1. GENERAL

The Company is a public listed limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited. The address of the registered office and principal place of business of the Company is 7/F., New World Tower 2, 18 Queen's Road Central, Hong Kong.

The financial statements are presented in Hong Kong dollars, which is also the functional currency of the Company.

The principal activities of the Company are property investment and investment holding. The principal activities of the principal subsidiaries and associates are shown in notes 20 and 21, respectively.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group and the Company have applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRS(s)"), Hong Kong Accounting Standards ("HKAS(s)") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, balance sheets and consolidated statement of changes in equity. In particular, the presentation of minority interests and share of taxation of associates have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's and the Company's accounting policies in the following areas that have an effect on how the results for the current and/or prior accounting periods are prepared and presented:

BUSINESS COMBINATIONS

In the current year, the Group has applied HKFRS 3 "Business Combinations" which is effective for business combinations for which the agreement date is on or after 1 January 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

GOODWILL

In previous years, goodwill arising on acquisitions prior to 1 January 2001 was held in reserves, and goodwill arising on acquisitions after 1 January 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously recognised in capital reserve of HK$9,833,000 has been transferred to the accumulated profits of the Group on 1 January 2005. Comparative figures for 2004 have not been restated.

EXCESS OF THE GROUP'S INTEREST IN THE NET FAIR VALUE OF ACQUIREE'S IDENTIFIABLE ASSETS, LIABILITIES AND CONTINGENT LIABILITIES OVER COST (PREVIOUSLY KNOWN AS "NEGATIVE GOODWILL")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous years, negative goodwill arising on acquisitions prior to 1 January 2001 was held in reserves, and negative goodwill arising on acquisitions after 1 January 2001 was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group has derecognised all negative goodwill on 1 January 2005 (of which negative goodwill of HK$440,433,000, which was previously recorded in capital reserve, and of HK$8,670,000, which was previously included in interests in associates), with a corresponding increase to accumulated profits. Also, an adjustment of HK$239,000 has been made to increase the share of net assets of associates after the application of HKFRS 3 by the associates of the Group. In addition, a discount on acquisition at an amount of HK$3,710,000 had been recognised by the Group during the year in respect of acquisition of additional interest in an associate.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (CONTINUED)

FINANCIAL INSTRUMENTS

In the current year, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application and the adoption of HKAS 32 has had no material effect on how the results for the current or prior accounting years are prepared. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Debt and equity securities previously accounted for under the benchmark treatment of SSAP 24

Up to 31 December 2004, the Group classified and measured its investments in debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 "Accounting for Investments in Securities" issued by the HKICPA ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in the profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1 January 2005 onwards, the Group classified and measured its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity, respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition.

On 1 January 2005, the Group classified and measured its investments in debt and equity securities in accordance with the transitional provision of HKAS 39. Investments in securities of the Group at an aggregate amount of HK$450,624,000 have been reclassified to available-for-sale investments, investments held for trading and loan receivable at an amount of HK$380,463,000, HK$3,880,000 and HK$66,281,000, respectively.

Investments in securities of the Company with an aggregate amount HK$160,176,000 have been reclassified to available-for-sale investment, investment held for trading and loans receivable in the amounts of HK$90,015,000, HK$3,880,000 and HK$66,281,000, respectively, at 1 January 2005.

Financial assets and financial liabilities other than debt and equity securities

From 1 January 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". "Financial liabilities at fair value through profit or loss" are measured at fair value, with changes in fair value being recognised in profit or loss directly. "Other financial liabilities" are carried at amortised cost using the effective interest method after initial recognition.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (CONTINUED)

Financial assets and financial liabilities other than debt and equity securities (Continued)

In addition, an adjustment of HK$44,127,000 has been made to increase the share of net assets of associates after the application of HKAS 39 by the associates. As a result of the changes with respect to the impairment policy of the loans and receivables of an associate, the carrying amount of the loans and receivables of the associate increased. On the other hand, a regulatory reserve has been set up by an associate in order to be in compliance with Hong Kong Monetary Authority's requirements by setting aside an amount upon the application of HKAS 39 on 1 January 2005. The Group's share of this amount at 1 January 2005 amounted to HK$47,558,000 (see note 3 to the financial impact).

Prior to the application of HKAS 39, non-current interest-free advances to investee companies were stated at the nominal amount. HKAS 39 requires all financial assets and financial liabilities to be measured at fair value on initial recognition. Such interest-free advances are measured at amortised cost determined using the effective interest method at subsequent balance sheet dates. The Group has applied the relevant transitional provisions in HKAS 39. As a result of this change in the accounting policy, the carrying amount of the advances and the Group's accumulated profits as at 1 January 2005 has been decreased by HK$3,193,000, respectively, in order to state the advances at amortised cost in accordance with HKAS 39.

Also, prior to the application of HKAS 39, the Company's non-current interest-free advances to and from subsidiaries were stated at the nominal amount. The Company has applied the relevant transitional provisions in HKAS 39. As a result of this change in the accounting policy, an adjustment of HK$13,489,000 had also been made on 1 January 2005 to increase the Company's investments in subsidiaries and to reduce the balance of amounts due from subsidiaries by the same amount, which represents the deemed capital contribution to subsidiaries upon initial recognition of advances made to them. In addition, an adjustment of HK$593,000 had been made to decrease the amounts due to subsidiaries and to increase the Company's accumulated profits, respectively, which represents the deemed capital distribution from subsidiaries upon initial recognition of the advances made form them to the Company.

OWNER-OCCUPIED LEASEHOLD INTEREST IN LAND

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment measured using the revaluation model and leasehold land and buildings under construction were included in properties under development measured using the cost model. In the current year, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively. As at 31 December 2004, an amount of HK$35,775,000 previously classified under properties under development had been reclassified to prepaid lease payments. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment or properties under development. In addition, the Group's other property revaluation reserve and accumulated profits as at 31 December 2004 had been decreased by HK$290,423,000 and HK$2,957,000, respectively, after the application of HKAS 17 by the associates of the Group. The associates' leasehold interests in land previously stated at valuation were reclassified to prepaid lease payments which are now carried at cost less amortisation with retrospective effect (see note 3 for the financial impact).

INVESTMENT PROPERTIES

In the current year, the Group and the Company have, for the first time, applied HKAS 40 "Investment Property". The Group and the Company have elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the year in which they arise. In previous years, investment properties under the predecessor Standard were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and a revaluation surplus subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group and the Company have applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1 January 2005 onwards. The amount held in the investment property revaluation reserve at 1 January 2005 of HK$208,802,000 and HK$251,606,000 had been transferred to the Group's and the Company's accumulated profits, respectively (see note 3 for the financial impact).

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (CONTINUED)

DEFERRED TAXES RELATED TO INVESTMENT PROPERTIES

In previous years, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor Interpretation. In the current year, the Group has applied HK(SIC) Interpretation 21 "Income Taxes – Recovery of Revalued Non-Depreciable Assets" which removes the presumption that the carrying amount of investment properties is to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HK(SIC) Interpretation 21, this change in accounting policy has been applied retrospectively. The balances on the Group's investment property revaluation reserve and other property revaluation reserve at 31 December 2004 have been decreased by HK$60,966,000 and HK$261,366,000, respectively. Concurrently, the Group's share of investment property revaluation reserve of associates at 31 December 2004 has been decreased by HK$2,418,000. (see note 3 for the financial impact).

In addition, the balance on the Company's investment property revaluation reserve at 31 December 2004 has been decreased by HK$44,781,000.

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described above on the results for the current and prior year are as follows:

	Year ended 31 December	
	2005 HK$'000	2004 HK$'000
Recognition of discount on acquisition of additional interest in an associate directly in profit or loss	**3,710**	–
Decrease in release of negative goodwill arising on acquisition of an associate	**(456)**	–
Decrease in gains arising from changes in fair value of investments in securities (designated as available-for-sale investments on 1 January 2005)	**(10,340)**	–
Imputed interest income and expenses on non-current interest-free loans	**(5,337)**	–
Gains arising from changes in fair value of investment properties	**53,802**	–
Increase in deferred taxation relating to investment properties	**(45,133)**	–
Increase in share of results of associates due to the adoption of new HKFRSs	**7,980**	4,897
Increase in profit for the year	**4,226**	4,897

Analysis of increase in profit for the year by line items presented according to their function:

	Year ended 31 December	
	2005 HK$'000	2004 HK$'000
Increase in other income	**3,193**	–
Decrease in gains arising from changes in fair value of investments in securities (designated as available-for-sale investments on 1 January 2005)	**(10,340)**	–
Increase in fair value gain of investment properties	**53,802**	–
Decrease in share of results on associates	**(21,094)**	(26,902)
Increase in finance costs	**(8,530)**	–
(Increase) decrease in income tax expense	**(12,805)**	31,799
Increase in profit for the year	**4,226**	4,897

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (CONTINUED)

The cumulative effects of the application of the new HKFRSs as at 31 December 2004 and 1 January 2005 are summarised below:

THE GROUP

	As at 31 December 2004 (originally stated) HK$'000	Effect of HKAS 1 HK$'000	Effect of HKAS 17 HK$'000	Effect of HK(SIC) – INT 21 HK$'000	As at 31 December 2004 (restated) HK$'000	Effect of HKFRS 3 HK$'000	Effect of HKAS 39 HK$'000	Effect of HKAS 40 HK$'000	**As at 1 January 2005 (restated)** HK$'000
Balance sheet items									
Properties under development	838,468	–	(35,775)	–	802,693	–	–	–	**802,693**
Prepaid lease payments – non-current portion	–	–	34,881	–	34,881	–	–	–	**34,881**
Prepaid lease payments – current portion	–	–	894	–	894	–	–	–	**894**
Interests in associates	2,801,217	–	(287,466)	(2,369)	2,511,382	8,963	44,127	–	**2,564,472**
Investments in securities	450,624	–	–	–	450,624	–	(450,624)	–	**–**
Available-for-sale investments	–	–	–	–	–	–	380,463	–	**380,463**
Investments held for trading	–	–	–	–	–	–	3,880	–	**3,880**
Advances to investee companies	264,688	–	–	–	264,688	–	(3,193)	–	**261,495**
Loans receivable	9,627	–	–	–	9,627	–	66,281	–	**75,908**
Deferred taxation	(31,034)	–	–	(322,332)	(353,366)	–	–	–	**(353,366)**
Other assets and liabilities	1,656,572	–	–	–	1,656,572	–	–	–	**1,656,572**
	5,990,162	–	(287,466)	(324,701)	5,377,995	8,963	40,934	–	**5,427,892**
Share capital	378,583	–	–	–	378,583	–	–	–	**378,583**
Capital reserve	430,600	–	–	–	430,600	(430,600)	–	–	**–**
Regulatory reserve	–	–	–	–	–	–	47,558	–	**47,558**
Investment property revaluation reserve	272,186	–	–	(63,384)	208,802	–	–	(208,802)	**–**
Other property revaluation reserve	2,001,362	–	(290,423)	(261,366)	1,449,573	–	–	–	**1,449,573**
Accumulated profits	1,930,420	–	2,957	49	1,933,426	439,563	(6,624)	208,802	**2,575,167**
Minority interests	–	25,694	–	–	25,694	–	–	–	**25,694**
Other reserves	951,317	–	–	–	951,317	–	–	–	**951,317**
	5,964,468	25,694	(287,466)	(324,701)	5,377,995	8,963	40,934	–	**5,427,892**
Minority interests	25,694	(25,694)	–	–	–	–	–	–	**–**
	5,990,162	–	(287,466)	(324,701)	5,377,995	8,963	40,934	–	**5,427,892**

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (CONTINUED)

THE COMPANY

	As at 31 December 2004 (originally stated) HK$'000	Reclassification HK$'000	Effect of HK(SIC) – INT 21 HK$'000	As at 31 December 2004 (restated) HK$'000	Effect of HKAS 39 HK$'000	Effect of HKAS 40 HK$'000	**As at 1 January 2005 (restated)** HK$'000
Balance sheet items							
Interests in subsidiaries	2,896,679	(2,896,679)	–	–	–	–	**–**
Investments in subsidiaries	–	252,041	–	252,041	13,489	–	**265,530**
Investments in securities	160,176	–	–	160,176	(160,176)	–	**–**
Available-for-sale investments	–	–	–	–	90,015	–	**90,015**
Amounts due from subsidiaries	–	2,644,638	–	2,644,638	(13,489)	–	**2,631,149**
Loans receivable	–	–	–	–	66,281	–	**66,281**
Investments held for trading	–	–	–	–	3,880	–	**3,880**
Deferred taxation	(13,710)	–	(44,781)	(58,491)	–	–	**(58,491)**
Non-interest bearing advances from subsidiaries	(49,158)	–	–	(49,158)	593	–	**(48,565)**
Other assets and liabilities	(1,422,109)	–	–	(1,422,109)	–	–	**(1,422,109)**
	1,571,878	–	(44,781)	1,527,097	593	–	**1,527,690**
Share capital	378,583	–	–	378,583	–	–	**378,583**
Investment property revaluation reserve	296,387	–	(44,781)	251,606	–	(251,606)	**–**
Accumulated profits	855,895	–	–	855,895	593	251,606	**1,108,094**
Other reserves	41,013	–	–	41,013	–	–	**41,013**
	1,571,878	–	(44,781)	1,527,097	593	–	**1,527,690**

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (CONTINUED)

The financial effects of the application of the new HKFRSs to the Group's and the Company's equity attributable to equity holders of parent at 1 January 2004 are summarised below:

THE GROUP

	As originally stated HK$'000	Adjustments HK$'000	As restated HK$'000
Investment property revaluation reserve	291,139	(26,086)	265,053
Other property revaluation reserve	1,972,462	(550,359)	1,422,103
Accumulated profits	1,888,290	247	1,888,537
Other reserves	1,657,327	–	1,657,327
	5,809,218	(576,198)	5,233,020

THE COMPANY

	As originally stated HK$'000	Adjustments HK$'000	As restated HK$'000
Investment property revaluation reserve	296,387	(44,781)	251,606
Other reserves	878,712	–	878,712
	1,175,099	(44,781)	1,130,318

The Group has not early applied the following new standard, amendments and interpretations that have been issued but are not yet effective.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market, waste electrical and electronic equipment[3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

1 Effective for annual periods beginning on or after 1 January 2007.

2 Effective for annual periods beginning on or after 1 January 2006.

3 Effective for annual periods beginning on or after 1 December 2005.

4 Effective for annual periods beginning on or after 1 March 2006.

The Group is in the process of assessing the impact of these new standards, amendments and interpretations in the period of initial application. The Group is not yet in a position to determine whether the adoption of these new HKFRSs would have a significant impact on the results of its operations and its financial position.

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values, as explained in the accounting policies set out below.

The financial statements have been prepared in accordance with HKFRSs. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Companies Ordinance.

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

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

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

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

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

GOODWILL

Goodwill arising on acquisitions prior to 1 January 2005

Goodwill arising on an acquisition of a subsidiary or an associate for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary or associate at the date of acquisition.

As explained in note 2 above, all goodwill as at 1 January 2005 has been transferred to the accumulated profits of the Group.

Goodwill arising on acquisitions on or after 1 January 2005

Goodwill arising on an acquisition of a subsidiary or an associate for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary or associate at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet. Capitalised goodwill arising on an acquisition of an associate (which is accounted for using the equity method) is included in the cost of the investment of the relevant associate.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary or an associate, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

EXCESS OF AN ACQUIRER'S INTEREST IN THE NET FAIR VALUE OF AN ACQUIREE'S IDENTIFIABLE ASSETS, LIABILITIES AND CONTINGENT LIABILITIES OVER COST ("DISCOUNT ON ACQUISITIONS")

A discount on acquisition arising on an acquisition of a subsidiary or an associate for which the agreement date is on or after 1 January 2005 represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in profit or loss. A discount on acquisition arising on an acquisition of an associate (which is accounted for using the equity method) is included as income in the determination of the investor's share of results of the associate in the period in which the investment is acquired.

As explained in note 2 above, all negative goodwill as at 1 January 2005 has been derecognised with a corresponding adjustment to the Group's accumulated profits.

INVESTMENT PROPERTIES

Starting from 1 January 2005, on initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

Prior to January, 2005, investment properties were stated at their open market value. Any revaluation surplus or deficit arising on the revaluation of investment properties was credited or charged to the investment property revaluation reserve unless the balance of the reserve was insufficient to cover a revaluation deficit, in which case the excess of the revaluation deficit over the balance on the investment property revaluation reserve was charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus was credited to the income statement to the extent of the deficit previously charged.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment (other than properties under development) are stated at cost or fair value less subsequent accumulated depreciation and accumulated impairment losses.

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and amortisation and any subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of land and buildings is credited to the other property revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the other property revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

Depreciation is provided to write off the cost or fair value of items of property, plant and equipment other than properties under development over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is dereognised.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Leasehold land and buildings under development

When the leasehold land and buildings are in the course of development for production, rental or for administrative purposes, the leasehold land component is classified as a prepaid lease payment and amortised over a straight-line basis over the lease term. During the construction period, the amortisation charge provided for the leasehold land is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are included in the Company's balance sheet at cost, less any identified impairment loss.

INTERESTS IN ASSOCIATES

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year. In the Company's balance sheet, investments in associates are stated at cost, as reduced by an identified impairment loss.

PROPERTIES HELD FOR SALE

Properties held for sale are stated at the lower of cost and the estimated market value.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using weighted average cost method.

FINANCIAL INSTRUMENTS

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL INSTRUMENTS (CONTINUED)

Financial assets

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. At each balance sheet date subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed on initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL INSTRUMENTS (CONTINUED)

Financial assets (continued)

Available-for-sale financial assets

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

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

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are classified as other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including bank and other borrowings, trade and other payables and amounts due to subsidiaries for the Company are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

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

Derecognition

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

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT LOSSES

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other standard.

REVENUE RECOGNITION

(i) Property development

Revenue from sale of properties in the ordinary course of business is recognised when all of the following criteria are met:

- the significant risks and rewards of ownership of the properties are transferred to buyers;
- neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the properties are retained;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

(ii) Premium income

Premium is recognised on an accrual basis.

(iii) Return on investments

Dividend from investments is recognised when the Group's rights to receive the relevant payments have been established, whilst interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

(iv) Sales of goods

Sales of goods are recognised when goods are delivered and title has passed.

(v) Management fee

Management fee income is recognised when services are rendered.

(vi) Agency fee

Agency fee income is recognised when services are rendered.

(vii) Sales of securities

Sales of investments in securities are recognised on trade date basis.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

TAXATION

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

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

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

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

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

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

BORROWING COSTS

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

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

RETIREMENT BENEFITS SCHEME

The Group operates a defined contribution retirement benefits scheme (the "ORSO Scheme") for qualifying staff of certain companies in the Group, the assets of which are held in a separate trustee administered fund. Payments to the scheme are charged as an expense as they fall due.

Certain of the Group's employees have been enrolled in a Mandatory Provident Fund Scheme ("MPF Scheme"). The contributions payable in respect of the current year to the fund are charged as an expense as they fall due.

LEASING

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

The Group as lessor

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LEASING (CONTINUED)

The Group as lessee

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

FOREIGN CURRENCIES

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

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

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, management makes various estimates based on past experiences, expectations of the future and other information. The key sources of estimation uncertainty that may significantly affect the amounts recognised in the financial statements are disclosed below:

ESTIMATED IMPAIRMENT ON TRADE RECEIVABLES, LOANS RECEIVABLE AND ADVANCES TO INVESTEE COMPANIES

Management regularly reviews the recoverability and/or aging of the trade receivables, loans receivables and advances to investee companies. Appropriate impairment for estimated irrecoverable amounts are recognised in profit and loss when there is objective evidence that the asset is impaired.

In determining whether impairment for bad and doubtful debts is required, the Group takes into consideration the aging status and likelihood of collection. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the estimated future cash flow expected to receive discounted using the original effective interest rate and its carrying value.

ALLOWANCE FOR PROPERTIES HELD FOR SALE

Management exercises its judgement in making allowance for properties held for sale with reference to the existing market environment, the sales performance in previous years and estimated market value of the properties, i.e. the estimated selling price, less estimated costs of selling expenses. A specific allowance for properties held for sale is made if the estimated market value of the properties is lower than its carrying value.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

ESTIMATED IMPAIRMENT ON PROPERTIES UNDER DEVELOPMENT

Management regularly reviews the recoverability of the Group's properties under development with reference to its intended use and current market environment. Appropriate impairment for estimated irrecoverable amounts are recognised in profit and loss when there is objective evidence that the asset is impaired.

In determining whether impairment on properties under development is required, the Group takes into consideration the intended use of the properties, the current market environment, the estimated market value of the properties and/or the present value of future cash flow expected to receive. Impairment is recognised based on the higher of estimated future cash flow and estimated market value.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include investments in equity and debt securities, advances to investees companies, trade and other receivables, trade and other payables, borrowings bank balances with Liu Ching Hing Bank Limited and its subsidiaries and other bank balances. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

MARKET RISK

(i) Currency risk

Certain trade and other receivables and loans receivable of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

(ii) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its bank borrowings. Bank loans at variable rates expose the Group to cash flow interest-rate risk. Details of the Group's bank borrowings have been disclosed in note 31.

The Group currently does not have an interest rate hedging policy. However, management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

(iii) Other price risk

The Group's available-for-sale investments and investments held for trading are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity security price risk. Management manages this exposure by maintaining a portfolio of investments with different risk profiles.

CREDIT RISK

The Group's principal financial assets include trade receivables, loans receivable, advances to investee companies and cash and cash equivalents. The Group's maximum exposure to credit risk in the event of counterparties' failure to perform their obligations as at 31 December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

In addition, the Group reviews the recoverable amount of each individual receivable at each balance sheet date to ensure that adequate impairment losses are recognised for irrecoverable amounts. In this regards, the directors of the Group consider that the Group's exposure to bad debts is minimal.

The credit risk on bank accounts with Liu Chong Hing Bank Limited and its subsidiaries and other bank balances is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

CREDIT RISK (CONTINUED)

With respect of credit risk arising from other major financial assets of the Group, the Group's exposure to credit risk arising from default of counterparties is limited as the counterparties have good credit standing and the Group does not expect any significant loss for uncollected advances/deposits from these entities.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties.

7. REVENUE

Revenue represents the aggregate of the following amounts received and receivable during the year. An analysis of the Group's revenue for the year, for both continuing and discontinued operations, is as follows:

	2005 HK$'000	2004 HK$'000
Continuing operations		
Proceeds from disposal of properties	**222,870**	159,391
Gross rental income	**96,074**	101,749
Proceeds from disposal of listed investments	**81,619**	10,628
Sales of goods	**30,579**	29,118
Interest income	**18,798**	12,700
Property management and agency fees	**12,296**	13,876
Dividend income from unlisted investments	**3,602**	8,264
Dividend income from listed investments	**628**	2,918
Other income (Note)	**81,734**	–
	548,200	338,644
Discontinued operation		
Gross insurance premium	**16,531**	36,476
	564,731	375,120

Note: During the year, Chong Yip Finance Limited ("CYFL"), a wholly-owned subsidiary of the Company entered into an agreement with an independent third party under which CYFL advanced a loan of US$20 million (approximately HK$155,124,000) to that third party at prevailing market interest rate. Under this agreement, the third party would use the amount borrowed to subscribe for shares in a listed company and 50% of any profit arising from the subsequent sale of such shares would be shared by CYFL. The sale of the above shares was completed prior to the balance sheet date and a profit of approximately HK$81,734,000 was recorded by CYFL. CYFL received full repayment of the loan together with interest thereon, and the above profit from that independent third party prior to the balance sheet date.

8. BUSINESS AND GEOGRAPHICAL SEGMENTS

BUSINESS SEGMENTS

For management purposes, the Group is currently organised in five operating divisions – property investment, property development, property management, treasury investment and banking and trading and manufacturing. These divisions are the basis on which the Group reports its primary segment information.

The Group was also involved in the insurance business which was discontinued on 29 June 2005, details are set out in note 12.

Segment information about these businesses is presented below:

Year ended 31 December 2005

	Continuing operations					Discontinuing operation		
	Property investment HK$'000	Property development HK$'000	Property management HK$'000	Treasury investment and banking HK$'000	Trading and manufacturing HK$'000	Insurance business HK$'000	Eliminations HK$'000	Consolidated HK$'000
REVENUE								
External sales	96,074	222,870	12,296	186,381	30,579	16,531	–	564,731
Inter-segment sales	432	–	4,472	182,952	–	464	(188,320)	–
Total revenue	96,506	222,870	16,768	369,333	30,579	16,995	(188,320)	564,731

Inter-segment sales are charged at prevailing market rates.

	Property investment HK$'000	Property development HK$'000	Property management HK$'000	Treasury investment and banking HK$'000	Trading and manufacturing HK$'000	Insurance business HK$'000	Eliminations HK$'000	Consolidated HK$'000
RESULT								
Segment result	116,938	(124,985)	(976)	65,907	783	2,605	–	60,272
Finance costs								(60,694)
Share of results of associates	90	–	–	184,023	–	–	–	184,113
Profit before taxation								183,691
Income tax expense								(44,129)
Profit for the year								139,562

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

BALANCE SHEET

As at 31 December 2005

	Continuing operations					Discontinuing operation	
	Property investment HK$'000	Property development HK$'000	Property management HK$'000	Treasury investment and banking HK$'000	Trading and manufacturing HK$'000	Insurance business HK$'000	Consolidated HK$'000
ASSETS							
Segment assets	3,144,956	1,824,635	1,615	670,408	51,425	–	5,693,039
Interests in associates	1,945	–	–	2,620,183	–	–	2,622,128
Taxation recoverable							905
Unallocated corporate assets							54,796
Consolidated total assets							8,370,868
LIABILITIES							
Segment liabilities	12,747	103,273	2,886	4,723	2,813	–	126,442
Deferred taxation							385,976
Unallocated corporate liabilities							2,273,174
Consolidated total liabilities							2,785,592

OTHER INFORMATION

Year ended 31 December 2005

	Continuing operations						Discontinuing operation	
	Property investment HK$'000	Property development HK$'000	Property management HK$'000	Treasury investment and banking HK$'000	Trading and manufacturing HK$'000	Others HK$'000	Insurance business HK$'000	Consolidated HK$'000
Impairment of advance to an investee company	–	–	–	1,350	–	–	–	1,350
Impairment of bad and doubtful debts	–	15,418	–	–	–	–	–	15,418
Write-down of properties held for sale to net realisable value	–	10,000	–	–	–	–	–	10,000
Capital additions	23,245	210,225	–	–	–	–	–	233,470
Deficit on revaluation of leasehold land and buildings charged to the income statement	–	38,673	–	–	–	–	–	38,673
Depreciation and amortisation	5,646	3,851	–	–	2,670	782	120	13,069
Impairment loss recognised in respect of available-for-sale investment	–	–	–	37,005	–	–	–	37,005
Loss on disposal of property, plant and equipment	–	–	–	–	–	–	5,195	5,195

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

Year ended 31 December 2004

	Continuing operations					Discontinuing operation		
	Property investment HK$'000	Property development HK$'000	Property management HK$'000	Treasury investment and banking HK$'000	Trading and manufacturing HK$'000	Insurance business HK$'000	Eliminations HK$'000	Consolidated HK$'000 (restated)
REVENUE								
External sales	101,749	159,391	13,876	34,510	29,118	36,476	–	375,120
Inter-segment sales	864	–	4,635	247,242	–	822	(253,563)	–
Total revenue	102,613	159,391	18,511	281,752	29,118	37,298	(253,563)	375,120

Inter-segment sales are charged at prevailing market rates.

RESULT								
Segment result	78,172	(69,532)	2,882	(22,853)	234	3,248	–	(7,849)
Finance costs								(22,176)
Share of results of associates	42	–	–	163,238	–	–	–	163,280
Profit before taxation								133,255
Income tax expense								(23,969)
Profit for the year								109,286

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

BALANCE SHEET

As at 31 December 2004

	Continuing operations					Discontinuing operation	
	Property investment HK$'000	Property development HK$'000	Property management HK$'000	Treasury investment and banking HK$'000	Trading and manufacturing HK$'000	Insurance business HK$'000	Consolidated HK$'000 (restated)
ASSETS							
Segment assets	3,302,505	1,298,834	1,750	841,823	52,653	11,851	5,509,416
Interests in associates	1,853	–	–	2,509,529	–	–	2,511,382
Taxation recoverable							1,070
Unallocated corporate assets							25,422
Consolidated total assets							8,047,290
LIABILITIES							
Segment liabilities	38,415	38,343	2,924	1,290	6,568	29,182	116,722
Deferred taxation							353,366
Unallocated corporate liabilities							2,199,207
Consolidated total liabilities							2,669,295

OTHER INFORMATION

Year ended 31 December 2004

	Continuing operations						Discontinuing operation	
	Property investment HK$'000	Property development HK$'000	Property management HK$'000	Treasury investment and banking HK$'000	Trading and manufacturing HK$'000	Others HK$'000	Insurance business HK$'000	Consolidated HK$'000
Write-down of for properties held for sale to net realisable value	–	10,000	–	–	–	–	–	10,000
Capital additions	135	84,172	–	–	–	616	59	84,982
Deficit on revaluation of leasehold land and buildings charged to the income statement	–	19,912	–	–	–	–	–	19,912
Depreciation and amortisation	1,584	3,495	–	–	1,179	730	103	7,091
Impairment loss recognised in respect of investment securities	–	–	–	20,000	–	–	–	20,000
Loss on disposal of property, plant and equipment	–	35	–	–	–	–	–	35

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

GEOGRAPHICAL SEGMENTS

The Group's operations are located in Hong Kong and other parts of the People's Republic of China (the "PRC"). Certain of the Group's property development and trading and manufacturing business are located in the PRC. Others are located in Hong Kong.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services:

	Sales revenue by geographical market		Contribution to profit before taxation	
	Year ended 31.12.2005 HK$'000	Year ended 31.12.2004 HK$'000	**Year ended 31.12.2005 HK$'000**	Year ended 31.12.2004 HK$'000 (restated)
Hong Kong	**300,800**	175,438	**79,897**	54,437
PRC	**263,931**	199,682	**(80,319)**	(84,462)
	564,731	375,120	**(422)**	(30,025)
Share of results of associates			**184,113**	163,280
Profit before taxation			**183,691**	133,255

Revenue from the Group's discontinued insurance business was derived principally from Hong Kong (2005: HK$16,531,000, 2004: HK$36,476,000).

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and properties under development, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment and properties under development	
	As at 31.12.2005 HK$'000	As at 31.12.2004 HK$'000	**As at 31.12.2005 HK$'000**	As at 31.12.2004 HK$'000
Hong Kong	**3,382,671**	3,381,480	**22,820**	810
PRC	**2,375,620**	2,126,755	**210,650**	84,172
Others	**684**	1,181	**–**	–
	5,758,975	5,509,416	**233,470**	84,982

9. FINANCE COSTS

	2005 HK$'000	2004 HK$'000
Interest on borrowings wholly repayable within five years:		
Bank loans	**72,285**	33,400
Other borrowings	**13,694**	8,353
	85,979	41,753
Less: Amount capitalised as cost of properties under development at a capitalisation rate of 2.79% (2004: 2.45%) per annum	**(25,285)**	(19,577)
	60,694	22,176

10. SHARE OF RESULTS OF ASSOCIATES

	2005 HK$'000	2004 HK$'000 (restated)
Share of results of associates comprise:		
Share of results of associates	**212,731**	194,623
Share of taxation of associates	**(32,328)**	(31,799)
Discount on acquisition of additional interest in an associate	**3,710**	–
Release of negative goodwill arising on acquisition of an associate	**–**	456
	184,113	163,280

11. INCOME TAX EXPENSE

	Continuing operations		Discontinued operations		Consolidated	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000 (restated)
The charge comprises:						
Hong Kong Profits Tax						
Current year	**11,519**	11,556	**–**	513	**11,519**	12,069
Overprovision in prior years	**–**	(3)	**–**	–	**–**	(3)
	11,519	11,553	**–**	513	**11,519**	12,066
Deferred taxation						
Current year	**32,610**	11,903	**–**	–	**32,610**	11,903
	44,129	23,456	**–**	513	**44,129**	23,969

Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profit for the year.

11. INCOME TAX EXPENSE (CONTINUED)

The tax charge for the year can be reconciled to the profit per the income statement as follows:

	2005 HK$'000	2004 HK$'000 (restated)
Profit before taxation		
– Continuing operations	**181,086**	130,007
– Discontinued operation	**2,605**	3,248
	183,691	133,255
Hong Kong Profits Tax at the rate of 17.5%	**32,146**	23,320
Tax effect of share of results of associates	**(31,571)**	(28,575)
Tax effect of expenses not deductible for tax purpose	**60,618**	36,163
Tax effect of income not taxable for tax purpose	**(27,375)**	(6,536)
Overprovision in respect of prior years	**–**	(3)
Tax effect of tax losses not recognised	**10,404**	29
Tax effect of utilisation of tax losses previously not recognised	**(93)**	(1,593)
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	**–**	1,164
Tax charge for the year	**44,129**	23,969

12. DISCONTINUED OPERATION

On 3 March 2005, the Company and Liu Chong Hing Bank Limited ("LCH Bank"), an associate of the Company, entered into a conditional sale and purchase agreement pursuant to which LCH Bank agreed to acquire from the Company the entire issued share capital of a wholly-owned subsidiary of the Company, Liu Chong Hing Insurance Company Limited ("LCH Insurance") for a total consideration of HK$212 million. The disposal was completed on 29 June 2005 and LCH Insurance became a wholly-owned subsidiary of LCH Bank.

The results of LCH Insurance represent the Group's entire results of insurance business and a portion of results of treasury investment and banking business. The results of insurance business for the period from 1 January 2005 to 29 June 2005, were as follows:

	Period ended 29.6.2005 HK$'000	Year ended 31.12.2004 HK$'000
Revenue	**16,995**	37,298
Direct costs	**(14,390)**	(34,050)
Profit before taxation	**2,605**	3,248
Income tax expense	**–**	(513)
Profit for the period/year	**2,605**	2,735

During the year, LCH Insurance contributed approximately HK$2,605,000 (2004: HK$2,735,000) to the Group's profit for the year and approximately HK$4,071,000 (2004: HK$2,435,000) to the Group's cash flows.

The carrying amounts of the assets and liabilities of LCH Insurance at the date of disposal are disclosed in note 37.

13. PROFIT FOR THE YEAR

	Continuing operations		Discontinued operation		Consolidated	
	2005 HK$'000	2004 HK$'000	**2005** HK$'000	2004 HK$'000	**2005** HK$'000	2004 HK$'000
Profit for the year has been arrived at after charging:						
Directors' emoluments (Note 14)	**15,518**	15,121	**–**	–	**15,518**	15,121
Other staff costs	**15,592**	8,724	**3,119**	6,097	**18,711**	14,821
Staff retirement scheme contributions, net of HK$187,000 (2004: HK$161,000) forfeited contributions	**1,139**	341	**226**	493	**1,365**	834
Total staff costs	**32,249**	24,186	**3,345**	6,590	**35,594**	30,776
Impairment of advance to an investee company	**1,350**	–	**–**	–	**1,350**	–
Write-down of properties held for sale to net realisable value	**10,000**	10,000	**–**	–	**10,000**	10,000
Impairment of bad and doubtful debts	**15,418**	–	**–**	–	**15,418**	–
Auditors' remuneration	**1,796**	1,163	**101**	162	**1,897**	1,325
Depreciation and amortisation	**12,949**	6,988	**120**	103	**13,069**	7,091
Loss on disposal of property, plant and equipment	**5,174**	35	**21**	–	**5,195**	35
Operating lease rentals in respect of land and buildings	**2,549**	712	**396**	770	**2,945**	1,482
Realised loss on disposal of available-for-sale investments	**1,730**	–	**–**	–	**1,730**	–
and after crediting:						
Imputed interest income on non-current interest-free loans to investee companies	**3,193**	–	**–**	–	**3,193**	–
Gross rental income from investment properties	**96,074**	101,749	**–**	–	**96,074**	101,749
Less: direct operating expenses from investment properties that generate rental income during the year	**16,810**	13,442	**–**	–	**16,810**	13,442
direct operating expenses from investment properties that did not generate rental income during the year	**136**	11	**–**	–	**136**	11
	79,128	88,296	**–**	–	**79,128**	88,296
Realised gain on disposal of other investments	**–**	3,745	**–**	–	**–**	3,745

14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the 14 (2004: 16) directors were as fellows:

	2005				2004			
		Other emoluments:				Other emoluments:		
	Fees HK$'000	Salaries and other benefits HK$'000	Retirement scheme contributions HK$'000	Total emoluments HK$'000	Fees HK$'000	Salaries and other benefits HK$'000	Retirement scheme contributions HK$'000	Total emoluments HK$'000
Liu Lit Man	**80**	**–**	**–**	**80**	80	–	–	80
Liu Lit Mo	**40**	**7,493**	**183**	**7,716**	40	6,603	183	6,826
Liu Lit Chi	**40**	**–**	**–**	**40**	40	–	–	40
Liu Kam Fai, Winston	**40**	**2,491**	**114**	**2,645**	40	2,522	105	2,667
Lee Wai Hung	**40**	**1,491**	**149**	**1,680**	40	1,431	143	1,614
Liu Lit Chung	**40**	**2,171**	**59**	**2,270**	40	2,347	59	2,446
Andrew Liu	**40**	**–**	**–**	**40**	40	–	–	40
Liu Chun Ning, Wilfred	**40**	**560**	**47**	**647**	40	560	44	644
Liu Kwun Shing, Christopher	**–**	**–**	**–**	**–**	–	–	–	–
The Hon. Woo Pak Chuen***	**–**	**–**	**–**	**–**	120	–	–	120
Lee Tung Hai, Leo	**80**	**–**	**–**	**80**	80	–	–	80
Peter Alan Lee Vine**	**80**	**–**	**–**	**80**	80	–	–	80
Ng Ping Kin, Peter	**80**	**–**	**–**	**80**	80	–	–	80
Cheng Mo Chi, Moses	**80**	**–**	**–**	**80**	80	–	–	80
Tong Tsin Ka*	**80**	**–**	**–**	**80**	–	–	–	–
Wai Chun Sing, Terence****	**–**	**–**	**–**	**–**	–	201	123	324
Total	**760**	**14,206**	**552**	**15,518**	800	13,664	657	15,121

* Tong Tsin Ka was appointed on 17 September 2004

** Peter Alan Lee Vine was deceased on 13 April 2005

*** The Hon. Woo Pak Chuen was resigned on 11 June 2004

**** Wai Chun Sing, Terence was resigned on 31 January 2004

(b) Emoluments of highest paid individuals

Of the five individuals with the highest emoluments in the Group, four (2004: four) individuals were directors of the Company whose emoluments are included in the disclosure set out in note (a) above. The emoluments of the remaining highest paid individual were as follows:

	2005 HK$'000	2004 HK$'000
Salaries and other benefits	**1,527**	1,485
Retirement scheme contributions	**71**	62
	1,598	1,547

(c) During the year, no emoluments were paid by the Group to any of the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors have waived any emoluments during the year.

15. DIVIDENDS

	2005 HK$'000	2004 HK$'000
Interim dividend paid at HK$0.08 (2004: HK$0.07) per share	**30,287**	26,501
Proposed final dividend at HK$0.12 (2004: HK$0.10) per share	**45,430**	37,858
	75,717	64,359

The final cash dividend of HK$0.12 (2004: HK$0.10) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming general meeting.

16. BASIC EARNINGS PER SHARE

FROM CONTINUING AND DISCONTINUED OPERATIONS

The calculation of the basic earnings per share attributable to the equity holders of the parent is based on the profit for the year attributable to equity holders of the parent of HK$143,451,000 (2004: HK$109,248,000) and on 378,583,440 (2004: 378,583,440) ordinary shares in issue during the year.

FROM CONTINUING OPERATIONS

The calculation of the basic earnings per share from continuing operations attributable to the equity holders of the parent is based on the following information:

	Year ended 31 December	
	2005 HK$'000	2004 HK$'000 (restated)
Earnings for the year attributable to equity holders of the parent	**143,451**	109,248
Less: Earnings for the year from discontinued operation	**(2,605)**	(2,735)
Earnings for the purpose of basic earnings per share from continuing operations	**140,846**	106,513

The denominators used are the same as those detailed above for basic earnings per share from continuing and discontinued operations.

FROM DISCONTINUED OPERATION

Basic earnings per share for discontinued operation is HK0.69 cent (2004: HK0.72 cent) which is calculated based on the profit for the year from discontinued operation of HK$2,605,000 (2004: HK$2,735,000). The denominators used are the same as those detailed above for basic earnings per share from continuing and discontinued operations.

The adjustment to comparative basic earnings per share, arising from changes in accounting policies set out in note 2 above, is as follows:

Reconciliation of basic earnings per share for the year ended 31 December 2004

	HK$
Reported figures before adjustments	0.28
Adjustments arising from changes in accounting policies	0.01
As restated	0.29

17. INVESTMENT PROPERTIES

	THE GROUP HK$'000	THE COMPANY HK$'000
FAIR VALUE		
At 1 January 2004	3,258,150	680,000
Deficit on revaluation recognised in equity	(34,100)	–
At 31 December 2004	3,224,050	680,000
Currency realignment	27,910	–
Transfer to properties held for sale	(213,000)	–
Net increase (decrease) in fair value recognised in the income statement	53,802	(20,000)
At 31 December 2005	3,092,762	660,000

During the year ended 31 December 2005, investment properties at fair values of approximately HK$213,000,000 have been transferred to properties held for sale upon the change of intention of the management. The fair values of the Group's investment properties at 31 December 2005 and upon the transfer to properties held for sale have been arrived at on the basis of a valuation carried out on that day by Vigers Appraisal & Consulting Ltd., an independent firm of professional valuers not connected with the Group. Vigers Appraisal & Consulting Ltd. is member of the Institute of Valuers, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

All the Group's leasehold lands on investment properties are held under operating leases.

A summary of the carrying values of investment properties is as follows:

	THE GROUP		THE COMPANY	
	2005 HK$'000	2004 HK$'000	**2005** HK$'000	2004 HK$'000
Held under:				
Long leases in Hong Kong	**2,880,300**	2,616,749	**660,000**	680,000
Long-term land use right in the PRC	**188,462**	588,301	**–**	–
Medium-term leases in Hong Kong	**24,000**	19,000	**–**	–
	3,092,762	3,224,050	**660,000**	680,000

18. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures, motor vehicles and computer equipment HK$'000	Total HK$'000
THE GROUP				
COST OR VALUATION				
At 1 January 2004	83,968	27,309	33,428	144,705
Additions	–	–	3,589	3,589
Disposals	–	–	(828)	(828)
Deficit on revaluation	(27,784)	–	–	(27,784)
At 31 December 2004	56,184	27,309	36,189	119,682
Currency realignment	2,792	2,284	1,311	6,387
Additions	–	56	23,189	23,245
Disposal of a subsidiary	–	–	(4,563)	(4,563)
Disposals	–	–	(9,480)	(9,480)
Deficit on revaluation	(41,374)	–	–	(41,374)
At 31 December 2005	17,602	29,649	46,646	93,897
Comprising:				
At cost	–	29,649	46,646	76,295
At valuation – 2005	17,602	–	–	17,602
	17,602	29,649	46,646	93,897
DEPRECIATION AND AMORTISATION				
At 1 January 2004	–	11,237	22,827	34,064
Charged for the year	2,214	1,179	3,698	7,091
Eliminated on disposals	–	–	(793)	(793)
Deficit on revaluation	(2,214)	–	–	(2,214)
At 31 December 2004	–	12,416	25,732	38,148
Currency realignment	–	733	152	885
Charged for the year	2,709	2,670	7,690	13,069
Disposal of a subsidiary	–	–	(3,795)	(3,795)
Eliminated on disposals	–	–	(4,285)	(4,285)
Deficit on revaluation	(2,709)	–	–	(2,709)
At 31 December 2005	–	15,819	25,494	41,313
CARRYING VALUES				
At 31 December 2005	17,602	13,830	21,152	52,584
At 31 December 2004	56,184	14,893	10,457	81,534

18. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land and building held in the PRC under a long-term use right HK$'000	Furniture, fixtures, motor vehicles and computer equipment HK$'000	Total HK$'000
THE COMPANY			
COST OR VALUATION			
At 1 January 2004	364	10,488	10,852
Additions	–	617	617
Disposals	–	(387)	(387)
At 31 December 2004	364	10,718	11,082
Additions	–	530	530
At 31 December 2005	364	11,248	11,612
Comprising:			
At cost	–	11,248	11,248
At valuation – 2005	364	–	364
	364	11,248	11,612
DEPRECIATION AND AMORTISATION			
At 1 January 2004	–	8,870	8,870
Charged for the year	8	721	729
Eliminated on disposals	–	(386)	(386)
Surplus on revaluation	(8)	–	(8)
At 31 December 2004	–	9,205	9,205
Charged for the year	8	775	783
Surplus on revaluation	(8)	–	(8)
At 31 December 2005	–	9,980	9,980
CARRYING VALUES			
At 31 December 2005	364	1,268	1,632
At 31 December 2004	364	1,513	1,877

The above items of property, plant and machinery are depreciated on a straight-line basis at he following rates per annum:

Leasehold land and buildings	Over the shorter of the term of the lease or 3%
Plant and machinery	10%
Furniture, fixtures, motor vehicles and computer equipment	10 – 20%

18. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

A summary of the carrying values of land and buildings held by the Group, which are all situated in the PRC, is as follows:

	2005 HK$'000	2004 HK$'000
Held under:		
Long-term land use rights	**14,364**	52,674
Medium-term land use rights	**3,238**	3,510
	17,602	56,184

The leasehold land and buildings of the Group were valued on 31 December 2005 by Vigers Appraisal & Consulting Ltd., an independent firm of professional valuers, on an open market value basis. Vigers Appraisal & Consulting Ltd., is not connected with the Group.

The resulting deficit arising on revaluation of the Group amounting to approximately HK$38,665,000 (2004: HK$25,570,000) has been dealt with as follows:

(i) a deficit of approximately HK$38,673,000 (2004: HK$19,912,000) has been charged to the income statement; and

(ii) a surplus of approximately HK$8,000 has been credited to the other property revaluation reserve (2004: a deficit of approximately HK$5,658,000 has been charged to the other property revaluation reserve).

The resulting surplus arising on revaluation of the Company amounting to HK$8,000 (2004: HK$8,000) has been credited to other property revaluation reserve.

The amount of land and buildings of the Group and of the Company that would have been included in the financial statements at the balance sheet date had the assets been carried at historical cost less accumulated depreciation and accumulated impairment loss is approximately HK$17,602,000 and HK$173,000 (2004: HK$56,184,000 and HK$177,000) respectively.

19. PROPERTIES UNDER DEVELOPMENT

	2005 HK$'000	2004 HK$'000
COST		
At beginning of the year	**802,693**	720,406
Currency realignment	**16,342**	–
Additions	**193,883**	82,287
At end of the year	**1,012,918**	802,693

Included in properties under development is net interest capitalised of approximately HK$271,347,000 (2004: HK$246,062,000). The properties are developed for future use as investment properties.

20. INVESTMENT IN SUBSIDIARIES

	THE COMPANY	
	2005 HK$'000	2004 HK$'000
Cost of unlisted shares/capital contribution	**319,095**	286,413
Less: Impairment loss recognised	**(10,000)**	(34,372)
	309,095	252,041

Particulars of the Company's principal subsidiaries as at 31 December 2005 are as follows:

Name of subsidiary	Place of incorporation or establishment/ operations	Issued ordinary share capital/ registered capital	Proportion of nominal value of issued capital/registered capital held by the Company Directly %	Indirectly %	Principal activities
Liu Chong Hing Estate Company, Limited	Hong Kong	HK$10,000,000	100	–	Investment holding
Liu Chong Hing Godown Company, Limited	Hong Kong	HK$72,000,000	100	–	Property investment
Liu Chong Hing Property Management and Agency Limited	Hong Kong	HK$1,000,000	100	–	Property management and agency
Abaleen Enterprises Limited	Hong Kong	HK$100,000	100	–	Property investment
Alain Limited ("Alain")	Hong Kong	HK$9,500	100	–	Investment holding
Bonsun Enterprises Limited	Hong Kong	HK$2,000,000	100	–	Property investment
Chong Yip Finance Limited	Hong Kong	HK$1,000,000	100	–	Money lending
Devon Realty Limited	Hong Kong	HK$200	100	–	Property investment
Donington Company Limited	Hong Kong	HK$200	100	–	Property investment
Gem Gain Enterprises Limited	Hong Kong	HK$30	100	–	Investment holding
Great Earnest Limited	Hong Kong	HK$200	100	–	Property investment
Heng Kin Investment Limited	Hong Kong	HK$2	100	–	Property investment

20. INVESTMENT IN SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation or establishment/ operations	Issued ordinary share capital/ registered capital	Proportion of nominal value of issued capital/registered capital held by the Company Directly %	Indirectly %	Principal activities
Jacot Limited	Hong Kong	HK$2	100	–	Investment holding
Ko Yew Company Limited	Hong Kong	HK$200	100	–	Property investment
Luxpolar Limited	Hong Kong	HK$2	–	100	Property investment
Marble Kingdom Limited	Hong Kong	HK$2	100	–	Investment holding
Queen Profit International Investment Limited	Hong Kong	HK$61,540	83.75	–	Investment holding
Speed World Investment Limited	Hong Kong	HK$100	–	60	Investment holding
Top Team Limited	Hong Kong	HK$200	100	–	Investment holding
Wealth Good Investment Limited	Hong Kong	HK$2	100	–	Investment holding
Yue Tung Ching Kee Company Limited	Hong Kong	HK$2,000,000	100	–	Property investment
Guangzhou Chong Hing Property Development Company Limited ("Guangzhou Chong Hing")	PRC	RMB170,000,000	–	60	Property development
Maanshan Gaoke Magnetic Material Company Limited ("Maanshan Gaoke")	PRC	RMB41,000,000	–	51.5	Manufacturing of magnetic materials
Shanghai Huang Pu Liu Chong Hing Property Development Company Limited ("Shanghai Huang Pu")	PRC	US$27,000,000	–	95	Property development
China Link Technologies Limited	British Virgin Islands/ Hong Kong	US$100	100	–	Investment holding
Determined Resources Limited	British Virgin Islands/ Hong Kong	US$1,000	100	–	Share investment
Terryglass Limited	British Virgin Islands/ Thailand	US$1,000	100	–	Investment holding

Guangzhou Chong Hing is a sino-foreign cooperative enterprise while Maanshan Gaoke and Shanghai Huang Pu are sino-foreign equity joint ventures established in the PRC.

None of the subsidiaries had issued any debt securities at the end of the year.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

21. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2005 HK$'000	2004 HK$'000 (restated)	**2005** HK$'000	2004 HK$'000
Cost of investments in associates				
– Listed in Hong Kong	**235,058**	209,812	**–**	–
– Unlisted	**3**	3	**3**	3
Share of post-acquisition reserves, net of dividends received	**2,378,092**	2,301,567	**–**	–
	2,613,153	2,511,382	**3**	3
Fair value of listed investments	**2,449,491**	2,323,734	**–**	–

Negative goodwill with carrying amount of approximately HK$8,670,000 as at 31 December 2004 was presented as a deduction from the cost of investments in associates. In prior years, negative goodwill was released to income on a straight-line basis of 20 years, representing the remaining weighted average useful life of the depreciable assets acquired. The amount of negative goodwill released to the income statement for the year ended 31 December 2004 was approximately HK$456,000. All negative goodwill was derecognised on 1 January 2005 upon the application of HKFRS 3 (see note 3). The movement of negative goodwill is set out below.

	HK$'000
GROSS AMOUNT	
Arising on acquisition of additional interest in an associate during the year and at 31 December 2004	9,126
Derecognised upon the application of HKFRS 3 (see note 2)	(9,126)
At 31 December 2005	–
RELEASED TO INCOME	
Released for the year and at 31 December 2004	(456)
Derecognised upon the application of HKFRS 3 (see note 2)	456
At 31 December 2005	–
CARRYING AMOUNT	
At 31 December 2005	–
At 31 December 2004	8,670

During the year, a discount on acquisition of approximately HK$3,710,000 arising on the acquisition of additional interest in LCH Bank has been included as income in the determination of the Group's share of results of associates.

21. INTERESTS IN ASSOCIATES (CONTINUED)

The summarised financial information in respect of the Group's associates is set out below:

	2005 HK$'000	2004 HK$'000 (restated)
Total assets	**49,977,669**	41,366,145
Total liabilities	**(44,140,647)**	(35,802,788)
Net assets	**5,837,022**	5,563,357
The Group's share of net assets of associates	**2,664,207**	2,520,052
Revenue	**1,719,629**	990,985
Profit for the year	**398,163**	359,940
The Group's share of results of associates for the year	**180,403**	162,824

Particulars of the Group's principal associates as at 31 December 2005 are as follows:

Name of associate	Form of business structure	Place of incorporation/ operations	Class of share held	Proportion of nominal value of issued capital held by the Group	Proportion of voting power held	Principal activity
LCH Bank (listed in Hong Kong)	Incorporated	Hong Kong	Ordinary	45.8%	45.8%	Banking business
Falconmate Limited	Incorporated	Hong Kong	Ordinary	50%	50%	Property investment

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

22. INVESTMENTS IN SECURITIES

Investments in securities as at 31 December 2004 are set out below. Upon the application of HKAS 39 on 1 January 2005, investments in securities have been reclassified to appropriate categories under HKAS 39 (see note 3 for details).

	Held-to-maturity securities HK$'000	Investment securities HK$'000	Other investments HK$'000	Total HK$'000
THE GROUP				
Equity securities:				
Listed in Hong Kong	–	–	72,686	72,686
Listed overseas	–	–	1,181	1,181
Unlisted	–	62,309	248,168	310,477
	–	62,309	322,035	384,344
Unlisted debt securities	66,280	–	–	66,280
Total:				
Listed in Hong Kong	–	–	72,686	72,686
Listed overseas	–	–	1,181	1,181
Unlisted	66,280	62,309	248,168	376,757
	66,280	62,309	322,035	450,624
Market value of listed securities:				
Listed in Hong Kong	–	–	72,686	72,686
Listed overseas	–	–	1,181	1,181
	–	–	73,867	73,867
Carrying amount analysed for reporting purposes as:				
Current	7,800	–	3,880	11,680
Non-current	58,480	62,309	318,155	438,944
	66,280	62,309	322,035	450,624

22. INVESTMENTS IN SECURITIES (CONTINUED)

	Held-to–maturity securities HK$'000	Investment securities HK$'000	Other investments HK$'000	Total HK$'000
THE COMPANY				
Equity securities:				
Listed in Hong Kong	–	–	3,880	3,880
Listed overseas	–	–	241	241
Unlisted	–	2,715	87,060	89,775
	–	2,715	91,181	93,896
Unlisted debt securities	66,280	–	–	66,280
Total:				
Listed in Hong Kong	–	–	3,880	3,880
Listed overseas	–	–	241	241
Unlisted	66,280	2,715	87,060	156,055
	66,280	2,715	91,181	160,176
Market value of listed securities:				
Listed in Hong Kong	–	–	3,880	3,880
Listed overseas	–	–	241	241
	–	–	4,121	4,121
Carrying amount analysed for reporting purposes as:				
Current	7,800	–	3,880	11,680
Non-current	58,480	2,715	87,301	148,496
	66,280	2,715	91,181	160,176

23. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments as at 31 December 2005 comprise:

	THE GROUP HK$'000	THE COMPANY HK$'000
Equity securities listed outside Hong Kong, at fair value	686	139
Unlisted equity securities, at fair value	241,787	80,681
Unlisted equity securities, at cost less impairment	26,739	26,739
	269,212	107,559

As at the balance sheet date, except for those unlisted equity investments of which their fair values cannot be measured reliably, all available-for-sale investments are stated at fair value. Fair values of those investments have been determined by reference to bid prices quoted in active markets or by reference to present value of estimated future cash flows discounted at effective interest rate computed at initial recognition.

23. AVAILABLE-FOR-SALE INVESTMENTS (CONTINUED)

The above unlisted investments stated at cost less impairment represent investments in unlisted equity securities issued by private entities incorporated in Hong Kong. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so wide that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

During the year, the directors have reviewed the carrying value of the Group's available-for-sale investments and determined that the recoverable amount of certain available-for-sale investments is below their carrying value with reference to present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Accordingly, an impairment loss at the amount of approximately HK$37,005,000 had been charged to the income statement.

24. PREPAID LEASE PAYMENTS

	2005 HK$'000	2004 HK$'000
The Group's prepaid lease payments comprises:		
Leasehold land held under medium-term land use right in the PRC	**34,882**	35,775
Analysed for reporting purposes as:		
Current assets	**894**	894
Non-current assets	**33,988**	34,881
	34,882	35,775

25. AMOUNTS DUE FROM SUBSIDIARIES

THE COMPANY

The amounts due from subsidiaries are unsecured and have no fixed repayment terms. Of the amounts, approximately HK$1,350,991,000 (2004: HK$1,404,317,000) bears interest at prevailing market rate (repricing semi-annually) and the remaining balance is non-interest bearing. In the opinion of the Company's directors, the amounts due from subsidiaries will not be repayable in the next twelve months of the balance sheet date and, accordingly, the amounts have been classified as non-current assets.

The fair values of the Company's amounts due from subsidiaries at the balance sheet date, determined based on the present value of the estimated future cash flows discounted using the prevailing market rate at the balance sheet date, approximate the corresponding carrying amounts.

26. ADVANCES TO INVESTEE COMPANIES

The advances are unsecured and have no fixed repayment terms. Of the advances, HK$5,500,000 (2004: HK$4,927,000) bears interest at prevailing market interest rate and the remaining balance is non-interest bearing. In the opinion of the Company's directors, the investee companies will not fully repay the advances in the next twelve months of the balance sheet date and, accordingly, the advances have been classified as non-current assets.

The fair values of the Group's advances to investee companies at the balance sheet date, determined based on the present value of the estimated future cash flows discounted using the prevailing market rate at the balance sheet date, approximate the corresponding carrying amounts.

27. LOANS RECEIVABLE

	THE GROUP		THE COMPANY	
	2005 HK$'000	2004 HK$'000	**2005** HK$'000	2004 HK$'000
Fixed-rate loan receivable	**20,000**	–	**–**	–
Variable-rate loans receivable	**69,339**	9,627	**66,281**	–
	89,339	9,627	**66,281**	–
Carrying amount analysed for reporting purposes:				
Current assets (receivable within 12 months from the balance sheet date)	**21,080**	6,138	**–**	–
Non-current assets (receivable after 12 months from the balance sheet date)	**68,259**	3,489	**66,281**	–
	89,339	9,627	**66,281**	–

Loan receivables comprise:

	Maturity date	Collateral	Effective interest rate	Carrying amount **2005** HK$'000	Carrying amount 2004 HK$'000
HK$20,000,000 fixed-rate loan receivable	30 June 2006	Listed equity securities in Hong Kong	10%	**20,000**	–
US$3,000,000 5 years variable-rate loan receivable	5 March 2009	–	4.30% and repricing semi-annually	**23,400**	–
US$2,000,000 10 years variable-rate loan receivable	8 August 2013	–	1.51% and repricing quarterly	**15,600**	–
US$1,000,000 3 years variable-rate loan receivable	12 April 2008	–	4.55% and repricing semi-annually	**7,800**	–
US$1,000,000 3$^1/_2$ years variable-rate loan receivable	11 January 2009	–	3.55% and repricing quarterly	**7,800**	–
US$997,500 7 years variable-rate loan receivable	27 May 2011	–	4.55% and repricing semi-annually	**7,781**	–
Others				**6,958**	–
				89,339	–

The Group's loans receivable that are denominated in currencies other than the functional currency of the relevant group entities are set out below:

	Denominated in US$ HK$'000
As at 31 December 2005	66,281
As at 31 December 2004	–

The directors consider that the carrying amounts of loans receivable approximate their fair value.

28. INVENTORIES

	THE GROUP	
	2005 HK$'000	2004 HK$'000
Raw materials	**7,223**	1,710
Work in progress	**1,178**	845
Finished goods	**1,140**	5,778
	9,541	8,333

The cost of inventories recognised as an expense during the year amounted to approximately HK$26,240,000 (2004: HK$25,458,000).

29. TRADE AND OTHER RECEIVABLES

The Group operates a controlled credit policy and allows an average credit period of 30 – 90 days to its trade customers, other than customers for sales of properties, who satisfy the credit evaluation. Proceeds receivable for sales of properties are receivable according to the terms of sale and purchase agreements. The aged analysis of trade receivables of HK$57,742,000 (2004: HK$70,117,000) which are included in trade and other receivables is as follows:

	2005 HK$'000	2004 HK$'000
Within 30 days	**42,877**	61,111
Between 31 days to 90 days	**12,114**	3,612
Over 90 days	**2,751**	5,394
	57,742	70,117

The Company has no trade receivables at the balance sheet date.

The fair values of the Group's and of the Company's trade and other receivables at the balance sheet date approximate the corresponding carrying amounts.

30. INVESTMENTS HELD FOR TRADING

THE GROUP AND THE COMPANY

Investments held for trading as at 31 December 2005 represents equity securities listed in Hong Kong which are determined based on the quoted market bid prices available on The Stock Exchange of Hong Kong Limited.

31. TRADE AND OTHER PAYABLES

At the balance sheet date, included in trade and other payables are trade payables of HK$21,817,000 (2004: HK$36,615,000) and the aged analysis is as follows:

	2005 HK$'000	2004 HK$'000
Within 30 days	**14,616**	19,375
Between 31 days to 90 days	**1,278**	2,620
Over 90 days	**5,923**	14,620
	21,817	36,615

The Company has no trade payables at the balance sheet date.

The fair values of the Group's and of the Company's trade and other payables at the balance sheet date approximate the corresponding carrying amounts.

32. BORROWINGS

	THE GROUP		THE COMPANY	
	2005 HK$'000	2004 HK$'000	**2005** HK$'000	2004 HK$'000
Bank loans				
Secured	**357,450**	221,050	**117,900**	178,000
Unsecured	**1,895,619**	1,961,000	**1,895,619**	1,961,000
Total bank borrowings	**2,253,069**	2,182,050	**2,013,519**	2,139,000
Amounts due to associates (note (i))	**220**	1,211	**220**	1,211
Amounts due to minority shareholders (note (ii))	**16,836**	15,946	**–**	–
	2,270,125	2,199,207	**2,013,739**	2,140,211
The maturity of borrowings is as follows:				
Bank borrowings				
On demand or within one year	**703,863**	1,045,000	**703,863**	1,045,000
More than one year but not exceeding two years	**949,349**	552,000	**709,799**	552,000
More than two years but not exceeding five years	**599,857**	585,050	**599,857**	542,000
Total bank borrowings	**2,253,069**	2,182,050	**2,013,519**	2,139,000
Less: Amount due within one year shown under current liabilities	**(703,863)**	(1,045,000)	**(703,863)**	(1,045,000)
	1,549,206	1,137,050	**1,309,656**	1,094,000
Amounts due to associates (note (i))	**220**	1,211	**220**	1,211
Amounts due to minority shareholders (note (ii))	**16,836**	15,946	**–**	–
Amounts due after one year	**1,566,262**	1,154,207	**1,309,876**	1,095,211

Notes:

(i) These borrowings are unsecured, bear interest at prevailing market rates (repricing monthly) and have no fixed repayment terms. The amount will not be repaid in the next twelve months of the balance sheet date and, accordingly, the amounts have been classified as non-current liabilities.

(ii) These borrowings are unsecured, non-interest bearing and have no fixed repayment terms. The amount will not be repaid in the next twelve months of the balance sheet date and, accordingly, the amounts have been classified as non-current liabilities.

All of the bank loans are variable-rate borrowings which carry interest ranging from 4.77% to 5.32% (2004: 0.67% to 1.17%). Interest rates are repricing monthly. Details of assets pledged are set out in note 40.

The directors consider that the carrying amounts of bank borrowings approximate their fair value.

33. DEFERRED TAXATION

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting periods.

	THE GROUP					THE COMPANY
	Accelerated tax depreciation HK$'000	Other taxable temporary differences HK$'000	Revaluation of properties HK$'000	Tax losses HK$'000	Total HK$'000	Accelerated tax depreciation HK$'000
At 1 January 2004, as originally stated	19,131	17,481	14,743	(17,481)	33,874	11,478
Effects of changes in accounting policies (Note 3)	–	–	309,981	–	309,981	44,781
At 1 January 2004, as restated	19,131	17,481	324,724	(17,481)	343,855	56,259
Charge (credit) to income statement for the year	2,933	9,651	–	(681)	11,903	2,232
Credit to equity for the year	–	–	(2,392)	–	(2,392)	–
At 31 December 2004	22,064	27,132	322,332	(18,162)	353,366	58,491
Charge (credit) to income statement for the year	275	(26,119)	45,133	13,321	32,610	(1,328)
At 31 December 2005	22,339	1,013	367,465	(4,841)	385,976	57,163

For the purposes of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	THE GROUP	
	2005 HK$'000	2004 HK$'000 (restated)
Deferred tax liabilities	**(390,817)**	(371,528)
Deferred tax assets	**4,841**	18,162
	(385,976)	(353,366)

At the balance sheet date, the Group had unused tax losses of HK$294 million (2004: HK$313 million) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$12 million (2004: HK$55 million) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$282 million (2004: HK$258 million) due to the unpredictability of future profit streams.

The Company has no unused tax losses at the balance sheet date.

34. NON-INTEREST BEARING ADVANCES FROM SUBSIDIARIES

The amounts are unsecured, non-interest bearing and have no fixed repayment terms. The amount will not be demanded for repayment in the next twelve months of the balance sheet date and, accordingly, the amounts have been classified as non-current liabilities.

The fair values of the Company's amounts due to subsidiaries at the balance sheet date, determined based on the present value of the estimated future cash flows discounted using the prevailing market rate at the balance sheet date, approximate the corresponding carrying amounts.

35. SHARE CAPITAL

	2005 & 2004 HK$'000
Ordinary shares of HK$1 each	
Authorised:	
At 1 January and 31 December	600,000
Issued and fully paid:	
At 1 January and 31 December	378,583

36. RESERVES

	Investment property revaluation reserve HK$'000	Other property revaluation reserve HK$'000	Investment revaluation reserve HK$'000	Capital redemption reserve HK$'000	Dividend reserve HK$'000	Accumulated profits HK$'000	Total HK$'000
THE COMPANY							
At 1 January 2004 as originally stated	296,387	192	–	2,955	37,858	837,707	1,175,099
Effects of changes in accounting policies (Note 3)	(44,781)	–	–	–	–	–	(44,781)
At 1 January 2004 as restated	251,606	192	–	2,955	37,858	837,707	1,130,318
Surplus on revaluation recognised directly in equity	–	8	–	–	–	–	8
Profit for the year	–	–	–	–	–	82,547	82,547
Total recognised income for the year	–	8	–	–	–	82,547	82,555
Dividend declared	–	–	–	–	64,359	(64,359)	–
Dividend paid	–	–	–	–	(64,359)	–	(64,359)
At 31 December 2004 as restated	251,606	200	–	2,955	37,858	855,895	1,148,514
Effects of changes in accounting policies (Note 3)	(251,606)	–	–	–	–	252,199	593
At 1 January 2005 as restated	–	200	–	2,955	37,858	1,108,094	1,149,107
Surplus on revaluation recognised directly in equity	–	8	10,733	–	–	–	10,741
Profit for the year	–	–	–	–	–	(28,471)	(28,471)
Total recognised income for the year	–	8	10,733	–	–	(28,471)	(17,730)
Dividend declared	–	–	–	–	75,717	(75,717)	–
Dividend paid	–	–	–	–	(68,145)	–	(68,145)
At 31 December 2005	–	208	10,733	2,955	45,430	1,003,906	1,063,232

The Company's reserves available for distribution to shareholders at 31 December 2005 amounted to HK$1,049,336,000 (2004: HK$893,753,000), being its accumulated profits and dividend reserve at that date.

37. DISPOSAL OF A SUBSIDIARY

As explained in note 12, on 29 June 2005, the Group discontinued its insurance business at the time of disposal of its subsidiary, LCH Insurance. The net assets of LCH Insurance at the date of disposal and at 31 December 2004 were as follows:

	29.6.2005 HK$'000	31.12.2004 HK$'000
NET ASSETS DISPOSED OF		
Property, plant and equipment	768	176
Available-for-sale investments	26,722	109,051
Investments held for trading	257	257
Trade and other receivables	9,473	11,675
Trade and other payables	(27,827)	(29,182)
Taxation payable	(299)	(299)
Bank balances and cash	90,410	74,452
	99,504	166,130
Unrealised gain on disposal included in interests in associates (Note i)	51,144	
Gain on disposal of interest in a subsidiary (Note ii)	61,352	
Total consideration	212,000	
Satisfied by:		
Cash	212,000	
Net cash inflow arising on disposal:		
Cash consideration	212,000	
Bank balances and cash disposed of	(90,410)	
	121,590	

The impact of LCH Insurance on the Group's results and cash flows in the current and prior year is disclosed in note 12.

Notes:

(i) Unrealised gain on disposal represents the unrealised gain resulting from the disposal of interest in LCH Insurance to LCH Bank to the extent of the Group's interests in LCH Bank, which was included in interests in associates.

(ii) The gain on disposal of interest in a subsidiary represents the disposal of the Group's interests in its insurance business, which was discontinued during the year ended 31 December 2005, and a portion of its business included in the Group's treasury investment and banking segment. The full amount has been disclosed under the continuing operations of the Group as, in the opinion of the directors, it is not practicable to quantify the relevant gain attributable to the respective business activities.

38. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2005, investment properties at the amount of approximately HK$213,000,000 (2004: Nil) were transferred to properties held for sale.

39. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 25 April 2002, which replaced the previous share option scheme, for the primary purpose of providing incentives to directors and eligible employees, and will expire on 24 April 2012. Under the Scheme, the Company may grant options to eligible employees, including executive directors of the Company and its subsidiaries, to subscribe for shares in the Company at HK$10 per option. Additionally, the Company may, from time to time, grant share options to outside eligible third parties at the discretion of the Board of Directors.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

Options may be exercised at any time from the date of grant of the share option to the 5th anniversary of the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of the nominal value of the Company's share on the date of grant, the average closing price of the shares for the five business days immediately preceding the date of grant, or the closing price of the shares on the date of grant.

No options have been granted under the above-mentioned scheme since the Scheme was adopted.

40. PLEDGE OF ASSETS

THE GROUP

At the balance sheet date, certain investment properties of the Group with an aggregate carrying value of HK$925,000,000 (2004: HK$1,109,000,000) were pledged to banks to secure general banking facilities granted to the Group.

THE COMPANY

At the balance sheet date, the investment properties of the Company with an aggregate carrying value of HK$660,000,000 (2004: HK$680,000,000) were pledged to banks to secure general banking facilities made available to the Company. In addition, the Company also pledged the shares of a subsidiary in favour of a bank against facilities granted to that subsidiary.

41. CAPITAL COMMITMENTS

	THE GROUP		THE COMPANY	
	2005 HK$'000	2004 HK$'000	**2005** HK$'000	2004 HK$'000
Capital expenditure in respect of property development expenditure contracted for but not provided in the financial statements	**506,611**	582,566	**–**	–
Capital expenditure in respect of the contributions to the capital of an investee contracted for but not provided in the financial statements	**119,401**	20,147	**119,401**	20,147
	626,012	602,713	**119,401**	20,147

42. OPERATING LEASE COMMITMENTS

THE GROUP AS LESSEE

At the balance sheet date, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	THE GROUP		THE COMPANY	
	2005 HK$'000	2004 HK$'000	**2005** HK$'000	2004 HK$'000
Within one year	**80**	192	**80**	192
In the second to fifth year inclusive	**–**	80	**–**	80
	80	272	**80**	272

Operating lease payments represent rentals payable for certain of its office properties. Leases are negotiated for an average term of two years and rentals are fixed throughout the leases period.

THE GROUP AS LESSOR

Property rental income earned by the Group during the year amounted to approximately HK$96 million (2004: HK$102 million). Most of the properties held have committed tenants for the next one to five years.

At the balance sheet date, the Group and the Company had contracted with tenants for the following future minimum lease payments:

	THE GROUP		THE COMPANY	
	2005 HK$'000	2004 HK$'000	**2005** HK$'000	2004 HK$'000
Within one year	**54,828**	73,354	**12,858**	14,324
In the second to fifth year inclusive	**39,015**	45,521	**11,351**	9,400
	93,843	118,875	**24,209**	23,724

43. RETIREMENT BENEFITS SCHEME

The Group operates an ORSO Scheme for the qualifying employees of certain companies in the Group and in December 2000, enrolled all other eligible employees into the MPF Scheme. The ORSO Scheme is registered under the Occupational Retirement Scheme Ordinance. The assets of both schemes are held separately from those of the Group, in funds under the control of trustees.

The contributions payable to the fund by the Group are charged to income statement at rates specified in the rules of the ORSO Scheme. Where there are employees who leave the ORSO Scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions. At the balance sheet date, HK$187,000 (2004: HK$161,000) forfeited contributions arising upon employees leaving the ORSO Scheme are available to reduce the contributions payable in the future years.

The retirement benefits cost for the MPF charged to the income statement represents contributions payable to the fund by the Group at rates specified in the rules of the MPF Scheme.

44. RELATED PARTY DISCLOSURES

(a) Related party transactions

During the year, the Group and the Company entered into the following significant transactions with related parties:

	THE GROUP		THE COMPANY	
	2005 HK$'000	2004 HK$'000	**2005** HK$'000	2004 HK$'000
Income receive and receivable from an associate				
Rental income	**8,259**	7,728	**8,259**	7,728
Management and other service fee income	**4,370**	4,071	**4,370**	4,071
Interest income	**1,882**	53	**1,882**	53
	14,511	11,852	**14,511**	11,852
Income received and receivable from subsidiaries				
Rental income	**–**	–	**432**	864
Management and other service fee income	**–**	–	**1,604**	1,767
Interest income	**–**	–	**74,987**	47,113
	–	–	**77,023**	49,744
Expenses paid and payable to an associate				
Interest expenses	**47**	322	**47**	322
Rental expenses	**1,334**	1,334	**1,334**	1,334
	1,381	1,656	**1,381**	1,656
Expenses paid and payable to subsidiaries Management fee expenses	**–**	–	**240**	240

As set out in note 12, pursuant to a sale and purchase agreement entered into between the Company and LCH Bank on 3 March 2005, LCH Bank acquired from the Company the entire issued share capital of LCH Insurance for a total consideration of HK$212 million. Details of this disposal are set out in the Company's announcement dated 14 March 2005.

Also, pursuant to a sale and purchase agreement entered into between the Company and LCH Bank on 16 March 2004, the Company acquired from LCH Bank approximately 47.37% of the issued share capital of Alain, which was held as to approximately 52.63% by the Company and 47.37% by LCH Bank and a shareholder's loan of approximately HK$130 million advanced by LCH Bank to Alain together with interest accrued thereon, at a consideration of HK$132 million. Details of this acquisition are set out in the Company's announcement dated 16 March 2004.

Furthermore, at 31 December 2004, certain investment properties of the Group with an aggregate net book value of HK$429 million had been pledged to LCH Bank Group to secure banking facilities granted to the Group. This security was released during the year ended 31 December 2005.

(b) Related party balances

Details of the Group's outstanding balances with related parties, including bank accounts with Liu Chong Hing Bank Limited and its subsidiaries, at 31 December 2005, are set out in the balance sheets and notes 25, 32 and 34.

44. RELATED PARTY DISCLOSURES (CONTINUED)

(c) Compensation of key management personnel

The emoluments of directors and other members of key management of the Group and of the Company during the year was as follows:

	THE GROUP		THE COMPANY	
	2005 HK$'000	2004 HK$'000	**2005** HK$'000	2004 HK$'000
Short-term benefits	**14,966**	14,464	**14,966**	14,464
Post-employment benefits	**552**	657	**552**	657
	15,518	15,121	**15,518**	15,121

The emoluments of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

45. POST BALANCE SHEET EVENT

On 3 March 2006, the Company and LCH Bank entered into a sale and purchase agreement for the disposal of an investment property to LCH Bank at a consideration of HK$13,750,000. The fair value of the investment property as at the balance sheet date amounted to HK$13,700,000.