

1. CORPORATE INFORMATION

During the year, the Group was principally engaged in property development and investment, construction and building related businesses and other investments. Since 31st July, 2004, Regal Hotels International Holdings Limited ("RHIHL"), a then listed subsidiary company, became the listed associate of the Company. RHIHL and its subsidiary companies (the "RHIHL Group") are engaged in the business activities of hotel ownership and management, property investments and other investments.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and equity investments, which have been measured at fair value. A disposal group classified as held for sale is stated at the lower of carrying amount and fair value less costs to sell as further explained in note 2.5(i). These financial statements are presented in Hong Kong dollars ("HK\$") and all values are rounded to the nearest million except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary companies for the year ended 31st December, 2005. The results of subsidiary companies are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiary companies.



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2.2. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and its listed associate, the RHIHL Group, and are adopted for the first time for the current year's financial statements:

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 11	Construction Contracts
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
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	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39	Transition and Initial Recognition of Financial Assets and Financial Liabilities
Amendment	
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations
HK(SIC)-Int 21	Income Taxes - Recovery of Revalued Non-depreciable Assets
HK-Int 2	The Appropriate Accounting Policies for Hotel Properties
HK-Int 4	Leases - Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKASs 2, 7, 8, 10, 11, 12, 14, 18, 19, 21, 23, 28, 31, 33, 37, 40, HK(SIC)-Int 21 and HK-Int 4 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.



HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures. In addition, in prior years, the Group's share of tax attributable to associates and jointly controlled entity was presented as a component of the Group's total tax charge/ (credit) in the consolidated income statement. Upon the adoption of HKAS 1, the Group's share of the post-acquisition results of associates and jointly controlled entity is presented net of the Group's share of tax attributable to associates and jointly controlled entity.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

The impact of adopting the other HKFRSs is summarised as follows:

- (a) HKAS 16 - Property, Plant and Equipment
HKAS 17 - Leases
HK-Int 2 - The Appropriate Accounting Policies for Hotel Properties

In prior years, the hotel properties of the RHIHL Group were stated at their open market values for existing use on the basis of annual professional valuations. No depreciation was provided on the hotel properties on the basis that they were maintained in such condition that their residual values were not diminished by the passage of time and that any element of depreciation was insignificant.

Upon the adoption of HKAS 16 and HK-Int 2, the RHIHL Group's leasehold interest in the hotel buildings is now stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the RHIHL Group's leasehold interest in hotel land and buildings is separated into leasehold land and leasehold buildings. The RHIHL Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the RHIHL Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land lease payments, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term.

The effects of the above changes are summarised in note 2.4 to the financial statements. The change has been adopted retrospectively from the earliest period presented and comparative amounts have been restated.

- (b) HKAS 32 and HKAS 39 - Financial Instruments

- (i) Equity securities

In prior years, the Group classified its investments in listed and unlisted equity securities as long term investments, which were held for non-trading purposes and were stated at fair values on an individual basis with gains and losses recognised as movements in the long term investments revaluation reserve.



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Upon the adoption of HKAS 39, these securities held by the Group at 1st January, 2005 in the amount of HK\$197.7 million are designated as available-for-sale equity investments under the transitional provisions of HKAS 39 and accordingly are stated at fair value with gains or losses being recognised as a separate component of equity until subsequent derecognition or impairment. The remaining equity securities in the amount of HK\$8.5 million are designated as equity investments at fair value through profit or loss and are stated at fair value with gains or losses recognised in the income statement.

In prior years, the Group classified its investments in equity securities for trading purposes as short term investments, and were stated at their fair values on an individual basis with gains or losses recognised in the income statement. Upon the adoption of HKAS 39, these securities held by the Group at 1st January, 2005 in the amount of HK\$7.9 million are designated as equity investments at fair value through profit or loss under the transitional provisions of HKAS 39 and accordingly are stated at fair value with gains or losses being recognised in the income statement.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated.

(ii) Convertible bonds

During the year, the Group issued convertible bonds which are split into liability and equity components upon the adoption of HKAS 32.

In prior years, the RHIHL Group's convertible bonds were stated at cost. Upon the adoption of HKAS 32, convertible bonds are split into liability and equity components. The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with HKAS 32, comparative amounts have been restated.

(iii) Convertible preference shares

In the prior year, the Company's three series of convertible preference shares were stated at their par values under equity and the related share premium had been cancelled to offset against the Group's accumulated losses in a capital reorganisation in 2004. Upon the adoption of HKAS 32, one of the series of the convertible preference shares is restated and classified as a liability.

In prior years, the RHIHL Group's convertible preference shares were stated at their par values under equity and the related share premium had been cancelled to offset against the RHIHL Group's accumulated losses in a capital reorganisation in 2002. Upon the adoption of HKAS 32, the convertible preference shares include a liability component and the conversion option of the convertible preference shares denominated in foreign currency is recognised as derivative financial instrument. In accordance with HKAS 32, comparative amount of the liability component of the convertible preference shares has been restated. The conversion option of the convertible preference shares recognised as derivative financial instrument is stated at fair value. In accordance with the transitional provisions of HKAS 39, comparative amount of the derivative financial instrument has not been restated.



The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with HKAS 32, comparative amounts of the liability component of the convertible preference shares have been restated and reclassified.

(c) HKFRS 2 – Share-based Payment

In prior years, no recognition and measurement of share-based payment transactions in which employees (including Directors) were granted share options over shares in the Company was required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including Directors) render services as consideration for equity instruments (“equity-settled transactions”), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted.

The main impact of HKFRS 2 on the Group is the recognition of the cost of these transactions and a corresponding entry to equity for employee share options. The revised accounting policy for share-based payment transactions is described in more detail in note 2.5 “Summary of significant accounting policies” below.

The Group has adopted the transitional provisions of HKFRS 2 under which the new measurement policies have not been applied to the options granted to employees on or before 7th November, 2002.

The adoption of HKFRS 2 has had no impact on the retained profits as at 31st December, 2003 and at 31st December, 2004. The Group has recognised the cost of options which were granted during the year in the current year’s income statement in accordance with HKFRS 2.

The effects of adopting HKFRS 2 are summarised in note 2.4 to the financial statements.

(d) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets

In prior years, goodwill and negative goodwill arising on acquisitions prior to 1st January, 2001 were eliminated against the consolidated capital reserve in the year of acquisition and were not recognised in the income statement until disposal or impairment of the acquired businesses.

Goodwill arising on acquisitions on or after 1st January, 2001 was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment. Negative goodwill was recognised and included in the interests in associates, and was recognised in the consolidated income statement on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets.

The adoption of HKFRS 3 and HKAS 36 has resulted in the Group ceasing annual goodwill amortisation and commencing testing for impairment at the cash-generating unit level annually (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired).



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Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of the acquisition of subsidiary companies and associates (previously referred to as "negative goodwill"), after reassessment, is recognised immediately in the consolidated income statement. Upon the adoption of HKFRS 3, the negative goodwill included in the interests in associates and in the consolidated capital reserve were derecognised at 1st January, 2005 against the opening balance of retained profits.

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1st January, 2005 the carrying amounts of accumulated amortisation with a corresponding entry to the cost of goodwill. Goodwill previously eliminated against the consolidated capital reserve remains eliminated against the consolidated capital reserve and is not recognised in the consolidated income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

- (e) HKFRS 5 – Non-current Assets Held for Sale and Discontinued Operations and
HKAS 27 – Consolidated and Separate Financial Statements

In prior years, the interest of Paliburg Holdings Limited ("PHL"), the listed subsidiary company and its subsidiary companies (the "PHL Group") in an investee company was classified under interests in associates despite the increase in its equity interest therein from 50% to 100% in 2003, since the PHL Group had entered into an agreement (the "SP Agreement") in that year to dispose of its entire equity interest in the investee company and accordingly the control over that company was considered temporary pending the outcome of the SP Agreement.

The SP Agreement has not been completed at the balance sheet date and upon the adoption of HKAS 27 and HKFRS 5, the investment in the investee company is now consolidated in the Group's consolidated financial statements and the asset and liability of the investee company and its subsidiary companies are presented as asset and liability of a disposal group classified as held for sale under current assets and current liabilities, respectively. In accordance with the transitional provisions of HKFRS 5, the comparative amounts have not been restated.



2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1st January, 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
HK(IFRIC)-Int 7	Applying the Restatement Approach under <i>HKAS 29 Financial Reporting in Hyperinflationary Economies</i>

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1st January, 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1st January, 2007.

The amendments to HKAS 39 regarding fair value options has changed the definition of financial instruments classified at fair value through profit or loss and restricted the ability to designate financial instruments as part of this category. The Group believes that this amendment might have impact on the classification of its financial instruments. Upon the adoption of HKAS 39, the Group has designated equity securities held for non-trading purposes of HK\$8.5 million as at 1st January, 2005 as equity investments at fair value through profit or loss, which might not be able to comply with the amended criteria for the designation of financial instruments at fair value through profit or loss. If such equity investments fail to comply with the amended criteria, the Group shall de-designate such equity investments retrospectively.



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In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18. The adoption of the amendments to HKAS 39 regarding financial guarantee contracts will result in the recognition of a financial liability in the Company's balance sheet in respect of corporate guarantees given by the Company in connection with banking facilities granted to its subsidiary companies in the year of initial application.

The HKAS 19 Amendment, HKAS 39 Amendment regarding cash flow hedge accounting of forecast intragroup transactions, HKFRSs 1 & 6 Amendments, HKFRS 6, HK(IFRIC)-Int 5, HK(IFRIC)-Int 6 and HK(IFRIC)-Int 7 do not apply to the activities of the Group. HK(IFRIC)-Int 6 and HK(IFRIC)-Int 7 shall be applied for annual periods beginning on or after 1st December, 2005 and 1st March, 2006, respectively.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.



2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

	Effect of adopting							Total HK\$'M	
	At 1st January, 2005	HKAS 1#	HKAS 16 and HK-Int 2#	HKAS 17#	HKASs 32# and 39*	HKASs 32# and 39* Share of convertible bonds and convertible preference shares of the listed associate HK\$'M	HKAS 39* Cumulative loss in fair value of financial assets HK\$'M		HKAS 32# Convertible preference shares HK\$'M
Effect of new policies (Increase/(Decrease))									
Assets									
Property, plant and equipment	(0.9)	-	-	-	-	-	-	-	(0.9)
Investment properties	0.9	-	-	-	-	-	-	-	0.9
Goodwill	-	21.1	-	-	-	-	-	-	21.1
Negative goodwill	-	13.7	-	(96.7)	-	(72.6)	(9.2)	-	13.7
Interests in associates	-	(1,122.4)	-	-	-	-	-	-	(1,256.4)
Available-for-sale equity investments	-	-	-	-	197.7	-	-	-	197.7
Long term investments	-	-	-	-	(206.2)	-	-	-	(206.2)
Equity investments at fair value through profit or loss	-	-	-	-	16.4	-	-	-	16.4
Short term investments	-	-	-	-	(7.9)	-	-	-	(7.9)
									<u>(1,221.6)</u>
Liabilities/Equity									
Convertible preference shares	-	-	-	-	-	-	-	63.2	-
Share capital	-	-	-	-	-	-	-	(383.0)	-
Equity component of convertible bonds of the listed associate	-	-	-	-	-	5.4	-	-	(44.0)
Capital reserve	-	(482.7)	-	-	-	-	-	-	5.4
Assets revaluation reserve	-	254.7	-	-	-	-	-	-	(526.7)
Available-for-sale equity investments revaluation reserve	-	-	-	-	(2.1)	-	-	-	254.7
Investments revaluation reserve	-	-	-	-	2.1	-	-	-	(2.1)
Retained profits	-	(351.4)	-	(52.9)	-	(45.1)	(5.1)	319.8	68.4
Minority interests	-	(508.2)	-	(43.8)	-	(32.9)	(4.1)	-	20.1
									<u>(1,221.6)</u>

* Adjustments taken effect prospectively from 1st January, 2005

Adjustments/Presentation taken effect retrospectively



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At 31st December, 2005	Effect of adopting										Total HK\$'M
	HKAS 1	HKAS 16 and HK-int 2	HKAS 17	HKASs 32 and 39	HKASs 32 and 39	HKASs 32 and 39	Share of convertible bonds and convertible preference shares of the listed associate	HKAS 39	HKFRS 2	HKFRS 3	
Effect of new policies (Increase/(Decrease))	Presentation HK\$'M	Hotel properties HK\$'M	Amortisation of prepaid land lease payments HK\$'M	Change in classification of equity investments HK\$'M	Convertible bonds HK\$'M	Share of convertible bonds and convertible preference shares of the listed associate HK\$'M	Cumulative loss in fair value of financial assets HK\$'M	Equity- settled share option arrangements HK\$'M	Discontinuation of amortisation of goodwill/ Derecognition of negative goodwill HK\$'M	A disposal group classified as held for sale HK\$'M	Total HK\$'M
Assets											
Property, plant and equipment	(0.3)	-	-	-	-	-	-	-	-	-	(0.3)
Investment properties	0.3	-	-	-	-	-	-	-	-	-	0.3
Goodwill	-	-	-	-	-	-	-	-	9.0	-	9.0
Negative goodwill	-	-	-	-	-	-	-	-	(0.7)	-	(0.7)
Interests in associates	-	(1,151.3)	(109.1)	-	-	(54.9)	(15.3)	-	43.5	(150.5)	(1,437.6)
Available-for-sale equity investments	-	-	-	124.9	-	-	-	-	-	-	124.9
Long term investments	-	-	-	(133.5)	-	-	-	-	-	-	(133.5)
Deferred expenditure	-	-	-	-	-	-	(0.7)	-	-	-	(0.7)
Equity investments at fair value through profit or loss	-	-	-	11.8	-	-	-	-	-	-	11.8
Short term investments	-	-	-	(3.2)	-	-	-	-	-	-	(3.2)
Asset of a disposal group classified as held for sale	-	-	-	-	-	-	-	-	-	249.4	249.4
											(1,180.6)

Effect of adopting	Effect of adopting										Total HK\$'M
	HKAS 1 Presentation HK\$'M	HKAS 16 and HK-Int 2 Hotel properties HK\$'M	HKAS 17 Amortisation of prepaid land lease payments HK\$'M	HKASs 32 and 39 Change in classification of equity investments HK\$'M	HKASs 32 and 39 Convertible bonds HK\$'M	Share of convertible bonds and convertible preference shares of the listed associate HK\$'M	HKAS 39 Cumulative loss in fair value of financial assets HK\$'M	HKFRS 2 Equity- settled share option arrangements HK\$'M	HKFRS 3 Discontinuation of amortisation of goodwill/ Derecognition of negative goodwill HK\$'M	HKAS 27 and HKFRS 5 A disposal group classified as held for sale HK\$'M	
Effect of new policies (Increase/(Decrease))											
Liabilities/Equity											
Liability directly associated with the asset classified as held for sale	-	-	-	-	-	-	-	-	-	98.9	98.9
Convertible bonds	-	-	-	-	(5.2)	-	-	-	-	-	(5.2)
Interest bearing bank and other borrowings	-	-	-	-	-	-	-	-	-	-	(0.5)
Equity component of convertible bonds	-	-	-	-	5.5	-	(0.5)	-	-	-	5.5
Equity component of convertible bonds of the listed associate	-	-	-	-	-	5.4	-	-	-	-	5.4
Capital reserve	-	(482.7)	-	-	-	-	-	(44.0)	-	-	(526.7)
Share option reserve	-	-	-	-	-	-	-	3.6	-	-	3.6
Assets revaluation reserve	-	254.7	-	-	-	-	-	-	-	-	254.7
Available-for-sale equity investments revaluation reserve	-	-	-	(2.2)	-	-	-	-	-	-	(2.2)
Investments revaluation reserve	-	-	-	2.1	-	-	-	-	-	-	2.1
Retained profits	-	(401.9)	(59.7)	0.1	(0.3)	(35.4)	(8.5)	(3.6)	76.1	-	(433.2)
Minority interests	-	(521.4)	(49.4)	-	-	(24.9)	(7.0)	-	19.7	-	(583.0)
											(1,180.6)



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(c) Effect on the consolidated income statement for the years ended 31st December, 2005 and 2004

	Effect of adopting							Total HK\$'M	
	HKAS 1 and HK-Int 2 HK\$'M	HKAS 16 and HK-Int 2 Hotel properties HK\$'M	HKAS 17 Amortisation of prepaid land lease payments HK\$'M	HKASs 16 and 17 Deferred tax HK\$'M	HKAS 39 Gain in fair value of financial assets HK\$'M	HKASs 32 and 39 Convertible bonds HK\$'M	HKASs 32 and 39 Share of convertible bonds and preference shares of the listed associate HK\$'M		HKFRS 2 Equity- settled share option arrangements HK\$'M
Share of post-tax profits and losses of associates HK\$'M	46.7								
Effect of new policies									
Year ended 31st December, 2005									
Decrease in other income and gains	-	-	-	-	-	-	-	-	(3.0)
Increase in administrative expenses	-	-	-	-	-	-	-	(2.9)	-
Increase/(Decrease) in share of profits and losses of associates	46.7	(35.5)	(10.2)	(6.5)	30.8	-	(2.6)	(2.6)	-
Decrease in depreciation and amortisation	-	-	-	-	-	-	-	-	10.4
Increase in finance costs	-	-	-	-	-	(0.3)	-	-	(0.3)
Increase in tax	(46.7)	-	-	-	-	-	-	-	(46.7)
Total increase/(decrease) in profit	-	(35.5)	(10.2)	(6.5)	30.8	(0.3)	(2.6)	(5.5)	7.4
Increase/(Decrease) in basic earnings per ordinary share (cents)	-	(0.1)	(0.1)	-	0.1	-	-	-	-
Increase/(Decrease) in diluted earnings per ordinary share (cents)	-	(0.1)	(0.1)	-	0.1	-	-	-	-



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Effect of adopting

	HKAS 1	HKAS 16 and HK-Int 2	HKAS 17	HKASs 16, 17 and HK-Int 2	HKASs 16 and 17	HKAS 32	HKASs 32 and 39	Total HK\$'M
	Share of post-tax profits and losses of associates HK\$'M	Hotel properties HK\$'M	Amortisation of prepaid land lease payments HK\$'M	Write-back of impairment loss/ provisions HK\$'M	Deferred tax HK\$'M	Convertible preference Shares HK\$'M	Share of convertible preference shares and convertible bonds of the listed associate HK\$'M	
Effect of new policies								
Year ended 31st December, 2004								
Increase/(Decrease) in other income and gains	-	(56.9)	-	-	-	319.8	-	262.9
Decrease in other operating expenses, net	-	17.0	-	-	-	-	-	17.0
Decrease in write-back of provisions for write-downs and impairment, net	-	-	-	(810.9)	-	-	-	(810.9)
Decrease in write-back of impairment of a hotel property	-	-	-	(135.8)	-	-	-	(135.8)
Increase in depreciation and amortisation	-	(73.1)	(12.9)	-	-	-	-	(86.0)
Increase in finance costs	-	-	-	-	-	-	(4.4)	(4.4)
Increase/(Decrease) in share of profits and losses of associates	11.8 (11.8)	(14.3)	(4.2)	(2.1)	0.4	-	(2.8)	(11.2)
Decrease/(Increase) in tax	-	-	-	-	13.3	-	-	1.5
Total increase/(decrease) in profit	-	(127.3)	(17.1)	(948.8)	13.7	319.8	(7.2)	(766.9)
Increase/(Decrease) in basic earnings per ordinary share (cents)	-	(1.3)	(0.1)	(10.5)	-	5.1	-	(6.8)
Increase/(Decrease) in diluted earnings per ordinary share (cents)	-	(0.4)	(0.1)	(3.9)	-	1.9	-	(2.5)

2.5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Goodwill

Goodwill arising on the acquisition of subsidiary companies and associates represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions for which the agreement date is on or after 1st January, 2005

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of associates, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Goodwill previously eliminated against the consolidated capital reserve

Prior to the adoption of SSAP 30 "Business Combinations" in 2001, goodwill arising on acquisition was eliminated against the consolidated capital reserve in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against the consolidated capital reserve and is not recognised in profit or loss when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.



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(b) Excess over the cost of business combinations (applicable to business combinations for which the agreement date is on or after 1st January, 2005)

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiary companies and associates (previously referred to as negative goodwill), after reassessment, is recognised immediately in the consolidated income statement.

The excess for associates is included in the Group's share of the associates' profit or loss in the period in which the investments are acquired.

(c) Subsidiary companies

A subsidiary company 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 subsidiary companies are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiary companies that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

Upon the disposal of interests in subsidiary companies, any gain or loss arising thereon, including the realisation of the attributable reserves, is included in the income statement.

Where the Group's equity interest in a subsidiary company is diluted by virtue of the additional issue of shares by such subsidiary company (i.e. a "deemed disposal"), any gain or loss arising from the deemed disposal, including the realisation of the attributable reserves, is dealt with in the Group's consolidated income statement.

(d) Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

- (i) a subsidiary company, if the Group has unilateral control, directly or indirectly, over the joint venture;
- (ii) a jointly controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;
- (iii) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or



- (iv) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

(e) Jointly controlled entity

A jointly controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly controlled entity.

The Group's share of the post-acquisition results of the jointly controlled entity is included in the consolidated income statement.

(f) Associates

An associate is an entity, not being a subsidiary company or a jointly controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill arising from the acquisition of associates, which was not previously eliminated or recognised in consolidated reserves, is included as part of the Group's interests in associates.

Upon the adoption of HKFRS 3, the negative goodwill included in the interests in associates and in the consolidated capital reserve were derecognised at 1st January, 2005 against the opening balance of retained profits.

(g) Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, financial assets, investment properties, goodwill and a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.



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An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

(h) Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

(i) Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable.

Non-current assets and disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell.

(j) Property under development

Property under development is stated at cost less any impairment losses. Cost includes all costs attributable to such development, including any related finance charges.

(k) Property held for future development

Property held for future development is stated at cost less any impairment losses. Cost includes all costs attributable to the acquisition and holding of such property, including any related finance charges.



(l) Borrowing costs

Borrowing costs directly attributable to the construction of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Interest is capitalised at the Group's weighted average interest rate on external borrowings and, where applicable, the interest rates related to specific development project borrowings.

(m) Investments and other financial assets

Applicable to the year ended 31st December, 2004:

The Group classified its equity investments, other than its subsidiary companies, associates and jointly controlled entity, as long term investments and short term investments.

Long term investments

Long term investments are non-trading investments in listed and unlisted equity securities intended to be held on a long term basis.

Listed securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. Unlisted securities are stated at their estimated fair values, on an individual basis. The estimated fair values of unlisted investments are determined by the Directors having regard to, inter alia, the prices of the most recent financial statements or other financial data considered relevant in respect of such investments.

The gains or losses arising from changes in the fair value of a security are dealt with as movements in the long term investments revaluation reserve, until the security is sold, collected, or otherwise disposed of, or until the security is determined to be impaired, when the cumulative gain or loss derived from the security recognised in the long term investments revaluation reserve, together with the amount of any further impairment, is charged to the income statement for the period in which the impairment arises.

Short term investments

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the income statement in the period in which they arise.

Applicable to the year ended 31st December, 2005:

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.



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All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading or initially designated are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Upon the adoption of HKFRS 39, certain investments are designated at 1st January, 2005 as "financial assets at fair value through profit or loss". Gains or losses on these investments are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (i) the variability in the range of reasonable fair value estimates is significant for that investment or (ii) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions and reference to the current market value of another instrument which is substantially the same.



**(n) Impairment of financial assets
(applicable to the year ended 31st December, 2005)**

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

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available-for-sale are not reversed through profit or loss.



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(o) Derecognition of financial assets (applicable to the year ended 31st December, 2005)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (i) has transferred substantially all the risks and rewards of the asset, or (ii) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

(p) Interest bearing loans and borrowings and exchangeable notes

All loans, borrowings and exchangeable notes are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest bearing loans and borrowings and exchangeable notes are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.



(q) Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years.

Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

(r) Convertible preference shares

Convertible preference shares of the Company

The component of convertible preference shares that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On issuance of convertible preference shares, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years.

Transaction costs are apportioned between the liability and equity components of the convertible preference shares based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

Convertible preference shares of an associate

The component of convertible preference shares of an associate that exhibits characteristics of a liability is recognised as a liability in the balance sheet of the associate, net of transaction costs. On issuance of convertible preference shares, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a liability of the associate on the amortised cost basis until extinguished on conversion or redemption.

The remainder of the proceeds of the convertible preference shares denominated in foreign currency is allocated to the conversion option that is recognised as derivative financial instrument and included under current liabilities of the associate. The fair value of such derivative financial instrument is reassessed at the balance sheet date using a binomial valuation model with the corresponding gain or loss from the reassessment recognised in the income statement.



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**(s) Derecognition of financial liabilities
(applicable to the year ended 31st December, 2005)**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in income statement.

(t) Properties held for sale

Properties held for sale are classified as current assets and stated at the lower of cost and net realisable value on an individual property basis. Cost includes all development expenditure, applicable borrowing costs and other direct costs attributable to such properties. Net realisable value is determined by reference to the prevailing market prices.

(u) Other assets

Other assets held on the long term basis are stated at cost less any impairment losses deemed necessary by the Directors.

(v) Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Hotel building	Over the shorter of 100 years or the remaining lease terms
Leasehold properties	Over the shorter of the remaining lease terms and 2.5%
Leasehold improvements	Over the remaining lease terms
Furniture, fixtures and equipment	10% to 25%
Site equipment	20%
Motor vehicles	25%



Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

(w) Construction in progress

Construction in progress represents property, plant and equipment under construction or renovation, and is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction or renovation and interest charges on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for commercial use.

(x) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first-in, first-out basis and includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on the estimated selling prices less any further costs expected to be incurred to disposal.

(y) Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads, including any related finance charges.

Revenue from short term construction contracts is recognised upon completion of the construction work.

Revenue from long term fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the work certified by architects for each contract.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.



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(z) 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) rental income, in the period in which the properties are let and on the straight-line basis over the lease terms;
- (ii) income on sale of completed properties and outright sale of an entire development prior to completion, on the exchange of legally binding unconditional sales contracts;
- (iii) fee income on short term construction contracts, on completion of the construction work;
- (iv) fee income on long term construction contracts, on the percentage of completion basis as further explained in (y) above;
- (v) hotel and other service income, in the period in which such services are rendered;
- (vi) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;
- (vii) dividend income, when the shareholders' right to receive payment has been established;
- (viii) proceeds from the sale of investments in listed shares, on the transaction dates when the relevant contract notes are exchanged;
- (ix) brewery operations income from trading activities, upon passage of title to the customer, which generally coincides with their delivery and acceptance;
- (x) bakery operations income, when the goods are delivered to the customers; and
- (xi) consultancy and management fees, in the period in which such services are rendered.

(aa) Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

The functional currencies of certain overseas subsidiary companies and associates are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange equalisation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.



For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiary companies are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiary companies which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

(ab) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiary companies and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiary companies and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.



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Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(ac) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

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

(ad) Employee benefits

Share-based payment transactions

The Company and its listed subsidiary company operate share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including Directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a Black-Scholes option pricing model, further details of which are given in note 39 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company and the listed subsidiary company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.



Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Any dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted on or after 1st January, 2005.

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group and are eligible for long service payments under the Hong Kong Employment Ordinance (the "Employment Ordinance") in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment falls within the circumstances specified in the Employment Ordinance.

A contingent liability is disclosed in respect of possible future long service payments to employees, as certain current employees have achieved the required number of years of service to the Group at the balance sheet date, entitling them to long service payments under the Employment Ordinance if their employment is terminated in the circumstances specified. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

Staff retirement scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' relevant income 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, except for the Group's employer voluntary contributions, part or all of which are refunded to the Group when the employee leaves employment prior to the contributions vesting with the employee partly or fully in accordance with the rules of the MPF Scheme.



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The employees of the Group's subsidiary companies which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiary companies are required to contribute a percentage of their payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

(ae) Related parties

A party is considered to be related to the Group if:

- (i) the party, directly or indirectly through one or more intermediaries, (1) controls, is controlled by, or is under common control with, the Group; (2) has an interest in the Group that gives it significant influence over the Group; or (3) has joint control over the Group;
- (ii) the party is an associate;
- (iii) the party is a jointly controlled entity;
- (iv) the party is a member of the key management personnel of the Group or its parent;
- (v) the party is a close member of the family of any individual referred to in (i) or (iv);
- (vi) 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 (iv) or (v); or
- (vii) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

(af) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

(ag) Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

(ah) Dividend

Final dividend proposed by the Directors is classified as a separate allocation of retained profits within the equity section of the balance sheet, until it has been approved by the shareholders in a general meeting. When the dividend has been approved by the shareholders and declared, it is recognised as a liability.



3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

(a) Judgement

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments - Group as lessor

The Group has entered into commercial property leases on its property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

(b) Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31st December, 2005 was HK\$202.0 million (2004 - HK\$260.0 million) and the carrying amount of goodwill included in interests in associates is HK\$54.0 million (2004 - HK\$3.4 million). More details are given in notes 18 and 21 to the financial statements.

Outcome of construction contracts

The Group determines whether outcome of a construction contract can be estimated reliably. This requires a continuous estimation of the total contract revenue and costs and stage of completion with reference to work certified by architects and the assessment of the probability of the future economic flows to the Group. During the year, the outcome of a number of construction contracts was revised leading to a gross construction profit of HK\$9.4 million (2004 - HK\$6.6 million) being recognised in the income statement.

Measurement of convertible bonds

On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in the shareholders' equity, net of transaction costs. The determination of the liability component requires an estimation of the market interest rate.



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Measurement of fair value of equity-settled transactions

Both the Company and its listed subsidiary company operate share option schemes under which employees (including Directors) of the Group receive remuneration in the form of share-based payment transactions. The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted, using assumptions including expected volatility and risk free interest rate. Such cost is recognised, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.



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4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

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 development and investment segment comprises the development and sale of properties, the leasing of office and commercial premises and the provision of estate agency services;
- (b) the construction and building related businesses segment is engaged in construction works and building related businesses, including the provision of development consultancy and project management services, property management and also security systems and products and other software development and distribution;
- (c) the hotel ownership and management segment is engaged in hotel operations and the provision of hotel management services;
- (d) the securities investment segment is engaged in securities trading businesses; and
- (e) the others segment mainly comprises brewery operations, laundry services, bakery operations and other investments.

In determining the Group's geographical segments, revenues are 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.

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.

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31st December, 2005 and 2004.

GROUP

	Property development and investment		Construction and building related businesses		Hotel ownership and management		Securities investment		Others		Eliminations		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m
Segment revenue:														
Sales to external customers	10.5	37.6	66.5	93.6	-	533.0	33.1	14.3	0.4	34.1	-	-	110.5	712.6
Intersegment sales	-	0.6	4.6	25.4	-	1.4	-	-	-	5.8	(4.6)	(33.2)	-	-
Total	10.5	38.2	71.1	119.0	-	534.4	33.1	14.3	0.4	39.9	(4.6)	(33.2)	110.5	712.6
Segment results before depreciation and amortisation	191.2	51.4	(36.5)	(157.7)	-	176.1	3.4	3.1	3.4	5.0	0.5	(8.4)	162.0	69.5
Depreciation and amortisation	(0.1)	(0.1)	(0.3)	(13.4)	-	(102.5)	-	-	-	(3.1)	-	-	(0.4)	(119.1)
Segment operating results	191.1	51.3	(36.8)	(171.1)	-	73.6	3.4	3.1	3.4	1.9	0.5	(8.4)	161.6	(49.6)
Interest income and unallocated non-operating and corporate gains													20.4	572.7
Unallocated non-operating and corporate expenses													(36.5)	(100.3)
Unallocated depreciation and amortisation													(0.5)	(0.5)
Operating profit													145.0	422.3
Finance costs													(14.5)	(110.5)
Share of profits and losses of:														
Jointly controlled entity	-	60.1	-	-	-	-	-	-	-	-	-	-	-	60.1
Associates	137.2	-	-	(0.1)	239.7	91.2	-	-	(0.1)	(9.2)	-	-	376.8	81.9
Profit before tax														
Tax													507.3	453.8
Profit for the year before allocation between equity holders of the parent and minority interests													(2.1)	9.9
Attributable to:														
Equity holders of the parent													505.2	463.7
Minority interests													270.9	419.2
													234.3	44.5
													505.2	463.7



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(a) Business segments (continued)

GROUP

	Property development and investment		Construction and building related businesses		Hotel ownership and management		Securities investment		Others		Eliminations		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m
Segment assets	273.4	346.2	31.6	71.6	-	-	3.2	7.8	27.9	38.5	-	-	336.1	464.1
Interests in associates	385.1	223.4	0.3	0.3	2,337.0	1,935.2	-	-	0.1	0.2	(21.8)	(22.3)	2,700.7	2,136.8
Asset of a disposal group classified as held for sale	249.4	-	-	-	-	-	-	-	-	-	-	-	249.4	-
Cash and unallocated assets	-	-	-	-	-	-	-	-	-	-	-	-	457.9	461.4
Total assets	-	-	-	-	-	-	-	-	-	-	-	-	3,744.1	3,062.3
Segment liabilities	(7.8)	(11.9)	(75.7)	(80.8)	-	-	-	-	(0.1)	(0.2)	-	-	(83.6)	(92.9)
Liability directly associated with the asset classified as held for sale	(98.9)	-	-	-	-	-	-	-	-	-	-	-	(98.9)	-
Bank and other borrowings and unallocated liabilities	-	-	-	-	-	-	-	-	-	-	-	-	(444.3)	(384.5)
Total liabilities	-	-	-	-	-	-	-	-	-	-	-	-	(626.8)	(477.4)
Other segment information:														
Depreciation	0.1	0.1	0.3	0.3	-	102.4	-	-	-	3.1	-	-	-	-
Amortisation of goodwill	-	-	-	13.1	-	0.1	-	-	-	-	-	-	-	-
Impairment losses/(Write-back of impairment losses) recognised in the income statement	(121.0)	-	58.0	189.6	-	(30.0)	-	-	-	-	-	-	-	-
Write-back in values of properties	-	(47.3)	-	-	-	-	-	-	-	-	-	-	-	-
Capital expenditure	-	-	1.1	0.3	-	13.9	-	-	-	1.4	-	-	-	-
Other non-cash expenses/(income)	-	0.2	-	-	-	-	-	-	(0.8)	0.7	-	-	-	-

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31st December, 2005 and 2004.

GROUP	Hong Kong		Mainland China		Eliminations		Consolidated	
	2005 HK\$'m	2004 HK\$'m	2005 HK\$'m	2004 HK\$'m	2005 HK\$'m	2004 HK\$'m	2005 HK\$'m	2004 HK\$'m
Segment revenue:								
Sales to external customers	110.1	679.9	0.4	32.7	-	-	110.5	712.6
Other segment information:								
Segment assets	333.4	382.6	2.7	81.5	-	-	336.1	464.1
Capital expenditure	1.1	14.2	-	1.4				



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5. REVENUE, OTHER INCOME AND GAINS

Revenue (which is also the Group's turnover), other income and gains are analysed as follows:

	GROUP	
	2005	2004
	HK\$'million	HK\$'million
<u>Revenue</u>		
Rental income:		
Investment properties	0.1	0.1
Properties held for sale	9.4	8.5
Hotel properties	–	12.0
Construction and construction-related income	50.2	85.2
Proceeds from sale of properties	0.1	23.9
Estate management fees	3.8	5.3
Property development consultancy and project management fees	12.5	3.1
Hotel operations and management services	–	521.0
Proceeds from sale of equity investments at fair value through profit or loss/short term investments	33.1	14.3
Other operations, including estate agency, laundry services, brewery and bakery operations	1.3	39.2
	<u>110.5</u>	<u>712.6</u>



	GROUP	
	2005 HK\$'million	2004 HK\$'million (Restated)
Other income and gains		
Interest income from:		
Bank balances	2.2	0.2
Loans receivable	4.3	2.7
Dividend income from:		
Listed investments	10.0	2.2
Unlisted investments	1.4	0.3
Gain on disposal of investment properties	–	0.3
Gain on debt restructuring	–	562.4
Gain on disposal of long term investments	–	0.4
Fair value gains on equity investments at fair value through profit or loss, net	2.6	–
Unrealised gain on revaluation of short term investments, net	–	0.4
Gain on disposal of interests in subsidiary companies (note 42(d))	68.2	–
Gain on deemed disposal of the Group's interest in a listed subsidiary company	–	6.0
Excess over the cost of a business combination/ Recognition of negative goodwill	1.0	2.4
Others	5.6	1.9
	95.3	579.2

6. OTHER OPERATING EXPENSES, NET

Other operating expenses, net, include the following items:

	GROUP	
	2005 HK\$'million	2004 HK\$'million (Restated)
Loss on deconsolidation of a listed subsidiary company	–	12.4
Termination fee in respect of cancellation of the disposal of a hotel property	–	39.0
	–	51.4



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7. WRITE-BACK OF PROVISIONS/(PROVISIONS) FOR WRITE-DOWNS AND IMPAIRMENTS, NET

Write-back of provisions/(Provisions) for write-downs and impairments, net, represent the following items:

	GROUP	
	2005 HK\$'million	2004 HK\$'million (Restated)
Write-back in values of properties	–	47.3
Write-back of provision for impairment of interest in property under development indirectly held by an associate	121.0	–
Write-back of provision against a loan receivable	0.2	0.1
Impairment of long term investments	–	(49.5)
Impairment of goodwill	(58.0)	(189.6)
	63.2	(191.7)



8. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	GROUP	
	2005 HK\$'million	2004 HK\$'million (Restated)
Cost of completed properties sold	0.1	11.8
Cost of inventories sold and services provided	5.8	230.8
Depreciation	1.0	93.6
Less: Depreciation capitalised in respect of property development projects and construction contracts	(0.1)	(0.1)
	0.9	93.5
Amortisation of prepaid land lease payments	–	12.9
Employee benefits expenses (exclusive of directors' remuneration disclosed in note 10):		
Wages and salaries*	37.9	193.6
Equity-settled share option expenses	0.4	–
Staff retirement scheme contributions	2.0	10.1
Less: Forfeited contributions	(0.3)	(0.4)
Net staff retirement scheme contributions	1.7	9.7
	40.0	203.3
Less: Staff costs capitalised in respect of property development projects and construction contracts:		
Wages and salaries	(14.0)	(13.4)
Staff retirement scheme contributions	(0.7)	(0.6)
	25.3	189.3
Amortisation of goodwill**	–	13.2
Auditors' remuneration	2.1	3.4
Minimum lease payments under operating leases on land and buildings	4.7	5.5

* Inclusive of an amount of HK\$3.2 million (2004 - HK\$152.3 million) classified under cost of inventories sold and services provided.

** The amortisation of goodwill for the prior year was included in "Depreciation and amortisation" on the face of the consolidated income statement.



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9. FINANCE COSTS

	GROUP	
	2005 HK\$'million	2004 HK\$'million (Restated)
and after crediting:		
Gross rental income	9.5	20.6
Less: Outgoings	(3.1)	(5.3)
	<hr/>	<hr/>
Net rental income	6.4	15.3
	<hr/> <hr/>	<hr/> <hr/>

	GROUP	
	2005 HK\$'million	2004 HK\$'million (Restated)
Interest in respect of:		
Bank loans and overdrafts, wholly repayable within five years	12.6	76.3
Other loans, convertible bonds and convertible preference shares, wholly repayable within five years	1.9	50.7
	<hr/>	<hr/>
	14.5	127.0
Interest waived in respect of a bank loan	-	(22.5)
	<hr/>	<hr/>
	14.5	104.5
Amortisation of deferred expenditure	-	6.0
	<hr/>	<hr/>
Total finance costs	14.5	110.5
	<hr/> <hr/>	<hr/> <hr/>

10. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclose pursuant to the Listing Rules and Section 161 of the Companies Ordinance, is as follows:

	GROUP	
	2005 HK\$'million	2004 HK\$'million
Fees	1.7	1.7
Other emoluments:		
Salaries and other allowance	4.0	8.1
Performance related/discretionary bonuses	0.8	0.8
Employee share option benefits	2.5	–
Staff retirement scheme contributions	0.4	0.6
	<u>9.4</u>	<u>11.2</u>

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option schemes of the Company and the listed subsidiary company, further details of which are set out in note 39 to the financial statements. The fair value of such options, which has been amortised to the income statement, was determined as at the date of grant and was included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2005 HK\$'million	2004 HK\$'million
Mr. Anthony Chuang	0.15	0.13
Mr. Ng Siu Chan	0.35	0.30
Mr. Wong Chi Keung	0.35	0.08
	<u>0.85</u>	<u>0.51</u>

There were no other emoluments payable to the independent non-executive directors during the year (2004 - Nil).



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(b) Executive directors and a non-executive director

	Fees HK\$'million	Salaries and other allowances HK\$'million	Performance related/ discretionary bonuses HK\$'million	Employee share option benefits HK\$'million	Staff retirement scheme contributions HK\$'million	Total remuneration HK\$'million
2005						
Executive directors:						
Mr. Lo Yuk Sui	0.20	2.76	0.49	2.22	0.28	5.95
Mr. Tommy Lam Chi Chung	0.07	0.22	0.02	-	0.02	0.33
Mr. Jimmy Lo Chun To	0.20	0.44	0.15	0.13	0.03	0.95
Mr. Kenneth Ng Kwai Kai	0.20	0.63	0.15	0.13	0.05	1.16
	<u>0.67</u>	<u>4.05</u>	<u>0.81</u>	<u>2.48</u>	<u>0.38</u>	<u>8.39</u>
Non-executive director:						
Mrs. Kitty Lo Lee Kit Tai	0.20	-	-	-	-	0.20
	<u>0.87</u>	<u>4.05</u>	<u>0.81</u>	<u>2.48</u>	<u>0.38</u>	<u>8.59</u>
2004						
Executive directors:						
Mr. Lo Yuk Sui	0.26	5.82	0.56	-	0.46	7.10
Mr. Tommy Lam Chi Chung	0.16	0.59	0.02	-	0.04	0.81
Mr. Jimmy Lo Chun To	0.26	0.36	0.05	-	0.03	0.70
Mr. Kenneth Ng Kwai Kai	0.26	1.35	0.15	-	0.10	1.86
	<u>0.94</u>	<u>8.12</u>	<u>0.78</u>	<u>-</u>	<u>0.63</u>	<u>10.47</u>
Non-executive director:						
Mrs. Kitty Lo Lee Kit Tai	0.26	-	-	-	-	0.26
	<u>1.20</u>	<u>8.12</u>	<u>0.78</u>	<u>-</u>	<u>0.63</u>	<u>10.73</u>

The above Directors' remuneration for the prior year included the remuneration received by certain Directors of the Company from RHIHL, the former listed subsidiary company of the Company, in connection with the management of its affairs during the seven months to 31st July, 2004, the date on which RHIHL ceased to be a subsidiary company of the Company.

The Independent Non-Executive Directors of the Company were entitled to a total sum of HK\$0.85 million (2004 - HK\$0.51 million) as Directors' fees, including the fees entitled by those Independent Non-Executive Directors for serving as audit committee members, for the year ended 31st December, 2005.

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

During the year, share options were granted to the Directors in respect of their services to the Group. Further details of the share option schemes of the Company and the listed subsidiary company of the Group are set out in note 39 to the financial statements.



11. SENIOR EXECUTIVES' EMOLUMENTS

The five highest-paid individuals included three (2004 - two) Directors, details of whose remuneration are disclosed in note 10 to the financial statements. The emoluments of the other two (2004 - three) individuals, who were not Directors, are as follows:

	GROUP	
	2005 HK\$'million	2004 HK\$'million
Salaries and other emoluments	1.7	2.7
Performance related/discretionary bonuses	0.4	0.5
Employee share option benefits	0.2	-
Staff retirement scheme contributions	0.1	0.2
	<u>2.4</u>	<u>3.4</u>

The emoluments of the two (2004 - three) individuals fell within the following bands:

HK\$	2005 Number of individuals	2004 Number of individuals
1,000,001 - 1,500,000	<u>2</u>	<u>3</u>

During the year, 30 million (2004 - Nil) share options are granted to the two non-director, highest-paid individuals by PHL in respect of their services to the Group. Further details of the share option schemes of the Company and the listed subsidiary company of the Group are set out in note 39 to the financial statements.



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12. TAX

	GROUP	
	2005 HK\$'million	2004 HK\$'million (Restated)
Group:		
Current - Hong Kong		
Provision for tax in respect of profits for the year	2.1	2.4
Current - Overseas		
Provision for tax in respect of profits for the year	-	0.1
Deferred tax income (note 25)	-	(12.4)
Total tax charge/(credit) for the year	<u>2.1</u>	<u>(9.9)</u>

The provision for Hong Kong profits tax has been calculated by applying the applicable tax rate of 17.5% (2004 - 17.5%) to the estimated assessable profits which were earned in or derived from Hong Kong during the year.

Taxes on the profits of subsidiary companies operating overseas are calculated at the rates prevailing in the respective jurisdictions in which they operate, based on existing legislation, practices and interpretations thereof.

No provision for tax was required for the jointly controlled entity in the prior year as no assessable profits were earned by the jointly controlled entity during that year.



A reconciliation of the tax expenses applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiary companies are domiciled to the tax expenses at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	Group			
	2005 HK\$' million	%	2004 HK\$'million (Restated)	%
Profit before tax	<u>507.3</u>		<u>453.8</u>	
Tax at the statutory tax rate	88.8	17.5	79.4	17.5
Adjustment in respect of deferred tax of previous years	-	-	9.0	2.0
Profits and losses attributable to a jointly controlled entity and associates	(65.9)	(13.0)	(28.8)	(6.3)
Income not subject to tax	(38.0)	(7.5)	(129.7)	(28.6)
Expenses not deductible for tax	15.6	3.1	103.7	22.8
Tax losses utilised from previous periods	(3.7)	(0.7)	(30.2)	(6.7)
Increase/(Decrease) in deferred tax assets not recognised during the year	5.8	1.1	(13.3)	(2.9)
Others	(0.5)	(0.1)	-	-
Tax charge/(credit) at the Group's effective rate	<u>2.1</u>	<u>0.4</u>	<u>(9.9)</u>	<u>(2.2)</u>

The share of tax credit attributable to associates amounting to HK\$46.7 million (2004 - HK\$12.3 million, as restated) is included in "Share of profits and losses of associates" on the face of the consolidated income statement.

13. PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The profit attributable to equity holders of the parent for the year ended 31st December, 2005 includes a loss dealt with in the financial statements of the Company amounting to HK\$5.5 million (2004 - profit of HK\$322.8 million, as restated) (note 40(b)).



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14. DIVIDEND

	2005 HK\$'million	2004 HK\$'million
Proposed final - HK0.05 cent (2004 - Nil) per ordinary share	<u>8.2</u>	<u>-</u>

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

15. EARNINGS PER ORDINARY SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

(a) Basic earnings per ordinary share

The calculation of basic earnings per ordinary share is based on the profit for the year attributable to equity holders of the parent of HK\$270.9 million (2004 - HK\$419.2 million, as restated) and on the weighted average of 14,592.9 million (2004 - 6,248.3 million) ordinary shares of the Company in issue during the year.

(b) Diluted earnings per ordinary share

The calculation of diluted earnings per ordinary share for the year ended 31st December, 2005 is based on the profit for the year attributable to equity holders of the parent, adjusted for (i) the decrease in the Group's proportionate interest in the PHL Group's earnings of HK\$18.0 million assuming all outstanding convertible bonds (including optional convertible bonds) of the RHIHL Group were converted into, and the subscription rights attaching to all outstanding warrants of RHIHL were exercised to subscribe for, ordinary shares of RHIHL at the beginning of the year; and (ii) the interest on the convertible bonds of HK\$0.3 million assuming all outstanding convertible bonds (including optional convertible bonds) of the Group were converted into ordinary shares of the Company at the date of issue. The weighted average number of ordinary shares used in the calculation is the aggregate of the weighted average number of the ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares of 9,070.5 million that would be issued assuming (i) all the 2,610.0 million exchangeable preference shares of Almighty International Limited ("Almighty") were exchanged into the same number of ordinary shares of the Company at the beginning of the year; (ii) all the 7,356.6 million convertible preference shares of the Company were converted into the same number of ordinary shares of the Company at the beginning of the year; and (iii) all outstanding convertible bonds (including optional convertible bonds) of the Group were converted into the ordinary shares of the Company at the date of issue. The conversion of the outstanding convertible preference shares of RHIHL is anti-dilutive for the year. In addition, the exercise prices of share options of the Company, PHL and RHIHL outstanding during the year are higher than the average market prices of the respective ordinary shares of the Company, PHL and RHIHL and, accordingly, they have no dilutive effect on the basic earnings per ordinary share.



The calculation of diluted earnings per ordinary share for the year ended 31st December, 2004 was based on the profit for that year (as restated) attributable to equity holders of the parent, adjusted for the decrease in the Group's proportionate interest in the PHL Group's loss of HK\$13.5 million assuming (i) all outstanding convertible bonds (including optional convertible bonds) of the RHIHL Group were converted into, and the subscription rights attaching to all outstanding warrants of RHIHL were exercised to subscribe for, ordinary shares of RHIHL at the beginning of that year or their respective dates of issue, whichever was later; and (ii) all the 1,990.0 million convertible preference shares of PHL were converted into the same number of ordinary shares of PHL at the beginning of that year. The weighted average number of ordinary shares used in the calculation was the aggregate of the weighted average number of the ordinary shares in issue during that year, as used in the basic earnings per ordinary share calculation, and the weighted average number of ordinary shares of 10,734.4 million that would be issued assuming (i) all the 11,020.0 million exchangeable preference shares of Almighty were exchanged into the same number of ordinary shares of the Company at the beginning of that year; and (ii) all the 7,356.6 million convertible preference shares of the Company were converted into the same number of ordinary shares of the Company at the date of issue. The conversion of the outstanding convertible preference shares of RHIHL was anti-dilutive for that year. In addition, the exercise prices of share options of PHL and RHIHL outstanding during that year were higher than the average market prices of the respective ordinary shares of PHL and RHIHL and, accordingly, they had no dilutive effect on the basic earnings per ordinary share.



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16. PROPERTY, PLANT AND EQUIPMENT

	GROUP				
	Leasehold properties HK\$'million	Leasehold improvements, fixtures and equipment HK\$'million	Site equipment HK\$'million	Motor vehicles HK\$'million	Total HK\$'million
31st December, 2005					
At 31st December, 2004 and at 1st January, 2005:					
Cost	1.1	40.2	1.7	1.0	44.0
Accumulated depreciation	(0.2)	(38.8)	(1.7)	(0.9)	(41.6)
	<u>0.9</u>	<u>1.4</u>	<u>-</u>	<u>0.1</u>	<u>2.4</u>
Net carrying amount	<u>0.9</u>	<u>1.4</u>	<u>-</u>	<u>0.1</u>	<u>2.4</u>
At 1st January, 2005, net of accumulated depreciation	0.9	1.4	-	0.1	2.4
Additions	-	4.9	-	0.7	5.6
Disposals/Write-off	-	(29.0)	(1.7)	(0.3)	(31.0)
Write-back of depreciation upon disposals/write-off	-	28.6	1.7	0.3	30.6
Depreciation provided during the year	(0.1)	(0.8)	-	(0.1)	(1.0)
	<u>0.8</u>	<u>5.1</u>	<u>-</u>	<u>0.7</u>	<u>6.6</u>
At 31st December, 2005, net of accumulated depreciation	<u>0.8</u>	<u>5.1</u>	<u>-</u>	<u>0.7</u>	<u>6.6</u>
At 31st December, 2005:					
Cost	1.1	16.1	-	1.4	18.6
Accumulated depreciation	(0.3)	(11.0)	-	(0.7)	(12.0)
	<u>0.8</u>	<u>5.1</u>	<u>-</u>	<u>0.7</u>	<u>6.6</u>
Net carrying amount	<u>0.8</u>	<u>5.1</u>	<u>-</u>	<u>0.7</u>	<u>6.6</u>



Notes to Financial Statements (Cont'd)

	Hotels, including furniture, fixtures and equipment HK\$'million (Restated)	Leasehold properties HK\$'million	Leasehold improvements, furniture, fixtures and equipment HK\$'million	Site equipment HK\$'million	Construction in progress HK\$'million	Motor vehicles HK\$'million	Total HK\$'million (Restated)
31st December, 2004							
At 1st January, 2004:							
Cost	8,617.8	41.8	92.7	1.7	8.6	3.1	8,765.7
Accumulated depreciation and impairment	(2,615.8)	(8.3)	(81.0)	(1.7)	(8.6)	(3.0)	(2,718.4)
Net carrying amount	<u>6,002.0</u>	<u>33.5</u>	<u>11.7</u>	<u>-</u>	<u>-</u>	<u>0.1</u>	<u>6,047.3</u>
At 1st January, 2004, net of accumulated depreciation and impairment							
	6,002.0	33.5	11.7	-	-	0.1	6,047.3
Additions	13.9	-	1.3	-	-	0.5	15.7
Disposals/Write-off	-	-	(0.9)	-	-	(0.6)	(1.5)
Write-back of depreciation upon disposals/write-off	-	-	0.9	-	-	0.6	1.5
Write-back of impairment of a hotel property	30.0	-	-	-	-	-	30.0
Depreciation provided during the year	(89.4)	(0.8)	(3.3)	-	-	(0.1)	(93.6)
Arising from deconsolidation of a listed subsidiary company	(8,631.7)	(40.7)	(52.9)	-	(8.6)	(2.0)	(8,735.9)
Write-back of depreciation arising from deconsolidation of a listed subsidiary company	<u>2,675.2</u>	<u>8.9</u>	<u>44.6</u>	<u>-</u>	<u>8.6</u>	<u>1.6</u>	<u>2,738.9</u>
At 31st December, 2004, net of accumulated depreciation	<u>-</u>	<u>0.9</u>	<u>1.4</u>	<u>-</u>	<u>-</u>	<u>0.1</u>	<u>2.4</u>
At 31st December, 2004:							
Cost	-	1.1	40.2	1.7	-	1.0	44.0
Accumulated depreciation	-	(0.2)	(38.8)	(1.7)	-	(0.9)	(41.6)
Net carrying amount	<u>-</u>	<u>0.9</u>	<u>1.4</u>	<u>-</u>	<u>-</u>	<u>0.1</u>	<u>2.4</u>



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The leasehold properties are held under medium term leases and are situated in Hong Kong.

As disclosed in 2003 financial statements, a sale and purchase agreement (the "RHIHL SP Agreement") was entered into by the RHIHL Group in 2003 for the disposal of the Regal Oriental Hotel to an independent third party for a consideration of HK\$350.0 million (subject to adjustments). Pursuant to a supplemental agreement to the RHIHL SP Agreement entered into in March 2004, the completion date under the RHIHL SP Agreement, originally scheduled on 31st March, 2004, was deferred to 30th June, 2004 and an option (the "ROH Option") was reinstated for the RHIHL Group to terminate the RHIHL SP Agreement, exercisable by the RHIHL Group prior to the extended completion date. While the RHIHL SP Agreement continued to subsist, the directors of RHIHL considered it appropriate to state the Regal Oriental Hotel at its net realisable value as at 31st December, 2003. On 3rd June, 2004, the RHIHL Group exercised the ROH Option and the RHIHL Agreement was terminated with effect on 24th June, 2004. Consequently, a write-back of impairment loss of HK\$30.0 million, as restated, was recognised in the prior year's income statement.

17. INVESTMENT PROPERTIES

	GROUP	
	2005 HK\$'million	2004 HK\$'million
Carrying amount at 1st January	0.9	1.7
Disposals	(0.6)	(0.8)
Carrying amount at 31st December	0.3	0.9

The Group's investment properties are situated in Hong Kong and are held under the following lease terms:

	HK\$'million
Long term lease	0.2
Medium term lease	0.1
	<u>0.3</u>

The Group's investment properties were revalued on 31st December, 2005 by independent professionally qualified valuers with an RICS qualification, at HK\$0.3 million, on an open market, existing use basis. Certain of the investment properties are leased to third parties under operating leases, further summary details of which are included in note 46(a) to the financial statements.

18. GOODWILL/NEGATIVE GOODWILL

The amounts of the goodwill and negative goodwill capitalised as an asset or recognised in the consolidated balance sheet, arising from the acquisition of additional interests in the listed and unlisted subsidiary companies, are as follows:

	GROUP		
	Goodwill HK\$'million	Negative goodwill HK\$'million	Total HK\$'million
31st December, 2005			
At 1st January, 2005:			
Cost:			
As previously reported	455.9	(14.3)	441.6
Prior year adjustments: HKASs 16 and 17/HK-Int 2 (note 2.2(a))	21.1	14.3	35.4
Opening adjustment: HKFRS 3 (note 2.2(d))	(27.4)	–	(27.4)
As restated	<u>449.6</u>	<u>–</u>	<u>449.6</u>
Accumulated amortisation and impairment:			
As previously reported	(217.0)	0.6	(216.4)
Prior year adjustments: HKASs 16 and 17/HK-Int 2 (note 2.2(a))	–	(0.6)	(0.6)
Opening adjustment: HKFRS 3 (note 2.2(d))	27.4	–	27.4
As restated	<u>(189.6)</u>	<u>–</u>	<u>(189.6)</u>
Net carrying amount	<u>260.0</u>	<u>–</u>	<u>260.0</u>
Cost at 1st January, 2005, net of accumulated impairment	260.0	–	260.0
Impairment provided during the year	(58.0)	–	(58.0)
At 31st December, 2005	<u>202.0</u>	<u>–</u>	<u>202.0</u>
At 31st December, 2005:			
Cost	477.0	–	477.0
Accumulated impairment	(275.0)	–	(275.0)
Net carrying amount	<u>202.0</u>	<u>–</u>	<u>202.0</u>



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	GROUP		
	Goodwill	Negative	Total
	HK\$'million	goodwill	HK\$'million
	(Restated)	(Restated)	(Restated)
31st December, 2004			
At 1st January, 2004:			
Cost	274.8	(15.3)	259.5
Accumulated amortisation and impairment	(14.3)	0.2	(14.1)
	<u>260.5</u>	<u>(15.1)</u>	<u>245.4</u>
Net carrying amount	<u><u>260.5</u></u>	<u><u>(15.1)</u></u>	<u><u>245.4</u></u>
Cost at 1st January, 2004, net of accumulated amortisation and impairment	260.5	(15.1)	245.4
Acquisition of additional interests in listed subsidiary companies	213.4	(37.6)	175.8
Acquisition of additional interest in a subsidiary company	0.2	–	0.2
Release on deemed disposal of the Group's interest in a listed subsidiary company	(7.9)	7.1	(0.8)
Recognised as income/(Amortisation provided) during the year	(13.1)	1.4	(11.7)
Impairment provided during the year	(189.6)	–	(189.6)
Reclassification to interests in associates (note 21)	(3.5)	44.2	40.7
	<u>260.0</u>	<u>–</u>	<u>260.0</u>
At 31st December, 2004	<u><u>260.0</u></u>	<u><u>–</u></u>	<u><u>260.0</u></u>
At 31st December, 2004:			
Cost	477.0	–	447.0
Accumulated amortisation and impairment	(217.0)	–	(217.0)
	<u>260.0</u>	<u>–</u>	<u>260.0</u>
Net carrying amount	<u><u>260.0</u></u>	<u><u>–</u></u>	<u><u>260.0</u></u>

In 2004, goodwill not previously eliminated against the consolidated capital reserve was amortised on the straight-line basis over its estimated useful life of twenty years.

As further detailed in note 2.2(d) to the financial statements, the Group applied the transitional provisions of HKFRS 3 that permitted goodwill in respect of business combinations which occurred prior to 2001, to remain eliminated against the consolidated capital reserve.

The amounts of goodwill and negative goodwill remaining in the consolidated capital reserve as at 1st January, 2005, arising from the acquisition of subsidiary companies prior to 1st January, 2001, are as follows:

	GROUP	
	Goodwill eliminated against capital reserve HK\$'million	Negative goodwill credited to capital reserve HK\$'million
31st December, 2005		
At 1st January, 2005		
Cost:		
As previously reported	161.9	(526.7)
Prior year adjustments: HKASs 16 and 17/HK-Int 2 (note 2.2(a))	–	482.7
Opening adjustment: HKFRS 3 (note 2.2(d))	–	44.0
	<u>161.9</u>	<u>–</u>
As restated	161.9	–
Accumulated impairment		
Net carrying amount at 1st January, 2005 and 31st December, 2005	<u>–</u>	<u>–</u>
31st December, 2004		
At 1st January, 2004		
Cost:		
As previously reported	161.9	(966.5)
Prior year adjustments: HKASs 16 and 17/HK-Int 2 (note 2.2(a))	–	621.5
	<u>161.9</u>	<u>(345.0)</u>
As restated	161.9	(345.0)
Release on deemed disposal of the Group's interest in a listed subsidiary company	–	301.0
	<u>161.9</u>	<u>(44.0)</u>
Accumulated impairment	<u>(161.9)</u>	–
At 31st December, 2004	<u>–</u>	<u>(44.0)</u>



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Impairment testing of goodwill

As at 31st December, 2005, the carrying amount of goodwill relates to the acquisition of additional interests in PHL, which is allocated to one cash generating unit, the PHL Group. The recoverable amount of the PHL Group is determined based on its audited net assets adjusted for its interest in the listed associate revalued to reflect the market valuation of the hotel properties owned by that listed associate at the balance sheet date.

The prior year's balance also included an amount of HK\$58.0 million which related to goodwill arising from the acquisition of certain subsidiary companies of the PHL Group, which are engaged in building related businesses, including security systems and products and other software development and distribution (the "Business Units"). In the prior year, as the directors of PHL had not determined whether the PHL Group would allocate sufficient resources to fund and launch the business undertakings of these subsidiary companies in accordance with their expansionary business plan, the carrying value of the relevant goodwill in the amount of HK\$58.0 million had been determined by reference to a business valuation performed by independent professionally qualified valuers based on a contraction scenario as at 31st December, 2004 (the "Valuation") and consequently, an impairment of HK\$189.6 million was recognised in the consolidated income statement in that year.

During the year, the operating performance of the Business Units was below the forecast under the contraction scenario in the Valuation due to intense competition in the business environment. In the opinion of the directors of PHL, while the Business Units continue to operate, it is uncertain that sufficient cash flows will be generated by the Business Units in the foreseeable future to substantiate the carrying amount of the goodwill and accordingly a further impairment of HK\$58.0 million has been made and recognised in the current year's consolidated income statement, resulting in a full write off of the goodwill as at 31st December, 2005.



19. PROPERTY UNDER DEVELOPMENT

	GROUP	
	2005 HK\$'million	2004 HK\$'million
At 1st January	7.2	7.2
Disposal of a subsidiary company (note 42(d))	(7.2)	–
	<u>–</u>	<u>7.2</u>
At 31st December	<u>–</u>	<u>7.2</u>
Analysis by geographical location:		
Leasehold land in Mainland China, at cost less write-down in value:		
Medium term	<u>–</u>	<u>7.2</u>

20. PROPERTY HELD FOR FUTURE DEVELOPMENT

	GROUP	
	2005 HK\$'million	2004 HK\$'million
Medium term leasehold land in Hong Kong, at cost:		
At 1st January and 31st December	<u>26.7</u>	<u>26.7</u>



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21. INTERESTS IN ASSOCIATES

	GROUP	
	2005 HK\$'million	2004 HK\$'million (Restated)
Listed and unlisted companies:		
Share of net assets	2,341.6	1,942.5
Goodwill on acquisition	54.0	3.4
Negative goodwill on acquisition	–	(43.3)
	2,395.6	1,902.6
Loans to associates	156.4	235.0
Promissory note receivable	145.0	–
Amounts due from associates	6.2	0.7
Amount due to an associate	(2.1)	(1.1)
	2,701.1	2,137.2
Less: Provision for impairment	(0.4)	(0.4)
	2,700.7	2,136.8



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	Goodwill HK\$'million	GROUP Negative goodwill HK\$'million	Total HK\$'million
31st December, 2005			
1st January, 2005:			
Cost:			
As previously reported	3.0	(50.5)	(47.5)
Prior year adjustments: HKASs 16 and 17/HK-Int 2 (note 2.2(a))	0.5	5.3	5.8
Opening adjustment: HKFRS 3 (note 2.2(d))	(0.1)	45.2	45.1
	<u>3.4</u>	<u>-</u>	<u>3.4</u>
As restated			
Accumulated amortisation:			
As previously reported	(0.1)	2.1	2.0
Prior year adjustments: HKASs 16 and 17/HK-Int 2 (note 2.2(a))	-	(0.2)	(0.2)
Opening adjustment: HKFRS 3 (note 2.2(d))	0.1	(1.9)	(1.8)
	<u>-</u>	<u>-</u>	<u>-</u>
As restated			
Net carrying amount	<u>3.4</u>	<u>-</u>	<u>3.4</u>
Cost at 1st January, 2005, as restated	3.4	-	3.4
Acquisition of additional interests in the listed associate	50.6	-	50.6
	<u>54.0</u>	<u>-</u>	<u>54.0</u>
Cost and carrying amount at 31st December, 2005	<u>54.0</u>	<u>-</u>	<u>54.0</u>



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	GROUP		
	Goodwill HK\$'million (Restated)	Negative goodwill HK\$'million (Restated)	Total HK\$'million (Restated)
31st December, 2004			
At 1st January, 2004:			
Cost	–	(3.1)	(3.1)
Accumulated amortisation	–	0.3	0.3
	<u>–</u>	<u>0.3</u>	<u>0.3</u>
Net carrying amount	<u>–</u>	<u>(2.8)</u>	<u>(2.8)</u>
Cost at 1st January, 2004, net of accumulated amortisation	–	(2.8)	(2.8)
Arising from deconsolidation of a listed subsidiary company (note 18):			
Cost	3.5	(45.2)	(41.7)
Accumulated amortisation	–	1.0	1.0
Recognised as income/(Amortisation provided) during the year	(0.1)	1.0	0.9
Release on deconsolidation of a listed subsidiary company:			
Cost	–	3.1	3.1
Accumulated amortisation	–	(0.4)	(0.4)
	<u>–</u>	<u>(0.4)</u>	<u>(0.4)</u>
At 31st December, 2004	<u>3.4</u>	<u>(43.3)</u>	<u>(39.9)</u>
At 31st December, 2004:			
Cost	3.5	(45.2)	(41.7)
Accumulated amortisation	(0.1)	1.9	1.8
	<u>(0.1)</u>	<u>1.9</u>	<u>1.8</u>
Net carrying amount	<u>3.4</u>	<u>(43.3)</u>	<u>(39.9)</u>

In 2004, goodwill not previously eliminated against the consolidated capital reserve was amortised on the straight-line basis over its estimated useful life of twenty years.

The loans to associates are unsecured, interest-free and not repayable within one year except for a promissory note receivable of HK\$145.0 million due from the listed associate bearing interest at a rate of 3% per annum as further detailed in note 43(b)(ii) to the financial statements. The carrying amounts of these loans approximate to their fair values.

The amounts due from/to associates are unsecured, interest free and have no fixed terms of repayment.

The share of net assets represents the share attributable to the Group before the Group's minority interests therein.

Details of the Group's principal associates are as follows:

Name	Place of incorporation/ registration	Particulars of issued shares held	Percentage of ownership interest attributable to the Group		Principal activities
			2005	2004	
Regal Hotels International Holdings Limited ("RHIHL")#	Bermuda	Ordinary shares of HK\$0.01 each	46.0 ⁽¹⁾	45.0 ⁽¹⁾	Investment holding
		Preference shares of US\$10 each	20.5 ⁽¹⁾	20.5 ⁽¹⁾	
Talent Faith Investments Ltd. ("Talent Faith")	British Virgin Islands	Ordinary shares of US\$1 each	N/A ⁽²⁾	100.0 ^{(1), (2)}	Investment holding
Hang Fok Properties Limited ("Hang Fok")	British Virgin Islands	Ordinary shares of US\$1 each	50.0 ⁽³⁾	100.0	Investment holding
Cheerjoy Development Limited*	Hong Kong	Ordinary shares of HK\$1 each	30.0 ⁽¹⁾	30.0 ⁽¹⁾	Property development
Smart Tactic Limited*	Hong Kong	Ordinary shares of HK\$1 each	30.0 ⁽¹⁾	30.0 ⁽¹⁾	Distribution of security systems and software
Regala Management Limited	Hong Kong	Ordinary shares of HK\$1 each	25.0 ⁽¹⁾	25.0 ⁽¹⁾	Light refreshment operation

* Not audited by Ernst & Young

RHIHL and its subsidiary companies are engaged in the business activities of hotel ownership and management, property investment and other investments.

(1) The percentage of equity interest represents equity interest attributable to the PHL Group.

(2) In prior years, the Group's equity interest in Talent Faith was classified under interests in associates despite the increase in its equity interest in Talent Faith from 50% to 100% in 2003, since the PHL Group had entered into an agreement (the "SP Agreement") in that year to dispose of its entire equity interest in Talent Faith and accordingly the control over Talent Faith was considered temporary pending the outcome of the SP Agreement.

During the year, the equity interest in Talent Faith was accounted for as a disposal group classified as held for sale in accordance with HKFRS 5, as further detailed in note 31 to the financial statements.

(3) The percentage of equity interest in Hang Fok represents the equity interest attributable to the PHL Group. Following the partial disposal of a 50% equity interest in Hang Fok by the PHL Group during the year, as further detailed in notes 22 and 43(b)(ii) to the financial statements, Hang Fok became an associate of the Group.



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

All associates were indirectly held by the Company.

All of the above associates operate in the place of their incorporation/registration, except for RHHL, which is incorporated in Bermuda, but operates in Hong Kong.

All the above associates have been accounted for using the equity method in these financial statements, except that Talent Faith was accounted for as a disposal group classified as held for sale during the year in accordance with HKFRS 5 (note 31).

The summarised financial information of the Group's associates, which have been extracted from their audited consolidated financial statements and/or management accounts, is as follows:

	2005 HK\$'million	2004 HK\$'million
Assets	12,308.9	7,393.2
Liabilities	9,902.9	5,900.1
Revenues	1,144.3	1,053.3
Profit	839.2	366.5



22. AVAILABLE-FOR-SALE EQUITY INVESTMENTS/LONG TERM INVESTMENTS

	GROUP	
	2005 HK\$'million	2004 HK\$'million
Listed equity investments, at fair value:		
Hong Kong	108.0	123.9
Elsewhere	–	8.5
	108.0	132.4
Unlisted equity investments, at fair value:		
Carrying value	71.4	370.3
Provision for impairment	(54.5)	(296.5)
	16.9	73.8
	124.9	206.2

During the year, the gross loss of the Group's available-for-sale equity investments/long term investments recognised directly in equity amounted to HK\$7.4 million (2004 - gross gain of HK\$61.2 million, of which HK\$1.6 million was released from equity and recognised in the income statement in that year).

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets on 1st January, 2005 and have no fixed maturity date or coupon rate.

The fair values of listed equity investments are based on quoted market prices. The fair values of unlisted available-for-sale equity investments have been estimated using valuation techniques based on assumptions that are not supported by observable market prices or rates. The Directors believe that the estimated fair values resulting from the valuation techniques, which are recorded in the consolidated balance sheet, and the related changes in fair values, which are recorded in the consolidated equity, are reasonable, and that they are the most appropriate values at the balance sheet date.

As at 31st December, 2005, the Group's listed investments with a carrying value of HK\$27.9 million (2004 - HK\$96.4 million) were pledged to secure the Group's bank and other borrowings.

Included in the prior year's unlisted equity investments was an amount of HK\$56.9 million which represented the PHL Group's investments comprising a 23% interest in each of two sino-foreign joint ventures, namely Beijing Century City Real Estate Development Co., Ltd. and Beijing Jianye Real Estate Developing Co., Ltd. (collectively, the "Investee Companies") established in Beijing, the People's Republic of China (the "PRC"). Despite the PHL Group's holding of 23% interests in the Investee Companies, the directors of PHL confirmed that the PHL Group was not in a position to exercise significant influence over the financial and operating policies of the Investee Companies due to a previous contractual arrangement made with the independent third parties to exchange



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the PHL Group's entire interests in the Investee Companies for the hotel portion of the land site beneficially and collectively held by the Investee Companies in accordance with the agreed terms. Accordingly, the directors of PHL considered it appropriate to account for the investments therein as available-for-sale equity investments/long term investments.

As explained in the Group's prior years' audited consolidated financial statements, a land site beneficially and collectively held by the Investee Companies was resumed by the Land Bureau in Beijing in 2000 on the grounds of its prolonged idle condition. The PHL Group and the other parties concerned had been undergoing negotiations with the relevant PRC government authorities with a view to safeguarding the Investee Companies' interest in the land site. Total impairment losses of HK\$242.0 million had been made against the investments during the years of 2001 and 2002.

In August 2004, the relevant government authorities granted to one of the Investee Companies a Beijing Grant Contract of State-owned Land Use Right (the "Grant Contract") for the granting of the land use rights of the subject land site, subject to the payment of the requisite land premium. As no consensus could be reached among the joint venture parties involved, the due date for its payment under the terms of the Grant Contract expired and the land premium remained unpaid. The PHL Group continued to have active negotiations with the other joint venture parties and relevant PRC government authorities to explore various feasible alternatives in addressing the situation and with a view to optimising the value of the PHL Group's interests in the Investee Companies.

In July 2005, the PHL Group completed a sale and purchase agreement with the RHIHL Group in respect of 50% of its equity interest in Hang Fok Properties Limited ("Hang Fok"), the then wholly owned subsidiary company which held the 23% equity interests in the Investee Companies, at a consideration of HK\$145.0 million (the "Hang Fok SP Agreement"). The RHIHL Group was given a right to terminate or rescind the Hang Fok SP Agreement exercisable subject to certain conditions subsequent regarding the land use rights then yet to be secured by the Investee Companies. The Group's investment in Hang Fok was therefore accounted for as an associate since then.

In September 2005, Hang Fok acquired a further 36% equity interest in the Investee Companies from another joint venture partner, raising its equity interest in the Investee Companies to 59%.

Subsequent to the balance sheet date, in February 2006, one of the Investee Companies has formally entered into two new land grant contracts in respect of certain portions of the original land site (the "New Grant Contracts"). Having considered the entitlements of the land use rights granted to the Investee Companies under the New Grant Contracts and the prevailing market conditions in Beijing, PRC, the RHIHL Group agreed to accept the conditions subsequent as fulfilled or otherwise waived on 3rd April, 2006.



23. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	GROUP	
	2005 HK\$'million	2004 HK\$'million
Listed equity investments in Hong Kong, at market value	<u>8.6</u>	<u>–</u>

The above equity investments were designated as equity investments at fair value through profit or loss on 1st January, 2005.

24. LOANS RECEIVABLE

The balance represents long term mortgage loans granted by the PHL Group to purchasers in connection with the sale of its properties. The loans are secured by the second mortgages over the properties sold and are repayable by instalments in 2 to 20 years. The long term mortgage loans bear interest at Hong Kong prime rate to Hong Kong prime rate plus 2% per annum.

25. DEFERRED TAX

The movements in deferred tax assets and liabilities of the Group during the year are as follows:

Deferred tax assets**Group**

	Losses available for offset against future taxable profits	
	2005 HK\$'million	2004 HK\$'million (Restated)
At 1st January	–	70.1
Deferred tax credited to the income statement during the year	–	16.4
Release on deconsolidation of a listed subsidiary company	–	(86.5)
Gross deferred tax asset at 31st December	<u>–</u>	<u>–</u>



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Deferred tax liabilities

Group

	Accelerated tax depreciation	
	2005 HK\$'million	2004 HK\$'million (Restated)
At 1st January	–	114.7
Deferred tax charged to the income statement during the year	–	4.0
Release on deconsolidation of a listed subsidiary company	–	(118.7)
	<hr/>	<hr/>
Gross deferred tax liabilities 31st December	–	–
	<hr/> <hr/>	<hr/> <hr/>

The Group has tax losses arising in Hong Kong and the United States of America amounting to HK\$1,497.5 million (2004 - HK\$1,436.0 million) and HK\$216.9 million (2004 - HK\$293.4 million), respectively, as at 31st December, 2005. The tax losses arising in Hong Kong are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose, whilst those arising in the United States of America are available for a maximum period of twenty years. No deferred tax assets in respect of the Group's tax losses have been recognised on account of the unpredictability of future profit streams.

At the balance sheet date, deferred tax assets in respect of tax losses not recognised in the financial statements amounted to HK\$338.0 million (2004 - HK\$354.0 million).

At 31st December, 2005, there is no significant unrecognised deferred tax liability (2004 - Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiary companies or associates as the Group has no liability to additional tax should such amounts be remitted.



26. OTHER ASSETS

	GROUP	
	2005 HK\$'million	2004 HK\$'million
At cost:		
Deposits with The Stock Exchange of Hong Kong Limited	0.1	0.1
Others	0.2	0.2
	<u>0.3</u>	<u>0.3</u>

27. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS/SHORT TERM INVESTMENTS

	GROUP	
	2005 HK\$'million	2004 HK\$'million
Listed equity investments in Hong Kong, at market value	<u>3.2</u>	<u>7.9</u>

The above equity investments at 31st December, 2005 were classified as held for trading.

28. PROPERTIES HELD FOR SALE

Certain of the Group's properties held for sale with carrying amount of HK\$242.9 million (2004 - HK\$243.1 million) are pledged to secure banking facilities granted to the Group.

Certain of the Group's properties held for sale are leased to third parties under operating leases, further summary details of which are included in note 46(a) to the financial statements.



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29. INVENTORIES

	GROUP	
	2005 HK\$'million	2004 HK\$'million
Raw materials	0.1	0.2
Work in progress	0.9	3.0
Finished goods	0.5	0.1
	1.5	3.3
	1.5	3.3

30. DEBTORS, DEPOSITS AND PREPAYMENTS

Included in the balance is an amount of HK\$23.9 million (2004 - HK\$10.5 million) representing the trade debtors of the Group. The aged analysis of such debtors, based on the invoice date, is as follows:

	GROUP	
	2005 HK\$'million	2004 HK\$'million
Outstanding balances with ages:		
Within 3 months	21.9	6.3
Between 4 to 6 months	0.5	2.0
Between 7 to 12 months	-	0.7
Over 1 year	8.6	8.6
	31.0	17.6
Provisions	(7.1)	(7.1)
	23.9	10.5
	23.9	10.5

Credit terms

Trade debtors generally have credit terms of 30 to 90 days. The Group seeks to maintain strict control over its outstanding debts and overdue balances are reviewed regularly by senior management. In view of the aforementioned and that the Group's exposures spread over a number of counter-parties and customers, the Group has no significant concentration of credit risk.

Included in the balances are amounts due from the Group's listed associate, a jointly controlled entity of the listed associate and a related company of HK\$13.8 million (2004 - Nil), HK\$2.7 million (2004 - HK\$6.4 million) and HK\$8.4 million (2004 - Nil), respectively, which are unsecured, non-interest bearing and repayable either on similar credit terms to those offered to the major customers of the Group or on demand.



31. A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

In prior years, the Group's interest in an investee company, Talent Faith (note 21) was classified under interests in associates despite the increase in its equity interest therein from 50% to 100% in 2003, since the Group had entered into an agreement (the "SP Agreement") in that year to dispose of its entire equity interest in the investee company and accordingly the control over that company was considered temporary pending the outcome of the SP Agreement.

The SP Agreement has not yet been completed at the balance sheet date and upon the adoption of HKAS 27 and HKFRS 5, the investment in the investee company is now consolidated in the Group's consolidated financial statements and the asset and liability of the investee company and its subsidiary companies (the "Investee Group") are presented as asset and liability of a disposal group classified as held for sale under current assets and current liabilities, respectively.

The major class of the asset and liability of the Investee Group classified as held for sale as at 31st December are as follows:

	2005 HK\$'million	2004 HK\$'million
Asset		
Loan receivable	<u>249.4</u>	<u>–</u>
Liability		
Loan from minority shareholders	<u>(98.9)</u>	<u>–</u>



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32. CREDITORS AND ACCRUALS

Included in the balance is an amount of HK\$5.2 million (2004 - HK\$1.4 million) representing the trade creditors of the Group. The aged analysis of such creditors, based on the invoice date, is as follows:

	GROUP	
	2005 HK\$'million	2004 HK\$'million
Outstanding balances with ages:		
Within 3 months	5.1	1.3
Over 3 months	0.1	0.1
	5.2	1.4
	5.2	1.4

The trade creditors are non-interest bearing and are normally settled within 90 days.

Included in the balance is an amount due to the Group's listed associate of HK\$8.1 million (2004 - HK\$8.1 million), which is unsecured, non-interest bearing and has no fixed terms of repayment.

33. CONSTRUCTION CONTRACTS

	GROUP	
	2005 HK\$'million	2004 HK\$'million
Contract costs incurred plus recognised profits		
less recognised losses to date	1,578.2	1,539.9
Less: Progress billings	(1,606.5)	(1,573.6)
	(28.3)	(33.7)
Gross amount due to contract customers		
included in creditors and accruals	(28.3)	(33.7)
	(28.3)	(33.7)

At 31st December, 2005, retentions held by customers for contract works, as included in debtors, deposits and prepayments under current assets, amounted to approximately HK\$3.8 million (2004 - HK\$3.5 million).

At 31st December, 2005, advances from customers for contract works, as included in creditors and accruals under current liabilities, amounted to approximately HK\$0.3 million (2004 - HK\$2.3 million).



34. INTEREST BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%) p.a.	Maturity	Group		Company	
			2005 HK\$'million	2004 HK\$'million	2005 HK\$'million	2004 HK\$'million
Current						
Bank overdraft - unsecured	-	On demand	-	0.1	-	-
Bank overdraft - secured	5 - 8	On demand	0.5	-	-	-
Bank loans - secured	1.4 - 6.8	2005 or 2006	78.0	90.5	65.6	-
Other loans - secured	1.4 - 12	2005 or 2006	13.9	17.0	-	-
			<u>92.4</u>	<u>107.6</u>	<u>65.6</u>	<u>-</u>
Non-current						
Bank loans - secured	1.4 - 5.3	2008	148.2	78.0	-	65.6
Other loan - secured	1.4	2006	-	1.4	-	-
			<u>148.2</u>	<u>79.4</u>	<u>-</u>	<u>65.6</u>
			<u>240.6</u>	<u>187.0</u>	<u>65.6</u>	<u>65.6</u>
			Group	Company		

	2005 HK\$'million	2004 HK\$'million	2005 HK\$'million	2004 HK\$'million
Analysed into:				
Bank loans and overdraft repayable:				
Within one year or on demand	78.5	90.6	65.6	-
In the second year	-	78.0	-	65.6
In the third to fifth years, inclusive	148.2	-	-	-
	<u>226.7</u>	<u>168.6</u>	<u>65.6</u>	<u>65.6</u>
Other borrowings repayable:				
Within one year	13.9	17.0	-	-
In the second year	-	1.4	-	-
	<u>13.9</u>	<u>18.4</u>	<u>-</u>	<u>-</u>
	<u>240.6</u>	<u>187.0</u>	<u>65.6</u>	<u>65.6</u>

All interest bearing bank and other borrowings are in Hong Kong dollars.



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Notes to Financial Statements (Cont'd)

The Group's bank and other borrowings are pledged by the Group's certain assets as further detailed in note 44 to the financial statements.

Other interest rate information:

	Group			
	2005		2004	
	Fixed rate HK\$'million	Floating rate HK\$'million	Fixed rate HK\$'million	Floating rate HK\$'million
Bank overdraft - unsecured	-	-	-	0.1
Bank overdraft - secured	-	0.5	-	-
Bank loans - secured	-	226.2	-	168.5
Other loans - secured	12.5	1.4	17.0	1.4
	<u>12.5</u>	<u>1.4</u>	<u>17.0</u>	<u>1.4</u>

The secured bank loan of the Company bears interest at floating interest rate.

The carrying amounts of the Group's and the Company's current borrowings approximate to their fair values.

The carrying amounts and fair values of the Group's non-current borrowings are as follows:

	Carrying amounts		Fair values	
	2005 HK\$'million	2004 HK\$'million	2005 HK\$'million	2004 HK\$'million
Bank loan - secured	148.2	78.0	148.2	78.0
Other loans - unsecured	-	1.4	-	1.4
	<u>148.2</u>	<u>79.4</u>	<u>148.2</u>	<u>79.4</u>

The fair value of the Company's non-current borrowing was the same as its carrying amount of HK\$65.6 million as at 31st December, 2004.

The fair value of the non-current borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates.



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35. EXCHANGEABLE NOTES

Pursuant to the terms of the debt restructuring agreement entered into between the Group, excluding the PHL Group, (the "CCIHL Group") and its financial creditors on 30th September, 2004 (the "Debt Restructuring"), which was completed on 15th December, 2004, exchangeable notes with an aggregate principal amount of HK\$13.8 million (the "Exchangeable Notes") were issued by the Group to certain financial creditors.

The Exchangeable Notes, which are interest-free and for a term of two years commencing from the date of issue (i.e. 15th December, 2004), are redeemable at any time by the Group at their principal amount. They are exchangeable into the ordinary shares of PHL only upon maturity on a mandatory basis at an initial exchange price of HK\$0.25 per share (subject to adjustments).

The carrying amount of the Group's exchangeable notes approximate to their fair values.

36. CONVERTIBLE BONDS

In 2005, the Group made an agreement with independent third party purchasers in relation to the issue by the Group of zero coupon guaranteed convertible bonds due 2010, guaranteed by, and convertible into ordinary shares of, the Company (the "Convertible Bonds") up to an aggregate principal amount of HK\$240.0 million, comprising firm bonds in an aggregate principal amount of HK\$80.0 million (the "Firm Bonds") and optional bonds of up to an aggregate principal amount of HK\$160.0 million (the "Optional Bonds").

Pursuant to the terms of the Debt Restructuring, the Company has made a pre-emptive offer of the Convertible Bonds to holders of series C convertible preference shares as detailed in note 39 (the "Pre-emptive Offer"). The Pre-emptive Offer was open for acceptance up to and including 9th December, 2005 (the "Expiry Date"). If the Pre-emptive Offer was accepted, relevant Convertible Bonds convertible into a total of 379.0 million new ordinary shares of the Company at the initial conversion price of HK\$0.1 per ordinary share (subject to adjustments), would have been issued. The Pre-emptive Offer had not been accepted and lapsed on the Expiry Date, with no Convertible Bonds having been issued.

The Convertible Bonds, if fully subscribed for and issued, are convertible into a total of 2,400.0 million new ordinary shares of the Company at the initial conversion price of HK\$0.1 per ordinary share (subject to adjustments). During the year, the Firm Bonds were subscribed for and issued.

The Firm Bonds are unsecured, non-interest bearing and are due for repayment at 127.63% of the principal amount in 2010, representing a yield to maturity of 5% per annum. The holder of the Firm Bonds has been granted the put options which allow it to require the Group to redeem all or part of the Firm Bonds at an amount equal to 115.76% of the principal amount in 2008.

The Optional Bonds, if subscribed and issued, are not redeemable by the Group, nor the holders will be granted put options which allow them to require the Group to redeem all or part of the Optional Bonds. Unless previously converted, any outstanding Optional Bonds are to be converted into new ordinary shares of the Company mandatorily on the aforesaid basis at maturity.



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The fair value of the liability component of the issued Firm Bonds was determined using a market rate for an equivalent non-convertible bond. The effective interest rate on the liability component of the issued Firm Bonds is 6.5% per annum. The residual amount is recognised as the equity component and is included in shareholders' equity.

The net proceeds received from the issue of the Firm Bonds have been split between the liability and equity components, as follows:

	2005 HK\$'million
Nominal value of the Firm Bonds issued	80.0
Equity component	(5.5)
Liability component at the issuance date	74.5
Interest expense	0.3
Liability component at 31st December	74.8

37. ADVANCE FROM THE MINORITY SHAREHOLDER OF A SUBSIDIARY COMPANY

Advance from the minority shareholder of a subsidiary company was unsecured and interest-free. Subsequent to the balance sheet date, the balance was formally assigned by the minority shareholder to the Group at a consideration of HK\$15.0 million which was included under current liabilities at the balance sheet date.



38. MINORITY INTERESTS

Previously, at 31st December, 2002, the minority interests included an amount of HK\$345.0 million which was attributable to 3,450.0 million convertible preference shares of HK\$0.10 each issued by PHL (the "Convertible Preference Shares") as the consideration for the acquisition of Venture Perfect Investments Limited (the "Paliburg Acquisition") on 31st December, 2002 (the "Issue Date"). Each Convertible Preference Share was convertible into one ordinary share of PHL of HK\$0.01 each at any time within 3 years after the Issue Date.

On 31st December, 2002, the Company completed a share swap agreement with Almighty and the vendors in the Paliburg Acquisition (the "Vendors") (the "Share Swap Agreement"). Under the Share Swap Agreement, (i) the Vendors sold their Convertible Preference Shares to Almighty; (ii) Almighty issued four exchangeable preference shares (the "Exchangeable Preference Shares") for every Convertible Preference Share acquired; and (iii) the Company agreed to acquire the entire issued ordinary share capital of Almighty from one of the Vendors at a nominal value. Every four Exchangeable Preference Shares are exchangeable into one Convertible Preference Share, or one ordinary share of PHL if so converted, within a period of 24 months (as extended from the original term of 12 months) after the Issue Date. Under the Share Swap Agreement and pursuant to the terms of the Exchangeable Preference Shares, the Company may, through the exercise of rights to call subject to certain conditions, acquire from one of the Vendors up to 11,000.0 million Exchangeable Preference Shares while the Vendors may, through the exercise of rights to put, require the Company to acquire up to 13,800.0 million Exchangeable Preference Shares by the issue of one new ordinary share of the Company for every Exchangeable Preference Share acquired.

Further details of the Paliburg Acquisition, the Share Swap Agreement, and the terms of the Convertible Preference Shares and Exchangeable Preference Shares were set out in the Company's circular dated 26th August, 2002.

In prior year, all the remaining 1,990.0 million Convertible Preference Shares were converted into the same number of ordinary shares of PHL by Almighty. No further amount in relation to the Convertible Preference Shares was included in the minority interests as at 31st December, 2004.



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39. SHARE CAPITAL AND SHARE PREMIUM

	COMPANY	
	2005 HK\$'million	2004 HK\$'million (Restated)
Shares		
Authorised:		
40,000 million (2004 - 40,000 million) ordinary shares of HK\$0.01 each	400.0	400.0
7,749.3 million (2004 - 7,749.3 million) convertible preference shares of HK\$0.10 each	774.9	774.9
	1,174.9	1,174.9
Issued and fully paid:		
16,416.8 million (2004 - 13,806.8 million) ordinary shares of HK\$0.01 each	164.2	138.1
3,527.0 million (2004 - 7,356.6 million) convertible preference shares of HK\$0.10 each	352.6	352.6
	516.8	490.7
Share premium		
Ordinary shares	234.9	-



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A summary of the movements of the Company's share capital and share premium during the period from 1st January, 2004 to 31st December, 2005 is as follows:

	Notes	Authorised		Issued and fully paid		Premium
		Number of shares 'million	Amount HK\$'million	Number of shares 'million	Amount HK\$'million (Restated)	HK\$'million
Ordinary shares						
At 1st January, 2004		20,000.0	2,000.0	5,396.8	539.7	888.4
Issue of new shares	(i)	-	-	8,410.0	841.0	-
Capital Reduction	(ii)(a)	-	(1,242.6)	-	(1,242.6)	-
Cancellation of share premium	(ii)(b)	-	-	-	-	(888.4)
Cancellation of unissued share capital	(ii)(c)	(6,193.2)	(619.3)	-	-	-
Increase of authorised share capital	(ii)(c)	26,193.2	261.9	-	-	-
At 31st December, 2004 and at 1st January, 2005		40,000.0	400.0	13,806.8	138.1	-
Issue of new shares	(iv)	-	-	2,610.0	26.1	234.9
At 31st December, 2005		40,000.0	400.0	16,416.8	164.2	234.9
Convertible preference shares of HK\$0.10 each						
Creation during the year	(iii)	7,749.3	774.9	-	-	-
Issue of convertible preference shares	(iii)	-	-	7,749.3	774.9	605.6
Repurchase of convertible preference shares	(iii)	-	-	(392.7)	(39.3)	(39.3)
Cancellation of share premium	(ii)(b)	-	-	-	-	(566.3)
At 31st December, 2004 as previously reported		7,749.3	774.9	7,356.6	735.6	-
Effect of adopting HKAS 32 (note 2(b)(iii))		-	-	-	(383.0)	-
At 31st December, 2004 (as restated) and at 1st January, 2005		7,749.3	774.9	7,356.6	352.6	-
Redemption of convertible preference shares	(v)	-	-	(3,829.6)	-	-
At 31st December, 2005		7,749.3	774.9	3,527.0	352.6	-
Total issued share capital						
At 31st December, 2005			1,174.9		516.8	234.9
At 31st December, 2004 (as restated)			1,174.9		490.7	-



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- (i) From October to December 2004, the Company issued 8,410.0 million new ordinary shares of HK\$0.10 each to acquire 8,410.0 million Exchangeable Preference Shares upon the exercise of the rights to put by the holders of such Exchangeable Preference Shares.
- (ii) Pursuant to a special resolution passed on 1st December, 2004 and the board resolution passed on 30th December, 2004, a capital reorganisation (the "Capital Reorganisation") involving, inter alia, the following were implemented on 31st December, 2004:
 - (a) a reduction of the nominal value of each issued ordinary share of the Company (13,806.8 million shares) from HK\$0.10 to HK\$0.01 each by the cancellation of HK\$0.09 of the paid-up capital for each issued share (the "Capital Reduction"), and a transfer of the credit arising from the Capital Reduction of approximately HK\$1,242.6 million to a special reserve of the Group and contributed surplus of the Company (note 40(b));
 - (b) the cancellation of the entire amount standing to the credit of the share premium account comprising the ordinary share premium and convertible preference share premium accounts of the Company and a transfer of the credit totalling HK\$1,454.7 million arising therefrom to a special reserve of the Group and contributed surplus of the Company (note 40(b));
 - (c) the cancellation of the existing authorised and unissued 6,193.2 million ordinary shares of HK\$619.3 million and a subsequent increase of the authorised ordinary share capital of the Company to HK\$400.0 million comprising 40,000 million ordinary shares of HK\$0.01 each by the creation of 26,193.2 million additional shares of HK\$0.01 each, ranking pari passu in all respects with the then existing ordinary share capital of the Company; and
 - (d) the cancellation of the entire amount standing to the credit of the capital redemption reserve and a transfer of credit totalling HK\$79.0 million arising therefrom to a special reserve of the Group and contributed surplus of the Company (note 40(b)).
- (iii) As detailed under "Convertible preference shares" section below, the Company created and issued 7,749.3 million convertible preference shares of HK\$0.10 each to certain financial creditors pursuant to the terms of the Debt Restructuring, of which 392.7 million were repurchased by the Company immediately after issuance.
- (iv) In January and November, 2005, the Company issued 2,610.0 million new ordinary shares of HK\$0.10 each to acquire 2,610.0 million Exchangeable Preference Shares upon the exercise of the rights to put by the holders of such Exchangeable Preference Shares.
- (v) In December 2005, all of the 3,829.6 million series A convertible preference shares was redeemed and cancelled.



Convertible Preference Shares

Pursuant to the terms of the Debt Restructuring which was completed on 15th December, 2004, three series of preference shares comprising 4,222.3 million series A shares at an issue price of HK\$0.20 each (the "Series A Shares"), 277.5 million series B shares at an issue price of HK\$0.175 each (the "Series B Shares") and 3,249.5 million series C shares at an issue price of HK\$0.15 each (the "Series C Shares"), (collectively the "Preference Shares") were issued by the Company to certain financial creditors. All Preference Shares are non-voting and not entitled to any income distribution.

Each Series A Share was convertible into one new ordinary share, subject to adjustment, of the Company upon maturity on 15th December, 2005 on a mandatory basis. Under the terms of the Debt Restructuring and the Series A Shares, certain financial creditors had chosen to sell back a total of 392.7 million Series A Shares to the Company immediately after their issuance at a total consideration of HK\$3.9 million. The holders of the remaining 3,829.6 million Series A Shares had the right to sell back those outstanding Series A Shares to the Company at the same price of HK\$0.01 per share on the business day immediately prior to maturity. The Company also had the right to redeem the outstanding Series A Shares at any time prior to maturity at a price of HK\$0.0165 per share. Upon the adoption of HKAS 32 as detailed in note 2.2(b)(iii), the remaining 3,829.6 million Series A Shares is restated and classified as a liability.

The fair value of the liability component was estimated at the issuance date by discounting future cash flows required to settle the Series A Shares to their present value at market interest rate.

Moreover, all of the 3,829.6 million Series A Shares was redeemed and cancelled by the Company in December 2005.

Each Series B Share is convertible into one new ordinary share, subject to adjustment, of the Company upon maturity on 15th December, 2006 on a mandatory basis. The Company has the right to redeem the outstanding Series B Shares at any time prior to maturity at a price of HK\$0.03 per share but the holders do not have the right to sell back the Series B Shares to the Company.

Each Series C Share is convertible into one new ordinary share, subject to adjustment, of the Company. The conversion may take place in stages pursuant to the terms of the Series C Shares over a period commencing after the second anniversary of issuance up to 15th December, 2009, the date of maturity on which all outstanding Series C Shares are to be converted on a mandatory basis. The Company has the right to redeem the outstanding Series C Shares at any time prior to maturity at their issue price which is HK\$0.15 per share but the holders do not have the right to sell back the Series C Shares to the Company. In addition, holders of the Series C Shares have also been granted certain pre-emptive rights relating to the subscription of new ordinary shares of the Company.

The exercise in full of the conversion rights attached to the outstanding 3,527.0 million Preference Shares in issue as at 31st December, 2005 would have, with the present capital structure of the Company, resulted in the issue of a further 3,527.0 million additional ordinary shares.



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Share Options

The Century City International Holdings Limited Share Option Scheme

At the special general meeting of the Company held on 16th June, 2005, the adoption of a new share option scheme of the Company named as "The Century City International Holdings Limited Share Option Scheme" (the "Century Share Option Scheme") and the conditional grant to Mr. Lo Yuk Sui ("Mr. Lo"), the chairman of the Company, of share options for 350,000,000 ordinary shares, entitling Mr. Lo to subscribe for a total of 350,000,000 new ordinary shares of the Company at an exercise price of HK\$0.12 per ordinary share (subject to adjustments) (the "Century Conditional Grant"), were approved by the shareholders and the independent shareholders of the Company, respectively. The exercise price for the options granted to Mr. Lo represents (i) approximately 7.14% premium to the closing price of HK\$0.112 of the ordinary shares traded on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the offer date, i.e. the date of the Century Conditional Grant approved by the Directors of the Company, and (ii) approximately 5.82% premium to the average closing price of HK\$0.1134 of the ordinary shares for the five business days immediately preceding such approval date. The closing price of the ordinary shares traded on the Stock Exchange immediately before the date on which such options were conditionally offered to be granted to Mr. Lo, i.e. 12th May, 2005, was HK\$0.112 per ordinary share. The number of ordinary shares under the options conditionally granted to Mr. Lo was in excess of the individual maximum limit of 1% of the ordinary shares in issue as of the offer date. Subsequently, the Century Share Option Scheme and the Century Conditional Grant became effective on 21st July, 2005. The options granted to Mr. Lo will become vested in stages, commencing with 40% of options granted from two years after the offer date of 12th May, 2005 and thereafter a further 20% of options granted for each subsequent year, and be exercisable as follows:

<u>Exercise Period</u>	<u>Number of ordinary shares of the Company under vested options</u>
12th May, 2007 to 11th May, 2011	140,000,000
12th May, 2008 to 11th May, 2011	70,000,000
12th May, 2009 to 11th May, 2011	70,000,000
12th May, 2010 to 11th May, 2011	70,000,000



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The summarised information on the Century Share Option Scheme is set out as follows:

- | | |
|--|---|
| (i) Purpose: | To provide the Company with a flexible means of either retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to eligible persons |
| (ii) Participants: | Eligible person means any person who is either (i) an eligible employee; (ii) a Non-Executive Director (including any Independent Non-Executive Directors); (iii) a direct or indirect shareholder of any member of the Group; (iv) a person or entity that provides advisory, consultancy, professional or other services to any member of the Group; (v) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Group; (vi) any company wholly owned by one or more persons belonging to any of the above classes of participants; or (vii) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any of the above classes of participants, as notified by the Board that he is an eligible person |
| (iii) Total number of ordinary shares subject to outstanding options under the Century Share Option Scheme and as a percentage of the issued share capital as at 31st December, 2005 and at the date of this report: | 350,000,000 ordinary shares (approximately 2.13%) |
| (iv) Maximum entitlement of each participant under the Century Share Option Scheme: | Not exceeding 1% of the offer ordinary shares of the Company in issue as of the offer date in any 12 month period |
| (v) The period within which the shares must be taken up under an option: | From the time when the options become vested to no later than ten years after the offer date |
| (vi) Minimum period for which an option must be held before it can be exercised: | No minimum period unless otherwise determined by the Board at the time of the approval of the grant |



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- (vii) Amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid: N/A
- (viii) The basis of determining the exercise price: Determined by the Board (subject to any necessary consent or approval being obtained) and shall not be less than the higher of (i) the closing price of the ordinary shares of the Company on the Stock Exchange as stated in the Stock Exchange's daily quotations sheet on the offer date; (ii) the average closing price of the ordinary shares of the Company on the Stock Exchange as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date; and (iii) the nominal value of the ordinary shares of the Company
- (ix) The life of the Century Share Option Scheme: The life of the Century Share Option Scheme commenced from 16th June, 2005, date of adoption, and ending on 15th June, 2015

During the year, movements in share options granted by the Company pursuant to the Century Share Option Scheme are as follows:

Offer date**	Name or category of participant	Number of ordinary shares under share options *			Vesting period/ Exercise period of share options	Exercise price of share options* HK\$
		At 1st January, 2005	Granted during the year	At 31st December, 2005		
12th May, 2005	Director					
	Mr. Lo Yuk Sui					
	Unvested:	–	350,000,000	350,000,000	Note	0.12

* Subject to adjustment in the case of rights or bonus issues, or other relevant changes in the share capital of the Company.

** Offer date is the date on which the grant of share options is offered and deemed the date of grant of the share options unless the grant of the share options is otherwise declined or lapsed.



Note:

Vesting/Exercise periods of share options:

On completion of continuous service of	Percentage vesting	Cumulative percentage exercisable
2 years after offer date	40% of options granted	40% (exercisable until 6 years after offer date)
3 years after offer date	A further 20% of options granted	60% (exercisable until 6 years after offer date)
4 years after offer date	A further 20% of options granted	80% (exercisable until 6 years after offer date)
5 years after offer date	The final 20% of options granted	100% (exercisable until 6 years after offer date)

The fair value of the share options granted under the Century Share Option Scheme during the year was HK\$7.4 million, which is amortised to the income statement over the vesting period of the share options granted.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant using a Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ended 31st December, 2005.

Expected volatility (%)	31.62
Historical volatility (%)	31.62
Risk-free interest rate (%)	3.33
Expected life of option (year)	5.9
Weighted average share price (HK\$)	0.10

The expected life of the options is based on the historical data over the past years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.



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Share options granted by Paliburg Holdings Limited

(a) Executive Share Option Scheme

During the year, PHL operates an executive share option scheme (the "Executive Share Option Scheme"). The Executive Share Option Scheme was adopted by PHL's shareholders on 23rd November, 1993 and subsequently approved by the independent shareholders of Paliburg International Holdings Limited ("PIHL"), formerly the immediate listed holding company of PHL, on 15th December, 1993. Share options granted under the Executive Share Option Scheme do not confer rights on the holders to dividends or to vote at shareholders' meetings. The Executive Share Option Scheme was subsequently terminated in 2003.

Details of movements in share options granted by PHL pursuant to the Executive Share Option Scheme during the year were as follows:

Date of grant of share options	Category of participant	Number of ordinary shares under share options**			At 31st December, 2005	Vesting period*/ Exercise period of share options	Exercise price of share options** HK\$
		At 1st January, 2005	Vesting during the year	Cancelled during the year			
22nd February, 1997	Employees						
	Employees, in aggregate						
	Vested:	1,750,000	250,000	(2,000,000)	-	Note	6.672
	Unvested:	750,000	(250,000)	(500,000)	-	Note	
	Total:	2,500,000	-	(2,500,000)***	-		

* The vesting period of the share options is from the date of the grant until the commencement of the relevant exercise period.

** Subject to adjustment in the case of rights or bonus issues, or other relevant changes in the share capital of PHL.

*** The outstanding share options for 2,500,000 ordinary shares were surrendered and cancelled in August 2005.

Note:

Vesting/Exercise periods of share options:

	On completion of continuous service of	Initial/Cumulative percentage vesting	Initial/Cumulative percentage exercisable
(a)	2 years after date of grant	Initial 20%	Initial 20% upon vesting (exercisable until 10 years after date of grant)
(b)	3 years to 9 years after date of grant	Cumulative 30% to 90% (with 10% additional percentage vested each subsequent year (commencing from 3 years after date of grant))	Cumulative 30% to 90% (with 10% additional percentage exercisable each subsequent year (commencing from 3 years after date of grant) upon vesting (exercisable until 10 years after date of grant))
(c)	9½ years after date of grant	100%	100% (exercisable until 10 years after date of grant)

(b) The Paliburg Holdings Limited Share Option Scheme

At the special general meeting of PHL held on 16th June, 2005, the adoption of a new share option scheme of PHL named as "The Paliburg Holdings Limited Share Option Scheme" (the "PHL New Share Option Scheme") and the conditional grant to Mr. Lo, who is also the chairman of PHL, of share options for 180,000,000 ordinary shares, entitling Mr. Lo to subscribe for a total of 180,000,000 new ordinary shares of PHL at an exercise price of HK\$0.22 per ordinary share (subject to adjustments) (the "PHL Conditional Grant") were approved by the shareholders and the independent shareholders of PHL, respectively. The PHL New Share Option Scheme and the PHL Conditional Grant were approved by the shareholders and the independent shareholders of the Company at its special general meeting also held on 16th June, 2005, respectively.

The exercise price for the options granted to Mr. Lo represents (i) approximately 5.26% premium to the closing price of HK\$0.209 of the ordinary shares of PHL traded on the Stock Exchange on the offer date, i.e. the date of the PHL Conditional Grant approved by the Directors of PHL and the Company, and (ii) approximately 5.26% premium to the average closing price of HK\$0.209 of the ordinary shares of PHL for the five business days immediately preceding such approval date. The number of ordinary shares under the options conditionally granted to Mr. Lo was in excess of the individual maximum limit of 1% of the ordinary shares of PHL in issue as of the offer date. Subsequently, the PHL New Share Option Scheme and the PHL Conditional Grant became effective on 21st July, 2005.

On 25th July, 2005, share options for an aggregate number of 100,000,000 ordinary shares, entitling the holders thereof to subscribe for a total of 100,000,000 new ordinary shares of PHL at an exercise price of HK\$0.22 per ordinary share (subject to adjustments) were offered for granting to other selected eligible persons under the PHL New Share Option Scheme. The exercise price for the options granted to the selected eligible persons represents (i) approximately 3.00% premium to the closing price of HK\$0.212 of the ordinary shares of PHL traded on the Stock Exchange on the offer date, i.e. the date of the grants approved by the Directors of PHL, and (ii) approximately 3.77% premium to the average closing price of HK\$0.2136 of the ordinary shares of PHL for the five business days immediately preceding such approval date. Such further grant of options have been duly accepted and became effective by end of July 2005.



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The summarised information on the PHL New Share Option Scheme is set out as follows:

- | | |
|--|---|
| (i) Purpose: | To provide PHL with a flexible means of either retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to eligible persons |
| (ii) Participants: | Eligible person means any person who is either (i) an eligible employee; (ii) a Non-Executive Director (including any Independent Non-Executive Directors); (iii) a direct or indirect shareholder of any member of the PHL Group; (iv) a person or entity that provides advisory, consultancy, professional or other services to any member of the PHL Group; (v) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the PHL Group; (vi) any company wholly owned by one or more persons belonging to any of the above classes of participants; or (vii) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any of the above classes of participants, as notified by the Board that he is an eligible person |
| (iii) Total number of ordinary shares subject to outstanding options under the PHL New Share Option Scheme and as a percentage of the issued share capital as at 31st December, 2005 and at the date of this report: | 280,000,000 ordinary shares (approximately 3.88%) |
| (iv) Maximum entitlement of each participant under the PHL New Share Option Scheme: | Not exceeding 1% of the offer ordinary shares of PHL in issue as of the offer date in any 12 month period |
| (v) The period within which the shares must be taken up under an option: | From the time when the options become vested to no later than ten years after the offer date |
| (vi) Minimum period for which an option must be held before it can be exercised: | No minimum period unless otherwise determined by the Board at the time of the approval of the grant |



- | | |
|--|--|
| (vii) Amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid: | N/A |
| (viii) The basis of determining the exercise price: | Determined by the Board (subject to any necessary consent or approval being obtained) and shall not be less than the higher of (i) the closing price of the ordinary shares of PHL on the Stock Exchange as stated in the Stock Exchange's daily quotations sheet on the offer date; (ii) the average closing price of the ordinary shares of PHL on the Stock Exchange as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date; and (iii) the nominal value of the ordinary shares of PHL |
| (ix) The life of the PHL New Share Option Scheme: | The life of the PHL New Share Option Scheme commenced from 16th June, 2005, date of adoption, and ending on 15th June, 2015 |



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During the year, movements in share options granted by PHL pursuant to the PHL New Share Option Scheme are as follows:

Offer date**	Name or category of participant	Number of ordinary shares under share options*			Vesting period/ Exercise period of share options	Exercise price of share options* HK\$
		At 1st January, 2005	Granted during the year	At 31st December, 2005		
Directors						
12th May, 2005	Mr. Lo Yuk Sui Unvested:	-	180,000,000	180,000,000	Note	0.22
25th July, 2005	Mr. Jimmy Lo Chun To Unvested:	-	20,000,000	20,000,000	Note	0.22
25th July, 2005	Mr. Kenneth Ng Kwai Kai Unvested:	-	20,000,000	20,000,000	Note	0.22
Other Employees						
25th July, 2005	Employees, in aggregate Unvested:	-	60,000,000	60,000,000	Note	0.22
			<u>-</u>	<u>280,000,000</u>		

* Subject to adjustment in the case of rights or bonus issues, or other relevant changes in the share capital of PHL.

** Offer date is the date on which the grant of share options is offered by PHL and deemed the date of grant of the share options unless the grant of the share options is otherwise declined or lapsed.

Note:

Vesting/Exercise periods of share options:

On completion of continuous service of	Percentage vesting	Cumulative percentage exercisable
2 years after offer date	40% of options granted	40% (exercisable until 6 years after offer date)
3 years after offer date	A further 20% of options granted	60% (exercisable until 6 years after offer date)
4 years after offer date	A further 20% of options granted	80% (exercisable until 6 years after offer date)
5 years after offer date	The final 20% of options granted	100% (exercisable until 6 years after offer date)



The fair value of the share options for the 180 million and 100 million ordinary shares granted under the PHL New Share Option Scheme during the year were HK\$5.2 million and HK\$4.5 million, respectively, which is amortised to the income statement over the vesting period of the share options granted.

The fair value of equity-settled share options granted under the PHL New Share Option Scheme during the year was estimated as at the date of grant using a Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ended 31st December, 2005.

	Mr. Lo	Others
Expected volatility (%)	23.81	24.79
Historical volatility (%)	23.81	24.79
Risk-free interest rate (%)	3.33	3.10-3.60
Expected life of option (year)	5.9	6.0
Weighted average share price (HK\$)	0.19	0.21

The expected life of the options is based on the historical data over the past years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual income.

No other feature of the options granted was incorporated into the measurement of fair value.

Warrants

Subsequent to the balance sheet date, at the special general meeting of the Company held on 6th January, 2006, an ordinary resolution was duly passed by the shareholders of the Company with respect to a bonus issue of warrants ("Warrants") of the Company to its shareholders, on the basis of one unit of Warrants carrying a subscription right of HK\$0.10 for every five ordinary shares of the Company held by the shareholders on the register of members of the Company on 6th January, 2006.

On 18th January, 2006, Warrants carrying aggregate subscription rights of approximately HK\$328.3 million were issued to the shareholders of the Company. The Warrants confer rights on their holders to subscribe for up to approximately 3,283.0 million new ordinary shares of the Company at the initial subscription price of HK\$0.10 per ordinary share (subject to adjustments), at any time from the date falling 3 months after the date of issue (i.e. 18th April, 2006) to the date falling 7 days prior to the third anniversary of date of issue (i.e. 11th January, 2011).



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40. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the financial statements on pages 128 to 129.

Ordinary shares to be issued

As more fully explained in the Company's 2002 audited consolidated financial statements and in note 38 to the financial statements, the Group completed a Share Swap Agreement on 31st December, 2002, pursuant to which the Company acquired the beneficial interest in the entire issued ordinary share capital of Almighty for a nominal consideration. At the time the Share Swap Agreement was completed, Almighty acquired from the Vendors 3,450 million PHL Convertible Preference Shares (convertible into the ordinary shares of PHL on a 1-for-1 basis), satisfied by Almighty issuing 13,800 million Exchangeable Preference Shares which were exchangeable into the PHL Convertible Preference Shares (or ordinary shares of PHL if so converted) on a 4-for-1 basis, within a period up to 31st December, 2004, as extended. Under the Share Swap Agreement and pursuant to the terms of the Exchangeable Preference Shares, the Company might, through the exercise of the rights to call (subject to certain conditions), acquire from one of the Vendors up to 11,000 million Exchangeable Preference Shares while the Vendors might, through the exercise of rights to put, require the Company to acquire up to 13,800 million Exchangeable Preference Shares, by the issue of one new ordinary share of the Company for every Exchangeable Preference Share acquired.



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As the PHL Convertible Preference Shares, or ordinary shares of PHL if so converted, held by Almighty were subject to the right to exchange pursuant to the Exchangeable Preference Shares, they were not treated as beneficially owned by the Company prior to the amendments to the Share Swap Agreement (the "Amendments") (as detailed below) becoming effective.

For completion of the Debt Restructuring, the Group was required to have sufficient ordinary shares of PHL to facilitate the implementation of the Debt Restructuring. In addition, certain amendments to the Share Swap Agreement were also required to assist in the monitoring of the Company's public float. Accordingly, a supplemental agreement to the Share Swap Agreement (the "Fifth Supplemental Agreement") was entered into on 5th November, 2004 to give effect to the Amendments which included, among others, the following key provisions:

- (a) the exchange rights attaching to the outstanding Exchangeable Preference Shares would lapse and be cancelled and Almighty would become the absolute legal and beneficial owner of all the ordinary shares of PHL then held by it;
- (b) the rights to call granted to the Company would lapse and be cancelled; and
- (c) the period for the rights to put would be extended to the fifth anniversary from the date of completion of the Debt Restructuring and the rights to put would be exercisable on one or more occasions at the discretion of the holders of the Exchangeable Preference Shares, and upon the expiry date, all the rights to put attached to any outstanding Exchangeable Preference Shares would be exercised on a mandatory basis.

The Amendments became effective with the completion of the Debt Restructuring on 15th December, 2004. Further details of the Fifth Supplemental Agreement are set out in the Company's circular dated 8th November, 2004.

As at 31st December, 2004, 2,610 million Exchangeable Preference Shares remained in issue. In accordance with the terms under the Amendments, the Company is committed to issue 2,610 million new ordinary shares over the period to 15th December, 2009 upon the exercise of the rights to put by the holders of the Exchangeable Preference Shares.

During the year, 2,610 million new ordinary shares of HK\$0.01 each were issued by the Company upon the exercise of the rights to put by the holders of the same number of Exchangeable Preference Shares. As at 31st December, 2005, no further Exchangeable Preference Shares remained in issue.

Capital reserve

Certain amounts of goodwill and negative goodwill arising from the acquisition of subsidiary companies in prior years remain eliminated against the consolidated capital reserves, as explained in note 18 to the financial statements.



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Special reserve

The Group's special reserve in the prior year represented reserve arising from the Group's Capital Reorganisation in that year as set out in note 39(ii) to the financial statements.

On 11th April, 2005, it was approved by the Directors that special reserve amounting to HK\$4,001.4 million was applied towards elimination of the Group's accumulated losses position as at 31st December, 2004.

(b) Company

	Notes	Share premium account HK\$'million	Contributed surplus HK\$'million	Capital redemption reserve HK\$'million	Share option reserve HK\$'million	Retained profits/ losses (Accumulated losses) HK\$'million (Restated)	Total HK\$'million (Restated)
At 1st January, 2004		888.4	1,893.5	4.4	-	(3,350.1)	(563.8)
Issue of convertible preference shares	39(iii)	605.6	-	-	-	-	605.6
Repurchase of convertible preference shares	39(iii)	(39.3)	-	74.6	-	-	35.3
Cancellation of share premium	39(ii)(b)	(1,454.7)	1,454.7	-	-	-	-
Transfer from share capital pursuant to the capital reduction	39(ii)(a)	-	1,242.6	-	-	-	1,242.6
Cancellation of capital redemption reserve	39(ii)(d)	-	79.0	(79.0)	-	-	-
Elimination of accumulated losses position		-	(3,347.1)	-	-	3,347.1	-
Profit for the year		-	-	-	-	322.8	322.8
At 31st December, 2004		-	1,322.7	-	-	319.8	1,642.5
Issue of new shares	39(iv)	234.9	-	-	-	-	234.9
Equity-settled share option arrangements	39	-	-	-	1.3	-	1.3
Loss for the year		-	-	-	-	(5.5)	(5.5)
Proposed final 2005 dividend		-	-	-	-	(8.2)	(8.2)
At 31st December, 2005		234.9	1,322.7	-	1.3	306.1	1,865.0

The contributed surplus represents reserves arising from (i) the group reorganisation in 1989, being the difference between the nominal value of the Company's shares issued under the reorganisation scheme and the then consolidated net asset value of the acquired subsidiary companies at the date of acquisition; and (ii) the Company's Capital Reorganisation in 2004.



Under the Companies Act 1981 of Bermuda, the contributed surplus is distributable to shareholders under certain circumstances.

41. INTERESTS IN SUBSIDIARY COMPANIES

	COMPANY	
	2005 HK\$'million	2004 HK\$'million
Unlisted shares, at cost	2,059.0	2,059.0
Amount due from a subsidiary company	3,360.0	3,167.2
	5,419.0	5,226.2
Provision for impairment	(2,962.5)	(2,962.5)
	2,456.5	2,263.7

The amount due from a subsidiary company is unsecured, interest-free and not repayable within one year. The carrying amount of this amount due from a subsidiary company approximates to its fair value.



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Notes to Financial Statements (Cont'd)

Details of the principal subsidiary companies are as follows:

Name	Place of incorporation/ registration	Nominal value of issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2005	2004	
Aikford Financial Services Limited	Hong Kong	HK\$2	100	100	Securities investment
Almighty International Limited	British Virgin Islands	US\$1	100	100	Investment holding
Century City BVI Holdings Limited	British Virgin Islands	HK\$10	100	100	Investment holding
Century City Finance Limited	Hong Kong	HK\$2	100	100	Financing
Century City Holdings Limited	Hong Kong	HK\$264,488,059	100	100	Investment holding
Century City (Nominees) Limited	Hong Kong	HK\$2	100	100	Nominee services
Century City (Secretaries) Limited	Hong Kong	HK\$2	100	100	Secretarial services
Cityline Finance Limited	Hong Kong	HK\$2	100	100	Financing
Cleerview Investments Limited	British Virgin Islands	US\$1	100	100	Investment holding
Expert Link Technology Limited	British Virgin Islands	US\$1	100	100	Investment holding
Gentwin Investment Limited	Hong Kong	HK\$2	100	100	Financing
Gold Concorde Holdings Limited	British Virgin Islands	US\$1	100	100	Investment holding
Meylink Limited	British Virgin Islands	US\$1	100	100	Investment holding
Smartaccord Limited	British Virgin Islands	US\$1	100	100	Financing and investment holding



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Name	Place of incorporation/ registration	Nominal value of issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2005	2004	
Splendour Corporation	British Virgin Islands	US\$1	100	100	Investment holding
Supreme Way Limited	Hong Kong	HK\$1	100	–	Financing
T.M. Nominees Limited	Hong Kong	HK\$2	100	100	Nominee services
Paliburg Holdings Limited	Bermuda	Ordinary - HK\$72,084,975	54.7	54.7	Investment holding
303 Company Limited	Hong Kong	HK\$10,000	54.7 ⁽ⁱ⁾	54.7 ⁽ⁱ⁾	Security systems and software development and distribution
303 Technology Limited	Hong Kong	HK\$2	54.7 ⁽ⁱ⁾	54.7 ⁽ⁱ⁾	Security systems and software development and distribution
Cathay City Property Management, Inc.	U.S.A.	US\$10,000	54.7 ⁽ⁱ⁾	54.7 ⁽ⁱ⁾	Financing
Chatwin Engineering Limited	Hong Kong	HK\$11,200,000	54.7 ⁽ⁱ⁾	54.7 ⁽ⁱ⁾	Building construction
Cheer Faith Limited	Hong Kong	HK\$2	54.7 ⁽ⁱ⁾	54.7 ⁽ⁱ⁾	Financing
Chinatrend (Holdings) Limited	Hong Kong	HK\$10,000	54.7 ⁽ⁱ⁾	41.0 ⁽ⁱ⁾	Investment holding
Cosmos Best Development Limited	Hong Kong	HK\$2	54.7 ⁽ⁱ⁾	54.7 ⁽ⁱ⁾	Management services
Cosmos Gain Investment Limited	Hong Kong	HK\$2	54.7 ⁽ⁱ⁾	54.7 ⁽ⁱ⁾	Property development and investment



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Notes to Financial Statements (Cont'd)

Name	Place of incorporation/ registration	Nominal value of issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2005	2004	
Everlane Investment Limited	Hong Kong	HK\$2	54.7 ⁽ⁱ⁾	54.7 ⁽ⁱ⁾	Property development and investment
Farich Investment Limited	Hong Kong	HK\$2	54.7 ⁽ⁱ⁾	54.7 ⁽ⁱ⁾	Investment holding
Finso Limited	Hong Kong	HK\$2	54.7 ⁽ⁱ⁾	54.7 ⁽ⁱ⁾	Investment holding
Gain World Investments Limited	British Virgin Islands	US\$1	54.7 ⁽ⁱ⁾	54.7 ⁽ⁱ⁾	Investment holding
Glaser Holdings Limited	British Virgin Islands	US\$1	54.7 ⁽ⁱ⁾	54.7 ⁽ⁱ⁾	Investment holding
Granco Development Limited	Hong Kong	HK\$2	54.7 ⁽ⁱ⁾	54.7 ⁽ⁱ⁾	Property development and investment
Grand Equity Limited	British Virgin Islands	US\$1	54.7 ⁽ⁱ⁾	54.7 ⁽ⁱ⁾	Investment holding
Guo Yui Investments Limited	British Virgin Islands	US\$1	54.7 ⁽ⁱ⁾	54.7 ⁽ⁱ⁾	Investment holding
H.P. Nominees Limited	Hong Kong	HK\$2	54.7 ⁽ⁱ⁾	54.7 ⁽ⁱ⁾	Investment holding and nominee services
Lead Fortune Development Limited	Hong Kong	HK\$2	54.7 ⁽ⁱ⁾	54.7 ⁽ⁱ⁾	Property development and investment
Leading Technology Holdings Limited	British Virgin Islands	US\$100	54.7 ⁽ⁱ⁾	54.7 ⁽ⁱ⁾	Investment holding
Linkprofit Limited	Hong Kong	HK\$2	54.7 ⁽ⁱ⁾	54.7 ⁽ⁱ⁾	Investment holding
Mira Technology Limited	Hong Kong	HK\$937,500	70.0 ⁽ⁱⁱ⁾	70.0 ⁽ⁱⁱ⁾	Software development



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Notes to Financial Statements (Cont'd)

Name	Place of incorporation/ registration	Nominal value of issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2005	2004	
Paliburg BVI Holdings Limited	British Virgin Islands	HK\$10	54.7 ⁽ⁱ⁾	54.7 ⁽ⁱ⁾	Investment holding
Paliburg Building Services Limited	Hong Kong	HK\$2	54.7 ⁽ⁱ⁾	54.7 ⁽ⁱ⁾	Mechanical and electrical engineering services
Paliburg Development BVI Holdings Limited	British Virgin Islands	US\$1	54.7 ⁽ⁱ⁾	54.7 ⁽ⁱ⁾	Investment holding
Paliburg Development Consultants Limited	Hong Kong	HK\$100,000	54.7 ⁽ⁱ⁾	54.7 ⁽ⁱ⁾	Development consultants
Paliburg Development Finance Limited	Hong Kong	HK\$2	54.7 ⁽ⁱ⁾	54.7 ⁽ⁱ⁾	Financing
Paliburg Estate Agents Limited	Hong Kong	HK\$20	54.7 ⁽ⁱ⁾	54.7 ⁽ⁱ⁾	Estate agent
Paliburg Estate Management Limited	Hong Kong	HK\$20	54.7 ⁽ⁱ⁾	54.7 ⁽ⁱ⁾	Estate management
Paliburg Finance Limited	Hong Kong	HK\$2	54.7 ⁽ⁱ⁾	54.7 ⁽ⁱ⁾	Financing
Paliburg International Holdings Limited	Bermuda	HK\$100,000	54.7 ⁽ⁱ⁾	54.7 ⁽ⁱ⁾	Investment holding
Paliburg Investments Limited	Hong Kong	HK\$526,506,860	54.7 ⁽ⁱ⁾	54.7 ⁽ⁱ⁾	Investment holding
Rank Cheer Investment Limited	Hong Kong	HK\$2	54.7 ⁽ⁱ⁾	54.7 ⁽ⁱ⁾	Financing
Rich Pearl Limited	Hong Kong	HK\$10,000	54.7 ⁽ⁱ⁾	54.7 ⁽ⁱ⁾	Financing
Sanefix Development Limited	Hong Kong	HK\$2	54.7 ⁽ⁱ⁾	54.7 ⁽ⁱ⁾	Property investment



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Notes to Financial Statements (Cont'd)

Name	Place of incorporation/ registration	Nominal value of issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2005	2004	
Shenzhen Leading Technology Co. Ltd ⁽ⁱⁱⁱ⁾	The People's Republic of China	RMB10,000,000	54.7 ⁽ⁱ⁾	54.7 ⁽ⁱ⁾	Security systems and software development and distribution
Sonnix Limited	Hong Kong	HK\$2	54.7 ⁽ⁱ⁾	54.7 ⁽ⁱ⁾	Property development and investment
Taylor Investments Ltd.	British Virgin Islands	US\$1	54.7 ⁽ⁱ⁾	54.7 ⁽ⁱ⁾	Investment holding
Tower Bright Limited	British Virgin Islands	US\$1	54.7 ⁽ⁱ⁾	54.7 ⁽ⁱ⁾	Investment holding
Transcar Investments Limited	British Virgin Islands	US\$1	54.7 ⁽ⁱ⁾	54.7 ⁽ⁱ⁾	Investment holding
Vertex Investments Limited	Hong Kong	HK\$2	54.7 ⁽ⁱ⁾	54.7 ⁽ⁱ⁾	Securities investment
Weifang Yuanzhong Real Estate Development Co., Ltd. ^(iv)	The People's Republic of China	US\$8,130,000	–	28.9	Property development and investment
Yield Star Limited	British Virgin Islands	US\$1	54.7 ⁽ⁱ⁾	54.7 ⁽ⁱ⁾	Investment holding

- (i) The percentages of equity interest represent those attributable to the Group through its shareholdings in PHL.
- (ii) The percentage of equity interest represent the aggregate of the 10% (2004 - 10%) equity interest attributable to the Company and the 60% (2004 - 60%) equity interest attributable to PHL.
- (iii) This subsidiary company is registered as wholly-foreign-owned enterprise under the PRC law.
- (iv) This subsidiary company was a sino-foreign equity joint venture company established in the PRC and was disposed of during the year.



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Except for Century City BVI Holdings Limited, all of the above subsidiary companies are indirectly held by the Company.

All of the above subsidiary companies operate in the place of their incorporation/registration, except for PHL, which is incorporated in Bermuda but operates in Hong Kong.

The above table lists the subsidiary companies 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 subsidiary companies would, in the opinion of the Directors, result in particulars of excessive length.



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42. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before tax to net cash inflow/(outflow) from operating activities

	2005 HK\$'million	2004 HK\$'million (Restated)
Profit before tax	507.3	453.8
Adjustments for:		
Finance costs	14.5	110.5
Share of profits and losses of a jointly controlled entity and associates	(376.8)	(142.0)
Interest income	(6.5)	(2.9)
Dividend income	(11.4)	(2.5)
Termination fee in respect of cancellation of the disposal of a hotel property	-	39.0
Loss on deconsolidation of the listed subsidiary company	-	12.4
Gain on deemed disposal of the Group's interests in listed subsidiary companies	-	(6.0)
Loss on deemed disposal of the Group's interest in the listed associate	0.1	-
Gain on disposal of interests in subsidiary companies	(68.2)	-
Gain on Debt Restructuring	-	(562.4)
Write-off of property, plant and equipment	0.4	-
Gain on sale of properties	-	(8.4)
Loss/(Gain) on disposal of investment properties	0.1	(0.3)
Depreciation	0.9	93.5
Amortisation of prepaid land lease payments	-	12.9
Amortisation of goodwill	-	13.2
Excess over the cost of a business combination/Recognition of negative goodwill	(1.0)	(2.4)
Write-back in values of properties	-	(47.3)
Write-back of impairment of a hotel property	-	(30.0)
Equity-settled share option expenses	2.9	-
Write-back of provision against a loan receivable	(0.2)	(0.1)
Write-back of provision for impairment of interest in property under development indirectly held by an associate	(121.0)	-
Impairment of long term investments	-	49.5
Impairment of goodwill	58.0	189.6
Provisions for/(Write-back of provision for) doubtful debts	(0.8)	1.0



	2005 HK\$'million	2004 HK\$'million (Restated)
Gain on disposal of long term investments	–	(0.4)
Net proceeds from sale of properties	0.1	20.3
Fair value gain on equity investments at fair value through profit or loss	(0.1)	–
Operating profit/(loss) before working capital changes	(1.7)	191.0
Decrease in equity investments at fair value through profit or loss/short term investments	4.7	10.2
Increase in debtors, deposits and prepayments	(18.6)	(10.4)
Decrease/(Increase) in inventories	1.8	(1.0)
Decrease in creditors and accruals	(12.3)	(25.3)
Increase in deposits received	11.3	0.9
Cash generated from/(used in) operations	(14.8)	165.4
Hong Kong profits tax paid	(1.7)	(3.0)
Overseas taxes refunded	–	1.2
Net cash inflow/(outflow) from operating activities	(16.5)	163.6



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(b) Major non-cash transactions

The Group had the following major non-cash transactions:

- (i) On 6th January, 2005, 2nd November, 2005 and 3rd November, 2005, a total of 500.0 million, 540.0 million and 1,570.0 million new ordinary shares of the Company, respectively, of HK\$0.10 each were issued in exchange for 2,610.0 million Exchangeable Preference Shares of HK\$0.10 each.
- (ii) As detailed in note 39(i) to the financial statements, in the prior year, a total of 8,410.0 million new ordinary shares of the Company of HK\$0.10 each were issued in exchange for 8,410.0 million Exchangeable Preference Shares of HK\$0.10 each.
- (iii) As detailed in note 39(iii) to the financial statements, pursuant to the terms of the Debt Restructuring Agreement, a total of 7,749.3 million Preference Shares were issued by the Company to certain financial creditors, of which 392.7 million were repurchased by the Company immediately after issuance.
- (iv) In the prior year, 195.0 million new ordinary shares of RHIHL were issued to an independent third party at an issue price of HK\$0.2 each in settlement of the termination fee payable in the amount of HK\$39.0 million relating to the termination of the sale and purchase agreement in respect of the Regal Oriental Hotel.
- (v) As detailed in notes 22 and 43(b)(ii) to the financial statement, the Group's disposal of its 50% equity interest in Hang Fok to the RHIHL Group was satisfied by the issuance of a promissory note by the RHIHL Group.

(c) Restricted cash and cash equivalent balances

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$5.0 million (2004 - HK\$4.0 million). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.



(d) Disposal/Deconsolidation of subsidiary companies

	2005 HK\$'million	2004 HK\$'million (Restated)
Net assets disposed of/deconsolidated:		
Property, plant and equipment	-	5,997.0
Prepaid land lease payments	-	1,119.5
Goodwill	-	3.5
Negative goodwill	-	(44.2)
Property under development	7.2	-
Properties held for sale	7.6	-
Interest in a jointly controlled entity	-	1,392.1
Interests in associates	-	13.6
Long term investments	28.5	48.1
Other loan	-	78.0
Deferred tax assets	-	4.3
Deferred expenditure	-	32.7
Hotel and other inventories	-	20.6
Debtors, deposits and prepayments	0.2	90.3
Pledged time deposits	-	5.1
Time deposits	-	63.3
Cash and bank balances	0.5	11.3
Creditors and accruals	(13.3)	(134.8)
Tax payable	-	(11.4)
Deposits received	-	(10.0)
Convertible bonds	-	(200.0)
Convertible preference shares	-	(173.2)
Loans and other borrowings	-	(4,188.0)
Deferred tax liabilities	-	(36.5)
Other payable	-	(28.7)
Minority interests	-	(2,238.3)
	30.7	1,814.3
Exchange equalisation reserve released on disposal	0.2	-
Gain on disposal	68.2	-
Unrealised gain on disposal included in interests in associates	53.6	-
	152.7	1,814.3
Satisfied by:		
Promissory note receivable included in interests in associates	145.0	-
Other receivable included in debtors, deposits and prepayments	7.7	-
Reclassification to interests in associates	-	1,814.3
	152.7	1,814.3



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An analysis of the net outflow of cash and cash equivalents in respect of the disposal/deconsolidation of subsidiary companies is as follows:

	2005 HK\$'million	2004 HK\$'million
Outflow of cash and cash equivalents in respect of disposal/deconsolidation of subsidiary companies		
Cash and bank balances disposed of/deconsolidated	<u>(0.5)</u>	<u>(74.6)</u>

The results of the subsidiary companies disposed of in the current year have no significant impact on the Group's consolidated turnover or profit after tax for the year ended 31st December, 2005.

The subsidiary company deconsolidated in the prior year contributed HK\$571.7 million to the Group's consolidated turnover and net profit of HK\$118.4 million (as restated) to the consolidated profit after tax and before minority interests for that year.



43. CONNECTED AND RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions and balances set out elsewhere in the notes to the financial statements, the Group had the following material connected and related party transactions during the year:

	Notes	2005 HK\$'million	2004 HK\$'million
The listed associate:			
Management fee income	(i)	11.8	3.9
Gross construction fee income	(ii)	7.1	0.8
Gross development consultancy fee income	(iii)	12.4	–
Gross income in respect of security systems and products and other software	(iv)	3.0	0.8
A jointly controlled entity of the listed associate*:			
Gross construction fee income	(ii)	12.0	8.8
A jointly controlled entity*:			
Gross construction fee income	(ii)	–	59.8
A related company**:			
Advertising and promotion fees (including cost reimbursements)	(v)	0.4	4.3

* Chest Gain Development Limited ("Chest Gain") is a jointly controlled entity of the RHIHL Group, the listed associate of the Group, which was deconsolidated from the Group since 31st July, 2004.

** Certain directors of the related company are also the Directors of the Company.

Notes:

- (i) The management fee income included rentals and other overheads allocated by the Company either on the basis of specific attribution or by reference to a predetermined ratio assessed by the management of the Company, PHL and RHIHL based on the distribution of job responsibilities and the estimated time to be spent by the relevant staff in serving each of the three groups.
- (ii) The construction fee income was received from the RHIHL Group and Chest Gain for providing repairs and maintenance and construction works for the hotel properties and a property development project, respectively. The fees were negotiated based on cost plus a margin and/or awarded through competitive tendering process.



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- (iii) The gross development consultancy fee income was charged to the RHIHL Group for advisory, supervisory, architectural and design services provided in connection with the room extension and other renovation projects of the hotel properties of the RHIHL Group. The fees were charged at rates ranging from 4% to 10% of the estimated cost of individual projects. In addition, a consultancy fee was also charged to the RHIHL Group for architectural and design services rendered in connection with a proposed hotel development project in Macau.
- (iv) The fees were received from the RHIHL Group for the purchases and maintenance services of the security systems and products and other software installed in its hotel properties. The fees were charged based on cost plus a margin depending on the nature and location of the work provided.
- (v) The advertising and promotion fees comprised a retainer determined by reference to the estimated volume of advertising and promotional activities of the Group and a standard fee based on total costs involved, in addition to which actual costs and out-of-pocket expenses incurred were reimbursed.

The Directors of the Company are of the opinion that the above transactions were entered into in the normal and usual courses of business.

- (b) Other transactions with related parties:
 - (i) In addition, in order to facilitate the Debt Restructuring, Mr. Y.S. Lo ("Mr. Lo"), the chairman of the Company, has provided a personal guarantee in favour of a financial creditor (the "Creditor") in respect of a secured bilateral loan (the "Loan") granted by the Creditor to the Group. Pursuant to such personal guarantee arrangement, Mr. Lo was granted the right to purchase or procure the purchase of the Loan (and that, among other things, (i) the 309.5 million ordinary shares of PHL pledged as collateral for the Loan, and (ii) the benefit of an option to receive 123.8 million ordinary shares of PHL in lieu of cash prepayment or repayment of the Loan shall be transferred to Mr. Lo (or such purchaser as procured by Mr. Lo) together with the Loan) at its principal amount of approximately HK\$12.4 million plus any accrued but unpaid interest from such creditor at any time within two years from completion of the Debt Restructuring. If Mr. Lo acquires the Loan pursuant to the guarantee arrangement, then certain Exchangeable Notes issued to the Creditor under the Debt Restructuring amounting to approximately HK\$6.2 million and carrying the right to exchange into approximately 24.8 million ordinary shares of PHL, subject to adjustment in accordance with the terms of the Exchangeable Notes, will be transferred to Mr. Lo.



Mr. Lo is a connected person of the Company. As a result of the above guarantee arrangement, the Creditor was deemed to be a connected person of the Company only for the purposes of this transaction under the Listing Rules and thus the Debt Restructuring constituted a connected transaction which was disclosed in the Company's circular dated 8th November, 2004 and approved by the independent shareholders of the Company at its special general meeting held on 1st December, 2004.

- (ii) During the year, the PHL Group entered into a sale and purchase agreement with the RHIHL Group to dispose of its 50% equity interest in Hang Fok at a consideration of HK\$145.0 million. As a result, Hang Fok ceased to be a wholly-owned subsidiary company of the PHL Group and became an associate thereafter. The consideration was satisfied by the issuance of a promissory note by the RHIHL Group, bearing interest at a rate of 3% per annum.
- (c) Outstanding balances with related parties:

	Notes	2005 HK\$'million	2004 HK\$'million
Due from associates	(i)	20.0	0.7
Due from a jointly controlled entity of the listed associate	(ii)	2.7	6.4
Due from a related company	(ii)	8.4	–
Due to the listed associate	(iii)	(10.2)	(9.2)
Loans to associates	(iv)	156.4	235.0
Promissory note receivable	(iv)	145.0	–
		<u> </u>	<u> </u>

Notes:

- (i) Except for an amount of HK\$6.2 million (2004 - HK\$0.7 million) included in interests in associates in note 21, the remaining balance is included in debtors, deposits and prepayments in note 30 to the financial statements.
- (ii) The amounts are included in debtors, deposits, and prepayments in note 30 to the financial statements.
- (iii) Except for an amount of HK\$2.1 million (2004 - HK\$1.1 million) included in interests in associates in note 21, the remaining balance is included in creditors and accruals in note 32 to the financial statements.
- (iv) Details of loans to associates and promissory note receivable are included in note 21 to the financial statements.



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(d) Compensation of key management personnel of the Group:

	2005 HK\$'million	2004 HK\$'million
Short term employee benefits	7.1	13.4
Share-based payments	2.7	–
	<hr/>	<hr/>
Total compensation paid to key management personnel	<u>9.8</u>	<u>13.4</u>

Further details of directors' emoluments are included in note 10 to the financial statements.

The related party transactions set out in note 43(a)(v) above also constituted connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules to the Company. Such transactions during the year are exempted from relevant disclosures and other requirements, including, inter alia, independent shareholders' approval pursuant to Rule 14A.33(3)(a) of the Listing Rules. Related details of the related party transaction set out in note 43(b) are disclosed in the Directors' Report of the Company for the financial year ended 31st December, 2005 accompanying the financial statements. Relevant disclosures and other requirements, including, inter alia, independent shareholders' approval (where required) in accordance with the Listing Rules with respect to the related party transactions during the prior year set out in note 43(a)(v) had been made or met or otherwise exempted. Related details of such transactions (where required) were disclosed in the annual report of the Company for the financial year ended 31st December, 2004.

The related party transactions set out in notes 43(a)(i) to (iv) and 43(b)(ii) above did not constitute connected transactions as defined in the Listing Rules to the Company.

Mr. Lo is a connected person of the Company. As a result of the guarantee arrangement set out in note 43(b)(i), the Creditor was deemed to be a connected person of the Company only for the purposes of this transaction under the Listing Rules and thus the Debt Restructuring constituted a connected transaction which was disclosed in the Company's circular dated 8th November, 2004 and approved by the independent shareholders of the Company at its special general meeting held on 1st December, 2004.

44. PLEDGE OF ASSETS

At the balance sheet date, certain of the Group's properties held for sale and available-for-sale equity investments/long term investments with a total carrying value of HK\$270.8 million (2004 - HK\$339.4 million) and certain ordinary shares in the listed subsidiary company and the listed associate were pledged to secure general banking facilities granted to the Group.



45. CONTINGENT LIABILITIES

At the balance sheet date, the Group and the Company had the following contingent liabilities:

	2005 HK\$'million	2004 HK\$'million
(a) Corporate guarantees provided in respect of: Attributable share of outstanding bank and other borrowings of subsidiary companies	27.6	27.6
Outstanding convertible bonds issued by a subsidiary company	80.0	–
	107.6	27.6

- (b) The Group has a contingent liability in respect of possible future long service payments to employees under the Employment Ordinance, with a maximum possible amount of HK\$0.5 million as at 31st December, 2005 (2004 - HK\$0.9 million), as further explained in note 2.5(ad) to the financial statements. The contingent liability has arisen because, at the balance sheet date, a number of current employees have achieved the required number of years of service to the Group, and are eligible for long service payments under the Employment Ordinance if their employments are terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.



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46. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases certain of its properties (notes 17 and 28) under operating lease arrangements, with leases negotiated for terms ranging from 8 months to 2.67 years. The terms of the leases generally also require the tenants to pay security deposits and, in certain cases, provide for periodic rent adjustments according to the terms under the leases.

At 31st December, 2005, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	GROUP	
	2005 HK\$'million	2004 HK\$'million
Within one year	5.6	4.0
In the second to fifth years, inclusive	2.2	1.1
	<u>7.8</u>	<u>5.1</u>

(b) As lessee

The Group leases certain office properties and area under operating lease arrangements. Leases for properties and the area are negotiated for terms ranging from 1 year to 3 years.

At 31st December, 2005, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	GROUP	
	2005 HK\$'million	2004 HK\$'million
Within one year	4.8	-
In the second to fifth years, inclusive	10.3	-
	<u>15.1</u>	<u>-</u>

At the balance sheet date, the Company had no outstanding operating lease commitments.



47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans and overdrafts, exchangeable notes, convertible preference shares, convertible bonds, other interest bearing loans and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade debtors and trade creditors, which arise directly from its operations.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. The Directors meet periodically to analyse and formulate measures to manage the Group's exposure to these risks. Generally, the Group introduces conservative strategies on its risk management. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The Directors review and agree policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to interest rate risks relates primarily to the Group's borrowings with a floating interest rate. The interest rates and terms of repayment of the Group's borrowings are disclosed in note 34 to the financial statements. The Group's policy is to obtain the most favorable interest rates available for its borrowings.

Credit risk

The Group's major exposure to the credit risk arising from the default of the trade debtors, with a maximum exposure equal to their carrying amounts in the consolidated balance sheet. The Group trades only with recognised and creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and available-for-sale equity investments, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank facilities. In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuation in cash flows. The Group will raise funds from either the financial market or from realisation of its assets if required.



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48. POST BALANCE SHEET EVENTS

Except for the events set out in notes 22, 37 and 39 to the financial statements, the Group did not have other significant post balance sheet event.

49. COMPARATIVE AMOUNTS

As further explained in notes 2.2 and 2.4 to the financial statements, due to the adoption of new and revised HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year and opening balance adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

50. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 18th April, 2006.

