1. GENERAL

The Company is a public listed 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 are disclosed on inside back cover of the Annual Report.

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

The principal activities of the Company and its subsidiaries (the "Group") are property investment, management and development.

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

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("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, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax 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 accounting policies in the following areas that have an effect on how the results for the current and/or prior accounting years 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. The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously recognised in capital reserve of HK$13,908,000 has been transferred to the Group's retained profits on 1 January 2005. Comparative figures for 2004 have not been restated (see note 3 for the financial impact).

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 periods, 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 derecognised all negative goodwill on 1 January 2005 (of which negative goodwill of HK$516,143,000 was previously recorded in capital reserve and of HK$956,000 was previously presented as a deduction from assets and of HK$47,653,000 was previously included in interests in associates), with a corresponding increase to retained profits (see note 3 for the financial impact).

Share-based payments

In the current year, the Group has applied HKFRS 2 "Share-based Payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to directors and employees of the Company, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1 January 2005 and recognised the share option expenses of HK$2,171,000 in relation to share options granted by the Company for the year, with a corresponding adjustment recognised in the Group's employee share-based compensation reserve. Prior to the application of HKFRS 2, all share options of the Group were granted before 7 November 2002 and the Group did not have share options granted after 7 November 2002 and had not vested on 1 January 2005. Accordingly, no prior period adjustment has been required.

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. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the 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 the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Debt or equity securities previously accounted for under the alternative treatment of Statement of Standard Accounting Practice ("SSAP") 24

By 31 December 2004, the Group classified and measured its debt and equity securities in accordance with the alternative treatment of SSAP 24. Under SSAP 24, investments in debt or equity securities are classified as "trading securities", "non-trading securities" or "held-to-maturity investments" as appropriate. Both "trading securities" and "non-trading securities" are measured at fair value. Unrealised gains or losses of "trading securities" are reported in profit or loss for the period in which gains or losses arise. Unrealised gains or losses of "non-trading securities" are reported in equity until the securities are sold or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for that period. From 1 January 2005 onwards, the Group has 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. Available-for-sale equity investments that do not have quoted market prices 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 are measured at cost less impairment after initial recognition. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition.

All investments in securities of the Group and the Company as at 31 December 2004 amounting to HK$1,018,017,000 and HK$2,031,000 respectively have been reclassified to available-for-sale investments in accordance with HKAS 39 on 1 January 2005. The adoption of HKAS 39 with respect to the classification and measurement of debt or equity securities has had no material financial impact to the Group and the Company, and accordingly no adjustment is required as at 1 January 2005.

Financial assets and financial liabilities other than debt and equity securities

From 1 January 2005 onwards, the Group has classified and measured 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.

Derivatives and hedging

By 31 December 2004, the Group's derivative financial instruments, mainly comprised interest rate and currency swaps and forward foreign exchange contracts, were used to manage the Group's exposure to interest rate and foreign exchange rate fluctuation. The derivatives were previously not recorded on balance sheet. Interest flows arising from the derivatives were previously accounted for on an accrual basis. Transactions hedged by forward exchange contracts were recorded at the forward rate specified in the contracts.

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

Financial instruments *continued*

Derivatives and hedging continued

From 1 January 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the non-derivative host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. The corresponding adjustments on changes in fair values would depend on whether the derivatives are designated as effective hedging instruments, and if so, the nature of the item being hedged. For derivatives that are deemed as held for trading, changes in fair values of such derivatives are recognised in profit or loss for the period in which they arise.

There are three types of hedge relationships under HKAS 39, including fair value hedges, cash flow hedges and net investment hedges. The Group designates certain derivatives as hedging instruments to hedge against its exposure of changes in fair value of certain assets and liabilities. For fair value hedges, changes in the fair value of the hedged items attributable to the relevant hedged risks and of the hedging instruments are recognised in profit or loss in the period in which fair value changes arise. For cash flow hedges, changes in the fair value of the effective portion of hedging instruments are recognised initially in equity and 'recycled' into the income statement when the hedged items affect profit or loss. Changes in the fair value of the ineffective portion of hedging instruments are recognised directly in profit or loss. For net investment hedges, changes in the fair value of the effective portion of hedging instruments are recognised initially in equity. Changes in the fair value of the ineffective portion of hedging instruments are recognised directly in profit or loss. On disposal of the foreign operation, the gain or loss on the hedging instrument remaining in equity will be transferred to profit or loss for the period in which the disposal takes place.

The Group has applied the relevant transitional provisions in HKAS 39. For derivatives that do not meet the requirements of hedge accounting in accordance with HKAS 39, the Group has, from 1 January 2005 onwards, deemed such derivatives as held for trading. For cash flow hedges that meet the requirements of hedge accounting set out in HKAS 39, the Group has, from 1 January 2005 onwards, applied hedge accounting in accordance with the transitional provision in HKAS 39 to account for such hedges (see note 3 for the financial impact). For fair value hedges, the Group has completed the necessary documentation for designation of the hedge relationship on 1 January 2005 and applied fair value hedge accounting on a prospective basis.

Derecognition

HKAS 39 provides more rigorous criteria for the derecognition of financial assets than the criteria applied in previous periods. Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively in relation to transfer of financial assets from 1 January 2005 onwards. This change has had no material effect on the results for the current period.

Owner-occupied leasehold interest in land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the revaluation 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. 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 (except for property interest under operating leases previously accounted for as investment property under the fair value model which is transferred to owner-occupied property), which are carried at cost and amortised over the lease term on a straight-line basis. The surplus on revaluation in respect of the land interests accounted for as property, plant and equipment previously recognised in the asset revaluation reserve was adjusted retrospectively. Comparative figures for 2004 have been restated (see note 3 for the financial impact).

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

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 profit or loss for the year in which they arise. In previous years, investment properties under the predecessor standard (SSAP 13) 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 has been transferred to the Group's and the Company's retained profits (see note 3 for the financial impact).

The adoption of HKAS 40 has resulted in a change of classification of certain properties which were previously classified as investment properties according to SSAP 13. In previous period, property with 15% or less by area or value that was occupied by the Company or another company in the group should normally be regarded as an investment property in its entirety even though part of it is not held for investment purposes. According to HKAS 40, if a portion of the properties could be sold separately (or leased out separately under a finance lease), an entity accounts for the portion separately. If the portion could not be sold separately, the property is investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. In the current year, the Group applied HKAS 40 and has reclassified certain such owner-occupied properties that could be sold separately (or leased out separately under a finance lease) from investment properties to property, plant and equipment retrospectively. Comparative figures for 2004 have been restated (see note 3 for the financial impact).

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 (SSAP – Interpretation 20). In the current year, the Group and the Company have applied HK(SIC) Interpretation 21 ("HK(SIC) INT – 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 and the Company expect to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HK(SIC) INT – 21, this change in accounting policy has been applied retrospectively. Comparative figures for 2004 have been restated (see note 3 for the financial impact).

The application of HK(SIC) INT-21 has also resulted in recognition of deferred taxation in respect of the revalued investment properties held by an associate of the Group. The increase in the Group's share of results of associates arising from fair value changes of investment properties net of related deferred taxation amounted to HK$181,523,000 for the current year (see note 3 for financial impact). This change has had no material effect on the results for prior periods and accordingly no prior period adjustment is required.

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 years are as follows:

	2005 HK$'000	2004 HK$'000
Gains arising from fair value changes of investment properties	**4,226,005**	–
Less: Gains arising from fair value changes of disposed investment properties	**(467,019)**	–
Net revaluation deficits in respect of disposed investment properties previously recognised in investment property revaluation reserve and transferred to retained profits on 1 January 2005	**1,388,462**	–
	5,147,448	–
Losses arising from fair value changes on financial instruments	**(24,777)**	–
Increase in depreciation arising from reclassification from investment properties to property, plant and equipment	**(926)**	(918)
Decrease in deferred taxation arising from reclassification from investment properties to property, plant and equipment	**162**	161
Increase in deferred taxation in relation to fair value gains of investment properties	**(668,351)**	–
Gains arising from fair value changes of investment properties net of related deferred taxation from an associate	**181,523**	–
Decrease in release of negative goodwill	**(2,184)**	–
Expenses in relation to share options granted to the directors and employees	**(2,171)**	–
Increase (decrease) in profit for the year	**4,630,724**	(757)
Attributable to:		
Equity holders of the parent	**4,473,850**	(757)
Minority interests	**156,874**	–
	4,630,724	(757)

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

	2005 HK$'000	2004 HK$'000
Increase in fair value changes on investment properties	**5,147,448**	–
Decrease in fair value changes on financial instruments	**(24,777)**	–
(Increase) decrease in deferred taxation	**(668,189)**	161
Increase in administrative expenses	**(3,097)**	(918)
Decrease in release of negative goodwill	**(2,184)**	–
Increase in share of results of associate	**181,523**	–
	4,630,724	(757)

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

THE GROUP

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

	As at 31.12.2004 HK$'000 (originally stated)	Adjustments HK$'000 (Note)	As at 31.12.2004 HK$'000 (restated)	Adjustments HK$'000	As at 1.1.2005 HK$'000 (restated)
Property, plant and equipment	68,975	13,092	82,067	–	82,067
Prepaid lease payments	–	123,259	123,259	–	123,259
Investment properties	28,147,190	(230,400)	27,916,790	–	27,916,790
Interests in associates	855,486	–	855,486	47,653	903,139
Derivative financial assets	–	–	–	38,443	38,443
Derivative financial liabilities	–	–	–	(72,254)	(72,254)
Negative goodwill	(956)	–	(956)	956	–
Deferred taxation	(218,091)	(1,982,852)	(2,200,943)	–	(2,200,943)
Other assets/liabilities	(5,378,385)	–	(5,378,385)	–	(5,378,385)
Net assets	23,474,219	(2,076,901)	21,397,318	14,798	21,412,116
Share capital	5,249,818	–	5,249,818	–	5,249,818
Retained profits	3,984,917	(17,875)	3,967,042	8,902,705	12,869,747
Capital reserve	502,235	–	502,235	(502,235)	–
Hedging reserves	–	–	–	(32,720)	(32,720)
Investment property revaluation reserve	10,251,625	(1,898,673)	8,352,952	(8,352,952)	–
Asset revaluation reserve	20,356	(9,619)	10,737	–	10,737
Other reserves	2,483,664	–	2,483,664	–	2,483,664
Minority interests	–	–	–	830,870	830,870
Total equity	22,492,615	(1,926,167)	20,566,448	845,668	21,412,116
Minority interests	981,604	(150,734)	830,870	(830,870)	–
	23,474,219	(2,076,901)	21,397,318	14,798	21,412,116

Note: The amounts represent adjustments to comparative figures for 2004 arising from (i) reclassification of certain investment properties of the Group to property, plant and equipment as a result of application of HKAS 40; (ii) recognition of deferred taxation in respect of revalued investment properties in accordance with HK(SIC) INT – 21 and (iii) reclassification of leasehold interests in land to prepaid lease payments under operating leases according to HKAS 17. These changes of accounting policies have been applied retrospectively.

The financial effects of the application of the new HKFRSs to the Group's equity on 1 January 2004 are summarised below:

	As originally stated HK$'000	Adjustments HK$'000	As restated HK$'000
Share capital	5,217,857	–	5,217,857
Retained profits	3,795,499	(17,237)	3,778,262
Investment property revaluation reserve	6,740,946	(1,365,938)	5,375,008
Asset revaluation reserve	9,897	(5,836)	4,061
Other reserves	2,852,210	–	2,852,210
Minority interests	753,855	(111,622)	642,233
Total equity	19,370,264	(1,500,633)	17,869,631

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

THE COMPANY

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

	As at 31.12.2004 HK$'000 (originally stated)	Adjustment HK$'000 (Note)	As at 31.12.2004 HK$'000 (restated)	Adjustment HK$'000	As at 1.1.2005 HK$'000 (restated)
Non-current assets	12,765,507	–	12,765,507	–	12,765,507
Current assets	12,679	–	12,679	–	12,679
Current liabilities	(40,539)	–	(40,539)	–	(40,539)
Deferred taxation	(9,069)	(383,284)	(392,353)	–	(392,353)
Other non-current liabilities	(41,714)	–	(41,714)	–	(41,714)
Net assets	12,686,864	(383,284)	12,303,580	–	12,303,580
Share capital	5,249,818	–	5,249,818	–	5,249,818
Retained profits	3,296,591	–	3,296,591	1,806,909	5,103,500
Investment property revaluation reserve	2,190,193	(383,284)	1,806,909	(1,806,909)	–
Other reserves	1,950,262	–	1,950,262	–	1,950,262
Total equity	12,686,864	(383,284)	12,303,580	–	12,303,580

Note: The amount represents adjustment to comparative figure for 2004 arising from recognition of deferred taxation in respect of revalued investment properties in accordance with HK(SIC) INT – 21. This change of accounting policy has been applied retrospectively.

The financial effects of the application of the new HKFRSs to the Company's equity on 1 January 2004 are summarised below:

	As originally stated HK$'000	Adjustment HK$'000	As restated HK$'000
Share capital	5,217,857	–	5,217,857
Retained profits	3,533,725	–	3,533,725
Investment property revaluation reserve	1,723,577	(301,626)	1,421,951
Other reserves	1,865,370	–	1,865,370
Total equity	12,340,529	(301,626)	12,038,903

The Group has not early applied the new standards, interpretations and amendments that have been issued but are not yet effective as at 31 December 2005.

The Group has commenced considering the potential impact of these standards, interpretations and amendments, and determined that except for the following amendment, the management anticipates the application of these new standards, interpretations and amendments will have no material impact on the Group's financial statements. HKAS 39 and HKFRS 4 (Amendments) requires financial guarantee contract which is within the scope of HKAS 39 to be measured at fair value on initial recognition. The management determined that it is not yet in a position to reasonably ascertain how the following amendment may affect the financial position and its presentation in the Group's financial statements.

HKAS 39 & HKFRS 4 (Amendments) : Financial guarantee contracts[1]

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

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 issued by the HKICPA. 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 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 previously recognised in reserves has been transferred to the Group's retained profits on 1 January 2005.

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 an 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 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.

Negative goodwill arising on acquisitions before 1 January 2005 is presented as deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

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 retained profits.

4. SIGNIFICANT ACCOUNTING POLICIES *continued*

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable during the year.

Investments in associates

The results, 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.

Property, plant and equipment

Property, plant and equipment are stated at cost/deemed cost or fair value less subsequent accumulated depreciation and accumulated impairment losses.

For property interest held under operating lease classified as an investment property under fair value model which is then transferred to owner-occupied property, the property interest is stated at a deemed cost equal to its fair value at the date of change in use.

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 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 buildings is credited to the asset 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 asset 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 retained profits.

Depreciation is provided to write off the cost or fair value of items of property, plant and equipment 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 derecognised.

Investment properties

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.

4. SIGNIFICANT ACCOUNTING POLICIES *continued*

Leases

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.

The Group as lessee

Rentals payable under operating leases, including the leasehold interests in land, 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 translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

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.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base 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.

4. SIGNIFICANT ACCOUNTING POLICIES *continued*

Taxation *continued*

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 profits 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 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.

Impairment (other than goodwill)

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, such 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 revalued amount under another Standard, in which case the reversal of the impairment loss is treated as a revaluation decrease under that other Standard.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme are charged as an expense as they fall due.

Revenue recognition

Rental income is recognised on a straight-line basis over the relevant lease term.

Income from property sales is recognised on the execution of a binding sales agreement.

Management fee income and security service income are recognised when services are rendered.

Dividend income from investments is recognised when the shareholders' right to receive dividend has been established.

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.

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.

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss, loans and receivables 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 comprise derivative financial instruments that are not designated and effective hedging instruments. 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.

4. SIGNIFICANT ACCOUNTING POLICIES *continued*

Financial assets *continued*

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 accounts receivable, time deposits, staff housing loans and other receivables 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.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as such 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 be reversed in subsequent periods.

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, 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 be reversed 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 generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss has two sub-categories, including financial liabilities 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 liabilities 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.

Other financial liabilities

Other financial liabilities including bank and other borrowings, floating rate notes, fixed rate notes and zero coupon notes 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.

4. SIGNIFICANT ACCOUNTING POLICIES *continued*

Derivative financial instruments and hedging

The Group uses derivative financial instruments (primarily interest rate swaps and currency swaps) to hedge its exposure against interest rate and foreign exchange rate fluctuation. Such derivatives are measured at fair value regardless of whether they are designated as effective hedging instruments.

There are three types of hedge relationships under HKAS 39, including fair value hedges, cash flow hedges and net investment hedges. Hedges are classified as fair value hedges when hedges are made to hedge against exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment. Alternatively, hedges are classified as cash flow hedges when hedges are made to hedge against exposure to variability in cash flows that are attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction. The Group only has fair value hedges and cash flow hedges and the accounting policies are set out below:

Fair value hedges

For fair value hedges that qualify for hedge accounting, gains or losses arising from changes in fair values of hedging instruments are recognised immediately in profit or loss. At the same time, gains or losses on the hedged item attributable to the hedged risk are adjusted to the carrying amount of the hedged item and are recognised in profit or loss.

Cash flow hedges

For cash flow hedges that qualify for hedge accounting, the effective portion of the gains or losses arising from the changes in fair value of hedging instruments is initially recognised in equity and “recycled” into the income statement when the hedged item affects profit or loss. The ineffective portion is recognised immediately in profit or loss.

For the hedge of a forecast transaction that subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were previously recognised directly in equity are reclassified into profit or loss in the same period in which the asset acquired or the liability assumed affects profit or loss.

Derivatives that do not qualify for hedge accounting

Derivatives that do not qualify for hedge accounting are deemed as financial assets held for trading or financial liabilities held for trading. Changes in fair values of such derivatives are recognised directly in profit or loss.

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 when, and only when, they are extinguished (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, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are separated from the relevant host contracts and deemed as held-for-trading when the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contracts, and the combined contracts are not measured at fair value through profit or loss. In all other circumstances, derivatives embedded are not separated and are accounted for together with the host contracts in accordance with appropriate standards. Where the Group needs to separate an embedded derivative but is unable to measure the embedded derivative, the entire combined contracts are treated as held-for-trading.

4. SIGNIFICANT ACCOUNTING POLICIES *continued*

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Equity share-based payment transactions

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (Employee share-based compensation reserve).

At the time when the share options are exercised, the amount previously recognised in employee share-based compensation reserve will be transferred to share premium. When the share options are still not exercised at the expiry date, the amount previously recognised in employee share-based compensation reserve will be transferred to retained profits.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, which are described in note 4 above, management has made various estimates and judgments (other than those involving estimates) based on past experience, expectations of the future and other information. The key source of estimation uncertainty and the critical accounting judgments that can significantly affect the amounts recognised in the financial statements are set out below.

Estimate of fair value of investment properties

As described in note 17, the investment properties were revalued at the balance sheet date on market value existing use basis by independent professional valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the judgement, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at each balance sheet date.

Fair values of financial instruments

Financial instruments such as interest rate, foreign exchange and equity derivative instruments are carried at the balance sheet at fair value. The best evidence of fair value is quoted prices in an active market, where quoted prices are not available for a particular financial instrument, the Group uses the market values determined by independent financial institutions or internal or external valuation models to estimate the fair value. The use of methodologies, models and assumptions in pricing and valuing these financial assets and liabilities is subjective and requires varying degrees of judgment by management, which may result in significantly different fair values and results. All significant financial valuation models are strictly controlled and regularly recalibrated and vetted.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include cash and bank balances, time deposits, accounts receivable, equity investments, amounts due from associates, other receivables, borrowings, amounts due to minority shareholders and derivative financial instruments. The Company's major financial instruments include cash and bank balances, time deposits and accounts receivable. 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. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market Risk

(i) Currency risk

The Group aims to minimize its currency risk and does not speculate in currency movements. The majority of the Group's and the Company's assets by value and all rental income are in Hong Kong, and denominated in Hong Kong dollars. At year-end 2005, all of the Group's debts were in Hong Kong dollars with the exception of the US$200 million 10-year fixed-rate notes. The Group has entered into appropriate foreign exchange forward contracts to hedge against the potential currency risk (see note 21).

(ii) Interest rate risk

The Group manages its interest rate exposure based on interest rate level and outlook as well as potential impact on the Group's financial position arising from volatility. Interest rate swap is the hedging instrument most commonly used by the Group to manage the interest rate exposure (see note 21 for details). At year-end 2005, about 50% of the Group's gross debts were effectively on a floating rate basis. The ratio could change with changes to the interest rate trend going forward.

The Group's policy is to maintain the proportion of borrowings in fixed rates and floating rates within an appropriate range. Accordingly, the Group entered into interest rate swaps to hedge the interest rate risk of these Group's floating borrowings including bank loans and floating rate notes (see note 21).

(iii) Other price risk

Part of the Group's available-for-sale investments are listed securities and thus measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity price risk and the management will monitor the price movements and take appropriate actions when it is required.

Credit risk

The Group's and the Company's credit risks are primarily attributable to time deposits, rent receivable from tenants and counter-party financial obligations in derivative financial instrument. The Group's maximum exposure to credit risk in the event of the counter-party 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.

The Group's and the Company's time deposits are deposited with banks of high credit quality in Hong Kong and the Group has exposure limit to any single financial institution.

For rent receivable from tenants, credit checks are part of the normal leasing process and stringent monitoring procedures are in place to deal with overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts.

To mitigate counter-party risk, the Group enters into derivative contracts only with sound financial institutions with strong investment-grade credit ratings, limits exposure to each, and monitors each's rating regularly.

The Group and the Company have no significant concentration of credit risk, with exposure spread over a number of counter-parties and customers.

7. TURNOVER

	2005 HK$'000	2004 HK$'000
Turnover comprises:		
Gross rental income from properties	**1,249,392**	1,153,911
Management fee and security service income	**404**	575
	1,249,796	1,154,486

As the Group's turnover is derived principally from rental income and wholly in Hong Kong, no segment financial analysis is provided.

8. DIRECTORS' REMUNERATION

	2005 HK$'000	2004 HK$'000
Directors' fees	**1,135**	661
Other emoluments:		
Basic salaries, housing, other allowances and benefits in kind	**10,423**	11,323
Bonus	**2,499**	3,083
Share-based payments *(note 42)*	**524**	–
Retirement benefits scheme contributions	**233**	232
Contractual compensation for loss of office	**–**	1,508
Forfeited contributions	**–**	(2,483)
	14,814	14,324

Remuneration paid or payable to each of the twelve (2004: twelve) Directors were as follows:

	For the year ended 31 December 2005					
	Directors' fees HK$'000 (Note)	Basic salaries, housing, allowances and benefits in kind HK$'000	Bonus HK$'000	Share-based payments HK$'000	Retirement benefits scheme contributions HK$'000	**Total HK$'000**
Executive Directors						
Peter T.C. Lee *(Note a)*	136	4,146	1,200	–	12	**5,494**
Michael T.H. Lee *(Note b)*	85	3,538	1,020	524	12	**5,179**
Pauline W.L. Yu Wong	75	2,739	279	–	209	**3,302**
Non-executive Directors						
Fa-kuang Hu	85	–	–	–	–	**85**
Hans Michael Jebsen	85	–	–	–	–	**85**
Anthony Hsien Pin Lee	90	–	–	–	–	**90**
Chien Lee	100	–	–	–	–	**100**
Dr. Deanna Ruth Tak Yung Rudgard	75	–	–	–	–	**75**
Independent non-executive Directors						
Sir David Akers-Jones	157	–	–	–	–	**157**
Per Jorgensen	100	–	–	–	–	**100**
Dr. Geoffrey Meou-tsen Yeh	95	–	–	–	–	**95**
David Muir Turnbull#	52	–	–	–	–	**52**
	1,135	10,423	2,499	524	233	**14,814**

David Muir Turnbull appointed as Independent non-executive Director on 11 May 2005 and resigned on 12 December 2005.

8. DIRECTORS' REMUNERATION *continued*

	For the year ended 31 December 2004						
	Directors' fees HK$'000 (Note)	Basic salaries, housing, allowances and benefits in kind HK$'000	Bonus HK$'000	Retirement benefits scheme contributions HK$'000	Contractual compensation for loss of office paid by the Company HK$'000	Forfeited contributions HK$'000	Total HK$'000
Executive Directors							
Peter T.C. Lee *(Note a)*	82	4,146	1,372	12	–	–	5,612
Michael T.H. Lee *(Note b)*	50	3,538	1,212	12	–	–	4,812
Pauline W.L. Yu Wong	50	2,596	249	207	–	–	3,102
Michael C.K. Moy *	4	1,043	250	1	1,508	(2,483)	323
Non-executive Directors							
Fa-kuang Hu	50	–	–	–	–	–	50
Hans Michael Jebsen	50	–	–	–	–	–	50
Anthony Hsien Pin Lee	50	–	–	–	–	–	50
Chien Lee	70	–	–	–	–	–	70
Dr. Deanna Ruth Tak Yung Rudgard	50	–	–	–	–	–	50
Independent non-executive Directors							
Sir David Akers-Jones	85	–	–	–	–	–	85
Per Jorgensen	70	–	–	–	–	–	70
Dr. Geoffrey Meou-tsen Yeh	50	–	–	–	–	–	50
	661	11,323	3,083	232	1,508	(2,483)	14,324

* Michael C.K. Moy resigned as Director of the Company on 28 January 2004.

Notes:

Directors' fees breakdown of each of the Directors are set out below:

	Board HK$'000	Audit Committee HK$'000	Emoluments Review Committee HK$'000	Investment Committee HK$'000	Nomination Committee HK$'000	**Total 2005 HK$'000**	Total 2004 HK$'000
Executive Directors							
Peter T.C. Lee	111	–	–	10	15	**136**	82
Michael T.H. Lee	75	–	–	10	–	**85**	50
Pauline W.L. Yu Wong	75	–	–	–	–	**75**	50
Michael C.K. Moy	–	–	–	–	–	**–**	4
Non-executive Directors							
Fa-kuang Hu	75	–	10	–	–	**85**	50
Hans Michael Jebsen	75	–	–	10	–	**85**	50
Anthony Hsien Pin Lee	75	–	–	15	–	**90**	50
Chien Lee	75	25	–	–	–	**100**	70
Dr. Deanna Ruth Tak Yung Rudgard	75	–	–	–	–	**75**	50
Independent non-executive Directors							
Sir David Akers-Jones	92	40	15	–	10	**157**	85
Per Jorgensen	75	25	–	–	–	**100**	70
Dr. Geoffrey Meou-tsen Yeh	75	–	10	–	10	**95**	50
David Muir Turnbull	52	–	–	–	–	**52**	–
	930	90	35	45	35	**1,135**	661

8. DIRECTORS' REMUNERATION *continued*

Notes: continued

(a) Year 2004: Following a review of his compensation by the Emoluments Review Committee in November 2003, his fixed base package is HK$4,146,000 as from December 2003. The portion of his total remuneration which is performance-based has also been increased following the review. The stated bonus figure includes bonus paid for 2003, and 2004 target bonus figure pending finalisation by Emoluments Review Committee after year-end in March 2005.

Year 2005: The Emoluments Review Committee reviewed his 2005 fixed base salary in March 2005. In the light of the recent salary review completed in November 2003, management did not receive any salary increment. Accordingly, his fixed base package remains HK$4,146,000 during the year. The stated bonus figure includes adjustment for 2004 bonus accrued in 2004 accounts (following finalisation of bonus by the Emoluments Review Committee in March 2005), and 2005 target bonus figures pending finalisation by the Emoluments Review Committee after year-end in March 2006.

(b) Year 2004: Following a review of his compensation by the Emoluments Review Committee in November 2003, his fixed base package is HK$3,538,000 as from December 2003. The portion of his total remuneration which is performance-based has also been increased following the review. The stated bonus figure includes bonus paid for 2003, and 2004 target bonus figure pending finalisation by the Emoluments Review Committee after year-end in March 2005.

Year 2005: The Emoluments Review Committee reviewed his 2005 fixed base salary in March 2005. In the light of the recent salary review completed in November 2003, management did not receive any salary increment. Accordingly, his fixed base package remains HK$3,538,000 during the year. The stated bonus figure includes adjustment for 2004 bonus accrued in 2004 accounts (following finalisation of bonus by the Emoluments Review Committee in March 2005), and 2005 target bonus figure pending finalisation by the Emoluments Review Committee after year-end in March 2006.

9. EMPLOYEES' EMOLUMENTS

The five highest paid individuals included three (2004: four) Directors, details of whose remuneration are set out in note 8 above. The remuneration of the remaining two individuals (2004: one individual) is detailed as follows:

	2005 HK$'000	2004 HK$'000
Basic salaries, housing, other allowances and benefits in kind	**4,762**	2,000
Bonus	**726**	500
Retirement benefits scheme contributions	**24**	10
Incentive payment on joining	**–**	488
	5,512	2,998

Their emoluments were within the following bands:

	2005 No. of employees	2004 No. of employees
HK$2,000,001 to HK$2,500,000	**1**	–
HK$2,500,001 to HK$3,000,000	**–**	1
HK$3,000,001 to HK$3,500,000	**1**	–
	2	1

10. FINANCE COSTS

	2005 HK$'000	2004 HK$'000
Interest on		
– bank loans, overdraft and other loans:		
wholly repayable within five years	**63,429**	22,409
not repayable within five years	**34,129**	13,530
– floating rate notes	**15,988**	7,527
– fixed rate notes	**108,720**	108,263
	222,266	151,729
Net interest (received) paid on derivative financial instruments *(Note)*:		
– due within five years	**(924)**	38,699
– due after five years	**(32,562)**	(45,387)
	(33,486)	(6,688)
Amortisation of discount on zero coupon notes	**9,401**	–
Bank charges	**10,079**	11,312
Medium Term Note Programme expenses	**972**	976
Hedging expenses	**2,349**	2,356
Others	**3,004**	1,965
	214,585	161,650

Note: Fair value changes excluded accrued interest in derivative financial instruments for the year.

11. TAXATION

	2005 HK$'000	2004 HK$'000 (restated)
Hong Kong Profits Tax for the year	**75,270**	49,737
Underprovision in prior years	**25**	66
Prior years provision	**103,000**	55,000
	178,295	104,803
Deferred tax *(note 33)*:		
– changes in fair value of investment properties	**668,351**	–
– changes in fair value of disposed leasehold properties	**(4,903)**	–
– other temporary differences	**14,840**	35,361
	678,288	35,361
	856,583	140,164

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for both years.

11. TAXATION *continued*

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

	2005 **HK$'000**	2004 HK$'000 (restated)
Profit before taxation	**5,175,884**	782,845
Tax at the domestic income tax rate of 17.5%	**905,779**	136,997
Tax effect of expenses not deductible for tax purposes	**19,721**	1,866
Tax effect of utilisation of tax losses not previously recognised	**(29,002)**	(23,214)
Tax effect of income not taxable for tax purposes	**(103,487)**	(20,058)
Tax effect of tax loss not provided	**195**	322
Tax effect of deferred tax assets not recognised	**10,436**	–
Tax effect of share of results of associates	**(42,237)**	(6,734)
Tax effect of initial recognition exception	**(8,364)**	(4,186)
Underprovision in prior years	**25**	66
Prior years provision	**103,000**	55,000
Others	**517**	105
Tax expense for the year	**856,583**	140,164

In addition to the amount charged to the income statement, deferred tax relating to the revaluation of the Group's leasehold buildings has been charged directly to equity (see note 33).

At the date of issue of the financial statements, the Group has disputes with the Hong Kong Inland Revenue Department regarding additional tax assessments for prior years (total tax claimed: HK$193 million).

Taking into consideration the latest development in Hong Kong tax law and relevant precedents, a decision has been made by the Directors to make an additional tax provision of HK$103 million in respect of the disputes in the financial statements for the year ended 31 December 2005. However, it remains the Directors' view that there still have ample grounds to contest the assessments based on tax principles as well as facts and the Group will continue to pursue the objection against the additional assessments vigorously.

12. PROFIT FOR THE YEAR

	2005 HK$'000	2004 HK$'000 (restated)
Profit for the year has been arrived at after charging (crediting):		
Staff costs	**131,354**	129,470
Retirement benefits scheme contributions *(note 37)*	**5,301**	5,068
Forfeited contributions *(note 37)*	**(3,789)**	(6,606)
	132,866	127,932
Amortisation of prepaid lease payments	**163**	163
Depreciation for property, plant and equipment	**5,787**	5,578
Reversal of revaluation deficit on building for own use previously recognised in income statement	**(65)**	(50)
Auditors' remuneration	**1,740**	1,629
Gross rental income from investment properties	**(1,249,392)**	(1,153,911)
Less: Direct operating expenses that generated rental income	**233,575**	250,895
Direct operating expenses that did not generate rental income	**3,776**	8,426
	(1,012,041)	(894,590)
Dividends from		
– listed investments	**(33,714)**	(20,275)
– unlisted investments	**–**	(4,672)
	(33,714)	(24,947)
Interest income	**(2,914)**	(1,229)
Share of tax of an associate (included in share of results of associates)	**107,646**	19,495
Loss on disposal of property, plant and equipment	**9**	40

13. DIVIDENDS

	2005 HK$'000	2004 HK$'000
Ordinary shares:		
Interim dividend, paid – HK10 cents per share (2004: HK10 cents)	**105,224**	104,793
Final dividend, proposed – HK35 cents per share (2004: HK30 cents)	**368,641**	314,989
Additional prior year's dividend paid on exercise of share options subsequent to 31 December 2003	**–**	80
	473,865	419,862

The 2005 final dividend of HK35 cents (2004: HK30 cents) per share has been proposed by the Directors and is subject to approval by the shareholders in general meeting. The proposed final dividend for 2005 will be payable in cash with a scrip dividend alternative.

13. DIVIDENDS *continued*

During the year, scrip dividend alternatives were offered to shareholders in respect of the 2004 final and 2005 interim dividends. These alternatives were accepted by the shareholders as follows:

	2005 Interim HK$'000	2004 Final HK$'000
Dividends:		
Cash	**85,630**	277,911
Share alternative *(note 34)*	**19,594**	37,078
	105,224	314,989

14. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the parent is based on the following data:

	2005 HK$'000	2004 HK$'000 (restated)
Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to equity holders of the parent)	**4,120,555**	608,642

	2005 '000	2004 '000
Weighted average number of ordinary shares for the purposes of basic earnings per share	**1,051,502**	1,046,427
Effect of dilutive potential ordinary shares:		
Share options	**682**	503
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**1,052,184**	1,046,930

The computation of diluted earnings per share does not assume the exercise of certain of the Company's outstanding share options as the exercise prices are higher than the average market price per share.

14. EARNINGS PER SHARE *continued*

For the purpose of assessing the underlying performance of the Group, the management is of the view that the profit for the year should be adjusted for unrealised fair value changes on investment properties and related deferred taxation in arriving at "Underlying net profit attributable to equity holders of the parent". The difference between the underlying net profit attributable to equity holders of the parent and profit attributable to equity holders of the parent as shown in the consolidated income statement for the year is reconciled as follows:

	2005 HK$'000	2005 HK$'000	Earnings per share (Basic) HK cents
Profit attributable to equity holders of the parent as shown in the consolidated income statement		4,120,555	391.87
Gains arising from fair value changes of investment properties	(4,226,005)		(401.90)
Less: Gains arising from fair value changes of disposed investment properties	467,019		44.41
	(3,758,986)		
Increase in deferred taxation in relation to fair value gains of investment properties	668,351		63.56
Gain arising from fair value changes of investment properties net of related deferred taxation attributable to minority interests	156,874	(2,933,761)	14.92
Gain arising from fair value changes of investment properties net of related deferred taxation from an associate		(181,523)	(17.26)
Underlying net profit attributable to equity holders of the parent		1,005,271	95.60

The "underlying net profit attributable to equity holders of the parent" excludes total net revaluation deficits in respect of investment properties disposed of during the year amounting to HK$1,388,462,000 (previously recognised in investment property revaluation reserve), which was transferred to retained profits on 1 January 2005 in accordance with HKAS 40.

	2004 HK$'000 (restated)	Earnings per share (Basic) HK cents
Profit and underlying net profit attributable to equity holders of the parent as shown in the consolidated income statement	608,642	58.16

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings in Hong Kong under long lease HK$'000	Furniture, fixtures and equipment HK$'000	Computers HK$'000	Motor vehicles HK$'000	Total HK$'000
THE GROUP					
COST OR VALUATION					
At 1 January 2004					
– as originally stated	44,500	43,696	15,056	1,131	104,383
– effect on adoption of HKAS 17	(18,457)	–	–	–	(18,457)
– effect on adoption of HKAS 40	36,720	–	–	–	36,720
– as restated	62,763	43,696	15,056	1,131	122,646
Additions	–	1,212	2,351	–	3,563
Disposals	–	(11)	(45)	–	(56)
Surplus on revaluation	6,829	–	–	–	6,829
At 1 January 2005	69,592	44,897	17,362	1,131	132,982
Additions	–	4,288	2,523	–	6,811
Disposals	–	(147)	(4)	–	(151)
Reclassified to investment properties *(note 17)*	(30,500)	–	–	–	(30,500)
Reclassified from investment properties *(note 17)*	15,600	–	–	–	15,600
Surplus on revaluation	344	–	–	–	344
Disposal of subsidiaries	–	(70)	(28)	–	(98)
At 31 December 2005	**55,036**	**48,968**	**19,853**	**1,131**	**124,988**
Comprising:					
At cost	–	48,968	19,853	1,131	69,952
At valuation 2005	55,036	–	–	–	55,036
	55,036	48,968	19,853	1,131	124,988
ACCUMULATED DEPRECIATION					
At 1 January 2004	–	39,141	6,394	1,131	46,666
Provided for the year	1,313	1,613	2,652	–	5,578
Eliminated on disposals	–	(7)	(9)	–	(16)
Adjustment on revaluation	(1,313)	–	–	–	(1,313)
At 1 January 2005	–	40,747	9,037	1,131	50,915
Provided for the year	977	1,921	2,889	–	5,787
Eliminated on disposals	–	(140)	(2)	–	(142)
Adjustment on revaluation	(977)	–	–	–	(977)
Disposal of subsidiaries	–	(53)	(19)	–	(72)
At 31 December 2005	**–**	**42,475**	**11,905**	**1,131**	**55,511**
NET BOOK VALUES					
At 31 December 2005	**55,036**	**6,493**	**7,948**	**–**	**69,477**
At 31 December 2004 (restated)	69,592	4,150	8,325	–	82,067

15. PROPERTY, PLANT AND EQUIPMENT *continued*

	Furniture, fixtures and equipment HK$'000	Computers HK$'000	Motor vehicles HK$'000	Total HK$'000
THE COMPANY				
COST				
At 1 January 2004	20,911	14,423	1,131	36,465
Additions	48	2,295	–	2,343
Disposals	(1)	(31)	–	(32)
At 1 January 2005	20,958	16,687	1,131	38,776
Additions	1,425	2,439	–	3,864
Disposals	(111)	–	–	(111)
At 31 December 2005	**22,272**	**19,126**	**1,131**	**42,529**
ACCUMULATED DEPRECIATION				
At 1 January 2004	19,371	6,202	1,131	26,704
Provided for the year	533	2,521	–	3,054
Eliminated on disposals	(1)	(6)	–	(7)
At 1 January 2005	19,903	8,717	1,131	29,751
Provided for the year	669	2,754	–	3,423
Eliminated on disposals	(111)	–	–	(111)
At 31 December 2005	**20,461**	**11,471**	**1,131**	**33,063**
NET BOOK VALUES				
At 31 December 2005	**1,811**	**7,655**	**–**	**9,466**
At 31 December 2004	1,055	7,970	–	9,025

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rate per annum:

Buildings	Over the shorter of the term of the lease, or 40 years
Furniture, fixtures and equipment	20%
Computers	20%
Motor vehicles	25%

The buildings of the Group were revalued at 31 December 2005 by Knight Frank Hong Kong Limited, an independent professional valuer, on market value basis. The surplus arising on revaluation of HK$1,256,000 and HK$65,000 (2004: HK$8,092,000 and HK$50,000) has been credited to asset revaluation reserve and income statement respectively.

If buildings of the Group had not been revalued, they would have been included in these financial statements at cost less accumulated depreciation at HK$53,350,000 (2004: HK$42,897,000).

Furniture, fixtures and equipment of the Group include assets carried at cost of HK$17,758,000 (2004: HK$16,033,000) and accumulated depreciation of HK$15,470,000 (2004: HK$14,875,000) in respect of assets held for leasing out under operating leases. Depreciation charges in respect of those assets for the year amounted to HK$600,000 (2004: HK$439,000).

There is no property, plant and equipment of the Company held for renting out under operating leases for the year or at the balance sheet date.

16. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments represent leasehold land in Hong Kong held under long lease.

The leasehold land is amortised on a straight-line basis over the remaining term of the lease.

17. INVESTMENT PROPERTIES

	THE GROUP		THE COMPANY	
	2005	2004	**2005**	2004
	HK$'000	HK$'000 (restated)	**HK$'000**	HK$'000
FAIR VALUE				
At 1 January, as originally stated	**28,147,190**	24,366,780	**3,510,000**	3,030,000
Effect on adoption of HKAS 40	**(230,400)**	(204,800)	**–**	–
As restated	**27,916,790**	24,161,980	**3,510,000**	3,030,000
Additions	**385,662**	104,527	**220**	13,384
Adjustment resulted from cost variation	**(761)**	(941)	**–**	–
Disposals	**(2,727,166)**	–	**–**	–
Reclassified from buildings *(note 15)*	**30,500**	–	**–**	–
Reclassified to buildings *(note 15)*	**(15,600)**	–	**–**	–
Fair value changes	**4,226,005**	3,651,224	**550,780**	466,616
At 31 December	**29,815,430**	27,916,790	**4,061,000**	3,510,000

The carrying value of investment properties shown above comprises:

	THE GROUP		THE COMPANY	
	2005	2004	**2005**	2004
	HK$'000	HK$'000 (restated)	**HK$'000**	HK$'000
Leasehold land in Hong Kong:				
– Medium term lease	**5,500,000**	4,850,000	**–**	–
– Long lease	**24,315,430**	23,066,790	**4,061,000**	3,510,000
	29,815,430	27,916,790	**4,061,000**	3,510,000

The fair value of the Group's investment properties at 31 December 2005 have been arrived at on the basis of a valuation carried out on that date by Knight Frank Hong Kong Limited, an independent qualified professional valuer not connected with the Group. Knight Frank Hong Kong Limited has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to Hong Kong Institute of Surveyors Valuation Standards on Properties, was arrived at by reference to comparable market transactions and rental yield for similar properties.

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

18. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2005	2004
	HK$'000	HK$'000
Unlisted shares, at cost	**5**	5
Amounts due therefrom	**–**	9,645,437
	5	9,645,442
Less: Allowances on amounts due therefrom	**–**	(404,000)
	5	9,241,442

Details of the principal subsidiaries held by the Company at 31 December 2005 are set out in note 43.

19. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Unlisted cost of investment in associates	**2,629**	2,629	**3**	3
Share of post-acquisition profits net of dividend received	**342,243**	98,141	**–**	–
Negative goodwill of associates *(Note)*	**–**	(47,653)	**–**	–
	344,872	53,117	**3**	3
Amounts due therefrom (non-current)	**171,131**	817,400	**–**	–
	516,003	870,517	**3**	3
Less: Impairment loss	**(11,358)**	(15,031)	**–**	–
Amounts shown under non-current assets	**504,645**	855,486	**3**	3
Amounts due therefrom (current)	**642,596**	–		
	1,147,241	855,486		

The amounts due from associates are unsecured, interest free and are not repayable within one year, except for the amount due from an associate amounting to HK$642,596,000 which is repayable on demand. In 2004, the amount due from that associate was not repayable within one year.

The aggregate attributable share of results of the associates is based on the unaudited management accounts for the year ended 31 December 2005.

The Group's share of post-acquisition losses of an associate exceeds the carrying amount of its equity investment in that associate, since the Group has obligation to meet its funding requirements.

19. INTERESTS IN ASSOCIATES *continued*

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

Name of associate	Form of business structure	Place of incorporation/ registration and operation	Class of share held/ registered capital	Percentage of issued capital/ registered capital held	Principal activity
Parallel Asia Engineering Company Limited	Private limited company	Hong Kong	Share	25	Investment holding
Wingrove Investment Pte Ltd.	Private company limited by shares	Singapore	Share	25*	Property development and leasing
Country Link Enterprises Limited ("Country Link")	Private limited company	Hong Kong	Share	26.3*	Investment holding
Shanghai Kong Hui Property Development Co., Ltd.	Sino-Foreign equity joint venture	The People's Republic of China	US$165,000,000#	23.7*	Property development and leasing
Shanghai Grand Gateway Plaza Property Management Co., Ltd.	Sino-Foreign equity joint venture	The People's Republic of China	US$140,000#	23.7*	Property management

* Indirectly held
\# Registered capital

Note: Negative goodwill with carrying amount of HK$47,653,000 as at 31 December 2004 (1 January 2004: HK$49,777,000) arose on the acquisition of Country Link and 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 average useful life of the assets acquired. All negative goodwill was derecognised on 1 January 2005 upon the application of HKFRS 3 (see note 2).

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

	2005 HK$'000	2004 HK$'000
Total assets	**6,531,050**	5,520,243
Total liabilities	**(4,777,200)**	(4,772,011)
Net assets	**1,753,850**	748,232
Group's share of net assets of associates	**344,872**	53,117
Turnover	**523,376**	743,587
Profit for the year	**828,116**	348,761
Group's share of result of associates for the year	**241,358**	38,482

20. AVAILABLE-FOR-SALE INVESTMENTS/INVESTMENTS IN SECURITIES

	THE GROUP	
	2005	2004
	HK$'000	HK$'000 (Note)
Listed investments:		
– Equity securities listed in Hong Kong	**1,170,295**	914,822
Unlisted investments:		
– Club debentures	**2,831**	2,831
Less: Impairment loss	**(800)**	(800)
	2,031	2,031
– Unlisted shares	**117,385**	131,855
Less: Impairment loss	**(60,333)**	(60,333)
	57,052	71,522
Amounts due therefrom	**26,722**	29,642
	83,774	101,164
	85,805	103,195
Total	**1,256,100**	1,018,017
Carrying amount analysed for reporting purposes as:		
Non-current	**1,256,100**	1,018,017

	THE COMPANY	
	2005	2004
	HK$'000	HK$'000 (Note)
Unlisted investments:		
– Club debentures	**2,831**	2,831
Less: Impairment loss	**(800)**	(800)
	2,031	2,031
Carrying amount analysed for reporting purpose as:		
Non-current	**2,031**	2,031

Note: Upon the application of HKAS 39 on 1 January 2005, the Group's investments in securities as at 31 December 2004 were reclassified to available-for-sale investments (see note 2).

At the balance sheet date, all available-for-sale investments are stated at fair value except for those unlisted equity securities. Fair values of those listed equity investments have been determined by reference to quoted market prices at the balance sheet date. Fair values of the club debentures have been determined by reference to the recent transaction prices of similar club debentures.

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

21. DERIVATIVE FINANCIAL INSTRUMENTS

The Group's net fair values of derivatives financial instruments at 31 December 2005 were as follows:

	THE GROUP	
	2005 Assets HK$'000	2005 Liabilities HK$'000
Current		
Interest rate swaps		
Cash flow hedges	13,411	–
Not designated as hedges	136	–
Foreign exchange derivative instruments		
Cash flow hedges	571	–
Not designated as hedges	77	–
Equity derivatives		
Not designated as hedges	–	(64,057)
	14,195	(64,057)
Non-current		
Interest rate swaps		
Cash flow hedges	18,522	–
Fair value hedges	–	(10,812)
Not designated as hedges	718	–
Foreign exchange derivative instruments		
Cash flow hedges	2,395	–
Fair value hedges	10,369	(4,796)
Not designated as hedges	–	(24,194)
	32,004	(39,802)
Total	46,199	(103,859)

Interest rate swaps

The aggregate notional amount of the outstanding interest rate swaps as at 31 December 2005 was HK$2,423,492,000. Those instruments comprise fixed-to-floating interest rate swaps, floating-to-fixed interest rate swaps and average HIBOR swaps. The floating-to-fixed interest rate swaps were designated to hedge the interest rate risk of the floating borrowings including bank loans and the floating rate notes. The fixed-to-floating interest rate swap was entered into to hedge the fair value risk of the zero coupon notes. The average HIBOR swaps do not qualify for hedge accounting.

At 31 December 2005, fair value gains of HK$31,965,000 from the interest rate swaps under cash flow hedges have been deferred in equity and are expected to be released to the income statement at various dates during the lives of the swaps when the hedged forecast transactions occur.

21. DERIVATIVE FINANCIAL INSTRUMENTS *continued*

Interest rate swaps *continued*

The maturity periods of interest rate swaps at notional amount at 31 December 2005 were as follows:

	THE GROUP **2005** **HK$'000**
Within one year	**970,000**
Between one and five years	**1,248,983**
Beyond five years	**204,509**
	2,423,492

At 31 December 2005, the floating-to-fixed interest rate swaps locked in the interest rates ranging from 2.11% to 2.85%. The average HIBOR swaps swapped the HIBOR into average HIBOR with the effective rates for the year ranging from 0.3% to 4.1%. The fixed-to-floating swap converted a fixed rate of 5.19% to HIBOR plus 0.69%. The counterparty of the swap has the right to early terminate it on 7 February 2015 at zero cost; otherwise, the swap will expire on 7 February 2020.

The above derivatives are measured at fair value, as calculated by the present value of the estimated future cash flow at each balance sheet date or as determined by independent financial institutions.

Foreign exchange hedging instruments

The aggregate notional amount of the outstanding foreign exchange hedging instruments at 31 December 2005 was HK$1,711,097,000. Those instruments comprise forward foreign exchange contracts, cross currency swaps and net basis swaps. The forward foreign exchange contracts are mainly designated to hedge the foreign exchange rate risk of part of the coupon payments arising from the US$200 million notes while the cross currency swaps are used to hedge the foreign exchange rate risk from both the principal repayment at the maturity date and the coupons of the notes. The net basis swaps were not designated as hedging instruments for hedge accounting.

At 31 December 2005, fair value gains of HK$2,966,000 from the forward foreign exchange contracts under cash flow hedges have been deferred in equity and are expected to be released to the income statement at various dates when the coupon payments of the US$200 million occur.

The maturity periods of the foreign exchange hedging instruments at notional amount at 31 December 2005 were as follows:

	THE GROUP **2005** **HK$'000**
Within one year	**48,722**
Between one and five years	**102,398**
Beyond five years	**1,559,977**
	1,711,097

The above derivatives are measured at fair value, as calculated by the foreign exchange rates and the present value of the estimated future cash flow at each balance sheet date.

Equity derivatives

The aggregate notional amount of the outstanding equity derivatives at 31 December 2005 was HK$196,300,000. The existing equity derivatives were not designated as hedging instrument according to HKAS 39.

The above derivatives are measured at fair value, as determined by an independent financial institution.

22. NEGATIVE GOODWILL

	THE GROUP HK$'000
GROSS AMOUNT	
At 1 January 2004 and 31 December 2004	1,195
RELEASED TO INCOME	
At 1 January 2004	(179)
Released for the year	(60)
At 31 December 2004	956
Derecognised upon the application of HKFRS 3 *(note 2)*	(956)
At 1 January 2005	–

As explained in note 2, all negative goodwill arising on acquisitions prior to 1 January 2005 was derecognised as a result of the application of HKFRS 3.

23. STAFF HOUSING LOANS, SECURED

	THE GROUP AND THE COMPANY	
	2005	2004
	HK$'000	HK$'000
Staff housing loans, secured	**2,247**	2,492
Less: Amounts due within one year shown under current assets	**(422)**	(245)
	1,825	2,247

The secured advances arise in connection with an established Staff Housing Loan scheme granted to the employees who meet the qualifying criteria. The advances bear a fixed interest rate of 4% (2004: 4%) per annum.

The fair value of the Group's and the Company's staff housing loans at 31 December 2005 approximates to the corresponding carrying amounts.

24. ACCOUNTS RECEIVABLE, OTHER RECEIVABLES AND DEPOSITS

Accounts receivable are mainly in respect of rents which are normally payable in advance. Rents in arrears of the Group and the Company as at 31 December 2005 and 2004 were aged less than 90 days.

The fair value of the Group's and the Company's accounts receivable, other receivables and deposits at 31 December 2005 was approximate to the corresponding carrying amounts.

25. ACCOUNTS PAYABLE AND ACCRUALS

All of the accounts payable and accruals of the Group as at 31 December 2005 and 2004 were aged less than 90 days.

The fair value of the Group's and the Company's accounts payable and accruals at 31 December 2005 approximates to the corresponding carrying amounts.

26. AMOUNTS DUE FROM/TO SUBSIDIARIES

The amounts are unsecured and are repayable on demand. In 2004, the amounts were not repayable within one year.

27. ADVANCES FROM INVESTEES

The advances are unsecured, interest-free and are repayable within one year. In 2004, the amounts were not repayable within one year.

28. AMOUNTS DUE TO MINORITY SHAREHOLDERS

The amounts are unsecured, interest-free and are not repayable within one year.

29. LONG TERM BANK LOANS

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Bank loans, unsecured	**2,056,500**	3,502,100
The bank loans are repayable as follows:		
More than two years, but not exceeding five years	**1,406,500**	1,479,300
More than five years	**650,000**	2,022,800
Amounts due after one year shown under non-current liabilities	**2,056,500**	3,502,100

All the above bank loans are variable-rate borrowings with effective interest rates (which are also equal to contracted interest rates) ranging from 4.53% to 4.74% denominated in Hong Kong Dollars. Interest is normally refixed at every one to six months.

At 31 December 2005, the interest rate risk of certain bank loans was hedged by interest rate swaps (floating-to-fixed interest rate swaps) (see note 21).

The fair values of the Group's bank loans were approximate to the corresponding carrying amounts.

30. FLOATING RATE NOTES

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Floating rate notes	**548,213**	547,739

Hysan (MTN) Limited, a wholly-owned subsidiary of the Company, issued HK$550 million five-year floating rate notes in 2004. The notes are guaranteed as to principal and interest by the Company, bear effective interest rates (which are equal to contracted interest rates) ranging from 0.3% to 0.38% over the 3-month HIBOR and are repayable in full in 2009.

The Group has entered into an interest rate swap to hedge against the interest rate risk of certain floating rate notes (see note 21).

The fair values of the Group's floating rate notes were approximate to the carrying amounts at the balance sheet date.

31. FIXED RATE NOTES

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Fixed rate notes	**1,553,967**	1,552,979
Less: Change in fair value *(Note)*	**(54,376)**	–
	1,499,591	1,552,979

Hysan (MTN) Limited, a wholly-owned subsidiary of the Company, issued US$200 million 10-year fixed rate notes in February 2002. The notes are guaranteed as to principal and interest by the Company, bear an effective interest rate (which is equal to contracted interest rate) of 7% per annum and are repayable in full in February 2012.

The Group has entered into forward foreign exchange contracts to hedge against the foreign exchange rate risk of the coupon payments of the notes and the contracts are accounted for as cash flow hedges (see note 21).

The Group has also entered into cross currency swaps to hedge against the interest rate and foreign exchange rate risk in relation to the principal repayment and coupon payments of US$135 million of the fixed rate notes under fair value hedge (see note 21).

The fair value of the fixed rate notes as at 31 December 2005 was HK$1,681,918,000.

Note: The HK$54,376,000 represented gains in fair value attributable to the hedged interest rate and foreign exchange rate risk of the US$135 million fixed rate notes that were designated as the hedged instrument of fair value hedge.

32. ZERO COUPON NOTES

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Zero coupon notes	**207,114**	–
Less: Change in fair value *(Note)*	**(10,895)**	–
	196,219	–

Hysan (MTN) Limited, a wholly-owned subsidiary of the Company, issued 15-year zero coupon notes of nominal amount of HK$430 million at an issue price of around 46.37% in February 2005. The notes are guaranteed as to the zero coupon note by the Company, bear an effective yield (which is equal to contracted yield) at the rate of 5.19% per annum and are repayable at par in February 2020. Hysan (MTN) Limited has the option to redeem the notes on 7 February 2015 at a price of about 77.4% of the nominal amount.

The Group has entered into interest rate swap to hedge against the interest rate risk of the zero coupon notes under fair value hedges (see note 21).

The fair value of the zero coupon notes was approximate to the carrying amount at the balance sheet date.

Note: The HK$10,895,000 represented gains in fair value attributable to the hedged interest rate risk of the zero coupon notes under fair value hedge.

33. DEFERRED TAXATION

The following are the major deferred tax liabilities (assets) recognised by the Group and the Company and movements thereon during the year:

	Accelerated tax depreciation HK$'000	Revaluation of properties HK$'000	Deferred payments HK$'000	Retirement benefits scheme contributions HK$'000	Tax losses HK$'000	Total HK$'000
THE GROUP						
At 1 January 2004, as originally stated	184,167	6,852	152	(10)	(10,761)	180,400
Effect of changes in accounting policies	(1,241)	1,439,337	–	–	(577)	1,437,519
As restated	182,926	1,446,189	152	(10)	(11,338)	1,617,919
Charge (credit) to income for the year *(note 11)*	39,787	–	(152)	9	(4,283)	35,361
Charge to equity for the year	–	547,663	–	–	–	547,663
At 1 January 2005, as restated	222,713	1,993,852	–	(1)	(15,621)	2,200,943
Charge to income for the year *(note 11)*	1,236	663,448	–	1	13,603	678,288
Charge to equity for the year	–	220	–	–	–	220
At 31 December 2005	**223,949**	**2,657,520**	**–**	**–**	**(2,018)**	**2,879,451**

	Accelerated tax depreciation HK$'000	Revaluation of properties HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
THE COMPANY				
At 1 January 2004, as originally stated	7,582	–	(3)	7,579
Effect of change in accounting policy	–	301,626	–	301,626
As restated	7,582	301,626	(3)	309,205
Charge to income for the year	1,487	–	3	1,490
Charge to equity for the year	–	81,658	–	81,658
At 1 January 2005, as restated	9,069	383,284	–	392,353
Charge to income for the year	1,338	96,386	–	97,724
At 31 December 2005	**10,407**	**479,670**	**–**	**490,077**

At 31 December 2005, the Group has unused tax losses of HK$556 million (2004: HK$1,144 million) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$12 million (2004: HK$86 million) of such losses. No deferred tax asset has been recognised in respect of the remaining estimated tax losses of HK$544 million (2004: HK$1,058 million) as the utilisation of these estimated tax losses is uncertain. These estimated tax losses may be carried forward indefinitely.

At 31 December 2005, the Group has deductible temporary differences of HK$60 million (2004: Nil). No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

The Company does not have any unused tax loss as at balance sheet date.

34. SHARE CAPITAL

	Number of shares		Share capital	
	2005	2004	**2005**	2004
	'000	'000	**HK$'000**	HK$'000
Ordinary shares of HK$5 each				
Authorised:				
At 1 January and 31 December	**1,450,000**	1,450,000	**7,250,000**	7,250,000
Issued and fully paid:				
At 1 January	**1,049,964**	1,043,572	**5,249,818**	5,217,857
Issue of shares pursuant to scrip dividend scheme	**3,297**	5,192	**16,486**	25,961
Exercise of share options	**–**	1,200	**–**	6,000
At 31 December	**1,053,261**	1,049,964	**5,266,304**	5,249,818

On 10 June 2005 and 30 September 2005 respectively, the Company issued and allotted a total of 2,276,115 shares and 1,021,067 shares of HK$5 each in the Company at HK$16.29 and HK$19.19 to the shareholders who elected to receive shares in the Company in lieu of cash for the 2004 final and 2005 interim dividends pursuant to the scrip dividend scheme announced by the Company on 10 May 2005 and 30 August 2005. These shares rank pari passu in all respects with other shares in issue.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

35. RESERVES OF THE COMPANY

The distributable reserves of the Company as at 31 December 2005 amounted to HK$3,111,988,000 (2004: HK$3,396,591,000), being its retained profits less unrealised fair value changes on investment properties and related deferred taxation, and general reserve at that date.

	Share premium account HK$'000	Investment property revaluation reserve HK$'000	Capital redemption reserve HK$'000	General reserve HK$'000 (Note)	Dividend reserve HK$'000	Employee share-based compensation HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2004								
– as originally stated	1,333,828	1,723,577	154,995	100,000	276,547	–	3,533,725	7,122,672
– effect of changes in accounting policies *(note 3)*	–	(301,626)	–	–	–	–	–	(301,626)
– as restated	1,333,828	1,421,951	154,995	100,000	276,547	–	3,533,725	6,821,046
Premium on issue of shares pursuant to scrip dividend scheme	38,121	–	–	–	–	–	–	38,121
Premium on issue of shares on exercise of share options	8,376	–	–	–	–	–	–	8,376
Share issue expenses	(47)	–	–	–	–	–	–	(47)
Surplus on revaluation of investment properties	–	466,616	–	–	–	–	–	466,616
Deferred taxation liability on revaluation of properties	–	(81,658)	–	–	–	–	–	(81,658)
Final dividend for 2003 distributed	–	–	–	–	(276,547)	–	–	(276,547)
Dividend for 2004 declared	–	–	–	–	419,782	–	(419,861)	(79)
Interim dividend for 2004 distributed	–	–	–	–	(104,793)	–	–	(104,793)
Profit for the year	–	–	–	–	–	–	182,727	182,727
At 31 December 2004	1,380,278	1,806,909	154,995	100,000	314,989	–	3,296,591	7,053,762
Effect of changes in accounting policies *(note 3)*	–	(1,806,909)	–	–	–	–	1,806,909	–
At 1 January 2005, as restated	1,380,278	–	154,995	100,000	314,989	–	5,103,500	7,053,762
Premium on issue of shares pursuant to scrip dividend scheme	40,186	–	–	–	–	–	–	40,186
Share issue expenses	(40)	–	–	–	–	–	–	(40)
Recognition of equity-settled share based payments	–	–	–	–	–	2,171	–	2,171
Final dividend for 2004 distributed	–	–	–	–	(314,989)	–	–	(314,989)
Dividend for 2005 declared	–	–	–	–	473,865	–	(473,865)	–
Interim dividend for 2005 distributed	–	–	–	–	(105,224)	–	–	(105,224)
Profit for the year	–	–	–	–	–	–	643,656	643,656
At 31 December 2005	**1,420,424**	**–**	**154,995**	**100,000**	**368,641**	**2,171**	**5,273,291**	**7,319,522**

Note: General reserve was set up from the transfer of retained profits.

Details of reserves movement of the Group for the year are set out in consolidated statement of changes in equity on pages 88-89.

36. DISPOSAL OF SUBSIDIARIES

The net assets of the wholly-owned subsidiaries at the date of disposal were as follows:

	2005 HK$'000	2004 HK$'000
NET ASSETS DISPOSED OF		
Investment properties	2,699,341	–
Property, plant and equipment	26	–
Other receivables, prepayments and deposits	3,839	–
Accounts receivable	602	–
Accounts payable and accruals	(445)	–
Rental deposits from tenants	(23,796)	–
Amounts due to group companies	(1,149,264)	–
Total consideration	1,530,303	–
Satisfied by:		
Cash	2,679,567	–
Amounts due to group companies waived	(1,149,264)	–
	1,530,303	–
Net cash inflow arising on disposal: Cash consideration received during the year ended 31 December 2005	2,679,567	–

During the year, the disposed wholly-owned subsidiaries contributed HK$455,550,000 and HK$2,679,567,000 to the Group's profit and cash flows respectively.

37. RETIREMENT BENEFITS PLANS

With effect from 1 December 2000, the Group set up an enhanced MPF scheme (the "Enhanced MPF Scheme"), a defined contribution scheme, for all qualifying employees. The Enhanced MPF Scheme is registered with the Mandatory Provident Fund Schemes Authority under Section 124(1) of the Mandatory Provident Fund Schemes (General) Regulation.

Pursuant to the rules of the Enhanced MPF Scheme, the Group's contributions to the plan are based on fixed percentages of members' salaries, ranging from 5% of MPF Relevant Income to 15% of basic salary. Members' mandatory contributions are fixed at 5% of MPF Relevant Income, in compliance with MPF legislation.

Total contributions made by the Group during the year amounted to HK$5,301,000 (2004: HK$5,068,000). Forfeited contributions for the year amounted to HK$3,789,000 (2004: HK$6,606,000) were refunded to the Group.

38. CONTINGENT LIABILITIES

At the balance sheet date, there were contingent liabilities in respect of the following:

	THE GROUP		THE COMPANY	
	2005 Million	2004 Million	**2005 Million**	2004 Million
Corporate guarantee to a third party in respect of the sale of the interest in an associate	**RMB3.8 HK$0.3**	RMB3.8 HK$0.3	**RMB3.8 HK$0.3**	RMB3.8 HK$0.3
Corporate guarantee to subsidiaries				
– for issue of floating rate notes	**–**	–	**HK$550.0**	HK$550.0
– for issue of fixed rate notes	**–**	–	**US$200.0**	US$200.0
– for issue of zero coupon notes	**–**	–	**HK$430.0**	–
Undertaking given to a bank in proportion to shareholding regarding facilities granted to a joint venture property project	**S$18.6**	S$18.6	**–**	–
Guarantees to banks to provide financing facilities to				
– an associate	**S$12.0**	S$12.0	**S$12.0**	S$12.0
– subsidiaries	**–**	–	**HK$2,056.5**	HK$3,502.1

39. CAPITAL COMMITMENTS

At the balance sheet date, the Group and the Company had capital commitments in respect of the following:

	THE GROUP		THE COMPANY	
	2005 Million	2004 Million	**2005 Million**	2004 Million
Investment properties:				
Contracted but not provided for	**HK$69.0**	HK$8.4	**HK$33.5**	HK$0.2

40. LEASE COMMITMENTS

The Group and the Company as lessee

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

	THE GROUP		THE COMPANY	
	2005 HK$'000	2004 HK$'000	**2005 HK$'000**	2004 HK$'000
Within one year	**–**	–	**4,602**	6,949
In the second to fifth year inclusive	**–**	–	**1,445**	3,199
	–	–	**6,047**	10,148

Operating lease payments represent rentals payable by the Company to its subsidiaries for its staff quarters and office premises which are negotiated and fixed for two years and three years respectively.

40. LEASE COMMITMENTS *continued*

The Group and the Company as lessor

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	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**735,027**	777,801	**92,906**	95,094
In the second to fifth year inclusive	**874,567**	945,539	**54,877**	75,148
After five years	**66,897**	103,095	**–**	4,704
	1,676,491	1,826,435	**147,783**	174,946

Operating lease payments represent rentals receivable by the Group from its investment properties. Leases are negotiated and rentals are fixed for an average of one to three years.

41. RELATED PARTY TRANSACTIONS AND BALANCES

A. Related party transactions

During the year, the Group has the following transactions with related parties:

		Substantial shareholder		Directors	
		2005	2004	**2005**	2004
	Notes	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Expenses paid to	(a)	**–**	–	**73**	34
Gross rental income from	(b)	**4,669**	4,495	**22,705**	17,458
Construction cost paid during the year for investment properties	(c)	**–**	–	**10,894**	15,783

At the balance sheet date, the Group has the following balances with related parties:

		Substantial shareholder		Directors	
		2005	2004	**2005**	2004
	Notes	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Expenses payable to	(a)	**–**	–	**48**	–
Construction cost payable to	(c)	**–**	–	**1,554**	2,624
Amount due to a minority shareholder	(d)	**–**	–	**94,443**	94,443

41. RELATED PARTY TRANSACTIONS AND BALANCES *continued*

A. Related party transactions *continued*

Notes:

(a) These transactions were provision of goods and services carried out in the normal course of business.

(b) The Group has, in the ordinary course of its business, entered into lease agreements with related parties to lease premises for varying periods. The leases were entered into in the normal course of business.

(c) Dr. Geoffrey M.T. Yeh (and his alternate, V-nee Yeh) are substantial shareholders and V-nee Yeh is also Chairman of Hsin Chong Construction Group Ltd. whose wholly-owned subsidiary, Hsin Chong Construction (Asia) Limited ("Hsin Chong Asia"), entered into a main contract with a subsidiary of the Company relating to the renovation project of Lee Gardens Two.

The sum represented the sum paid to, or as the case may be, outstanding balances due under the main contract with Hsin Chong Asia. To the best of the Company's knowledge having made due enquiries, substantially the whole of such contracts were sub-contracted by Hsin Chong Asia to other sub-contractors. The contract sum is not the indicative of the amount actually derived by Hsin Chong Asia under the relevant contract, which amount is substantially less than the relevant contract sum.

(d) The sum represents outstanding loan advanced by Jebsen and Company Limited to a non wholly-owned subsidiary of the Group, Barrowgate Limited, in proportion to its shareholding for general funding purpose. The amount is unsecured, interest free and is not repayable within one year. Hans Michael Jebsen is a director and shareholder of Jebsen and Company Limited.

At the balance sheet date, the Company has the following balances with related parties:

	2005	2004
	HK$'000	HK$'000
Amounts due from subsidiaries	**8,278,195**	9,645,437
Less: Allowances on amounts due therefrom	**(329,000)**	(404,000)
	7,949,195	9,241,437
Amounts due to subsidiaries	**21,280**	30,980

Details of amounts due from subsidiaries and amounts due to subsidiaries are set out in note 18 and 26 to the financial statements.

B. Compensation of key management personnel

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

	2005	2004
	HK$'000	HK$'000
Salaries and other short-term employee benefits	**21,125**	19,967
Contractual compensation for loss of office	**–**	1,508
Incentive payment on joining	**–**	488
Retirement benefits costs	**265**	254
Forfeited contributions	**–**	(2,483)
	21,390	19,734

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

42. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme

The 1995 Share Option Scheme ("the 1995 Scheme")

The Company operates an Executive Share Option Scheme which was approved by shareholders on 28 April 1995 and had a term of 10 years. The 1995 Scheme expired on 28 April 2005. All outstanding options granted under the 1995 Scheme will continue to be valid and exercisable in accordance with the provisions of the 1995 Scheme.

The purpose of the 1995 Scheme was to strengthen the links between individual staff and shareholder interests.

Under the 1995 Scheme, options may be granted to employees of the Company or any of its wholly-owned subsidiaries selected by the Board at its discretion to subscribe for ordinary shares of the Company.

The maximum number of shares in respect of which options may be granted under the 1995 Scheme (together with shares issued and issuable under the scheme) is 3% of the issued share capital of the Company (excluding shares issued pursuant to the scheme and any other share scheme) from time to time. The maximum number of shares issued under the scheme and other scheme will not exceed 10% of the issued share capital of the Company from time to time (excluding shares issued pursuant to the scheme and any other share scheme).

The maximum entitlement of each participant under the 1995 Scheme is 25% of the maximum number of shares in respect of which options may at any time be granted under the 1995 Scheme. Under the 1995 Scheme, the exercise price was initially fixed at 80% of the average of the closing prices of the shares on the Stock Exchange for the 20 trading days immediately preceding the date of grant or the nominal value of a share whichever is the greater. The exercise price for options granted after 1 September 2001 was amended to comply with amendments to the Listing Rules. Consideration to be paid on each grant of option is HK$1.00, with full payment for exercise price to be made on exercise of the relevant option.

Grants made prior to 8 March 2005 are subject to a five-year vesting period and a bar on the exercise of options within the first two years of their issue.

The 2005 Share Option Scheme ("the 2005 Scheme")

The Company adopted a new share option scheme (the "2005 Scheme" and together with the 1995 Scheme are referred to as "the Schemes") at the AGM held on 10 May 2005, which has a term of 10 years and will expire on 9 May 2015.

The purpose of the 2005 Scheme is to provide an incentive for employees of the Company and its wholly-owned subsidiaries to work with commitment towards enhancing the value of the Company and its shares for the benefit of its shareholders.

Under the 2005 Scheme, options may be granted to employees of the Company or any wholly-owned subsidiaries (including executive Directors) and such other persons as the Board may consider appropriate from time to time on the basis of their contribution to the development and growth of the Company and the subsidiaries to subscribe for ordinary shares of the Company.

The maximum number of shares in respect of which options may be granted under the 2005 Scheme and any other share option scheme of the Company shall not exceed such number of shares as required under the Listing Rules, which is 10% of the shares in issue (being 104,996,365 shares) as at 10 May 2005, the date of the AGM approving the 2005 Scheme. Under the Listing Rules, a listed issuer may seek approval by its shareholders in general meeting for "refreshing" the 10% limit under the scheme. The limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2005 Scheme and any other share option scheme of the Company must not exceed 30% of the shares in issue from time to time (or such number of shares as required under the Listing Rules). No options may be granted if such grant will result in this 30% limit being exceeded.

The maximum entitlement of each participant under the 2005 Scheme must not during any 12-month period exceed such number of shares as required under the Listing Rules (which is 1% of the total shares in issue as at the date of shareholders' approval). The exercise price shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the shares. Consideration to be paid on each grant of option is HK$1.00, with full payment for exercise price to be made on exercise of the relevant option.

42. SHARE-BASED PAYMENT TRANSACTIONS *continued*

Equity-settled share option scheme *continued*

Grant and Vesting Structures

With effect from 8 March 2005, the Board has approved a new grant vesting structure. Grants will be made on a periodic basis. Vesting period is three years in equal proportion. Size of grant will be determined by reference to base salary multiple and job grades. A clear performance criterion will be a key driver. The Board will review the grant and vesting structures from time to time.

The following table discloses movements of the Company's share options held by the Directors and employees during the current year:

Name	Balance as at 1.1.2005	Date of grant	Changes during the year Cancelled/ lapsed	Granted	Exercised	Balance as at 31.12.2005	Exercise price HK$	Exercisable period (Note)
Executive Directors								
Peter T.C. Lee *(Note a)*	1,350,000	7.1.1999	–	–	–	1,350,000	9.22	7.1.2001 to 6.1.2009
Michael T.H. Lee *(Note b)*	–	10.5.2005	–	240,000	–	240,000	16.60 *(Note d)*	10.5.2005 to 9.5.2015
Eligible Employees *(Note c)*	–	30.3.2005	140,000 *(Note h)*	675,000	–	535,000	15.85 *(Note e)*	30.3.2005 to 29.3.2015
	–	9.8.2005	–	144,000	–	144,000	18.79 *(Note f)*	9.8.2005 to 8.8.2015
	–	12.10.2005	–	120,000	–	120,000	18.21 *(Note g)*	12.10.2005 to 11.10.2015
	1,350,000		140,000	1,179,000	–	2,389,000		

Notes:

a. Options granted to Peter T.C. Lee were under the 1995 Scheme with a holding period of 2 years and a vesting period of 5 years.

b. Options granted to Michael T. H. Lee were under the 2005 Scheme with a vesting period of 3 years in equal proportions.

c. Eligible Employees are working under employment contracts that are regarded as "continuous contracts" for the purposes of the Employment Ordinance. The options granted under the Schemes have vesting periods of 3 years in equal proportions.

d. The closing price of the shares of the Company immediately before the date of grant (as of 9 May 2005) was HK$16.40.

e. The closing price of the shares of the Company immediately before the date of grant (as of 29 March 2005) was HK$15.35.

f. The closing price of the shares of the Company immediately before the date of grant (as of 8 August 2005) was HK$18.55.

g. The closing price of the shares of the Company immediately before the date of grant (as of 10 October 2005) was HK$17.90.

h. The options for 140,000 shares lapsed during the year upon the resignation of certain Eligible Employees.

42. SHARE-BASED PAYMENT TRANSACTIONS *continued*

The following table discloses movements of the Company's share options held by the Directors in prior year:

Name	Balance as at 1.1.2004	Date of grant	Changes during the year Cancelled/ lapsed	Granted	Exercised	Balance as at 31.12.2004	Exercise price HK$	Exercisable period (Note)
Under the 1995 Scheme								
Executive Directors								
Peter T.C. Lee	1,350,000	7.1.1999	–	–	–	1,350,000	9.22	7.1.2001 to 6.1.2009
Pauline W.L. Wong	900,000	3.5.1995	–	–	900,000	–	13.46	3.5.1997 to 2.5.2005
Michael C.K. Moy*	1,200,000	23.12.1999	900,000	–	300,000	–	7.54	23.12.2001 to 22.12.2009
	3,450,000		900,000	–	1,200,000	1,350,000		

* Michael C.K. Moy resigned as a director of the Company on 28 January 2004.

Note: All options as at 31 December 2004 are subject to a five-year vesting period and a bar on the exercise of options within the first two years of their issue.

As mentioned in note 2, the Group has, for the first time, applied HKFRS 2 "Share-based Payments" to account for its share options in the current year. In accordance with HKFRS 2, fair value of share options granted to employees determined at the date of grant is expensed over the vesting period, with a corresponding adjustment to the Group's employee share-based compensation reserve. In the current year, the Group recognised the share option expenses of HK$2,171,000 in relation to share options granted by the Company (HK$524,000 related to a Director, see note 8), with a corresponding adjustment recognised in the Group's employee share-based compensation reserve.

The Company has used the Black-Scholes option pricing model (the "Model") to value the share options granted during the year. The Model is one of the commonly used models to estimate the fair value of an option. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

Details of the fair values of share options determined at the date of grant using the Model with significant variables and assumptions are as follows:

	Date of grant 30.3.2005	10.5.2005	9.8.2005	12.10.2005
Closing share price at the date of grant	HK$15.55	HK$16.60	HK$18.75	HK$18.00
Exercise price	HK$15.85	HK$16.60	HK$18.79	HK$18.21
Risk free rate *(Note a)*	4.428%	3.817%	4.186%	4.293%
Expected life of option *(Note b)*	10 years	10 years	10 years	10 years
Expected volatility *(Note c)*	31.50%	29.81%	25.56%	25.68%
Expected dividend per annum *(Note d)*	HK$0.39	HK$0.39	HK$0.39	HK$0.39
Estimated fair values of options granted	HK$3,659,000	HK$1,286,000	HK$847,000	HK$668,000
Closing share price immediately before date of grant	HK$15.35	HK$16.40	HK$18.55	HK$17.90

Notes:

a. Risk free rate: being the approximate yields of 10-year Exchange Fund Notes traded on the date of grant, matching the expected life of each option.

b. Expected life of option: being the period of 10 years commencing on the date of grant, adjusted based on management's best estimates for the effects of non-transferability, exercise restriction and behavioural consideration.

c. Expected volatility: being the approximate historical volatility of closing prices of the share of the Company in the past one year immediately before the date of grant.

d. Expected dividend per annum: being the approximate average annual cash dividend for the past five financial years.

43. PRINCIPAL SUBSIDIARIES

Name of subsidiary	Place of incorporation/ operation	Issued share capital	Proportion of nominal value of issued share capital held by the Company indirectly	directly	Principal activities
Admore Investments Limited	Hong Kong	HK$2	–	100%	Investment holding
Golden Capital Investment Limited	Hong Kong	HK$2	–	100%	Investment holding
HD Treasury Limited	Hong Kong	HK$2	–	100%	Treasury operation
HD Treasury Management Limited	Hong Kong	HK$2	–	100%	Treasury operation
Hysan China Holdings Limited	British Virgin Islands	HK$1	–	100%	Investment holding
Hysan Leasing Company Limited	Hong Kong	HK$2	–	100%	Leasing administration
Hysan Treasury Limited	Hong Kong	HK$2	–	100%	Treasury operation
Hysan (MTN) Limited	British Virgin Islands/ Hong Kong	US$1	–	100%	Treasury operation
Hysan Property Management Limited	Hong Kong	HK$2	–	100%	Property management
Kwong Hup Holding Limited	British Virgin Islands	HK$1	–	100%	Investment holding
Kwong Wan Realty Limited	Hong Kong	HK$1,000	–	100%	Property investment
Minsal Limited	Hong Kong	HK$2	–	100%	Property investment
Mondsee Limited	Hong Kong	HK$2	–	100%	Property investment
Stangard Limited	Hong Kong	HK$300,000	–	100%	Provision of security services
Teamfine Enterprises Limited	Hong Kong	HK$2	–	100%	Investment holding
Tohon Development Limited	Hong Kong	HK$2	–	100%	Property investment
Bamboo Grove Recreational Services Limited	Hong Kong	HK$2	100%	–	Resident club management
HD Investment Limited	British Virgin Islands	HK$1	100%	–	Investment holding
Kochi Investments Limited	British Virgin Islands	HK$1	100%	–	Capital market investment
Lee Theatre Realty Limited	Hong Kong	HK$10	100%	–	Property investment
Leighton Property Company Limited	Hong Kong	HK$2	100%	–	Property investment
Main Rise Development Limited	Hong Kong	HK$2	100%	–	Investment holding
OHA Property Company Limited	Hong Kong	HK$2	100%	–	Property investment
Perfect Win Properties Limited	Hong Kong	HK$2	100%	–	Property investment
Silver Nicety Company Limited	Hong Kong	HK$20	100%	–	Property investment
Barrowgate Limited	Hong Kong	HK$10,000	65.36%	–	Property investment

The Directors are of the opinion that a complete list of all subsidiaries and their particulars will be of excessive length and therefore the above table contains only those subsidiaries which materially affected the results or assets of the Group. Other than floating rate notes, fixed rate notes and zero coupon notes issued by Hysan (MTN) Limited as disclosed in notes 30, 31 and 32, none of the subsidiaries had issued any debt securities at the year-end.