1. CORPORATE INFORMATION

During the year, the Group was principally engaged in property development and investment, construction and building related businesses 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 2.4(g). These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest million except where otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31st December, 2006. The results of subsidiaries 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 not held by the Group in the results and net assets of the Company's subsidiaries. Acquisition of minority interests is accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases which will give rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The principal changes in accounting policies are as follows:

(a) HKAS 21 *The Effects of Changes in Foreign Exchange Rates*

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31st December, 2006 or 31st December, 2005.

(b) HKAS 39 *Financial Instruments: Recognition and Measurement*

(i) Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*. The adoption of this amendment has had no material impact on these financial statements.

(ii) Amendment for the fair value option

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. Upon the adoption of this amendment at 1st January, 2006, the Group has de-designated equity investments at fair value through profit or loss with a carrying amount of HK$8.6 million at 31st December, 2005 and has reclassified them as available-for-sale equity investments with a fair value of HK$8.6 million at 1st January, 2006. In accordance with the transitional provisions of the amendment, comparative amounts have been restated based on the new classification.

	2006 HK$'million	**2005 HK$'million**
Consolidated income statement for the year ended 31st December		
Decrease in other income and gains	**(2.2)**	(0.1)
Decrease in basic earnings per ordinary share (cent)	**(0.01)**	–
Decrease in diluted earnings per ordinary share (cent)	**(0.01)**	–

	2006 HK$'million	2005 HK$'million
Consolidated balance sheet and equity at 1st January		
Increase in available-for-sale equity investments	**8.6**	8.5
Decrease in equity investments at fair value through profit or loss	**(8.6)**	(8.5)
	–	–
Decrease in available-for-sale equity investments revaluation reserve	**(5.1)**	(5.2)
Increase in investments revaluation reserve	**5.2**	5.2
Decrease in retained profits	**(0.1)**	–
	–	–
Consolidated balance sheet and equity at 31st December		
Increase in available-for-sale equity investments	**10.8**	8.6
Decrease in equity investments at fair value through profit or loss	**(10.8)**	(8.6)
	–	–
Decrease in available-for-sale equity investments revaluation reserve	**(3.9)**	(5.1)
Increase in investments revaluation reserve	**5.2**	5.2
Decrease in retained profits	**(1.3)**	(0.1)
	–	–

(iii) Amendment for cash flow hedge accounting of forecast intragroup transactions

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

(c) HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*

The Group has adopted this interpretation as of 1st January, 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

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.

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

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 shall be applied for annual periods beginning on or after 1st January, 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.

HKFRS 8 shall be applied for annual periods beginning on or after 1st January, 2009. The standard requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenues from the Group's major customers. This standard will supersede HKAS 14 *Segment Reporting*.

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 11 and HK(IFRIC)-Int 12 shall be applied for annual periods beginning on or after 1st March, 2006, 1st May, 2006, 1st June, 2006, 1st November, 2006, 1st March, 2007 and 1st January, 2008, respectively.

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

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Goodwill

Goodwill arising on the acquisition of subsidiaries 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.

(b) Excess over the cost of business combinations

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 subsidiaries 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' profits or losses in the period in which the investments are acquired.

(c) Subsidiaries

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

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

Upon the disposal of interests in subsidiaries, 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 is diluted by virtue of the additional issue of shares by such subsidiary (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) Associates

An associate is an entity, not being a subsidiary, 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 is included as part of the Group's interests in associates.

(e) Impairment of non-financial assets other than goodwill

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 in those expense categories consistent with the function of the impaired asset, 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.

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 and certain financial assets 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.

(f) Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a 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.

For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the income statement.

(g) 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.

(h) 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.

(i) 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.

(j) 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, at the interest rates related to specific development project borrowings.

(k) Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and 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 considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

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.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell 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 at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading 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 subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. 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.

(l) Impairment of financial assets

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 the income statement.

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.

In relation to trade debtors, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the debts is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

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 the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

(m) Derecognition of financial assets

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 them 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.

(n) Financial liabilities at amortised cost (including interest bearing bank and other borrowings)

Financial liabilities including creditors and accruals, interest bearing bank and other borrowings, exchangeable notes and deposits received are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

(o) 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.

(p) Convertible preference shares

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. 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. The carrying amount of the conversion option is not remeasured in subsequent years.

(q) Derecognition of financial liabilities

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 the income statement.

(r) 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.

(s) Other assets

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

(t) Property, plant and equipment and depreciation

Property, plant and equipment 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:

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.

(u) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on the estimated selling prices less any further costs expected to be incurred to completion and disposal.

(v) 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 when the relevant contract has completed not less than 50% based on the percentage of completion method, measured by reference to the work certified by architects for the relevant 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.

(w) 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 (v) above;

(v) 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;

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

(vii) proceeds from sale of equity investments at fair value through profit or loss, on the transaction dates when the relevant contract notes are exchanged; and

(viii) consultancy and management fees, in the period in which such services are rendered.

(x) 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 the income statement. 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 subsidiaries 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 subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

(y) 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 subsidiaries 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 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 subsidiaries 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.

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.

(z) 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 are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

(aa) Employee benefits

Share-based payment transactions

The Company and its listed subsidiary 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 36 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 ("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 ordinary 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 after 7th November, 2002 that had not vested by 1st January, 2005 and to those granted on or after 1st January, 2005.

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.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries 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.

(ab) 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.

(ac) 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.

(ad) Dividends

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.

Interim dividend is simultaneously proposed and declared, because the Company's memorandum and articles of association grant the Directors the authority to declare interim dividend. Consequently, interim dividend is recognised immediately as a liability when it is proposed and declared.

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 has 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, 2006 was HK$202.0 million (2005 - HK$202.0 million) and the carrying amount of goodwill included in interests in associates is HK$54.0 million (2005 - HK$54.0 million). More details are given in notes 18 and 21 to the financial statements.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The amounts of unrecognised tax losses arising in Hong Kong and the United States of America at 31st December, 2006 were HK$1,438.7 million (2005 - HK$1,497.5 million) and HK$213.2 million (2005 - HK$216.9 million), respectively. Further details are contained in note 35 to the financial statements.

Fair value of unlisted equity investments

The unlisted equity investments have been valued based on the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics. This valuation requires the Group to make estimates about expected future cash flows and discounts rates, and hence they are subject to uncertainty. The fair value of the unlisted equity investments at 31st December, 2006 was HK$2.8 million (2005 - HK$16.9 million).

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, thus leading to a gross construction profit of HK$7.4 million (2005 - HK$9.4 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.

Measurement of fair value of equity-settled transactions

Both the Company and its listed subsidiary 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.

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 engages 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 engages in hotel operations and the provision of hotel management services;

(d) the securities investment segment engages in securities trading businesses; and

(e) the others segment mainly comprises the provision of financing services.

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, 2006 and 2005.

GROUP

	Property development and investment		Construction and building related businesses		Hotel ownership and management		Securities investment		Others		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	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 (Restated)
Segment revenue:														
Sales to external customers	23.8	10.5	133.2	66.5	–	–	30.4	33.1	0.5	0.4	–	–	187.9	110.5
Intersegment sales	–	–	5.8	4.6	–	–	–	–	–	–	(5.8)	(4.6)	–	–
Total	**23.8**	**10.5**	**139.0**	**71.1**	**–**	**–**	**30.4**	**33.1**	**0.5**	**0.4**	**(5.8)**	**(4.6)**	**187.9**	**110.5**
Segment results	158.9	191.1	8.8	(36.8)	–	–	6.9	3.4	2.7	3.4	(0.1)	0.5	177.2	161.6
Interest income and unallocated non-operating and corporate gains													12.6	20.3
Unallocated non-operating and corporate expenses													(73.1)	(37.0)
Operating profit													**116.7**	**144.9**
Finance costs													**(19.2)**	**(14.5)**
Share of profits and losses of associates	4.3	137.2	–	–	151.2	239.7	–	–	(0.1)	(0.1)	–	–	**155.4**	**376.8**
Profit before tax													**252.9**	**507.2**
Tax													**(8.6)**	**(2.1)**
Profit for the year before allocation between equity holders of the parent and minority interests													**244.3**	**505.1**
Attributable to:														
Equity holders of the parent													**106.8**	**270.8**
Minority interests													**137.5**	**234.3**
													244.3	**505.1**

(a) Business segments (continued)

GROUP

	Property development and investment		Construction and building related businesses		Hotel ownership and management		Securities investment		Others		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	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	419.2	273.4	39.8	31.6	–	–	19.2	3.2	20.3	27.9	–	–	498.5	336.1
Interests in associates	620.5	385.1	0.3	0.3	2,382.3	2,337.0	–	–	–	0.1	(21.5)	(21.8)	2,981.6	2,700.7
Asset of a disposal group classified as held for sale	249.4	249.4	–	–	–	–	–	–	–	–	–	–	249.4	249.4
Cash and unallocated assets													441.6	457.9
Total assets													4,171.1	3,744.1
Segment liabilities	(4.8)	(7.8)	(88.6)	(75.7)	–	–	–	–	(0.2)	(0.1)	–	–	(93.6)	(83.6)
Liability directly associated with the asset of a disposal group classified as held for sale	(98.9)	(98.9)	–	–	–	–	–	–	–	–	–	–	(98.9)	(98.9)
Bank and other borrowings and unallocated liabilities													(671.3)	(444.3)
Total liabilities													(863.8)	(626.8)
Other segment information:														
Depreciation	–	0.1	0.5	0.3	–	–	–	–	–	–				
Impairment losses/(Write-back of impairment losses) recognised in the income statement	–	(121.0)	–	58.0	–	–	–	–	–	–				
Capital expenditure	–	–	1.0	1.1	–	–	–	–	–	–				
Other non-cash income	–	–	–	–	–	–	–	–	–	(0.8)				

(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, 2006 and 2005.

GROUP

	Hong Kong		Mainland China		Eliminations		Consolidated	
	2006 HK$'m	**2005 HK$'m**	**2006 HK$'m**	**2005 HK$'m**	**2006 HK$'m**	**2005 HK$'m**	**2006 HK$'m**	**2005 HK$'m**
Segment revenue:								
Sales to external customers	187.8	110.1	0.1	0.4	–	–	187.9	110.5
Other segment information:								
Segment assets	498.3	333.4	0.2	2.7	–	–	498.5	336.1
Capital expenditure	1.0	1.1	–	–				

5. REVENUE, OTHER INCOME AND GAINS

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

	GROUP	
	2006 HK$'million	**2005 HK$'million (Restated)**
Revenue		
Rental income:		
Investment properties	**6.3**	0.1
Properties held for sale	**5.6**	9.4
Construction and construction-related income	**128.5**	50.2
Proceeds from sale of properties	**10.7**	0.1
Estate management fees	**3.4**	3.8
Property development consultancy and project management fees	**1.3**	12.5
Proceeds from sale of equity investments at fair value through profit or loss	**30.4**	33.1
Other operations including estate agency service	**1.7**	1.3
	187.9	110.5
Other income and gains		
Interest income from:		
Bank balances	**2.9**	2.2
Loans receivable	**5.6**	4.3
Dividend income from:		
Listed investments	**1.4**	10.0
Unlisted investments	**–**	1.4
Fair value gains on investment properties	**80.0**	–
Fair value gains on equity investments at fair value through profit or loss, net	**4.3**	2.5
Gain on disposal of interests in subsidiaries (note 39(d))	**–**	68.2
Gain on deemed disposal of interests and exercise of warrants in the listed associate	**4.8**	–
Excess over the cost of a business combination	**–**	1.0
Others	**0.9**	5.6
	99.9	95.2

6. OTHER OPERATING EXPENSES, NET

Other operating expenses, net, include the following item:

	GROUP	
	2006 HK$'million	2005 HK$'million
Loss on disposal of interest in the listed subsidiary	**33.9**	–

7. WRITE-BACK OF PROVISIONS FOR IMPAIRMENT, NET

Write-back of provisions for impairment, net, represents the following items:

	GROUP	
	2006 HK$'million	2005 HK$'million
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
Impairment of goodwill	–	(58.0)
	–	63.2

8. PROFIT BEFORE TAX

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

	GROUP	
	2006 HK$'million	**2005 HK$'million**
Cost of completed properties sold	**7.0**	0.1
Cost of inventories sold and services provided	**3.9**	5.8
Depreciation	**2.1**	1.0
Less: Depreciation capitalised in respect of construction contracts	**(0.1)**	(0.1)
	2.0	0.9
Employee benefits expenses (inclusive of Directors' remuneration disclosed in note 10):		
Wages and salaries*	**44.6**	36.5
Equity-settled share option expenses	**5.4**	2.9
Staff retirement scheme contributions	**2.5**	2.0
Less: Forfeited contributions	**(0.4)**	(0.3)
Net staff retirement scheme contributions	**2.1**	1.7
	52.1	41.1
Less: Staff costs capitalised in respect of property development projects and construction contracts:		
Wages and salaries	**(19.8)**	(14.0)
Staff retirement scheme contributions	**(0.9)**	(0.7)
Add: Forfeited contributions	**0.1**	–
	31.5	26.4
Auditors' remuneration	**1.9**	2.1
Minimum lease payments under operating leases:		
Land and buildings	**3.9**	4.7
Plant and machinery	**1.6**	0.4
	5.5	5.1
Less: Minimum lease payments capitalised in respect of construction contracts:		
Land and buildings	**(0.4)**	(0.4)
Plant and machinery	**(1.6)**	(0.4)
	3.5	4.3

* Inclusive of an amount of HK$3.0 million (2005 - HK$3.2 million) classified under cost of inventories sold and services provided.

	GROUP	
	2006 **HK$'million**	**2005** **HK$'million**
and after crediting:		
Gross rental income	**11.9**	9.5
Less: Outgoings	**(2.6)**	(3.1)
Net rental income	**9.3**	6.4

9. FINANCE COSTS

	GROUP	
	2006 **HK$'million**	**2005** **HK$'million**
Interest in respect of:		
Bank loans and overdrafts, wholly repayable within five years	**13.5**	12.6
Convertible bonds and other loans, wholly repayable within five years	**5.7**	1.9
Total finance costs	**19.2**	14.5

10. DIRECTORS' REMUNERATION

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

	GROUP	
	2006 HK$'million	2005 HK$'million
Fees	**1.7**	1.7
Other emoluments:		
Salaries and other allowance	**4.1**	4.0
Performance related/discretionary bonuses	**0.8**	0.8
Employee share option benefits	**4.6**	2.5
Staff retirement scheme contributions	**0.4**	0.4
	11.6	9.4

In the prior 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, further details of which are set out in note 36 to the financial statements. The fair value of such options, which has been recognised to the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

The fees paid to the Independent Non-Executive Directors during the year were as follows:

	2006 HK$'million	2005 HK$'million
Mr. Anthony Chuang	**0.15**	0.15
Mr. Ng Siu Chan	**0.35**	0.35
Mr. Wong Chi Keung	**0.35**	0.35
	0.85	0.85

There were no other emoluments payable to the Independent Non-Executive Directors during the year (2005 - Nil).

(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
2006						
Executive directors:						
Mr. Lo Yuk Sui	0.20	2.88	0.49	4.07	0.29	7.93
Mr. Jimmy Lo Chun To	0.20	0.59	0.15	0.29	0.04	1.27
Mr. Kenneth Ng Kwai Kai	0.20	0.66	0.15	0.29	0.05	1.35
	0.60	4.13	0.79	4.65	0.38	10.55
Non-executive director:						
Mrs. Kitty Lo Lee Kit Tai	0.20	–	–	–	–	0.20
	0.80	4.13	0.79	4.65	0.38	10.75
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
	0.67	4.05	0.81	2.48	0.38	8.39
Non-executive director:						
Mrs. Kitty Lo Lee Kit Tai	0.20	–	–	–	–	0.20
	0.87	4.05	0.81	2.48	0.38	8.59

The Independent Non-Executive Directors of the Company were entitled to a total sum of HK$0.85 million (2005 - HK$0.85 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, 2006.

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

11. SENIOR EXECUTIVES' EMOLUMENTS

The five highest-paid individuals included three (2005 - three) Directors, details of whose remuneration are disclosed in note 10 to the financial statements. The emoluments of the other two (2005 - two) individuals, who were not Directors, are as follows:

	GROUP	
	2006 HK$'million	**2005 HK$'million**
Salaries and other emoluments	**1.9**	1.7
Performance related/discretionary bonuses	**0.4**	0.4
Employee share option benefits	**0.4**	0.2
Staff retirement scheme contributions	**0.2**	0.1
	2.9	2.4

The emoluments of the two (2005 - two) individuals fell within the following bands:

HK$	**2006 Number of individuals**	**2005 Number of individuals**
1,000,001 - 1,500,000	**1**	2
1,500,001 - 2,000,000	**1**	–

In the prior year, 30 million share options were granted to the two non-director, highest-paid individuals by the listed subsidiary of the Company, in respect of their services to the Group. Further details of the share option schemes of the Company and the listed subsidiary of the Group are set out in note 36 to the financial statements. The fair value of such options, which has been recognised to the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director, senior executives' emoluments disclosures.

12. TAX

	GROUP	
	2006 **HK$'million**	**2005** **HK$'million**
Group:		
Current - Hong Kong		
Provision for tax in respect of profits for the year	**0.9**	2.1
Overprovision in prior years	**(0.7)**	–
Current - Overseas		
Overprovision in prior years	**(0.3)**	–
Deferred tax expenses (note 35)	**8.7**	–
Total tax charge for the year	**8.6**	2.1

The provision for Hong Kong profits tax has been calculated by applying the applicable tax rate of 17.5% (2005 - 17.5%) to the estimated assessable profits which were earned in or derived from Hong Kong during the year.

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

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

	Group			
	2006 HK$' million	**%**	**2005 HK$'million (Restated)**	**%**
Profit before tax	**252.9**		507.2	
Tax at the statutory tax rate	**44.3**	**17.5**	88.8	17.5
Adjustments in respect of current tax of previous years	**(1.0)**	**(0.4)**	–	–
Profits and losses attributable to associates	**(27.2)**	**(10.7)**	(65.9)	(13.0)
Income not subject to tax	**(7.0)**	**(2.8)**	(38.0)	(7.5)
Expenses not deductible for tax	**10.0**	**4.0**	15.6	3.1
Tax losses utilised from previous periods	**(11.2)**	**(4.4)**	(3.7)	(0.7)
Tax effect of utilisation of tax losses previously not recognised	**(6.0)**	**(2.4)**	–	–
Increase in deferred tax assets not recognised during the year	**6.7**	**2.6**	5.8	1.1
Others	**–**	**–**	(0.5)	(0.1)
Tax charge at the Group's effective rate	**8.6**	**3.4**	2.1	0.4

The share of tax charge attributable to associates amounting to HK$10.9 million (2005 - tax credit of HK$46.7 million) is included in "Share of profits and losses of associates" on the face of the consolidated income statement.

13. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31st December, 2006 includes a loss of HK$7.5 million (2005 - HK$5.5 million) which has been dealt with in the financial statements of the Company (note 37(b)).

14. DIVIDENDS

	2006 HK$'million	2005 HK$'million
Interim dividend - HK0.03 cent (2005 - Nil) per ordinary share	**4.9**	–
Proposed final - HK0.07 cent (2005 - HK0.05 cent) per ordinary share	**12.6**	8.2
	17.5	8.2

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$106.8 million (2005 - HK$270.8 million, as restated) and on the weighted average of 16,509.1 million (2005 - 14,592.9 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, 2006 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 earnings of Paliburg Holdings Limited ("PHL"), the listed subsidiary of the Company, and its subsidiaries (the "PHL Group") of HK$9.7 million assuming all outstanding convertible bonds (including optional convertible bonds) of Regal Hotels International Holdings Limited ("RHIHL"), the listed associate of the Company, and its subsidiaries (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 all outstanding share options of PHL were exercised to subscribe for ordinary shares of PHL at the beginning of the year; and (ii) the interest savings on the convertible bonds of HK$4.7 million assuming all outstanding convertible bonds (including optional convertible bonds) of the Group were converted into ordinary shares of the Company at the beginning of the year. The weighted average number of ordinary shares used in the calculation is the aggregate of the weighted average number of ordinary shares in issue during the year, as used in the basic earnings per ordinary share calculation, and the weighted average number of ordinary shares of 5,814.0 million that would be issued assuming (i) all the 3,527.0 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 (ii) all outstanding convertible bonds (including optional convertible bonds) of the Group were converted into ordinary shares of the Company at the beginning of the year. The conversion of the outstanding convertible preference shares of RHIHL is anti-dilutive for the year and is not included in the calculation of diluted earnings per ordinary share. In addition, the exercise prices of the warrants of the Company and the share options of the Company and RHIHL outstanding during the year are higher than the average market prices of the respective ordinary shares of the Company 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, 2005 was based on the profit for that year (as restated) 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 that year; and (ii) the interest savings 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 was the aggregate of the weighted average number of 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 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 that 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 that 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 was anti-dilutive for that year. In addition, the exercise prices of the share options of the Company, PHL and RHIHL outstanding during that year were higher than the average market prices of the respective ordinary shares of the Company, PHL and RHIHL and, accordingly, they had no dilutive effect on the basic earnings per ordinary share.

16. PROPERTY, PLANT AND EQUIPMENT

	GROUP			
	Leasehold properties HK$'million	Leasehold improvements, furniture, fixtures and equipment HK$'million	Motor vehicles HK$'million	Total HK$'million
31st December, 2006				
At 31st December, 2005 and at 1st January, 2006:				
Cost	1.1	16.1	1.4	18.6
Accumulated depreciation	(0.3)	(11.0)	(0.7)	(12.0)
Net carrying amount	0.8	5.1	0.7	6.6
At 1st January, 2006, net of accumulated depreciation	0.8	5.1	0.7	6.6
Additions	–	1.0	0.2	1.2
Disposals/Write-off	–	(3.2)	(0.2)	(3.4)
Write-back of depreciation upon disposals/write-off	–	3.1	0.2	3.3
Depreciation provided during the year	–	(1.9)	(0.2)	(2.1)
At 31st December, 2006, net of accumulated depreciation	0.8	4.1	0.7	5.6
At 31st December, 2006:				
Cost	1.1	13.9	1.4	16.4
Accumulated depreciation	(0.3)	(9.8)	(0.7)	(10.8)
Net carrying amount	0.8	4.1	0.7	5.6

GROUP

	Leasehold properties HK$'million	Leasehold improvements, furniture, fixtures and equipment HK$'million	Site equipment HK$'million	Motor vehicles HK$'million	Total HK$'million
31st December, 2005					
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)
Net carrying amount	0.9	1.4	–	0.1	2.4
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)
At 31st December, 2005, net of accumulated depreciation	0.8	5.1	–	0.7	6.6
At 31st December, 2005:					
Cost	1.1	16.1	–	1.4	18.6
Accumulated depreciation	(0.3)	(11.0)	–	(0.7)	(12.0)
Net carrying amount	0.8	5.1	–	0.7	6.6

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

17. INVESTMENT PROPERTIES

	GROUP	
	2006 HK$'million	**2005 HK$'million**
Carrying amount at 1st January	**0.3**	0.9
Disposals	**–**	(0.6)
Transfer from properties held for sale	**270.0**	–
Profit from fair value adjustments	**80.0**	–
Carrying amount at 31st December	**350.3**	0.3

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

	HK$'million
Long term leases	350.2
Medium term lease	0.1
	350.3

The Group's investment properties were revalued on 31st December, 2006 by independent professionally qualified valuers with an RICS qualification at HK$350.3 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 43(a) to the financial statements.

At 31st December, 2006, the Group's investment property with a carrying value of HK$350.0 million (2005 - Nil) was pledged to secure banking facilities granted to the Group.

18. GOODWILL

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

	GROUP
	HK$'million
At 1st January, 2005:	
Cost	449.6
Accumulated impairment	(189.6)
Net carrying amount	260.0
Cost at 1st January, 2005, net of accumulated impairment	260.0
Impairment provided during the year	(58.0)
At 31st December, 2005	202.0
At 31st December, 2005 and 2006:	
Cost	449.6
Accumulated impairment	(247.6)
Net carrying amount	202.0

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 fair value, determined with reference to its audited net assets value 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 balance at 1st January, 2005 also included an amount of HK$58.0 million which related to goodwill arising from the acquisition of certain subsidiaries 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"). 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").

In the prior 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 continued to operate, it was uncertain that sufficient cash flows would 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 had been made and recognised in the prior year's consolidated income statement, resulting in a full write off of the goodwill as at 31st December, 2005.

19. PROPERTY UNDER DEVELOPMENT

	GROUP	
	2006 HK$'million	**2005 HK$'million**
At 1st January	**–**	7.2
Disposal of a subsidiary (note 39(d))	**–**	(7.2)
At 31st December	**–**	–

20. PROPERTY HELD FOR FUTURE DEVELOPMENT

	GROUP	
	2006 HK$'million	**2005 HK$'million**
Medium term leasehold land in Hong Kong, at cost:		
At 1st January and 31st December	**26.7**	26.7

21. INTERESTS IN ASSOCIATES

	GROUP	
	2006 **HK$'million**	**2005** **HK$'million**
Listed and unlisted companies:		
Share of net assets	**2,550.9**	2,341.6
Goodwill on acquisition	**54.0**	54.0
	2,604.9	2,395.6
Loans to associates	**156.4**	156.4
Promissory note receivable	**–**	145.0
Amounts due from associates	**223.2**	6.2
Amount due to an associate	**(2.5)**	(2.1)
	2,982.0	2,701.1
Less: Provision for impairment	**(0.4)**	(0.4)
	2,981.6	2,700.7
Share of net assets of the listed associate	**2,308.3**	2,113.0
Market value of an associate listed in Hong Kong	**2,865.6**	2,119.2

Goodwill

	GROUP	
	2006 **HK$'million**	**2005** **HK$'million**
Cost and carrying amount at 1st January	**54.0**	3.4
Acquisition of additional interests in the listed associate	**–**	50.6
Cost and carrying amount at 31st December	**54.0**	54.0

The loans to associates are unsecured, interest-free and not repayable within one year. The promissory note receivable of HK$145.0 million due from the listed associate in the prior year, as further detailed in note 40(b)(ii) to the financial statements, bore interest at a rate of 3% per annum and was fully repaid during the year. 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	Particulars of issued shares held	Percentage of ownership interest attributable to the Group 2006	Percentage of ownership interest attributable to the Group 2005	Principal activities
Regal Hotels International Holdings Limited ("RHIHL")#	Bermuda	Ordinary shares of HK$0.01 each	45.4 (1)	46.0 (1)	Investment holding
		Preference shares of US$10 each	20.5 (1)	20.5 (1)	
Hang Fok Properties Limited ("Hang Fok")	British Virgin Islands	Ordinary shares of US$1 each	50.0 (2)	50.0 (2)	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 subsidiaries 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) Prior to 2005, Hang Fok, a then wholly-owned subsidiary of PHL, held a 23% equity 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"). 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 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 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. Having considered the entitlements of the land use rights granted to the Investee Companies under the Land Grant Contracts as described below, 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.

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%. Having assessed the fair value of the land site based on an independent valuation, impairment loss in the amount of HK$121.0 million was written back by the PHL Group in 2005.

In February 2006, one of the Investee Companies formally entered into two new land grant contracts in respect of certain portions of the original land site (the "Land Grant Contracts"). As at 31st December, 2006, the land premium payable under the Land Grant Contracts was fully settled while the land use certificates remain yet to be issued by the Land Bureau. Construction work on those portions of the original land site has not yet commenced.

The above table lists the associates of the Group 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 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, except for RHIHL and Hang Fok which are incorporated in Bermuda and British Virgin Islands but operate in Hong Kong and the PRC, respectively.

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:

	2006 HK$'million	**2005 HK$'million**
Assets	**13,047.6**	12,308.9
Liabilities	**10,165.6**	9,902.9
Revenues	**1,262.5**	1,144.3
Profit	**338.0**	839.2

22. AVAILABLE-FOR-SALE EQUITY INVESTMENTS

	GROUP	
	2006 **HK$'million**	**2005** **HK$'million** **(Restated)**
Listed equity investments, at fair value:		
Hong Kong	**23.8**	108.0
Elsewhere	**10.8**	8.6
	34.6	116.6
Unlisted equity investments, at fair value:		
Carrying value	**57.3**	71.4
Provision for impairment	**(54.5)**	(54.5)
	2.8	16.9
	37.4	133.5

During the year, the gross gain of the Group's available-for-sale equity investments recognised directly in equity amounted to HK$41.4 million (2005 - gross loss of HK$7.3 million, as restated), of which HK$35.8 million (2005 - HK$0.3 million) was removed from equity and recognised in the income statement for the year.

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets 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, 2006, the Group's listed equity investments with a carrying value of HK$17.5 million (2005 - HK$27.9 million) were pledged to secure the Group's bank and other borrowings.

23. 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 15 to 20 years. The long term mortgage loans bear interest at Hong Kong prime rate to Hong Kong prime rate plus 2% per annum. The carrying amounts of these loans receivable approximate to their fair values.

24. OTHER ASSETS

	GROUP	
	2006	**2005**
	HK$'million	**HK$'million**
At cost:		
Deposits with The Stock Exchange of Hong Kong Limited	**0.1**	0.1
Others	**0.1**	0.2
	0.2	0.3

25. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	GROUP	
	2006	**2005**
	HK$'million	**HK$'million**
Listed equity investments in Hong Kong, at market value	**19.1**	3.2

The above equity investments at 31st December, 2005 and 2006 were classified as held for trading.

26. PROPERTIES HELD FOR SALE

At 31st December, 2006, certain of the Group's properties held for sale with carrying amounts of HK$32.7 million (2005 - HK$242.9 million) were 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 43(a) to the financial statements.

27. INVENTORIES

	GROUP	
	2006 HK$'million	2005 HK$'million
Raw materials	**0.1**	0.1
Work in progress	**6.6**	0.9
Finished goods	**0.2**	0.5
	6.9	1.5

28. DEBTORS, DEPOSITS AND PREPAYMENTS

Included in the balance is an amount of HK$19.9 milion (2005 - HK$23.9 million) representing the trade debtors of the Group. The aged analysis of such debtors, based on the invoice date, is as follows:

	GROUP	
	2006 HK$'million	2005 HK$'million
Outstanding balances with ages:		
Within 3 months	**18.3**	21.9
Between 4 to 6 months	**0.1**	0.5
Over 1 year	**8.6**	8.6
	27.0	31.0
Provisions	**(7.1)**	(7.1)
	19.9	23.9

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$8.5 million (2005 - HK$13.8 million), HK$2.0 million (2005 - HK$2.7 million) and HK$8.3 million (2005 - HK$8.4 million), 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.

The balance at 31st December, 2006 also included a loan receivable of HK$37.0 million (2005 - Nil) which is secured, bears interest at 1% per month and repayable within one year.

29. A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

In prior years, the Group's interest in Talent Faith Investment Ltd. ("Talent Faith") 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 Talent Faith and accordingly the control over Talent Faith was considered temporary pending the outcome of the SP Agreement.

As at 31st December, 2005, the SP Agreement had not yet been completed and upon the adoption of HKAS 27 and HKFRS 5 in 2005, Talent Faith was consolidated in the Group's consolidated financial statements and the asset and liability of Talent Faith and its subsidiaries (the "Talent Faith Group") were presented as asset and liability of a disposal group classified as held for sale under current assets and current liabilities, respectively. The consideration of the disposal was settled at 31st December, 2006; however, the SP Agreement was yet to be completed due to a delay caused by events beyond the Group's control. Since the Group remains committed to its plan to dispose of Talent Faith, no reclassification has been made therefor.

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

	2006 HK$'million	2005 HK$'million
Asset		
Loan receivable	**249.4**	249.4
Liability		
Loan from minority shareholders	**(98.9)**	(98.9)

30. CREDITORS AND ACCRUALS

Included in the balance is an amount of HK$7.5 million (2005 - HK$5.2 million) representing the trade creditors of the Group. The aged analysis of such creditors, based on the invoice date, is as follows:

	GROUP	
	2006 **HK$'million**	**2005** **HK$'million**
Outstanding balances with ages:		
Within 3 months	**7.4**	5.1
Between 4 to 6 months	**0.1**	0.1
	7.5	5.2

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

Included in the balances are amounts due to the Group's listed associate and related companies of HK$8.1 million (2005 - HK$8.1 million) and HK$11.2 million (2005 - HK$0.6 million), respectively, which are unsecured, non-interest bearing and have no fixed terms of repayment.

31. CONSTRUCTION CONTRACTS

	GROUP	
	2006 HK$'million	2005 HK$'million
Gross amount due from contract customers included in debtors, deposits and prepayments	**1.4**	–
Gross amount due to contract customers included in creditors and accruals	**(43.1)**	(28.3)
	(41.7)	(28.3)
Contract costs incurred plus recognised profits less recognised losses to date	**1,673.6**	1,578.2
Less: Progress billings	**(1,715.3)**	(1,606.5)
	(41.7)	(28.3)

At 31st December, 2006, retentions held by customers for contract works, as included in debtors, deposits and prepayments under current assets, amounted to approximately HK$10.9 million (2005 - HK$3.8 million).

At 31st December, 2006, there was no advance from customers for contract works (2005 - HK$0.3 million included in creditors and accruals under current liabilities).

32. INTEREST BEARING BANK AND OTHER BORROWINGS

GROUP

	2006			2005		
	Effective interest rate (%) p.a.	Maturity	HK$'million	Effective interest rate (%) p.a.	Maturity	HK$'million
Current						
Bank overdraft - secured	–	–	–	5 - 8	On demand	0.5
Bank loans - secured	–	–	–	1.4 - 5.3	2006	78.0
Other loans - secured	**8 - 12**	**2007**	**10.3**	1.4 - 12	2006	13.9
			10.3			92.4
Non-current						
Bank loans - secured	**4.9 - 5.7**	**2008 or 2009**	**337.9**	2.9 - 5.3	2008	148.2
			348.2			240.6

COMPANY

	2006			2005		
	Effective interest rate (%) p.a.	Maturity	HK$'million	Effective interest rate (%) p.a.	Maturity	HK$'million
Current						
Bank loan - secured	–	–	–	1.4 - 5.3	2006	65.6

	GROUP 2006 HK$'million	GROUP 2005 HK$'million	COMPANY 2006 HK$'million	COMPANY 2005 HK$'million
Analysed into:				
Bank loans and overdraft repayable:				
Within one year or on demand	–	78.5	–	65.6
In the second year	287.9	–	–	–
In the third to fifth years, inclusive	50.0	148.2	–	–
	337.9	226.7	–	65.6
Other loans repayable within one year	10.3	13.9	–	–
	348.2	240.6	–	65.6

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

The Group's bank and other borrowings are pledged by the Group's certain assets as further detailed in note 41 to the financial statements.

Other interest rate information:

	GROUP 2006 Fixed rate HK$'million	GROUP 2006 Floating rate HK$'million	GROUP 2005 Fixed rate HK$'million	GROUP 2005 Floating rate HK$'million
Bank overdraft - secured	–	–	–	0.5
Bank loans - secured	–	337.9	–	226.2
Other loans - secured	10.3	–	12.5	1.4

The secured bank loan of the Company in the prior year bore 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	
	2006 HK$'million	2005 HK$'million	2006 HK$'million	2005 HK$'million
Bank loans - secured	**337.9**	148.2	**337.9**	148.2

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

33. 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 were interest-free and for a term of two years commencing from the date of issue (i.e.,15th December, 2004), were redeemable at any time by the Group at their principal amount. They were 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).

During the year, all Exchangeable Notes were redeemed by the Group at their principal amount.

34. 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 36 to the financial statements (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). In the prior 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 holders of the Firm Bonds have been granted the put options which allow them 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.

During the year, the Firm Bonds in an aggregate principal amount of HK$5.0 million were converted into a total of 50.0 million new ordinary shares of the Company.

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.

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 Firm Bonds issued in the prior year have been split as to the liability and equity component, as follows:

	GROUP	
	Equity component HK$'million	**Liability component HK$'million**
At 1st January, 2005	**–**	–
Issuance of the Firm Bonds	**5.5**	74.5
Interest expense	**–**	0.3
At 31st December, 2005 and at 1st January, 2006	**5.5**	74.8
Conversion of HK$5.0 million of the Firm Bonds	**(0.3)**	(4.8)
Interest expense	**–**	4.7
At 31st December, 2006	**5.2**	74.7

Subsequent to the balance sheet date, the Firm Bonds in the principal amount of HK$75.0 million were converted into a total of 750.0 million new ordinary shares of the Company.

35. DEFERRED TAX

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

	GROUP			
	Revaluation of investment properties HK$'million	Accelerated tax depreciation HK$'million	Tax losses HK$'million	Total HK$'million
Deferred tax charged/(credited) to the income statement during the year (note 12) and balance at 31st December, 2006	14.0	0.7	(6.0)	8.7

The Group has tax losses arising in Hong Kong and the United States of America amounting to HK$1,438.7 million (2005 - HK$1,497.5 million) and HK$213.2 million (2005 - HK$216.9 million), respectively, as at 31st December, 2006. 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 fifteen 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$326.4 million (2005 - HK$338.0 million).

At 31st December, 2006, there is no significant unrecognised deferred tax liability (2005 - Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or associates as the Group has no liability to additional tax should such amounts be remitted.

36. SHARE CAPITAL AND SHARE PREMIUM

	COMPANY	
	2006 HK$'million	2005 HK$'million
Shares		
Authorised:		
40,000 million (2005 - 40,000 million) ordinary shares of HK$0.01 each	**400.0**	400.0
7,749.3 million (2005 - 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:		
17,209.7 million (2005 - 16,416.8 million) ordinary shares of HK$0.01 each	**172.1**	164.2
2,507.8 million (2005 - 3,527.0 million) convertible preference shares of HK$0.10 each	**250.7**	352.6
	422.8	516.8
Share premium		
Ordinary shares	**306.4**	234.9

A summary of the movements of the Company's share capital and share premium during the period from 1st January, 2005 to 31st December, 2006 is as follows:

		Authorised		Issued and fully paid		Premium
	Notes	Number of shares 'million	Amount HK$'million	Number of shares 'million	Amount HK$'million	HK$'million
Ordinary shares						
At 1st January, 2005		40,000.0	400.0	13,806.8	138.1	–
Issue of new shares	(i)	–	–	2,610.0	26.1	234.9
At 31st December, 2005 and at 1st January, 2006		40,000.0	400.0	16,416.8	164.2	234.9
Issue of new shares upon conversion of convertible bonds	(iii)	–	–	50.0	0.5	4.6
Issue of new shares upon conversion of convertible preference shares	(iv)	–	–	741.7	7.4	66.8
Issue of new shares upon exercise of warrants	(v)	–	–	1.2	–	0.1
At 31st December, 2006		40,000.0	400.0	17,209.7	172.1	306.4
Convertible preference shares of HK$0.10 each						
At 1st January, 2005		7,749.3	774.9	7,356.6	352.6	–
Redemption of convertible preference shares	(ii)	–	–	(3,829.6)	–	–
At 31st December, 2005 and at 1st January, 2006		7,749.3	774.9	3,527.0	352.6	–
Conversion of convertible preference shares	(iv)	–	–	(741.7)	(74.2)	–
Redemption of convertible preference shares	(vi)	–	–	(277.5)	(27.7)	–
At 31st December, 2006		7,749.3	774.9	2,507.8	250.7	–
Total share capital						
At 31st December, 2006			1,174.9		422.8	306.4
At 31st December, 2005			1,174.9		516.8	234.9

Notes:

(i) 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 of Almighty upon the exercise of the rights to put by the holders of such exchangeable preference shares.

(ii) In December 2005, all of the 3,829.6 million series A convertible preference shares were redeemed and cancelled.

(iii) On 19th April, 2006, 50.0 million new ordinary shares of HK$0.01 each were issued upon the conversion of the Firm Bonds in a prinicipal amount of HK$5.0 million at a conversion price of HK$0.10 each.

(iv) On 19th December, 2006, an aggregate of 741.7 million new ordinary shares of HK$0.01 each were issued upon the conversion of the same number of series C convertible preference shares.

(v) During the year, an aggregate of 1.2 million new ordinary shares of HK$0.01 each were issued for cash upon the exercise of the subscription rights by the holders of the Company's warrants at a subscription price of HK$0.10 per share for a total cash consideration of $0.1 million, before expenses.

(vi) In December, 2006, all of the 277.5 million series B convertible preference shares were 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.

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.

In December 2005, all of the 3,829.6 million Series A Shares were redeemed and cancelled by the Company.

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.

In December 2006, all of the 277.5 million Series B Shares were redeemed and cancelled by 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.

During the year, 741.7 million Series C Shares were converted into the same number of new ordinary shares of the Company.

The exercise in full of the conversion rights attached to the outstanding 2,507.8 million Preference Shares in issue as at 31st December, 2006 would have, with the present capital structure of the Company, resulted in the issue of a further 2,507.8 million additional ordinary shares.

Subsequent to the balance sheet date, 70.7 million Series C Shares were converted into the same number of new ordinary shares of the Company.

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:

Exercise Period	Number of ordinary shares of the Company under vested options
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

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, 2006 and at the date of this report:	350,000,000 ordinary shares (approximately 2.0% as at 31st December, 2006 and approximately 1.9% at the date of this report)

(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
(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 * At 1st January, 2006	Cancelled during the year	At 31st December, 2006	Vesting period/ Exercise period of share options	Exercise price of share options* HK$
	Director					
12th May, 2005	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)

Share options granted by Paliburg Holdings Limited

(a) Executive Share Option Scheme

During the year ended December 31, 2005, certain share options previously granted under an executive share option scheme of PHL (the "Executive Share Option Scheme") and remained outstanding were surrendered for cancellation. The Executive Share Option Scheme was adopted by PHL's shareholders on 23rd November, 1993 and approved by the independent shareholders of Paliburg International Holdings Limited, formerly the immediate listed holding company of PHL, on 15th December, 1993 and was subsequently terminated in 2003. Share options granted under the Executive Share Option Scheme did not confer rights on the holders to dividends or to vote at shareholders' meetings.

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

		Number of ordinary shares under share options**					
Date of grant of share options	Category of participant	At 1st January, 2005	Vesting during the year	Cancelled during the year	At 31st December, 2005	Vesting period*/ Exercise period of share options	Exercise price of share options** HK$
	Employees						
22nd February, 1997	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.

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, 2006 and at the date of this report:	277,000,000 ordinary shares (approximately 3.8%)
(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

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* At 1st January, 2006	Lapsed during the year	At 31st December, 2006	Vesting period/ Exercise period of share options	Exercise price of share options* HK$
	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	(3,000,000)	57,000,000	Note	0.22
		280,000,000	(3,000,000)***	277,000,000		

* 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.

*** In July 2006, share options for 3,000,000 ordinary shares were surrendered and cancelled.

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)

Warrants

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 3,283.3 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).

During the year, 1.2 million Warrants were exercised for 1.2 million new ordinary shares of the Company of HK$0.01 each at a price of HK$0.10 per share. At the balance sheet date, the Company had 3,282.1 million Warrants outstanding. The exercise in full of such Warrants would, under the present capital structure of the Company, result in the issue of 3,282.1 million additional ordinary shares and share premium of HK$295.4 million (before issue expenses).

Subsequent to the balance sheet date, 35.2 million Warrants were exercised for 35.2 million new ordinary shares of the Company of HK$0.01 each at a price of HK$0.10 per share.

37. 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 135 to 136.

Ordinary shares to be issued

As more fully explained in the Company's 2002 audited consolidated financial statements, the Group completed a share swap agreement with Almighty and the vendors in the acquisition of Venture Perfect Investments Limited (the "Vendors") (the "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 convertible preference shares issued by PHL (the "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 (the "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.

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 prior 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 and 2006, no Exchangeable Preference Shares remained in issue.

(b) Company

	Notes	Share premium account HK$'million	Contributed surplus HK$'million	Share option reserve HK$'million	Retained profits HK$'million	Total HK$'million
At 1st January, 2005		–	1,322.7	–	319.8	1,642.5
Issue of new shares	36(i)	234.9	–	–	–	234.9
Equity-settled share option arrangements	36	–	–	1.3	–	1.3
Loss for the year		–	–	–	(5.5)	(5.5)
Proposed final 2005 dividend	14	–	–	–	(8.2)	(8.2)
At 31st December, 2005 and at 1st January, 2006		234.9	1,322.7	1.3	306.1	1,865.0
Issue of new shares upon conversion of convertible bonds	36(iii)	4.6	–	–	–	4.6
Issue of new shares upon conversion of convertible preference shares	36(iv)	66.8	–	–	–	66.8
Issue of new shares upon exercise of warrants	36(v)	0.1	–	–	–	0.1
Redemption of convertible preference shares	36(vi)	–	–	–	19.4	19.4
Equity-settled share option arrangements	36	–	–	2.4	–	2.4
Loss for the year		–	–	–	(7.5)	(7.5)
Interim 2006 dividend	14	–	–	–	(4.9)	(4.9)
Proposed final 2006 dividend	14	–	–	–	(12.6)	(12.6)
At 31st December, 2006		306.4	1,322.7	3.7	300.5	1,933.3

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 assets value of the acquired subsidiaries 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.

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.4(aa) to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited after vesting.

38. INTERESTS IN SUBSIDIARIES

	COMPANY	
	2006	**2005**
	HK$'million	**HK$'million**
Unlisted shares, at cost	**2,059.0**	2,059.0
Amount due from a subsidiary	**3,272.9**	3,360.0
	5,331.9	5,419.0
Provision for impairment	**(2,962.5)**	(2,962.5)
	2,369.4	2,456.5

The amount due from a subsidiary is unsecured, interest-free and not repayable within one year. In the opinion of the Directors, this amount is considered as a quasi-equity loan to the subsidiary.

Details of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration	Nominal value of issued share capital/ registered capital	Percentage of equity interest attributable to the Company 2006	2005	Principal activities
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
Cleverview 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

Name	Place of incorporation/ registration	Nominal value of issued share capital/ registered capital	Percentage of equity interest attributable to the Company 2006	2005	Principal activities
Splendour Corporation	British Virgin Islands	US$1	100	100	Investment holding
Supreme Way Limited	Hong Kong	HK$1	100	100	Financing
T.M. Nominees Limited	Hong Kong	HK$2	100	100	Nominee services
Paliburg Holdings Limited	Bermuda	Ordinary - HK$72,084,975	53.0	54.7	Investment holding
303 Company Limited	Hong Kong	HK$10,000	53.0 (i)	54.7 (i)	Security systems and software development and distribution
303 Technology Limited	Hong Kong	HK$2	53.0 (i)	54.7 (i)	Security systems and software development and distribution
Cathay City Property Management, Inc.	U.S.A.	US$10,000	53.0 (i)	54.7 (i)	Financing
Chatwin Engineering Limited	Hong Kong	HK$11,200,000	53.0 (i)	54.7 (i)	Building construction
Cheer Faith Limited	Hong Kong	HK$2	53.0 (i)	54.7 (i)	Financing
Chinatrend (Holdings) Limited	Hong Kong	HK$10,000	53.0 (i)	54.7 (i)	Investment holding
Cosmos Best Development Limited	Hong Kong	HK$2	53.0 (i)	54.7 (i)	Management services
Cosmos Gain Investment Limited	Hong Kong	HK$2	53.0 (i)	54.7 (i)	Property development and investment

Name	Place of incorporation/ registration	Nominal value of issued share capital/ registered capital	Percentage of equity interest attributable to the Company 2006	2005	Principal activities
Everlane Investment Limited	Hong Kong	HK$2	53.0 (i)	54.7 (i)	Property development and investment
Farich Investment Limited	Hong Kong	HK$2	53.0 (i)	54.7 (i)	Investment holding
Finso Limited	Hong Kong	HK$2	53.0 (i)	54.7 (i)	Investment holding
Gain World Investments Limited	British Virgin Islands	US$1	53.0 (i)	54.7 (i)	Investment holding
Glaser Holdings Limited	British Virgin Islands	US$1	53.0 (i)	54.7 (i)	Investment holding
Granco Development Limited	Hong Kong	HK$2	53.0 (i)	54.7 (i)	Property development and investment
Grand Equity Limited	British Virgin Islands	US$1	53.0 (i)	54.7 (i)	Investment holding
Guo Yui Investments Limited	British Virgin Islands	US$1	53.0 (i)	54.7 (i)	Investment holding
H.P. Nominees Limited	Hong Kong	HK$2	53.0 (i)	54.7 (i)	Investment holding and nominee services
Lead Fortune Development Limited	Hong Kong	HK$2	53.0 (i)	54.7 (i)	Property development and investment
Leading Technology Holdings Limited	British Virgin Islands	US$100	53.0 (i)	54.7 (i)	Investment holding
Linkprofit Limited	Hong Kong	HK$2	53.0 (i)	54.7 (i)	Investment holding

Name	Place of incorporation/ registration	Nominal value of issued share capital/ registered capital	Percentage of equity interest attributable to the Company 2006	2005	Principal activities
Mira Technology Limited	Hong Kong	HK$937,500	70.0 (ii)	70.0 (ii)	Software development
Paliburg BVI Holdings Limited	British Virgin Islands	HK$10	53.0 (i)	54.7 (i)	Investment holding
Paliburg Building Services Limited	Hong Kong	HK$2	53.0 (i)	54.7 (i)	Mechanical and electrical engineering services
Paliburg Development BVI Holdings Limited	British Virgin Islands	US$1	53.0 (i)	54.7 (i)	Investment holding
Paliburg Development Consultants Limited	Hong Kong	HK$100,000	53.0 (i)	54.7 (i)	Development consultants
Paliburg Development Finance Limited	Hong Kong	HK$2	53.0 (i)	54.7 (i)	Financing
Paliburg Estate Agents Limited	Hong Kong	HK$20	53.0 (i)	54.7 (i)	Estate agent
Paliburg Estate Management Limited	Hong Kong	HK$20	53.0 (i)	54.7 (i)	Estate management
Paliburg Finance Limited	Hong Kong	HK$2	53.0 (i)	54.7 (i)	Financing
Paliburg International Holdings Limited	Bermuda	HK$100,000	53.0 (i)	54.7 (i)	Investment holding
Paliburg Investments Limited	Hong Kong	HK$526,506,860	53.0 (i)	54.7 (i)	Investment holding
Rich Pearl Limited	Hong Kong	HK$10,000	53.0 (i)	54.7 (i)	Financing
Sanefix Development Limited	Hong Kong	HK$2	53.0 (i)	54.7 (i)	Property investment

Name	Place of incorporation/ registration	Nominal value of issued share capital/ registered capital	Percentage of equity interest attributable to the Company 2006	2005	Principal activities
Shenzhen Leading Technology Co., Ltd. (iii)	The People's Republic of China	RMB10,000,000	53.0 (i)	54.7 (i)	Security systems and software development and distribution
Sonnix Limited	Hong Kong	HK$2	53.0 (i)	54.7 (i)	Property development and investment
Taylor Investments Ltd.	British Virgin Islands	US$1	53.0 (i)	54.7 (i)	Investment holding
Transcar Investments Limited	British Virgin Islands	US$1	53.0 (i)	54.7 (i)	Investment holding
Yield Star Limited	British Virgin Islands	US$1	53.0 (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% (2005 - 10%) equity interest attributable to the Company and the 60% (2005 - 60%) equity interest attributable to PHL.

(iii) This subsidiary is registered as wholly-foreign-owned enterprise under the PRC law.

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

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

39. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

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

	2006 HK$'million	2005 HK$'million (Restated)
Profit before tax	**252.9**	507.2
Adjustments for:		
Finance costs	**19.2**	14.5
Share of profits and losses of associates	**(155.4)**	(376.8)
Interest income	**(8.5)**	(6.5)
Dividend income	**(1.4)**	(11.4)
Loss on disposal of interests in the listed subsidiary	**33.9**	–
Loss/(Gain) on deemed disposal of interests and exercise warrants in the listed associate	**(4.8)**	0.1
Gain on disposal of interests in subsidiaries	**–**	(68.2)
Loss on disposal/Write-off of items of property, plant and equipment	**0.1**	0.4
Profit on sale of properties	**(3.0)**	–
Loss on disposal of investment properties	**–**	0.1
Fair value gain upon reclassification of a property held for sale to an investment property	**(70.3)**	–
Fair value gains on investment properties	**(80.0)**	–
Depreciation	**2.0**	0.9
Excess over the cost of a business combination	**–**	(1.0)
Equity-settled share option expenses	**5.4**	2.9
Write-back of provision against a loan receivable	**–**	(0.2)
Write-back of provision for impairment of interest in property under development indirectly held by an associate	**–**	(121.0)
Impairment of goodwill	**–**	58.0
Write-back of provision for doubtful debts	**–**	(0.8)
Net proceeds from sale of properties	**10.0**	0.1
	(0.1)	(1.7)
Decrease/(Increase) in equity investments at fair value through profit or loss	**(15.9)**	4.7
Increase in properties held for sale	**(2.5)**	–
Decrease/(Increase) in inventories	**(5.4)**	1.8
Increase in debtors, deposits and prepayments	**(34.6)**	(18.6)
Increase/(Decrease) in creditors and accruals	**2.7**	(12.3)
Increase in deposits received	**73.2**	11.3
Cash generated from/(used in) operations	**17.6**	(14.8)
Hong Kong profits tax paid	**(2.8)**	(1.7)
Net cash inflow/(outflow) from operating activities	**14.8**	(16.5)

(b) Major non-cash transactions

The Group had the following major non-cash transactions:

(i) As detailed in notes 34 and 36(iii) to the financial statements, the Firm Bonds in an aggregate amount of HK$5.0 million were converted into 50.0 million new ordinary shares of the Company.

(ii) As detailed in note 40(b)(i) to the financial statements, a bank loan of HK$12.4 million was settled by the transfer of 123.8 million PHL ordinary shares in lieu of cash repayment.

(iii) During the year, a partial consideration receivable by the Group in the amount of HK$72.5 million under the SP Agreement from the vendor (the "Vendor") in respect of the disposal of the Talent Faith Group, as described in note 29 to the financial statements, was offset against certain liabilities in the same amount due to a related party of the Vendor by an associate of the Group pursuant to the relevant agreements. Accordingly, the consideration receivable in the amount of HK$72.5 million was considered satisfied (and included as an additional deposit received) and correspondingly, an additional advance to the associate in the same amount was recorded by the Group.

(iv) 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.

(v) As detailed in note 40(b)(ii) to the financial statements, in the prior year, 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$4.2 million (2005 - HK$5.0 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 of subsidiaries

	2006 HK$'million	2005 HK$'million
Net assets disposed of:		
Property under development	–	7.2
Properties held for sale	–	7.6
Available-for-sale equity investments	–	28.5
Debtors, deposits and prepayments	–	0.2
Cash and bank balances	–	0.5
Creditors and accruals	–	(13.3)
	–	30.7
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
Satisfied by:		
Promissory note receivable included in interests in associates	–	145.0
Other receivable included in debtors, deposits and prepayments	–	7.7
	–	152.7

An analysis of the outflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2006 HK$'million	2005 HK$'million
Cash and bank balances disposed of	–	(0.5)

40. 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	2006 HK$'million	2005 HK$'million
The listed associate:			
Management fee income	(i)	**11.8**	11.8
Gross construction fee income	(ii)	**23.8**	7.1
Gross development consultancy fee income	(iii)	**1.1**	12.4
Gross income in respect of security systems and products and other software	(iv)	**1.4**	3.0
A jointly controlled entity of the listed associate*:			
Gross construction fee income	(ii)	**1.4**	12.0
A related company*:			
Advertising and promotion fees (including cost reimbursements)	(v)	**0.4**	0.4

* Certain directors of these related companies 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 for providing repairs and maintenance and construction works for the hotel properties. The fees were negotiated based on cost plus a margin and/or awarded through competitive tendering process.

(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 the prior year, a consultancy fee was also charged to the RHIHL Group for architectual 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, 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. Upon the acquisition by Mr. Lo of the Loan pursuant to the guarantee arrangement, then certain Exchangeable Notes (note 33) issued to the Creditor under the Debt Restructuring amounting to approximately HK$6.2 million would be transferred to Mr. Lo.

During the year, Mr. Lo exercised the right to purchase the Loan at its principal amount of HK$12.4 million and exercised the option to receive 123.8 million ordinary share of PHL in lieu of cash repayment of the Loan. Pursuant to the guarantee arrangement, Exchangeable Notes in the amount of HK$6.2 million was also transferred from the Creditor to Mr. Lo and was subsequently redeemed by the Group at its principal amount.

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 prior 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, which was completed in July 2005. As a result, Hang Fok ceased to be a wholly-owned subsidiary 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. During the year, the promissory note was fully settled by the RHIHL Group.

(c) Outstanding balances with related parties:

	Notes	2006 HK$'million	2005 HK$'million
Due from associates	(i)	**231.7**	20.0
Due from a jointly controlled entity of the listed associate	(ii)	**2.0**	2.7
Due from a related company	(ii)	**8.3**	8.4
Due to related companies	(iii)	**(11.2)**	(0.6)
Due to the listed associate	(iv)	**(10.6)**	(10.2)
Loans to associates	(v)	**156.4**	156.4
Promissory note receivable	(v)	**–**	145.0

Notes:

(i) Except for an amount of HK$223.2 million (2005 - HK$6.2 million) included in interests in associates in note 21 to the financial statements, the remaining balance is included in debtors, deposits and prepayments in note 28 to the financial statements.

(ii) The amounts are included in debtors, deposits and prepayments in note 28 to the financial statements.

(iii) The amounts are included in creditors and accruals in note 30 to the financial statements.

(iv) Except for an amount of HK$2.5 million (2005 - HK$2.1 million) included in interests in associates in note 21 to the financial statements, the remaining balance is included in creditors and accruals in note 30 to the financial statements.

(v) Details of loans to associates and promissory note receivable are included in note 21 to the financial statements.

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

	2006 HK$'million	2005 HK$'million
Short term employee benefits	**7.3**	7.1
Share-based payments	**5.1**	2.7
Total compensation paid to key management personnel	**12.4**	9.8

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

The related party transactions set out in note 40(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 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 40(b) are disclosed in the Directors' Report of the Company for the financial year ended 31st December, 2005.

The related party transactions set out in notes 40(a)(i) to (iv) and 40(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 40(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.

41. PLEDGE OF ASSETS

At the balance sheet date, certain of the Group's investment properties, properties held for sale and available-for-sale equity investments with a total carrying value of HK$400.2 million (2005 - HK$270.8 million) and certain ordinary shares in the listed subsidiary and the listed associate were pledged to secure general banking facilities granted to the Group.

42. CONTINGENT LIABILITIES

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

	2006 HK$'million	2005 HK$'million
Corporate guarantees provided by the Company in respect of:		
Outstanding bank and other borrowings of subsidiaries	**90.0**	27.6
Outstanding convertible bonds issued by a subsidiary	**75.0**	80.0
	165.0	107.6

As at 31st December, 2005 and 2006, the banking facilities granted to the subsidiaries subject to guarantees given by the Company were fully utilised.

43. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases certain of its properties (notes 17 and 26) under operating lease arrangements, with leases negotiated for terms ranging from 3 months to 3 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, 2006, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	GROUP	
	2006 HK$'million	2005 HK$'million
Within one year	**6.8**	5.6
In the second to fifth years, inclusive	**3.1**	2.2
	9.9	7.8

(b) As lessee

The Group leases certain office properties, area and machinery under operating lease arrangements. Leases for the office properties and area are negotiated for terms ranging from 1 year to 3 years, and those for the machinery are for a term of 1.5 years.

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

	GROUP	
	2006 HK$'million	**2005 HK$'million**
Within one year	**6.9**	4.8
In the second to fifth years, inclusive	**6.1**	10.3
	13.0	15.1

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

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans and overdrafts, 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.

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 32 to the financial statements. The Group's policy is to obtain the most favourable 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 only grants credits after due credit risk assessments. 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.

45. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, save as disclosed in notes 34 and 36 to the financial statements, the Group had the following significant post balance sheet events:

(a) In January, 2007, the PHL Group entered into a sale and purchase agreement with an independent third party to dispose of its entire equity interest in a wholly-owned subsidiary indirectly holding a property held for sale at a consideration of HK$70.0 million, HK$14.0 million of which was paid in cash and the balance of HK$56.0 million was to be satisfied by the issue to the PHL Group of convertible bonds in a principal amount of HK$56.0 million. The sale and purchase agreement has subsequently been completed in March 2007 resulting in a gain on disposal of approximately HK$37.0 million.

(b) On 29th March, 2007, the Group entered into a memorandum of understanding with an independent third party for a possible investment in a natural gas project in Utah, the United States. The memorandum of understanding is non-legally binding and further negotiations with respect to this possible investment are subject to, among others, satisfactory results of the due diligence to be undertaken by the Group.

(c) On 17th April, 2007, the Group entered into an acquisition agreement with an independent third party to acquire a total of 51.8% direct or indirect interest in Chain Bright LLC ("Chain Bright"), a company incorporated in Mongolia and the registered holder of an exploration license empowering it to conduct exploration for minerals in an area in the eastern part of Mongolia, at a consideration of HK$100.0 million. The conditions precedent to the completion of the acquisition agreement include, among others, satisfactory results of the due diligence review on Chain Bright and the exploitable reserves and obtaining of the relevant mining licences by Chain Bright.

46. COMPARATIVE AMOUNTS

As further explained in note 2.2 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 adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

47. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 19th April, 2007.