427
After five years	82,849	–	–	–	–	–
	287,639	120,000	236,134	136,427	236,134	136,427
Wholly repayable within five years	139,123	120,000	236,134	136,427	236,134	136,427
Not wholly repayable within five years	148,516	–	–	–	–	–
	287,639	120,000	236,134	136,427	236,134	136,427
As at 31st December 2004						
Within one year	13,133	34,770	–	40,000	–	10,000
Between one and two years	13,133	–	–	–	–	–
Between two and five years	39,400	–	–	–	–	–
After five years	95,984	–	–	–	–	–
	161,650	34,770	–	40,000	–	10,000
Wholly repayable within five years	–	34,770	–	40,000	–	10,000
Not wholly repayable within five years	161,650	–	–	–	–	–
	161,650	34,770	–	40,000	–	10,000

Notes to the Accounts

24 Borrowings *(Continued)*

The effective interest rates at the balance sheet dates were as follows:

	2005	2004
Long-term bank loans, secured	**5.65%**	1.64%
Short-term bank loans, secured	**5.53%**	1.53%
Promissory notes (note 25)	**5.76%**	1.50%
Convertible note (note 26)	**4.94%**	–

The carrying amounts of the Group's borrowings are mainly denominated in Hong Kong dollars.

25 Promissory notes

	Group		**Company**	
	2005 **HK$'000**	2004 *HK$'000*	**2005** **HK$'000**	2004 *HK$'000*
Issue to:				
Related companies	**136,427**	30,000	**136,427**	–
Ultimate holding company	**–**	10,000	**–**	10,000
	136,427	40,000	**136,427**	10,000

The Company issued promissory note with principal amount of HK$246,220,000 on 24th June 2005 to Dynamic Keen in respect of the acquisition of Value Ahead (note 34 (c)). It is unsecured, bears interest at 2.0% per annum and wholly repayable on 24th June 2009. During the year, HK$92,000,000 was repaid and the outstanding balance at 31st December 2005 is of principal amount of HK$154,220,000. The outstanding promissory notes at 31st December 2004 were fully repaid during the year.

The fair value of the promissory notes at 31st December 2005 amounted to HK$133,820,000. The fair value is calculated using cash flows discounted at a rate based on the borrowings rate of 6.37%.

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

Notes to the Accounts

26 Convertible note

The Company issued redeemable convertible note in the aggregate amount of HK$250,000,000 on 24th June 2005 to Dynamic Keen in respect of the acquisition of Value Ahead (note 34 (c)). The note bears interest at 1% per annum and matures on 24th June 2007 at their nominal value of HK$250,000,000. The note can be converted into shares at the holder's option at a conversion price of HK$1.35 per share after 24th June 2006, or redeemable at the option of the Company.

The fair value of the convertible note at the date of issuance was based on a valuation performed by Sallmanns (Far East) Limited, an independent professional valuer and the liability component and the equity conversion component at initial recognition were accordingly determined. The equity component of the note has been included in reserves (note 23).

The fair value of the liability component of the convertible note at 31st December 2005 amounted to HK$234,318,000. The fair value is calculated using cash flows discounted at a rate based on the borrowings rate of 5.84%.

Interest expense on the note is calculated using the effective interest method by applying the effective interest rate of 4.94% to the liability component.

27 Amount received from Suifenhe Land Reserve Centre

Pursuant to two agreements dated 18th March 2004 and 21st July 2004 entered ("Agreements"), the Group was appointed to construct the ancillary facilities and infrastructure surrounding the area of the Intertrading Zone on behalf of the Municipality of Suifenhe. Aggregate balance of HK$116,807,000 was received in advance from Suifenhe Land Reserve Centre ("SLRC") in 2004, which are non interest bearing. The development costs incurred for the ancillary facilities and surrounding infrastructure will be reimbursed on an actual basis against the advances received up to a total of HK$116,807,000. Any shortfall will be borne by the Group while any surplus will be refunded to SLRC. The actual reimbursement will be fixed with SLRC upon completion of the ancillary facilities and surrounding infrastructure.

In the opinion of the directors, the total costs required for the construction of the ancillary facilities and surrounding infrastructure are estimated at approximately HK$127,686,000. This estimation will be revised on a timely basis as more construction contracts are entered into and the development progresses. Up to 31st December 2005, the construction costs incurred amounted to approximately HK$2,143,000.

Notes to the Accounts

28 Deferred taxation

	2005 **HK$'000**	2004 HK$'000
Deferred taxation assets	**21,410**	–
Deferred taxation liabilities	**(280,901)**	(61,389)
	(259,491)	(61,389)

Deferred taxation assets and liabilities are offset when there is a legal right to set off current taxation liabilities and when the deferred taxation relates to the same authority. The above assets/(liabilities) shown in the consolidated balance sheet are determined after appropriate offsetting of the relevant amounts and include the following:

	2005 **HK$'000**	2004 HK$'000
Deferred taxation assets to be recovered after more than twelve months	**–**	–
Deferred taxation liabilities to be recovered after more than twelve months	**280,901**	61,389

Deferred taxation is calculated in full on temporary differences under the liability method using applicable tax rates prevailing in the provinces in the PRC in which the Group operates. Deferred taxation movements during the year are as follows:

	Assets/(liabilities)			
	Tax losses HK$'000	**Accelerated depreciation allowances** HK$'000	**Revaluation** HK$'000	**Total** HK$'000
At 31st December 2003	2,610	(4,695)	(45,599)	(47,684)
Transfer to profit and loss account (note 10)	(1,696)	(260)	(11,749)	(13,705)
At 31st December 2004	914	(4,955)	(57,348)	(61,389)
Exchange difference	17	(94)	(2,723)	(2,800)
Acquisition of subsidiary	–	–	(141,623)	(141,623)
Transfer to profit and loss account (note 10)	22,676	(3,096)	(73,259)	(53,679)
At 31st December 2005	23,607	(8,145)	(274,953)	(259,491)

Notes to the Accounts

28 Deferred taxation *(Continued)*

Deferred taxation assets of HK$14,723,000 (2004: HK$16,951,000) arising from unused tax losses of HK$58,085,000 (2004: HK$96,861,000) have not been recognised in the accounts. Unused tax losses have no expiry date, except balance of HK$29,428,000 will be expired after five years starting from the first profitable year of the operation of a wholly-owned subsidiary operated in the PRC.

29 Trade payables

The Group's trade payables mainly comprise costs payable for property development projects which are payable upon completion of work certified by the architects. At 31st December 2005, most of the Group's trade payables were current within their respective terms of credit. The carrying amount approximate their fair value and are mainly denominated in Renminbi.

30 Amount due to ultimate holding company and related companies

The balances are unsecured, interest free and have no fixed repayment terms. The carrying amounts approximate their fair value.

31 Commitment

At 31st December 2005, the Group had the following capital commitments in respect of property, plant and equipment:

	2005 ***HK$'000***	2004 *HK$'000*
Contracted but not provided for	**186,682**	1,926

32 Contingent liabilities

The Company has given guarantees in favour of bankers to the extent of HK$407,639,000 (2004: HK$232,000,000) in respect of banking facilities granted to subsidiaries of the Company. The banking facilities of HK$380,222,000 are also guaranteed by a director of the Company. At 31st December 2005, the banking facilities utilised by the subsidiaries amounted to approximately HK$407,639,000 (2004: HK$195,854,000).

Notes to the Accounts

33 Notes to the consolidated cash flow statement

Reconciliation of profit before taxation to net cash used in operations

	2005 ***HK$'000***	2004 *HK$'000*
Profit before taxation	**163,108**	201,653
Interest income	**(330)**	(2)
Finance costs	**33,154**	3,516
Amortisation of leasehold land and land use rights	**8,354**	1,487
Depreciation	**4,675**	4,234
Write off of property, plant and equipment	**–**	43
Excess of fair values of net assets acquired over cost of acquisition	**(17,976)**	–
Fair value gains on investment properties	**(224,642)**	(66,913)
Share of profit of an associated company	**(6,012)**	(170,025)
Operating loss before working capital changes	**(39,669)**	(26,007)
Increase in properties under development and for sale	**(30,140)**	(43,716)
Decrease/(increase) in prepayments, deposits and other receivables	**16,274**	(1,387)
Increase in trade receivables	**(712)**	(2,931)
(Decrease)/increase in trade payables	**(51)**	2,011
Increase in advanced proceeds received from customers	**43,021**	–
(Decrease)/increase in other payables and accruals	**(1,202)**	5,947
Net cash used in operations	**(12,479)**	(66,083)

Notes to the Accounts

34 Related party transactions

Related companies as referred to in notes 25, 26 and 30 of the accounts are those companies which are controlled and/or beneficially owned by certain directors of the Company.

During the year, the Group entered into the following related party transactions, which were carried out in the normal course of the Group's business:

	Note	**2005** **HK$'000**	2004 HK$'000
Interest on promissory note to ultimate holding company (note 25)		**57**	150
Interest on promissory notes to related companies (note 25)		**16,377**	452
Interest on convertible note to a related company (note 26)		**5,724**	–
Service fee income from a related company	*(a)*	–	2,100

Notes:

(a) The service fee income was charged at fixed amount to a related company as specified in the service contract. The service contract was terminated in July 2004.

(b) On 19th February 2005, the Company entered into a non-competition undertaking with Shimao Property Holdings Limited ("SPHL"), a related company wholly-owned by Mr. Hui Wing Mau, Mr. Xu Shiyong, Mr. Hui Wing Mau's nephew, Shanghai Shimao Enterprises Development Co. Ltd. ("Shimao Enterprises"), a company established in the PRC in which Mr. Xu holds a 93.33% interest and Shanghai Shimao Co. Ltd., a company established in the PRC whose shares are listed on the Shanghai Stock Exchange in which Shimao Enterprises holds a 26.43% interest. Pursuant to the Undertaking, so long as Overseas Investment Group International Limited, the controlling shareholder of the Company, directly or indirectly (through its subsidiaries) holds 30% or more of the issued share capital of the Company and SPHL (or controls the exercise of the voting rights in respect thereof), the Company undertakes to SPHL that it (1) shall not, (2) shall procure that its subsidiaries shall not, and (3) shall use its best endeavours to procure that its associated companies shall not, engage in any property business in mainland PRC (excluding Taiwan, Hong Kong and Macau), except that the Company may continue to hold its interest in the Dongfanghong Shopping Centre, the three retail units in Epoch Centre Phase II and the 50% interest in Shimao Lakeside Garden (the "Existing PRC Interests"). All the parties to the Non-competition Undertaking further agreed that Suifenhe Shimao development project shall not constitute property business in mainland PRC. The transaction was approved by independent shareholders at a special general meeting held on 15 September 2005 of the Company.

(c) On 19th February 2005, the Company entered into a sale and purchase agreement with Dynamic Keen Developments Limited, a related company wholly-owned by Mr. Hui Wing Mau, the Chairman of the Company to acquire 100% equity interest of Value Ahead Investment Limited, together with the amount due to Dynamic Keen (the "Acquisition"). The primary asset of Value Ahead is 100% interest in Suifenhe Shimao Development and Construction Company Limited ("Suifenhe Shimao"). Suifenhe Shimao is the project company of a property development project located in a region designated by the Chinese and Russian governments for the development of cross-border commerce and tourism between the PRC and Russia and which is planned to include a complex of residential, hotel, commercial and retail space and warehousing, logistics and leisure and entertainment facilities.

Notes to the Accounts

34 Related party transactions *(Continued)*

Notes: (Continued)

Chinese border of the Intertrading Zone

Pursuant to an agreement dated 19th January 2004 entered into between the Municipal Government of Suifenhe and Shanghai Shimao Jianshe Co., Ltd ("Shimao Jianshe"), a company beneficially and wholly owned by Mr. Hui, Chairman of the Company, the Municipal Government of Suifenhe agreed that Shimao Jianshe shall have the contractual right to acquire 153 hectares (equivalent to 1,530,000 sq.m.) of land which comprises two parcels of land with a total area of 722,824.5 sq.m. (the "First Phase Land") and the remaining portion of a land with a site area of approximately 807,175 sq.m. (the "Second Phase Land") for the exclusive development of the Pogranichy-Suifenhe Intertrading Economic Zone (the "Intertrading Zone") on the Chinese border of the Municipality of Suifenhe for a consideration of Rmb125,000,000. Pursuant to a transfer agreement dated 21st October 2004 entered into among the Municipal Government of Suifenhe, Shimao Jianshe and Suifenhe Shimao, all the rights and obligations of Shimao Jianshe relating to the agreement dated 19th January 2004 were transferred to Suifenhe Shimao. The cost of this transfer to Suifenhe Shimao was Rmb125,000,000, which was apportioned as to Rmb59,055,000 to the First Phase Land and as to Rmb65,945,000 to the Second Phase Land.

The first phase of development on the Chinese border of the Intertrading Zone

For the purpose of the first phase of development the Chinese border of the Intertrading Zone, Suifenhe Shimao had paid the land premium as stipulated in the land grant contracts with relevant governmental authority of the Municipality of Suifenhe and acquired the First Phase Land at a consideration of Rmb133,926,000.

The first phase of development includes Shimao International Commercial and Exhibition Centre (Phase I) and a five-star hotel, whereas the remaining portion of the areas is held for future development. Construction of Shimao International Commercial Centre (Phase I) was partially completed in December 2005 whilst the five-star hotel is in progress. Both are scheduled to be opened in mid 2006. Based on the latest project plan, the construction of the remaining portion of the area will commence in mid 2007 and the directors estimate the construction costs to be approximately HK$572 million.

The second phase of development on the Chinese border of the Intertrading Zone

There is no specific time limit for the contractual right to acquire the Second Phase Land. It is the intention of the directors that, after completion of the construction of the Shimao International Commercial and Exhibition Centre (Phase I) and the five-star hotel, the Group will proceed to negotiate with the relevant governmental authority of the Municipality of Suifenhe in relation to the acquisition of the Second Phase Land and make payment for the required land premium for the acquisition of the land. The land premium for the acquisition of the land use rights has yet to be negotiated.

Notes to the Accounts

34 Related party transactions *(Continued)*

Notes: (Continued)

Russian border of the Intertrading Zone

On 16th June 2004, Suifenhe Shimao also entered into a co-operative agreement (the "Co-operative Agreement") with Coastal Information Analysis Closed-end Stock Company Limited (the "Russian Party"), which is a company established in the Russian Federation, for the purpose of laying down the scope and principles of developing across the national boundary between the Municipality of Progranichny in Russia and the Municipality of Suifenhe in the PRC. As stated in recitals of the Cooperative Agreement, Suifenhe Shimao and the Russian Party have entered into agreements with the PRC government and Russian government respectively for the acquisition of the respective right of the land for exclusive development in the Intertrading Zone. Pursuant to the terms of the Co-operative Agreement, Suifenhe Shimao shall be responsible for carrying out property design and development for a site area of 153 hectares (equivalent to 1,530,000 sq.m.) of land on the Chinese border of the Intertrading Zone while the Russian Party will contribute at its costs for 300 hectares (equivalent to 3,000,000 sq.m.) of land on the Russian border of the Intertrading Zone representing around 66% of the total site area of the Intertrading Zone. It is expected that all the construction and development costs of the properties in the Russian border of the Intertrading Zone will be contributed by Suifenhe Shimao.

Under the Co-operative Agreement, Suifenhe Shimao and the Russian Party will be entitled to (i) 90% and 10% interest in Shimao International Commercial and Exhibition Centre (Phase I) on the Chinese border respectively; and (ii) 80% and 20% interest in the multi-function complex and the casino hotel on the Russian border respectively, and (iii) 90% and 10% interest in the medical centre and the financial centre on the Russian border respectively. The entitlement of the Russian Party to these interests will be subject to further negotiations and agreements with Suifenhe Shimao. The development plan as stipulated in the Co-operative Agreement has yet to be concluded and will be subject to further negotiation and entry of agreements with the Russian Party. It is the intention of the directors that Suifenhe Shimao and the Russian Party will establish investment holding companies under the Russian laws ("Russian joint venture companies") to hold the property interests and to engage in the operation of the casino hotel on the Russian border of the Intertrading Zone. Since the investments in Russian joint venture companies constitute overseas investment, Suifenhe Shimao as a company established in the PRC will be required to obtain approvals from relevant governmental authorities of the PRC.

Given that the establishment of the Russian joint venture companies is still in a preliminary stage, no approval has been obtained from the relevant governmental authority of Russian Federation. Suifenhe Shimao has yet to discuss and conclude the details of the Russian joint venture companies with the Russian Party.

Financial effects

The Consideration for the Acquisition was HK$496,220,000, satisfied by way of issuance of convertible note and promissory note with a nominal value of HK$250,000,000 and HK$246,220,000 respectively.

The Acquisition was approved by the shareholders at the special general meeting held on 13th June 2005 and was completed on 24th June 2005.

Notes to the Accounts

34 Related party transactions *(Continued)*

Notes: (Continued)

Financial effects *(Continued)*

Particulars of the assets and liabilities acquired are as follows:

	Note	**Fair value** *HK$'000*	**Carrying amount** *HK$'000*
Land use rights	*16*	632,707	248,121
Property, plant and equipment	*15*	97,709	97,709
Properties under development for sale		100,645	27,777
Prepayments, deposits and other receivables		4,823	4,823
Bank balances and cash		19,093	19,093
Trade payables		(46,974)	(46,974)
Advanced proceeds received from customers		(44,371)	(44,371)
Other payables and accruals		(11,360)	(11,360)
Amount received from Suifenhe Land Reserve Centre		(114,065)	(114,065)
Deferred income and other taxation liabilities		(172,432)	–
Net assets acquired		465,775	180,753
Satisfied by consideration at fair value			
Promissory note	*25*	214,190	
Convertible note	*26*		
– Equity component		1,949	
– Liability component		231,660	
		447,799	
Excess of fair values of net assets acquired over cost of acquisition		17,976	

Suifenhe Shimao contributed revenue and net profit of HK$10,000 and HK$129,088,000 (include fair value gain on investment properties) respectively from the date of acquisition to 31st December 2005. If the acquisition had occurred on 1st January 2005, the revenue and net profit of Suifenhe Shimao would have been HK$10,000 and HK$118,699,000 (include fair value gain on investment properties) respectively.

(d) In April 2006, the Group obtained an unsecured revolving facility of HK$100 million from the ultimate holding company for a period of 18 months.

Notes to the Accounts

35 Subsequent event

On 15th April 2006, the Group entered into agreements to invest in a large scale property investment and development project in St. Petersburg, Russia for consideration of HK$232,747,000 (the "Baltic Pearl Project"). The project involves the development of a mixture of residential, hotel, commercial and retail space, office, exhibition and convention facilities on a land of 1,640,717 square meters. Upon completion of the agreement, the Group will have a 33.34% interest in the Baltic Pearl Project. The transaction will be financed by a loan from the ultimate holding company of HK$232,747,000 for a term of four years at interest rate of 2% per annum. The Group has an option to make repayments of the loan or to extend the repayment date for a further two years.

36 Ultimate holding company

The directors of the Company consider Perfect Zone International Limited, a company incorporated in the British Virgin Islands, as being the ultimate holding company.

37 Approval of accounts

The accounts were approved by the Board of directors on 24th April 2006.