NOTES TO FINANCIAL STATEMENTS

As at 31 December 2005

1 CORPORATE INFORMATION

Y. T. Realty Group Limited is a limited liability company incorporated in Bermuda. The principal place of business of the Company is located at Rooms 3301-07, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong.

During the year, the Group was involved in the following principal activities:

(a) Property trading and investments;

(b) Provision of property management and related services; and

(c) Investment holding.

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, a convertible note and an unlisted share option granted by an associate, which have been measured at fair values. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2005. 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.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2005

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

HKAS 1	Presentation of Financial Statements
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations
HK(SIC)-Int 21	Income Taxes – Recovery of Revalued Non-depreciable Assets
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKASs 7, 8, 10, 12, 14, 16, 17, 18, 19, 21, 23, 27, 28, 33, 37, 38, HKFRS 2 and 5, and HK-Int 4 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKAS 1 has affected some disclosures which include specifying disclosures as our key sources of estimation uncertainty at the balance sheet. In addition, in prior periods, the Group's share of tax attributable to associates was presented as a component of the Group's total tax charge/(credit) in the consolidated income statement. Upon the adoption of HKAS 1, the Group's share of the post-acquisition results of associates is presented net of the Group's share of tax attributable to associates.

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

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

(a) HKAS 32 and HKAS 39 - Financial Instruments

(i) Share option

In prior years, the Group classified its unlisted share option granted by an associate as interests in associates which was held for non-trading purposes and was stated at cost less any impairment losses.

Upon the adoption of HKASs 32 and 39, the unlisted share option granted by an associate is designated as an investment at fair value through profit or loss and is initially recognised at fair value on the date a derivative contract is entered into and is subsequently remeasured at its fair value unless it is designated as hedge. Changes in fair value are recognised immediately in the income statement. Assets in this category are classified as current assets if they are either held through profit or loss or are expected to be realised within 12 months of the balance sheet date.

The fair value of the unlisted share option is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; a discounted cash flow analysis and option pricing models.

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

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

(a) HKAS 32 and HKAS 39 - Financial Instruments *(continued)*

(ii) Convertible note

In prior years, the Group classified its convertible note granted by an associate as interests in associates which was held for non-trading purposes and was stated at cost less any impairment losses.

Upon the adoption of HKAS 39, the Group designated the convertible note as accounted for at fair value through profit or loss. Convertible note receivable should be initially recognised at fair value on the date the contract was entered into and is subsequently remeasured at its fair value unless it is designated as hedge. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of the convertible note are recognised in the income statement.

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

(iii) Cash flow hedges

In prior years, derivative financial instruments entered into by an associate to hedge the interest rate risk of a recognised asset or liability or the foreign currency risk of a committed future transaction were recognised on an accruals basis with reference to the timing of recognition of the hedged transaction.

Upon the adoption of HKAS 39, all derivative financial instruments entered into by an associate are stated at fair values. Changes in the fair value of derivatives held as hedging instruments in a cash flow hedge are recognised in equity to the extent that the hedge is effective and until the hedged transaction occurs. Any other changes in fair value of the derivatives are recognised in the income statement.

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

(b) HKAS 40 - Investment Property

In prior years, changes in the fair values of investment properties were dealt with as movements in the investment property revaluation reserve. When the total of this reserve was insufficient to cover a deficit, on a portfolio basis, the excess of the deficit was charged to the income statement. Any subsequent revaluation surplus was credited to the income statement to the extent of the deficit previously charged.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

(b) HKAS 40 - Investment Property *(continued)*

Upon the adoption of HKAS 40, 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. In accordance with the transitional provisions HKAS 40, the Group adopted the new accounting policy prospectively and the opening balance of retained profits has been adjusted at 1 January 2005 with the corresponding entry to investment property revaluation reserve. In addition, comparative amounts have not been restated. The effects of the above changes are summarised in note 2.4 to the financial statements.

(c) HKFRS 3 - Business Combinations and HKAS 36 - Impairment of Assets

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

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

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

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

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

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

(d) HK(SIC)-Int 21 - Income Taxes - Recovery of Revalued Non-depreciable Assets

In prior periods, deferred tax arising on the revaluation of investment properties was recognised based on the tax rate that would be applicable upon the sale of the investment properties.

Upon the adoption of HK(SIC)-Int 21, deferred tax arising on the revaluation of the Group's investment properties is determined depending on whether the properties will be recovered through use or through sale. The Group has determined that its investment properties will be recovered through use, and accordingly the profits tax rate has been applied to the calculation of deferred tax.

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

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

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

HKAS 1 Amendment	Capital Disclosures
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

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

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

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

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

The Group has already commenced an assessment of the impact of the new and revised HKFRSs but not yet in a position to state whether these new and revised HKFRSs would have a significant impact on the Group's financial statements in the period of initial application.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2005

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

	Effect of adopting						
At 1 January 2005	HKASs 32 and 39*	HKASs 32 and 39*	HKASs 32 and 39*	HKAS 40*	HKFRS 3*	HK(SIC)-Int 21 #	
Effect of new policies (Increase/(decrease))	Change in classification of financial instruments	In respect of first time recognition of fair value of financial instruments	In respect of share of first time recognition of fair value of financial instruments of associates	Changes in fair value of investment properties	Derecognition of negative goodwill	Deferred tax on changes in fair value of investment properties	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets							
Interests in associates	(20,000)	(4,387)	(6,876)	—	25,092	—	(6,171)
Deferred tax assets	—	—	—	—	—	23,706	23,706
Unlisted share option granted by an associate	—	102,661	—	—	—	—	102,661
Unlisted convertible note granted by an associate	—	36,123	—	—	—	—	36,123
Non-interest-bearing loan to an associate	20,000	—	—	—	—	—	20,000
							176,319
Liabilities/equity							
Deferred tax liabilities	—	—	—	—	—	45,568	45,568
Investment property revaluation reserve	—	—	—	(4,175)	—	—	(4,175)
Other reserves	—	—	(4,962)	—	—	—	(4,962)
Retained profits	—	134,397	(1,914)	4,175	25,092	(21,862)	139,888
							176,319

* Adjustment taken effect prospectively from 1 January 2005

Adjustments/presentation taken effect retrospectively

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES *(continued)*

(a) Effect on the consolidated balance sheet *(continued)*

At 31 December 2005	Effect of adopting						
	HKASs 32 and 39	HKASs 32 and 39 In respect of changes in fair	HKASs 32 and 39 In respect of share of changes	HKAS 40	HKFRS 3	HK(SIC)-Int 21 Deferred tax on	
Effect of new policies (Increase/(decrease))	Change in classification of financial instruments	value and derecognition of financial instruments	in fair value of financial instruments of associates	Changes in fair value of investment properties	Goodwill and negative goodwill	changes in fair value of investment properties	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets							
Interests in associates	(20,000)	67,786	4,567	—	38,290	—	90,643
Deferred tax assets	—	—	—	—	—	415	415
Unlisted share option granted by an associate	—	92,132	—	—	—	—	92,132
Non-interest-bearing loan to an associate	20,000	—	—	—	—	—	20,000
							203,190
Liabilities/equity							
Deferred tax liabilities	—	—	—	—	—	41,561	41,561
Investment property revaluation reserve	—	—	—	(183,424)	—	—	(183,424)
Other reserves	—	—	4,567	—	—	—	4,567
Retained profits	—	159,918	—	183,424	38,290	(41,146)	340,486
							203,190

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2005

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES *(continued)*

(b) Effect on the balances of equity at 1 January 2004 and at 1 January 2005

	Effect of adopting					
	HKASs 32 and 39	HKASs 32 and 39	HKAS 40	HKFRS 3	HK(SIC)-Int 21	
Effect of new policies (Increase/(decrease))	In respect of first time recognition of fair value of financial instruments	In respect of share of first time recognition of fair value of financial instruments of associates	Changes in fair value of investment properties	Negative goodwill	Deferred tax on changes in fair value of investment properties	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
1 January 2004						
Retained profits	—	—	—	—	(13,377)	(13,377)
						(13,377)
1 January 2005						
Investment property revaluation reserve	—	—	(4,175)	—	—	(4,175)
Other reserves	—	(4,962)	—	—	—	(4,962)
Retained profits	134,397	(1,914)	4,175	25,092	(21,862)	139,888
						130,751

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2005

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES *(continued)*

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

	Effect of adopting					
Effect of new policies	HKASs 32 and 39 In respect of changes in fair value and derecognition of financial instruments	HKASs 32 and 39 In respect of share of changes in fair value of financial instruments of associates	HKAS 40 Changes in fair value of investment properties	HKFRS 3 Discontinuation of amortisation of goodwill and negative goodwill	HK(SIC)-Int 21 Deferred tax on changes in fair value of investment properties	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2004						
Increase in tax	—	—	—	—	(8,485)	(8,485)
Total decrease in profit	—	—	—	—	(8,485)	(8,485)
Decrease in basic earnings per share	—	—	—	—	HK(1.1) cents	HK(1.1) cents
Year ended 31 December 2005						
Changes in fair value of investment properties	—	—	179,249	—	—	179,249
Loss arising from changes in fair value of an unlisted share option granted by an associate	(10,529)	—	—	—	—	(10,529)
Gain arising from changes in fair value of an unlisted convertible note granted by an associate	36,050	—	—	—	—	36,050
Share of changes in fair value of financial instruments of associates	—	1,914	—	—	—	1,914
Derecognition of amortisation of goodwill and negative goodwill on acquisition of an associate	—	—	—	13,198	—	13,198
Increase in tax	—	—	—	—	(19,284)	(19,284)
Total increase/(decrease) in profit	25,521	1,914	179,249	13,198	(19,284)	200,598
Increase/(decrease) in basic earnings per share	HK3.2 cents	HK0.2 cents	HK22.4 cents	HK1.7 cents	HK(2.4) cents	HK25.1 cents

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) 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 that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

(b) Associates

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

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill or negative goodwill arising from the acquisition of associates is included as part of the Group's interests in associates.

Upon the adoption of HKFRS 3, negative goodwill was derecognised at 1 January 2005 with corresponding adjustment to the retained profits.

(c) Goodwill

Goodwill arising on the acquisition of an associate represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets, liabilities and contingent liabilities as at the date of acquisition.

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

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently measured 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Goodwill *(continued)*

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005 (continued)

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 to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

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

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

Goodwill previously eliminated against the consolidated reserves

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

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than properties held for sale, financial assets, investment properties and goodwill), 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.

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

(e) Related parties

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

(i) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
(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 employees of the Group, or of any entity that is a related party of the Group.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) 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 cost of bringing the assets 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 improvements	20%
Office equipment, furniture and fixtures	15%
Computer software	20%
Motor vehicles	20%
Computer equipment	33%

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.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Investment properties

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

(h) Properties held for sale

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

(i) 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.

(j) Investments and other financial assets

Applicable to the year ended 31 December 2004:

Investments which are held for non-trading purposes are stated at fair value at the balance sheet date. Changes in the fair value of individual securities are credited or debited to the non-trading investment revaluation reserve until the security is sold, or is determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the investment revaluation reserve, are dealt with in the income statement.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Investments and other financial assets *(continued)*

Applicable to the year ended 31 December 2004: (continued)

Individual investments are reviewed regularly to determine whether they are impaired. When an investment is considered to be impaired, any relevant loss recorded in the revaluation reserve is taken to the income statement.

Transfers from the investment revaluation reserve to the income statement as a result of impairment are written back in the income statement when the circumstances and events leading to the impairment cease to exist.

Applicable to the year ended 31 December 2005:

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, 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 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, i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. 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 carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Investments and other financial assets *(continued)*

Applicable to the year ended 31 December 2005: (continued)

Available-for-sale financial assets

Available-for-sale financial assets of the Group's associate are those 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 three 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 of the associate.

The Group only shares the profit or loss arising from the fair value changes of the associate's non-derivative financial assets in the Group's equity or income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) 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; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

(k) Impairment of financial assets (applicable to the year ended 31 December 2005)

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Impairment of financial assets (applicable to the year ended 31 December 2005) *(continued)*

Assets carried at amortised cost (continued)

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 characteristic and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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

Assets carried at cost

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

Available-for-sale financial assets

If an available-for-sale 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 loss on equity instruments classified as available-for-sale are not reversed in the income statement.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Derecognition of financial assets (applicable to the year ended 31 December 2005)

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

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay 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 (a) has transferred substantially all the risks and rewards of the asset, or (b) 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 risk 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.

(m) Interest-bearing loans and borrowings

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production 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. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

(o) Convertible notes

The component of convertible notes issued by an associate that exhibits characteristics of a liability is recognised as a liability in the associate's balance sheet, net of transaction costs. On issuance of convertible notes, the fair value of the liability component is determined using a market rate for an equivalent non-convertible note; and this amount is carried as a long term 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 notes based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

The Group only shares the equity components of the convertible note issued by the associate in the Group's equity.

(p) Derecognition of financial liabilities (applicable to the year ended 31 December 2005)

A financial liability of the Group's associate 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 of the associate.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Hedging (applicable to the year ended 31 December 2005)

Financial instruments entered into by an associate is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of any gain or loss on the remeasurement of the derivative financial instrument to fair value is recognised directly in equity. The ineffective portion of any gain or loss is recognised immediately in the income statement of its associate.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gain or loss is removed from equity and recognised in the income statement of its associate in the same period or periods during which the asset acquired or liability assumed affects profit or loss (such as when interest income or expense is recognised).

For cash flow hedges, other than those covered by the preceding two policy statements, the associated gain or loss is removed from equity and recognised in the income statement of its associate in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss in equity is recognised immediately in the income statement.

The Group only shares the profit or loss arising from the fair value changes arising from the associate's derivative financial instruments in the Group's equity or income statement.

(r) Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand, 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 any bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Provisions

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

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

(t) 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.

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.

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.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Income tax *(continued)*

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.

(u) 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) Sale of properties and property interest, on the execution of legally binding contracts of sale;

(ii) rental income from properties, in the period in which the properties are let and on the straight-line basis over the lease terms;

(iii) 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;

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

(v) property management revenue, when the services are rendered.

(v) Employee benefits

Share-based payment transactions

The Company operates a share option scheme 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. In valuing equity-settled transactions, no account is taken of any performance conditions, other conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(v) Employee benefits *(continued)*

Share-based payment transactions (continued)

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 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 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.

Pensions scheme

The Group contributes to a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Scheme Ordinance, for all of its employees. The Group's contributions under the scheme are charged to the income statement as incurred. The amount of the Group's contributions is based on specified percentages of the basic salaries of employees. 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, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully in accordance with the rules of the MPF Scheme.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(v) Employee benefits *(continued)*

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

(w) Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

(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 at the balance sheet date are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency rate translated using the exchange rates at the date when the fair value was determined.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATE

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Financial Instruments

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments. The carrying amount of the unlisted share option granted by an associate at 31 December 2005 was HK$92,132,000.

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 31 December 2005 was HK$227,172,000 (2004: HK$198,968,000). More details are given in note 16.

Investment property

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

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2005

4 SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (a) on a primary segment reporting basis, by business segment; and (b) 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) Property investment;

(b) Property trading;

(c) Property management and related services; and

(d) Operation of driver training centres and tunnel operation and management.

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.

4 SEGMENT INFORMATION *(continued)*

(a) Business segments

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

Group 2005	Property investment *HK$'000*	Property trading *HK$'000*	Property management and related services *HK$'000*	Operation of driver training centres and tunnel operation and management *HK$'000*	Consolidated *HK$'000*
Segment revenue	82,902	—	11,040	—	93,942
Segment results	240,912	(3,083)	4,015	—	241,844
Unallocated income/(expense), net					(233)
Loss on deemed disposal of partial interest in an associate				(436)	(436)
Finance costs					(25,498)
Gain on disposal of partial interest in an associate				1,977	1,977
Fair value loss of an unlisted share option granted by an associate				(10,529)	(10,529)
Fair value gain of an unlisted convertible note granted by an associate				36,050	36,050
Share of results of associates				47,068	47,068
Profit before tax					290,243
Tax					(39,555)
Profit for the year					250,688
Assets and liabilities					
Segment assets	2,026,969	7,015	982	—	2,034,966
Interests in associates	—	—	—	860,382	860,382
Unlisted share option granted by an associate	—	—	—	92,132	92,132
Non-interest-bearing loan to an associate	—	—	—	20,000	20,000
Unallocated assets					2,509
Total assets					3,009,989
Segment liabilities	575,799	7,864	13,845	—	597,508
Unallocated liabilities					76,122
Total liabilities					673,630
Other segment information:					
Capital expenditure	821	—	1,457	—	2,278
Depreciation	—	—	493	—	493
Changes in fair value of investment properties	179,249	—	—	—	179,249
Reversal of write-down of properties held for sale	—	28	—	—	28
Impairment loss on other investments	—	—	—	—	233

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2005

4 SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

Group 2004	Property investment *HK$'000* *(Restated)*	Property trading *HK$'000*	Property management and related services *HK$'000*	Operation of driver training centres and tunnel operation and management *HK$'000* *(Restated)*	Consolidated *HK$'000* *(Restated)*
Segment revenue	77,957	4,080	7,806	—	89,843
Segment results	135,939	(8,701)	4,994	—	132,232
Unallocated income/(expense), net					(370)
Loss on deemed disposal of partial interest in an associate				(27,854)	(27,854)
Finance costs					(13,002)
Share of results of associates				38,823	38,823
Amortisation of goodwill on acquisition of an associate				(12,707)	(12,707)
Profit before tax					117,122
Tax					(22,721)
Profit for the year					94,401
Assets and liabilities					
Segment assets	1,797,080	10,096	9,220	—	1,816,396
Interests in associates	—	—	—	812,554	812,554
Unallocated assets					26,743
Total assets					2,655,693
Segment liabilities	631,837	7,871	12,129	—	651,837
Unallocated liabilities					63,876
Total liabilities					715,713
Other segment information:					
Capital expenditure	1,924	16	14	—	1,954
Depreciation	—	—	484	—	484
Changes in fair value of investment properties	70,261	—	—	—	70,261
Reversal of write-down of properties held for sale	—	70	—	—	70
Impairment loss on other investments	—	—	—	—	669

4 SEGMENT INFORMATION *(continued)*

(b) Geographical segments

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments. There are no sales between the geographical segments.

Group

2005

	Hong Kong	Mainland China	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
Segment revenue	93,942	—	93,942
Other segment information:			
Segment assets	3,004,937	5,052	3,009,989
Capital expenditure	2,278	—	2,278

2004

	Hong Kong	Mainland China	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
Segment revenue	89,843	—	89,843
Other segment information:			
Segment assets	2,647,519	8,174	2,655,693
Capital expenditure	1,925	29	1,954

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2005

5 REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the aggregate of gross rental income received and receivable from investment properties, the proceeds from sales of properties and property interests, and income from property management and related services.

An analysis of revenue, other income and gains is as follows:

	2005	2004
	HK$'000	*HK$'000*
Revenue		
Rental income from investment properties	**82,902**	77,957
Sale of properties and property interests	**—**	4,080
Income from property management and related services	**11,040**	7,806
	93,942	89,843
Other income and gains		
Bank interest income	**835**	65
Interest income on convertible notes granted by an associate	**1,138**	2,812
Interest income on a loan receivable from a third party	**252**	299
Rental income net of outgoings on properties held for sale	**(5)**	18
Reinstatement compensation	**643**	—
Forfeiture of deposit	**—**	581
Gain on disposal of an investment property	**—**	69
Gain on disposal of a subsidiary *(note 29(b))*	**—**	11
Others	**1,285**	4,057
	4,148	7,912

6 FINANCE COSTS

	Group	
	2005	2004
	HK$'000	*HK$'000*
Interest on bank loans, overdrafts and other loans:		
Wholly repayable within five years	**7,554**	4,020
Not wholly repayable within five years	**16,822**	8,373
Loan arrangement fees	**1,122**	609
	25,498	13,002

7 PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting) the following:

	2005	2004
	HK$'000	*HK$'000*
Depreciation	493	484
Gain on disposal of an item of property, plant and equipment	(243)	—
Loss on deemed disposal of partial interest in an associate #	436	27,854
Provision for doubtful debts	3,111	8,124
Minimum lease payments under operating leases:		
Land and buildings	880	797
Auditors' remuneration	820	610
Staff costs (including executive directors' remuneration *(note 8)*):		
Wages and salaries	7,456	6,644
Discretionary bonuses	9,652	3,819
Pension scheme contributions *	291	308
	17,399	10,771
Gross rental income	(82,952)	(78,091)
Less: Outgoings	1,515	4,442
Net rental income	(81,437)	(73,649)
Foreign exchange differences, net	460	(5)

Loss on deemed disposal of partial interest in an associate is included in "other operating expenses" on the face of the consolidated income statement.

* At 31 December 2005, there were no forfeited contributions available to the Group to reduce its contributions to the pension scheme in future years (2004: Nil).

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2005

8 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	
	2005	2004
	HK$'000	*HK$'000*
Fees	**1,000**	700
Other emoluments:		
Basic salaries, housing allowances, other allowances and benefits in kind	**2,070**	1,940
Discretionary bonuses	**8,500**	2,750
Pension scheme contributions	**98**	93
	11,668	5,483

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

(a) Independent non-executive directors

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

	Group	
	2005	2004
	HK$'000	*HK$'000*
Mr. Wong Wai Kwong, David	400	300
Mr. Wong Yat Fai	100	—
Mr. Ng Kwok Fu	100	—
	600	300

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

8 DIRECTORS' REMUNERATION *(continued)*

(b) Executive directors and a non-executive director

	Fees	Basic salaries, housing allowance, other allowances and benefits in kind	Discretionary bonuses	Pension scheme contributions	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Group					
2005					
Executive directors:					
Mr. Cheung Chung Kiu	—	—	6,500	1	6,501
Mr. Wong Chi Keung	—	2,070	1,400	96	3,566
Mr. Yuen Wing Shing	—	—	600	1	601
Ms. Tung Wai Lan, Iris	—	—	—	—	—
	—	2,070	8,500	98	10,668
Non-executive director:					
Mr. Lee Ka Sze, Carmelo	400	—	—	—	400
	400	2,070	8,500	98	11,068
2004					
Executive directors:					
Mr. Cheung Chung Kiu	—	—	750	1	751
Mr. Wong Chi Keung	—	1,940	1,200	90	3,230
Mr. Yuen Wing Shing	—	—	600	1	601
Ms. Tung Wai Lan, Iris	—	—	200	1	201
	—	1,940	2,750	93	4,783
Non-executive director:					
Mr. Lee Ka Sze, Carmelo	400	—	—	—	400
	400	1,940	2,750	93	5,183

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

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2005

9 FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2004: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2004: three) non-director, highest paid employees are as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Basic salaries, bonuses, housing allowances, other allowances and benefits in kind	**2,435**	2,097
Discretionary bonuses	**320**	335
Pension scheme contributions	**96**	97
	2,851	2,529

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

	Number of employees	
	2005	2004
HK$500,001 to HK$1,000,000	**2**	2
HK$1,000,001 to HK$1,500,000	**1**	1
	3	3

10 TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the year.

	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Group:		
Current - Hong Kong	**4,048**	5,752
Overprovision in prior years	**(30)**	(23)
	4,018	5,729
Deferred *(note 25)*	**35,537**	16,992
Total tax charge for the year	**39,555**	22,721

10 TAX *(continued)*

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries and associates are domiciled to the tax expense at the effective tax rates is as follows:

Group

	2005 *HK$'000*	2004 *HK$'000* *(Restated)*
Profit before tax	**290,243**	117,122
Tax at the statutory tax rate of 17.5% (2004: 17.5%)	**50,793**	20,496
Overprovision of tax in prior years	**(30)**	(23)
Unrecognised temporary difference	**(133)**	(220)
Adjustment on deferred tax resulting from the surplus on revaluation of investment properties	**—**	731
Profit and loss attributable to associates	**(8,237)**	(6,794)
Income not subject to tax	**(6,763)**	(279)
Expenses not deductible for tax	**2,688**	8,876
Tax losses not recognised	**1,231**	—
Others	**6**	(66)
Tax charge at the Group's effective rate	**39,555**	22,721

The share of tax attributable to associates amounting to HK$10,845,000 (2004: HK$9,016,000) is included in "share of results of associates" on the face of the consolidated income statement.

11 PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit for the year attributable to equity holders of the Company for the year ended 31 December 2005 dealt with in the financial statements of the Company was net profit of HK$217,119,000 (2004: HK$58,000) (note 27).

12 PROPOSED FINAL DIVIDEND

	2005 *HK$'000*	2004 *HK$'000*
Proposed final – HK2.5 cents (2004: HK2.0 cents) per ordinary share	**19,989**	15,991

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

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2005

13 EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company, and weighted average number of ordinary shares in issue during the year.

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the ordinary shares in issue during the year, as used in the basic earnings per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

A diluted earnings per share amount for the year ended 31 December 2004 has not been disclosed, as the share options outstanding during that year had an anti-dilutive effect on the basic earnings per share for that year.

The calculations of basic and diluted earnings per share are based on:

	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Earnings		
Profit for the year attributable to ordinary equity holders of the Company	**250,688**	94,401

	Number of shares	
	2005	2004
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**799,202,347**	797,157,415
Effect of dilution – weighted average number of ordinary shares:		
Share options	**148,944**	—
	799,351,291	797,157,415

14 PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold improvements HK$'000	Office equipment, furniture and fixtures HK$'000	Computer software HK$'000	Motor vehicles HK$'000	Computer equipment HK$'000	Total HK$'000
31 December 2005						
At 31 December 2004 and at 1 January 2005:						
Cost	743	287	453	923	367	2,773
Accumulated depreciation	(323)	(82)	(358)	(676)	(351)	(1,790)
Net carrying amount	420	205	95	247	16	983
At 1 January 2005, net of accumulated depreciation	420	205	95	247	16	983
Additions	—	28	—	1,333	96	1,457
Disposal/write-off	—	—	—	(923)	(204)	(1,127)
Depreciation provided during the year	(148)	(43)	(91)	(192)	(19)	(493)
Write-back of depreciation	—	—	—	846	204	1,050
At 31 December 2005, net of accumulated depreciation	272	190	4	1,311	93	1,870
At 31 December 2005:						
Cost	743	315	453	1,333	259	3,103
Accumulated depreciation	(471)	(125)	(449)	(22)	(166)	(1,233)
Net carrying amount	272	190	4	1,311	93	1,870
31 December 2004						
At 31 December 2003 and at 1 January 2004:						
Cost	743	252	453	923	359	2,730
Accumulated depreciation	(174)	(42)	(268)	(492)	(330)	(1,306)
Net carrying amount	569	210	185	431	29	1,424
At 1 January 2004, net of accumulated depreciation	569	210	185	431	29	1,424
Additions	—	35	—	—	8	43
Depreciation provided during the year	(149)	(40)	(90)	(184)	(21)	(484)
At 31 December 2004, net of accumulated depreciation	420	205	95	247	16	983
At 31 December 2004:						
Cost	743	287	453	923	367	2,773
Accumulated depreciation	(323)	(82)	(358)	(676)	(351)	(1,790)
Net carrying amount	420	205	95	247	16	983

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2005

15 INVESTMENT PROPERTIES

	Group	
	2005	2004
	HK$'000	*HK$'000*
Carrying amount at 1 January	**1,747,770**	1,767,370
Additions	**821**	1,895
Disposals	**—**	(95,931)
Fair value adjustment		
- recognised in the income statement	**179,249**	70,261
- recognised in equity	**—**	4,175
Carrying amount at 31 December	**1,927,840**	1,747,770

The Group's investment properties included above are held under the following lease terms:

	Hong Kong	Mainland China	Total
	HK$'000	*HK$'000*	*HK$'000*
Long term leases	971,650	—	971,650
Medium term leases	951,190	5,000	956,190
	1,922,840	5,000	1,927,840

The revaluation of the above investment properties was carried out by Savills (Hong Kong) Limited, an independent firm of professional qualified valuers, on an open market, existing use basis as at 31 December 2005.

Certain of the Group's investment properties were pledged to banks to secure banking facilities granted to the Group (note 24).

Further particulars of the Group's investment properties are included on page 95.

16 GOODWILL/NEGATIVE GOODWILL

The movement of goodwill/negative goodwill capitalised in the interests in associates is shown as follows:

Group

	Notes	Goodwill *HK$'000*	Negative goodwill *HK$'000*	Total *HK$'000*
31 December 2005				
At 1 January 2005:				
Cost as previously reported		246,384	(27,111)	219,273
Effect of adopting HKFRS 3	*2.2(c)*	(47,416)	27,111	(20,305)
Cost as restated		198,968	—	198,968
Accumulated amortisation and write-off as previously reported		(47,416)	2,019	(45,397)
Effect of adopting HKFRS 3	*2.2(c)*	47,416	(2,019)	45,397
Accumulated amortisation and write-off as restated		—	—	—
Net carrying amount		198,968	—	198,968
Cost at 1 January 2005, net of accumulated amortisation and write-off		198,968	—	198,968
Acquisition of additional interest in an associate		28,204	—	28,204
Cost and carrying amount at 31 December 2005		227,172	—	227,172

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2005

16 GOODWILL/NEGATIVE GOODWILL *(continued)*

	Goodwill *HK$'000*	Negative goodwill *HK$'000*	Total *HK$'000*
31 December 2004			
At 1 January 2004:			
Cost	264,987	(10,312)	254,675
Accumulated amortisation and write-off	(37,435)	946	(36,489)
Net carrying amount	227,552	(9,366)	218,186
Cost at 1 January 2004, net of accumulated amortisation and write-off	227,552	(9,366)	218,186
Negative goodwill on subscription of new shares	—	(16,799)	(16,799)
Write-off due to deemed disposal during the year	(18,603)	—	(18,603)
Amortisation (provided)/recognised as income during the year	(13,780)	1,073	(12,707)
Write-back of amortisation due to deemed disposal during the year	3,799	—	3,799
At 31 December 2004	198,968	(25,092)	173,876
At 31 December 2004:			
Cost	246,384	(27,111)	219,273
Accumulated amortisation and write-off	(47,416)	2,019	(45,397)
Net carrying amount	198,968	(25,092)	173,876

16 GOODWILL/NEGATIVE GOODWILL *(continued)*

Impairment testing of goodwill

During 2005 there was no impairment of goodwill (2004: Nil). Impairment testing in respect of the carrying value of the goodwill on acquisition of the cash-generating unit is performed at least annually by comparing the recoverable amount of a major cash-generating unit of the associated company which has been determined based on a value-in-use calculation. That calculation uses cash flow estimates based on cash flow projection by management over a fixed investment period of such cash-generating unit. The discount rate applied to cash flow projection is approximately 6% (2004: 6%). The discount rate is consistent with cost of funding of the Group or is reasonable investment return rate for investment with stable returns.

17 INTERESTS IN SUBSIDIARIES

	Company	
	2005	2004
	HK$'000	*HK$'000*
Unlisted shares, at cost	**1,465,569**	1,465,569
Due from subsidiaries	**1,194,601**	1,209,473
	2,660,170	2,675,042
Less: Provision for impairment	**(912,599)**	(1,129,766)
	1,747,571	1,545,276

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

Details of the principal subsidiaries of the Company are set out in note 35.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2005

18 INTERESTS IN ASSOCIATES

		Group	
	Notes	**2005**	2004
		HK$'000	*HK$'000*
Share of net assets		**633,210**	535,070
Goodwill on acquisition less amortisation and write-off	*16*	**227,172**	198,968
Negative Goodwill	*16*	**—**	(25,092)
Convertible note	*33(a)(iii)*	**—**	80,457
Share option	*22*	**—**	3,151
Loan to an associate	*22*	**—**	20,000
		860,382	812,554
Market value of listed equity securities		**517,629**	431,617

Particulars of the associate are as follows:

Name	Particulars of issued shares held	Place of incorporation and operations	Percentage of attributable equity to the Group 2005	2004
The Cross-Harbour (Holdings) Limited	Ordinary shares of HK$1 each	Hong Kong	**29.92%**	27.31%

The above associate was not audited by Ernst & Young Hong Kong.

The Cross-Harbour (Holdings) Limited ("Cross-Harbour") is an investment holding company, incorporated and listed in Hong Kong, with its subsidiaries engaged in the operation of driver training centres and the business of tunnel operation and management in Hong Kong. These associates have been accounted for using the equity method in these financial statements.

18 INTERESTS IN ASSOCIATES *(continued)*

Extracts of the consolidated operating results and consolidated financial position of the associate, Cross-Harbour, are as follows:

	2005 *HK$'000*	2004 *HK$'000*
Operating results for the year:		
Turnover	249,672	254,038
Net profit attributable to shareholders	161,992	134,979
Financial position at 31 December:		
Non-current assets	1,819,768	1,768,431
Current assets	500,219	460,923
Current liabilities	(144,768)	(203,259)
Non-current liabilities	(2,390)	(21,380)
Minority interests	(55,351)	(47,209)
Net asset value	2,117,478	1,957,506

19 OTHER INVESTMENTS

	Group	
	2005 *HK$'000*	2004 *HK$'000*
Unlisted investments	1,235	1,468

20 PROPERTIES HELD FOR SALE

	Group	
	2005 *HK$'000*	2004 *HK$'000*
Hong Kong:		
At cost	1,988	—
At net realisable value	—	1,960
	1,988	1,960

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2005

21 TRADE DEBTORS

An aged analysis of the trade debtors at the balance sheet date is as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
0 - 30 days	**412**	486
31 - 60 days	**934**	559
Over 60 days	**70**	66
	1,416	1,111

The balance of the trade debtors is primarily rental receivables from tenants which are normally due on the first day of each month. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk.

22 UNLISTED SHARE OPTION GRANTED BY AN ASSOCIATE AND NON-INTEREST- BEARING LOAN TO AN ASSOCIATE

On 9 May 2003, Honway Holdings Limited ("Honway"), a wholly owned subsidiary of the Company, entered into a Share Option Agreement (the "Agreement") with Cross-Harbour, an associate of the Company, pursuant to which Honway is entitled to subscribe for 60 million new shares of Cross-Harbour. In consideration for Honway's payment to Cross-Harbour the sum of HK$50 million (HK$5 million being the amount for purchasing the option, HK$25 million being the non-refundable deposit and HK$20 million being a 3 year non-interest-bearing loan advanced by Honway to Cross-Harbour), Cross-Harbour has agreed to grant the option to Honway to subscribe for new shares in Cross-Harbour. The option is exercisable from 24 June 2003 for a period of three years, at exercise price of HK$3.4 per share in the first year, HK$3.7 per share in the second year and HK$4.0 per share in the third year, subject to adjustment.

On 18 June 2004, the HK$25 million non-refundable deposit was applied to subscribe for 7,352,941 ordinary shares of Cross-Harbour. As at 31 December 2004 and 31 December 2005, there remained a total of 52,647,059 new shares exercisable under the Agreement, which represents 17.5% of Cross-Harbour's shares before the dilution effect of the shares issuable under the share option.

In prior years, the Group classified its payment for purchasing the share option, the non-refundable deposit and the non-interest-bearing loan of Cross-Harbour as interests in associates, and was stated at cost less any impairment losses.

22 UNLISTED SHARE OPTION GRANTED BY AN ASSOCIATE AND NON-INTEREST- BEARING LOAN TO AN ASSOCIATE *(continued)*

With the implementation of HKASs 32 and 39 in the current year, the share option is classified as an unlisted share option granted by an associate and the non-interest-bearing loan is classified as loan to an associate. Both the share option and the non-interest-bearing loan are classified as current assets as they are expected to be realised/repaid within 12 months from the balance sheet date since they would mature on 24 June 2006.

As the share option of Cross-Harbour is not listed and there is no active market for the share option, fair value is determined using valuation model techniques. As at 31 December 2005 and 1 January 2005, the fair value of the share option was estimated to be HK$1.75 and HK$1.95 per share option, respectively. As a result, the fair value of the share option was stated at HK$92,132,000 on 31 December 2005. The unrealised fair value losses of the option amounted HK$10,529,000 and the first time recognition of fair value of HK$98,274,000 were recorded in the current year's income statement and in the retained profits as an opening adjustment, respectively.

	Group	
	Share option	3 year non-interest-bearing loan
	HK$'000	*HK$'000*
Fair value at 1 January 2005		
Opening adjustment upon first time recognition of fair value of financial instruments	102,661	20,000
Loss arising from change in fair value of an unlisted share option granted by an associate during the year	(10,529)	—
Fair value at 31 December 2005	**92,132**	**20,000**

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2005

23 TRADE CREDITORS

An aged analysis of the trade creditors at the balance sheet date is as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
0 - 30 days	**978**	919
31 - 60 days	**298**	—
	1,276	919

The trade creditors are normally non-interest-bearing within the 30-day periods.

24 BANK LOANS, SECURED

	Group	
	2005	2004
	HK$'000	*HK$'000*
Analysed into:		
Bank loans repayable:		
Within one year	**172,000**	196,500
In the second year	**39,000**	38,000
In the third to fifth years, inclusive	**149,500**	157,800
After the fifth year	**180,000**	203,200
	540,500	595,500
Amount classified under current liabilities	**(172,000)**	(196,500)
Amount classified under non-current liabilities	**368,500**	399,000

The bank loans are variable interest rate loans with interest rates based on the HIBOR plus predetermined spread %. The effective interest rates for 2005 and 2004 were 4.09% and 1.86%, respectively.

The bank loans are denominated in Hong Kong dollar and secured by:

(a) Mortgages on certain investment properties with an aggregate carrying value of HK$1,920,000,000 (2004: HK$1,740,000,000) and the assignment of rental income from certain of the properties. In addition, the Company has pledged all the issued shares of certain subsidiaries and subordinated its loans to certain subsidiaries in favour of the lenders of the above bank loans; and

(b) corporate guarantees issued by the Company.

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

25 DEFERRED TAX

The movements in deferred tax liabilities and assets, arising from accelerated tax depreciation and revaluation of investment properties are as follows:

Group

	Deferred tax liabilities *HK$'000*	Deferred tax assets *HK$'000*
At 1 January 2005		
As previously reported	**18,308**	**—**
Opening adjustment:		
HK(SIC)-Int 21 Deferred tax on revaluation of investment properties	**45,568**	**(23,706)**
As restated	**63,876**	**(23,706)**
Deferred tax charged to the income statement during the year *(note 10)*	**12,246**	**23,291**
At 31 December 2005	**76,122**	**(415)**
At 1 January 2004		
As previously reported	9,801	—
Opening adjustment:		
HK(SIC)-Int 21 Deferred tax on revaluation of investment properties	48,742	(35,365)
As restated	58,543	(35,365)
Deferred tax charged to the income statement during the year *(note 10)*	5,333	11,659
At 31 December 2004 *(restated)*	63,876	(23,706)

The Group has tax losses arising in Hong Kong of HK$25,691,610 (2004: HK$18,658,953) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these tax losses as they have arisen in subsidiaries that have been loss-making for some time.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2005

26 SHARE CAPITAL

	2005	2004
	HK$'000	*HK$'000*
Authorised:		
1,500,000,000 ordinary shares of HK$0.1 each	**150,000**	150,000
Issued and fully paid:		
799,557,415 (2004: 797,157,415) ordinary shares of HK$0.1 each	**79,956**	79,716

Movement in the Company's issued ordinary share capital is as follows:

	Number of shares in issue	Issued share capital	Share premium account	Total
		HK$'000	*HK$'000*	*HK$'000*
At 1 January 2005	797,157,415	79,716	94,535	174,251
Employee share options being exercised	2,400,000	240	1,203	1,443
At 31 December 2005	**799,557,415**	**79,956**	**95,738**	**175,694**

During the year, the subscription right attaching to 2,300,000 and 100,000 share options were exercised at the subscription price of HK$0.5860 and HK$0.9488, respectively, resulting in the issue of a total of 2,400,000 shares for a total cash consideration of HK$1,443,000.

26 SHARE CAPITAL *(continued)*

Share options

The Company had, prior to 1 September 2001, adopted a scheme which then expired on 21 December 2003 (the "Old Scheme"). Pursuant to the Old Scheme, options had been granted to eligible participants to subscribe for shares in the Company, each for a consideration of HK$10, and a total of 2,400,000 shares represent options which remained outstanding at the beginning of the year. All of the options then outstanding were exercised in full on 24 February 2005. Accordingly, no option under the Old Scheme remained outstanding at the year end.

At the special general meeting held on 29 April 2005, the Company adopted a share option scheme (the "New Scheme"). Employees (including directors) of the Group are eligible participants under the New Scheme. A total of 79,955,741 shares will be available for issue under the New Scheme, which represents 10% of the Company's issued shares. The maximum number of shares issuable under share options to each eligible participant in the New Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. The shares must be taken up under an option not later than 10 years from the date of grant of option. The New Scheme will remain effective until 28 April 2015. No option has been granted under the New Scheme during the year.

The movement of the share options under the Old Scheme is set out as follows:

	Number of share options			Price of Company's shares	
Name or category of participant	At 1 January 2005	Exercised during the year	At 31 December 2005	Exercise price of share options *HK$*	At exercise date of options *HK$*
Director					
Wong Chi Keung	2,000,000	(2,000,000)	—	0.5860	1.15
Other employees					
In aggregate	100,000	(100,000)	—	0.9488	1.15
	300,000	(300,000)	—	0.5860	1.15
	400,000	(400,000)	—		
	2,400,000	(2,400,000)	—		

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2005

27 RESERVES

Group

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity on pages 29 and 30 of the financial statements.

The Group's contributed surplus originally represented the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganisation prior to the listing of the Company's shares, over the nominal value of the Company's shares issued in exchange therefor.

Company

	Notes	Share premium account *HK$'000*	Contributed surplus *HK$'000*	Capital redemption reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
At 1 January 2004		94,535	1,317,168	1,350	52,089	1,465,142
Profit for the year		—	—	—	58	58
Proposed 2004 final dividend	*12*	—	—	—	(15,991)	(15,991)
At 31 December 2004 and At 1 January 2005		94,535	1,317,168	1,350	36,156	1,449,209
Issue of shares		1,203	—	—	—	1,203
Profit for the year		—	—	—	217,119	217,119
Proposed 2005 final dividend	*12*	—	—	—	(19,989)	(19,989)
At 31 December 2005		**95,738**	**1,317,168**	**1,350**	**233,286**	**1,647,542**

The contributed surplus of the Company originally represented the excess of the fair values of the shares of the subsidiaries acquired over the nominal value of the Company's shares issued for their acquisition at the time of the reorganisation in the preparation for the listing of the Company's shares in the prior year. Under the Companies Act (1981) of Bermuda (as amended), the contributed surplus may be distributed to shareholders under certain circumstances.

28 ACQUISITION OF ADDITIONAL INTERESTS IN AN ASSOCIATE

On 23 April 2002, Honway entered into an agreement with Cross-Harbour, an associate of Honway, to subscribe for a HK$117 million convertible note of Cross-Harbour (the "Note") with 3.5% interest per annum. According to the agreement, Honway had a right to convert the whole or part of the principal amount of the Note into Cross-Harbour's shares within a 3-year period from the date of issue of the Note to the maturity date on 11 June 2005. The conversion prices were agreed to be HK$3.5 per share in the first year, HK$3.7 per share in the second year and HK$3.9 per share in the third year, subject to adjustment.

On 27 May 2005, HK$80.5 million of Note has been converted into 20,630,015 Cross-Harbour's shares at a conversion price of HK$3.9.

The above transaction which took place in 2005 increased the Group's shareholding in Cross-Harbour from approximately 24.76% to 29.92% after the conversion. Goodwill arising on the transaction amounted to HK$28,204,000 was included in the carrying amount of interest in associates rather than as a separately identified asset on the consolidated balance sheet.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2005

29 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(a) Reconciliation of profit before tax to net cash inflow generated from operations

	Notes	**2005**	2004
		HK$'000	*HK$'000*
			(Restated)
Profit before tax		**290,243**	117,122
Adjustments for:			
Share of results of associates		**(47,068)**	(38,823)
Interest income	*5*	**(2,225)**	(3,176)
Changes in fair value of investment properties		**(179,249)**	(70,261)
Impairment loss on other investments		**233**	669
Gain on disposal of partial interests in an associate		**(1,977)**	—
Fair value loss of an unlisted share option granted by an associate		**10,529**	—
Fair value gain of an unlisted convertible note granted by an associate		**(36,050)**	—
Loss on deemed disposal of partial interest in an associate	*7*	**436**	27,854
Gain on disposal of a subsidiary	*5*	**—**	(11)
Gain on disposal of an investment property	*5*	**—**	(69)
Amortisation of goodwill on acquisition of an associate		**—**	12,707
Depreciation	*7*	**493**	484
Gain on disposal of an item of property, plant and equipment	*7*	**(243)**	—
Interest on bank loans, overdrafts and other loans	*6*	**24,376**	12,393
Operating profit before working capital changes		**59,498**	58,889
(Increase)/decrease in trade debtors, other debtors, deposits and prepayments		**(40,185)**	46,290
Increase in trade creditors and other payables		**2,102**	347
(Increase)/decrease in properties held for sale		**(28)**	4,340
Net cash inflow generated from operations		**21,387**	109,866

29 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Disposal of a subsidiary

	Group	
	2005	2004
	HK$'000	*HK$'000*
Net assets disposed of:		
Property held for development	—	63,450
Other payables	—	(12)
	—	63,438
Gain on disposal of a subsidiary *(note 5)*	—	11
	—	63,449
Satisfied by:		
Cash, net of expenses	—	63,449

No cash and cash equivalents in the subsidiary was being disposed of.

The results of the subsidiary disposed of in the year ended 31 December 2004 had no significant impact on the Group's consolidated revenue or profit after tax for that year.

30 OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 15) under operating lease arrangements, with leases negotiated for terms of generally ranging from two to five years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At the balance sheet date, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Within one year	**70,031**	71,076
In the second to fifth years, inclusive	**111,030**	131,013
After the fifth year	—	6,000
	181,061	208,089

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30 OPERATING LEASE ARRANGEMENTS *(continued)*

(b) As lessee

The Group leases its office properties under operating lease arrangements. The leases for the office properties are negotiated for terms of approximately three years.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Within one year	**996**	465
In the second to fifth years, inclusive	**1,577**	—
	2,573	465

31 COMMITMENTS

In addition to the operating lease commitments detailed in note 30(b) above, the Group had the following capital commitments in respect of investment properties as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Contracted, but not provided for	**167**	29
Authorised, but not contracted for	**16,606**	1,667
	16,773	1,696

32 CONTINGENT LIABILITIES

(a) At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Guarantees given to banks in connection with facilities granted to subsidiaries	**—**	—	**1,300,900**	935,900

The Company has executed guarantees totaling HK$1,300,900,000 (2004: HK$935,900,000), with respect to banking facilities made available to its subsidiaries, of which HK$540,500,000 were utilised as at 31 December 2005 (2004: HK$595,500,000).

(b) A subsidiary, which has been under voluntary liquidation since September 2004, has claimed against the contractor of a property development project, and deducted from payments to the contractor, approximately HK$11 million for the delay in completion and defects of the constructions works. In addition, there is a dispute of approximately HK$1.7 million regarding the final contract amount. The contractor has denied the claim and has counter-claimed the subsidiary for HK$22.3 million, including liquidated damages, the above-mentioned disputed contract sum and loss and expense. The case is pending arbitration. The liquidation of the subsidiary and its pending affairs has been handled by the appointed professional liquidators. A settlement agreement regarding the claims and the counter-claims between the contractor and the subsidiary is being finalised, which to the understanding of the Group, will not result in any material financial gain or loss to the Group.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2005

33 RELATED PARTY TRANSACTIONS

(a) Significant related party transactions, which were carried out in the normal course of the Group's business, are as follows:

	Notes	**2005**	2004
		HK$'000	*HK$'000*
Rental charges paid to a related company	*(i)*	**981**	959
Administrative staff costs paid to a shareholder	*(ii)*	**611**	611
Interest income on a convertible note granted by an associate	*(iii)*	**1,138**	2,811

Notes:

(i) A subsidiary of the Company, Y. T. Group Management Limited ("YTGML"), entered into a sub-lease agreement with Chongqing Industrial Limited, a controlling shareholder of Yugang International Limited ("Yugang"), a substantial shareholder of the Company, to lease office space. The rental charges were based on the floor area occupied by the Group and the market rental rate. The current sub-lease agreement commenced on 1 August 2005 and will expire on 31 July 2008.

(ii) YTGML entered into an agreement with Yugang to share the cost of common administrative staff at a monthly charge which is determined based on the actual cost of the staff from time to time.

(iii) On 11 June 2002, Honway invested HK$117 million to purchase a convertible note (the "Note") granted by an associate, Cross-Harbour, which bore interest at a rate of 3.5% per annum with a maturity date of 11 June 2005. The Note carried a right of conversion into new ordinary shares of the associate at exercise prices of HK$3.5, HK$3.7 and HK$3.9 per share during the years ending 11 June 2003, 11 June 2004 and 11 June 2005, respectively. The Note was fully converted prior to 11 June 2005. Further details related to the Note is disclosed in note 28.

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

	2005	2004
	HK$'000	*HK$'000*
Short term employee benefits	**12,620**	6,438
Post-employment benefits	**166**	162
Total compensation paid to key management personnel	**12,786**	6,600

Further details of directors' emoluments are included in note 8 to the financial statements.

34 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments mainly comprise of bank loans, cash and short term deposits. The main purpose of these financial instruments is to provide funding for the Group's operations. At balance sheet date, the Group has an unlisted share option granted by an associate. 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. These risks are limited the Group's financial management policies and practices as summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate. The Group monitors the movement of interest rates on an ongoing basis and evaluates the exposure and the costs of available hedging for its debt obligations.

Credit risk

The Group's credit risks are primarily attributable to trade and other debtors. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other debtors, credit evaluations are performed on all customers requiring credit over a certain amount. Trade debtors are mainly rental related and are normally due on the first day of each month and the Group obtains rental deposits from its tenants.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. Except for the financial guarantee given by the Company as disclosed in note 32, the Group does not provide any other guarantees which would expose the Group to credit risk.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of the Group's available cash and its available banking facilities.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2005

35 PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries at the balance sheet date are as follows:

Name of company	Place of incorporation	Nominal value of issued and fully paid share capital	Percentage of equity attributable to the Company 2005	2004	Principal activities and place of operations
Apex Rich Group Limited	British Virgin Islands	1 ordinary share of US$1	**100%**	N/A	Investment holding in Hong Kong
Best View Limited	British Virgin Islands	1 ordinary share of US$1	**100%**	100%	Property holding in Hong Kong
Benefit Plus Company Limited	Hong Kong	2 ordinary shares of HK$1 each	**100%**	100%	Property investment in Hong Kong
E-Tech Services Limited	Hong Kong	2 ordinary shares of HK$1 each	**100%**	100%	Property technical consultant services in Hong Kong
Harson Investment Limited	Hong Kong	2 ordinary shares of HK$1 each	**100%**	100%	Property investment in Hong Kong
Honway Holdings Limited	British Virgin Islands	1 ordinary share of US$1	**100%**	100%	Investment holding in Hong Kong
Mainland Sun Ltd.	British Virgin Islands	1 ordinary share of US$1	**100%**	100%	Property investment in Mainland China
Score Goal Investment Limited	Hong Kong	2 ordinary shares of HK$1 each	**100%**	100%	Property investment in Hong Kong
Score Target Investment Limited	Hong Kong	2 ordinary shares of HK$1 each	**100%**	100%	Property trading in Hong Kong

35 PRINCIPAL SUBSIDIARIES *(continued)*

Name of company	Place of incorporation	Nominal value of issued and fully paid share capital	Percentage of equity attributable to the Company 2005	2004	Principal activities and place of operations
Winwide Excel Limited	British Virgin Islands	1 ordinary share of US$1	**100%**	100%	Investment holding in Hong Kong
Y. T. (China) Limited	Hong Kong	2 ordinary shares of HK$1 each	**100%**	100%	Investment holding in Mainland China
Y. T. Finance Limited	Hong Kong	6,000 ordinary shares of HK$500 each	**100%**	100%	Finance vehicle in Hong Kong
Y. T. Group Management Limited	Hong Kong	2 ordinary shares of HK$1 each	**100%**	100%	Provision of business management services in Hong Kong
Y. T. Investment Holdings Limited	British Virgin Islands	50,100 ordinary shares of US$1 each	**100%**	100%	Investment holding in Asia
Y. T. Investment Management Limited	British Virgin Islands	1 ordinary share of US$1	**100%**	100%	Securities investment in Mainland China
Y. T. Properties International Limited	British Virgin Islands	201 ordinary shares of US$1 each	**100%**	100%	Investment holding in Hong Kong
Y. T. Property Services Limited	Hong Kong	100 ordinary shares of HK$1 each	**100%**	100%	Property management in Hong Kong

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2005

35 PRINCIPAL SUBSIDIARIES *(continued)*

The above table includes 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. With the exception of Y. T. Investment Holdings Limited, all the above companies are indirect subsidiaries of the Company.

36 COMPARATIVE AMOUNTS

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

37 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 7 April 2006.