Notes to the Financial Statements

For the year ended 31st December 2005

1. General

The Company is a public listed company incorporated in Bermuda with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the introduction to the annual report.

The principal activity of the Company is investment holding.

The principal activities of the subsidiaries are property investment, hotel and restaurant operations, trading of building materials, share investment, provision of management and maintenance services, property management and insurance agency and fitness centre operation.

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

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 ("INTs") (hereinafter collectively referred to as the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods, beginning on or after 1st 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 the 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 or prior accounting periods are prepared and presented:

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"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options 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 1st January 2005. In relation to share options granted before 1st January 2005, the Group has not applied HKFRS 2 to share options granted on or before 7th November 2002 and share options that were granted after 7th November 2002 and had vested before 1st January 2005 in accordance with the relevant transitional provisions. However, the Group is still required to apply HKFRS 2 retrospectively to share options that were granted after 7th November 2002 and had not yet vested on 1st January 2005. Comparative figures have been restated. (see Note 3 for the financial impact).

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. The application of HKAS 32 has had no material effect on the presentation of the current year consolidated financial statements. HKAS 39, which is effective for accounting periods beginning on or after 1st January 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

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

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

Up until 31st 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 the profit or loss for the year 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 net profit or loss for that year. From 1st January, 2005 onwards, the Group classifies and measures 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. Investment in securities classified as "non-trading securities" under SSAP 24 had been reclassified as available for sale and accordingly, no adjustment is required.

2. Application of Hong Kong Financial Reporting Standards/Changes in Accounting Policies (continued)

Financial instruments (continued)

Financial assets and financial liabilities other than debt and equity securities

From 1st January 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method after initial recognition. The application of HKAS 39 has had no material effect on financial assets and financial liabilities other than debt and equity securities.

Derivatives and hedging

By 31st December 2004, the Group's derivative financial instruments, mainly comprised interest rate swaps were used to manage the Group's exposure to interest rate fluctuation. The derivatives were previously recorded off balance sheet except for net interest settlement arising on the derivatives, which were previously accounted for on an accrual basis.

From 1st 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 designed as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the 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. All derivatives 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.

The Group has applied the relevant transitional provisions in HKAS 39, resulting in the recognition of fair value on derivatives as at 1st January 2005. (see Note 3 for the financial impact).

2. Application of Hong Kong Financial Reporting Standards/Changes in Accounting Policies (continued)

Hotel properties

Hong Kong INT-2 "The Appropriate Accounting Policies for Hotel Properties" clarifies the accounting policy for owner operated hotel properties. In previous years, the Group's self-operated hotel properties were carried at revalued amounts and were not subject to depreciation. INT-2 requires owner-operated properties to be classified as property, plant and equipment in accordance with HKAS 16 "Property, Plant and Equipment", and therefore be accounted for either using the cost model or the revaluation model. The Group has resolved to account for their hotel properties using the cost model. In the absence of any specific transitional provisions in INT-2, the new accounting policy has been applied retrospectively. Comparative figures have been restated (see Note 3 for the financial impact).

Owner-occupied leasehold interest in land

In previous years, owner-occupied leasehold interest in land of the hotel properties were 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, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis and less accumulated impairment losses. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment. This change in accounting policy has been applied retrospectively (see Note 3 for the financial impact).

Investment properties

In the current year, the Group has, for the first time, applied HKAS 40 "Investment Property". The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the period in which they arise. In previous years, investment properties under SSAP 13 were measured at open market values, with revaluation surplus or deficits credited or charged to the 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 revaluation subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The new accounting policy has been applied retrospectively. Comparative figures 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 (continued)

The adoption of HKAS 40 has also resulted in a change of classification of certain properties which were previously classified as investment properties according to SSAP 13. In previous years, property with 15% or less by area or value that was occupied by the Company or another company in the group would normally be regarded as an investment property in its entirely 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 portions separately. If the portion could not be sold separately, the property is an 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 and prepaid lease payment 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 INT- 20). In the current year, the Group has applied HK(SIC) INT-20 "Income Taxes – Recovery of Revalued Non-Depreciable Assets" which removes the presumption that the carrying amount of investment properties are to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HK(SIC) 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).

Non-current assets held for sale

In the current year, the Group has, for the first time, applied HKFRS 5 "Non-current assets held for sale and discontinued operations". Non current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell. The adoption of this new accounting standard has had no material effect on how the result for the prior accounting years are prepared and presented.

2. Application of Hong Kong Financial Reporting Standards/Changes in Accounting Policies (continued)

Initial direct costs incurred by lessors under operating leases

HKAS 17 "Leases" has eliminated the choice of expensing initial direct costs incurred by lessors in negotiating and arranging an operating lease, the policy previously followed by the Group. Initial direct costs are now required to be added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income. This change in accounting policy has had no material impact on how the results of the prior accounting year are prepared and presented.

The Group has not early applied the following new standards or interpretations that have been issued but are not yet effective. The directors anticipate that the application of these standards or interpretations will have no material impact on the financial statements of the Group.

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

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

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

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

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

3. Summary of the Effect of the Changes in Accounting Policies

The effect of the changes in the accounting policies described in Note 2 above on the results for the current and prior year are as follows:

	2005 HK$'000	2004 HK$'000
Decrease in gain on disposal of property investment subsidiaries	–	(17,394)
Gains arising from fair value changes of investment properties	12,866,873	3,742,481
Increase in deferred tax liabilities in relation to fair value gains of investment properties	(2,162,725)	(627,190)
Increase in depreciation arising from reclassification of hotel properties and owner-occupied properties to property, plant and equipment	(159,636)	(117,886)
Decrease in deferred tax liabilities arising from reclassification of hotel properties and owner-occupied properties to property, plant and equipment	23,772	21,490
Increase in amortisation arising from prepaid lease payments	(44,771)	(36,177)
Expenses in relation to share options granted to the directors and employees	(7,255)	(2,999)
Gains arising from fair value changes of derivative financial instruments	258,944	–
Decrease in deferred tax assets in relation to fair value gains of derivative financial instruments	(51,320)	–
Decrease in rental related outgoings arising from deferred initial direct cost	6,240	–
Decrease in finance cost arising from capitalisation of loan front-end fee	25,170	–
Increase in profit for the year	10,755,292	2,962,325
Attributable to:		
Equity holders of the parent	9,724,312	2,791,766
Minority interests	1,030,980	170,559
	10,755,292	2,962,325

3. Summary of the Effect of the Changes in Accounting Policies (continued)

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

	2005 HK$'000	2004 HK$'000
Decrease in cost of goods and services	6,240	–
Decrease in gain on disposal of property investment subsidiaries	–	(17,394)
Increase in fair value changes on investment properties	12,866,873	3,742,481
Increase in fair value changes on derivative financial instruments	258,944	–
Increase in administrative expenses	(7,255)	(2,999)
Increase in other expenses	(4,155)	(329)
Increase in depreciation for hotel buildings	(155,481)	(117,557)
Increase in amortisation on prepaid lease payments	(44,771)	(36,177)
Decrease in finance costs	25,170	–
Decrease in share of results of associates	(275)	(38)
Increase in income taxes	(2,189,998)	(605,662)
	10,755,292	2,962,325

3. Summary of the Effect of the Changes in Accounting Policies (continued)

The cumulative effect of the application of the new HKFRSs on the consolidated balance sheet as at 31st December 2004 and 1st January 2005 are summarised below:

	As at 31st December 2004 (originally stated)	Adjustments	As at 31st December 2004 (restated)	Adjustments	As a 1st January 2005 (restated)
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance sheet items					
Impact of HKAS 16, 17 and 40:					
Fixed assets	36,202,646	(36,202,646)	–	–	–
Property, plant and equipment	–	7,179,517	7,179,517	–	7,179,517
Investment properties	–	24,793,003	24,793,003	–	24,793,003
Prepaid lease payments	–	1,930,268	1,930,268	–	1,930,268
Impact of HKAS 32 and 39:					
Available-for-sale investments	–	–	–	15,274	15,274
Other investments	15,274	–	15,274	(15,274)	–
Derivative financial instruments	–	–	–	(304,781)	(304,781)
Impact of HK(SIC)-INT-21:					
Deferred tax liabilities	(1,337,873)	(1,126,552)	(2,464,425)	54,860	(2,409,565)
Other asset/liabilities	(16,235,289)	–	(16,235,289)	–	(16,235,289)
Interests in associates	21,887	(12,377)	9,510	–	9,510
Non-current loan receivables	–	270,237	270,237	–	270,237
Total effect on assets and liabilities	18,666,645	(3,168,550)	15,498,095	(249,921)	15,248,174
Share capital	294,883	–	294,883	–	294,883
Share premium	3,185,119	–	3,185,119	–	3,185,119
Retained profits	7,132,989	3,502,724	10,635,713	(249,921)	10,385,792
Property revaluation reserve	6,727,752	(6,727,752)	–	–	–
Investment revaluation reserve	5,264	–	5,264	–	5,264
Exchange translation reserve	214,977	(103,147)	111,830	–	111,830
Share options reserve	–	3,471	3,471	–	3,471
Other reserves	404,190	–	404,190	–	404,190
Equity attributable to equity holders of the parent	17,965,174	(3,324,704)	14,640,470	(249,921)	14,390,549
Minority interests	701,471	156,154	857,625	–	857,625
Total effects on equity	18,666,645	(3,168,550)	15,498,095	(249,921)	15,248,174

3. Summary of the Effect of the Changes in Accounting Policies (continued)

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

	As originally stated	**Adjustments**	**As restated**
	HK$'000	HK$'000	HK$'000
Share capital	292,153	–	292,153
Share premium	3,137,043	–	3,137,043
Retained profits	6,899,932	710,958	7,610,890
Property revaluation reserve	2,942,485	(2,942,485)	–
Investment revaluation reserve	7,113	–	7,113
Exchange translation reserve	105,174	(66,573)	38,601
Share options reserve	–	472	472
Other reserve	404,190	–	404,190
Equity attributable to equity holders of the parent	13,788,090	(2,297,628)	11,490,462
Minority interests	481,560	188,208	669,768
Total effects on equity	14,269,650	(2,109,420)	12,160,230

4. Significant Accounting Policies

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

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated 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 made up to 31st December each year.

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 significant intercompany 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.

Investments in associates

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

4. Significant Accounting Policies (continued)

Revenue recognition

Rental income from operating lease is recognised in the income statement on a straight-line basis over the terms of the relevant leases.

Hotel operation income is recognised upon the provision of services and the utilisation by guests of the hotel facilities.

Building management fee income is recognised when building management services are provided.

Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial assets to that assets net carrying amount.

Dividend income from investments is recognised when the shareholder's rights to receive payment have been established.

Service income is recognised when services are provided.

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

Agency commission income is recognised when services are rendered.

Membership fee is recognised as revenue on a straight-line basis over the membership period. Other service income is recognised when the services are rendered. Membership fee and other service fee received in advance are recorded as deferred income.

4. Significant Accounting Policies (continued)

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Leasehold land transferred from investment properties are stated at deemed cost equal to its fair value at the date of change in use and is continued to account for as if it was an asset held under finance lease.

Depreciation is provided to write off the cost 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, at the following rates per annum:

Leasehold land held under finance lease	Over the shorter of the term of the lease, or 50 years
Buildings and hotel properties	Over the shorter of the term of the lease, or 50 years
Furniture and fixtures, motor vehicles and plant and machinery	20%

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 the derecognition of the asset is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is included in the income statement in the year in which the item is dereognised.

Prepaid lease payments

Prepaid lease payments represent upfront premium paid for land cost. Prepaid lease payment is charged to income statement over the term of relevant land leases on a straight line basis.

Leasehold land and buildings under development

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

4. Significant Accounting Policies (continued)

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.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset is determined as the difference between the net disposal proceeds and the carrying amount of the asset is included in the income statement in the year in which the item is derecognised.

Leasing

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

The Group as lessor

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

The Group as lessee

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

4. Significant Accounting Policies (continued)

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. 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 Group (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.

4. Significant Accounting Policies (continued)

Borrowing costs

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

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

Retirement benefit costs

Payments to defined contribution retirement benefit plans and the Mandatory Provident Fund Scheme are charged as expenses as they fall due.

Taxation

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

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

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the 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, and interests in joint ventures, 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

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.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

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

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition.

Non-current assets classified as held for sale are measured at the lower of the assets'previous carrying amount and fair value less costs to sell except for financial assets and investment properties which are measured at fair value.

4. Significant Accounting Policies (continued)

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

Loans and receivables

Loans and receivables (including non-current loan receivables, debtors and bank deposits) 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 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.

4. Significant Accounting Policies (continued)

Financial instruments (continued)

Available-for-sale financial assets

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

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

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are 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.

4. Significant Accounting Policies (continued)

Financial instruments (continued)

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss has two subcategories, 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 trade creditors and borrowings 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.

Derivative financial instruments

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 (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 is recognised in profit or loss.

4. Significant Accounting Policies (continued)

Equity-settled 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 (share option reserve).

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will transfer to retained earnings.

5. Key Sources of Estimation Uncertainty

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

Investment properties

At 31st December 2005 and 2004, investment properties are stated at fair value based on the valuation performed by independent professional valuers except for the certain investment properties at 31st December 2005. In determining the fair value, the valuers have based on a method of valuation which involves certain estimates. In relying on the valuation report, the management has exercised their judgment and is satisfied that the method of valuation is reflective of the current market conditions.

At 31st December 2005, certain investment properties are stated at fair value based on the valuation performed by the respective directors of the companies comprising the Group. In determining the fair value, the directors have based on a method of valuation which involves certain estimates by reference to recent market prices for similar properties.

Income taxes

At 31st December 2005 and 2004, a deferred tax asset of HK$329,769,000 and HK$385,260,000 in relation to unused tax losses has been recognised as set out in note 30. No deferred tax asset has been recognised in respect of tax losses of HK$1,119,369,000 (2004: HK$1,254,735,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less or more than expected, a material reversal or further recognition of deferred tax assets may arise, which would be recognised in the income statement for the period in which such a reversal or further recognition takes place.

5. Key Sources of Estimation Uncertainty (continued)

Share options

The Black-Scholes option pricing model was applied to estimate the fair value of share options granted by the Company. This pricing model requires the input of highly subjective assumptions, including the volatility of the share price. The changes in input assumptions can materially affect the fair value estimate.

6. Financial Risk Management Objectives and Policies

The Group's major financial instruments include loans receivable, trade debtors, bank balances and cash, trade creditors and borrowings. 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) Interest rate risk

The Group's cash flow interest rate risk relates to floating-rate bank and other borrowings. The Group's fair value interest rate risk relates to fixed-rate short term bank fixed deposits and fixed rate non-current other borrowings. The Group will continue to maintain a reasonable mix of floating rate and fixed rate borrowings and will take further actions to hedge against any foreseeable interest rate exposure, if necessary. The interest rates and terms of repayment of bank and other borrowings of the Group are disclosed in note 29.

(ii) Currency risk

The Group have foreign currency sales and purchases and certain borrowings of the Group are denominated in foreign currencies which expose the Group to foreign currency risk.

(iii) Other price risk

The Group's certain available-for-sale investments are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity price risk in relation to these investments.

6. Financial Risk Management Objectives and Policies (continued)

Credit risk

The Group's principal financial assets are bank balances and cash, trade and other receivables, loan receivables and available-for-sale investments. The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st 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 credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group's credit risk is primarily attributable to its trade and other receivables. The amounts presented in the consolidated balance sheet are net of allowances for doubtful receivables

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures are carried out to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade and other debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Liquidity risk

The Group's objective is to maintain a balance between the continuity of funding and the flexibility through the use of bank loans and overdrafts. In addition, banking facilities have been put in place for contingency purposes.

7. Revenue

Revenue represents the aggregate of gross rental income, building management fee income, income from hotel and restaurant operations, proceeds from sales of building materials, property management and maintenance income, agency commission and fitness centre operation.

	2005 HK$'000	2004 HK$'000 (restated)
Property rental income	**959,537**	660,570
Building management fee income	**142,204**	96,144
Hotel income	**2,208,475**	1,875,828
Sales of goods	**112,317**	107,565
Other	**98,668**	90,715
	3,521,201	2,830,822

8. Business and Geographical Segments

Business segments

For management purposes, the Group is currently organised into the following operations:

Property investment – income from leasing of properties and furnished apartments and properties held for investment potential.

Hotel operation – hotels accommodation, food and banquet operations.

Other operations – sales of building materials, restaurant operation, provision of property management, maintenance and agency services, provision of insurance agency services and fitness centre operation.

These operations are the basis on which the Group reports its primary segment information.

8. Business and Geographical Segments (continued)

Business segments (continued)

Segment information about these businesses is presented below.

2005

	Property investment HK$'000	Hotel operation HK$'000	Other operations HK$'000	Eliminations HK$'000	Consolidated HK$'000
REVENUE					
External sales	1,101,741	2,208,475	210,985	–	3,521,201
Inter-segment sales	29,695	–	31,103	(60,798)	–
Total	1,131,436	2,208,475	242,088	(60,798)	3,521,201
Inter-segment sales are charged at a mutually agreed price.					
RESULTS					
Segment results	674,275	308,779	34,533		1,017,587
Unallocated corporate expenses					(98,217)
Fair value changes on investment properties	12,982,057	–	–		12,982,057
Fair value changes on derivative financial instruments					258,944
Finance costs					(760,710)
Share of results of associates	140	–	9,110		9,250
Profit before tax					13,408,911
Income taxes					(2,323,495)
Profit for the year					11,085,416

8. Business and Geographical Segments (continued)

Business segments (continued)

OTHER INFORMATION

	Property investment HK$'000	Hotel operation HK$'000	Other operations HK$'000	Consolidated HK$'000
Capital expenditure	209,638	182,015	7,657	399,310
Depreciation on property, plant and equipment	4,525	191,552	7,513	203,590
Amortisation of prepaid lease payments	166	44,605	–	44,771
Non-cash expenses other than depreciation and amortisation	1,746	10,119	130	11,995

BALANCE SHEET

	Property investment HK$'000	Hotel operation HK$'000	Other operations HK$'000	Consolidated HK$'000
ASSETS				
Segment assets	38,292,774	9,469,555	209,230	47,971,559
Interests in associates	689	–	18,071	18,760
Unallocated corporate assets				507,168
Consolidated total assets				48,497,487
LIABILITIES				
Segment liabilities	1,017,582	362,504	122,454	1,502,540
Unallocated corporate liabilities				20,740,954
Consolidated total liabilities				22,243,494

8. Business and Geographical Segments (continued)

Business segments (continued)

2004

	Property investment HK$'000 (restated)	Hotel operation HK$'000 (restated)	Other operations HK$'000 (restated)	Eliminations HK$'000	Consolidated HK$'000 (restated)
REVENUE					
External sales	756,714	1,875,828	198,280	–	2,830,822
Inter-segment sales	28,928	–	26,056	(54,984)	–
Total	785,642	1,875,828	224,336	(54,984)	2,830,822
Inter-segment sales are charged at a mutually agreed price.					
RESULTS					
Segment results	531,842	171,350	28,193		731,385
Unallocated corporate expenses					(77,959)
Fair value changes on investment properties	3,781,275	–	–		3,781,275
Finance costs					(404,277)
Share of results of associates	47	–	7,349		7,396
Profit before tax					4,037,820
Income taxes					(746,011)
Profit for the year					3,291,809

8. Business and Geographical Segments (continued)

Business segments (continued)

OTHER INFORMATION

	Property investment HK$'000 (restated)	Hotel operation HK$'000 (restated)	Other operations HK$'000 (restated)	Consolidated HK$'000 (restated)
Capital expenditure	1,579,908	528,388	12,274	2,120,570
Depreciation on property, plant and equipment	357	128,966	6,954	136,277
Amortisation of prepaid lease payment	166	36,011	–	36,177
Non-cash expenses other than depreciation and amortisation	14,834	29,424	1,136	45,394

BALANCE SHEET

	Property investment HK$'000 (restated)	Hotel operation HK$'000 (restated)	Other operations HK$'000 (restated)	Consolidated HK$'000 (restated)
ASSETS				
Segment assets	26,144,058	9,585,855	159,482	35,889,395
Interests in associates	549	–	8,961	9,510
Unallocated corporate assets				91,378
Consolidated total assets				35,990,283
LIABILITIES				
Segment liabilities	769,793	561,943	95,943	1,427,679
Unallocated corporate liabilities				19,064,509
Consolidated total liabilities				20,492,188

8. Business and Geographical Segments (continued)

Geographical segments

A geographical analysis of the Group's revenue by geographical market, is as follows:

	2005 HK$'000	2004 HK$'000 (restated)
Hong Kong	**1,957,162**	1,300,001
North America	**873,210**	850,535
Europe	**357,145**	331,994
Asia Pacific, other than Hong Kong	**333,684**	348,292
	3,521,201	2,830,822

An analysis of the carrying amount of segment assets and additions to fixed assets by the geographical area in which the assets are located is as follows:

	Carrying amount of segment assets		Additions to fixed assets	
	2005 HK$'000	2004 HK$'000 (restated)	2005 HK$'000	2004 HK$'000 (restated)
Hong Kong	**42,355,575**	29,826,658	**80,138**	1,887,719
North America	**3,435,144**	3,361,201	**231,151**	28,981
Europe	**1,659,995**	1,663,831	**35,711**	189,313
Asia Pacific, other than Hong Kong	**1,046,773**	1,138,593	**52,310**	14,557
	48,497,487	35,990,283	**399,310**	2,120,570

9. Other Income

	2005 HK$'000	2004 HK$'000
Included in other income are:		
Dividends received from unlisted investments	–	292
Dividends received from listed investments	717	589
Gain on disposal of listed investments	–	2,549
Gain on disposal of property, plant and equipment	–	48
Interest income	32,386	12,666
Net exchange gain	120	–

10. Finance Costs

	2005 HK$'000	2004 HK$'000
Interest on bank borrowings not wholly repayable within five years	78,204	3,495
Interest on bank borrowings wholly repayable within five years	573,592	426,810
Interest on other loans not wholly repayable within five years	20,160	22,164
Interest on other loans wholly repayable within five years	76,843	71,774
Other borrowing costs	11,911	11,898
Total borrowing costs	760,710	536,141
Less: Amount capitalised to property under development	–	(131,864)
	760,710	404,277

11. Income Taxes

	2005 HK$'000	2004 HK$'000 (restated)
Current tax:		
Current year:		
Hong Kong Profits Tax	**50,442**	51,276
Other jurisdictions	**22,932**	43,988
	73,374	95,264
Under(over)provision in prior years:		
Hong Kong Profits Tax	**(241)**	277
Other jurisdictions	**(4,688)**	(196)
	(4,929)	81
Deferred tax (note 30):		
Current year	**2,246,785**	650,814
Underprovision in prior years	**8,265**	–
Attributable to changes in tax rates	**–**	(148)
	2,255,050	650,666
Taxation attributable to the Company and its subsidiaries	**2,323,495**	746,011

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

Taxation arising in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

11. Income Taxes (continued)

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

	2005 HK$'000	2004 HK$'000 (restated)
Profit before taxation	**13,408,911**	4,037,820
Tax at the domestic income tax rate of 17.5%	**2,346,559**	706,619
Tax effect of expenses that are not deductible for tax purpose	**33,630**	21,565
Tax effect of income that is not taxable for tax purpose	**(51,663)**	(13,690)
Underprovision in prior years	**3,336**	81
Decrease in opening deferred tax liabilities resulting from changes in applicable tax rates	**–**	(148)
Tax effect of share of result of associates	**(1,619)**	7
Tax effect of tax losses not recognised	**24,974**	35,673
Utilisation of tax losses previously not recognised	**(34,868)**	(4,221)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**11,117**	(2,288)
Others	**(7,971)**	2,413
Tax charge for the year	**2,323,495**	746,011

12. Profit for the Year

	2005 HK$'000	2004 HK$'000 (restated)
Profit for the year has been arrived at after charging:		
Allowance for doubtful debts	13,325	2,537
Auditors' remuneration	4,563	4,464
Depreciation on		
– hotel building	155,481	117,557
– other property, plant and equipment	48,109	18,720
	203,590	136,277
Amortisation of prepaid lease payments	44,771	36,177
Loss on disposal of property, plant and equipment	130	–
Fitting-out works of properties written off	11,865	45,395
Net exchange loss	–	752
Operating lease payments on rented premises	2,485	2,341
Staff costs, including directors' emoluments	894,541	763,648
Cost of inventories recognised as an expense	320,421	287,732
Share of tax of associates (included in the share of result of associates)	275	38
and after crediting:		
Rental income from investment properties less related outgoings of HK$276,908,000 (2004: HK$167,360,000)	682,629	493,210

13. Directors' and Employees' Emoluments

The emoluments paid or payable to each of the twelve (2004: twelve) directors were as follows:

2005

	Fee HK$'000	Salaries and other benefits HK$'000	Discretionary bonuses HK$'000	Share option HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Mr. LO Ying Shek	60	2,820	–	682	–	3,562
Madam LO TO Lee Kwan	60	–	–	–	–	60
Dr. LO Ka Shui	60	3,761	550	1,303	132	5,806
Mr. LO Kai Shui	60	1,077	135	1,055	54	2,381
Mr. CHENG Hoi Chuen,Vincent	140	–	–	–	–	140
Professor WONG Yue Chim, Richard	125	–	–	–	–	125
Mrs. LEE Pui Ling, Angelina	125	–	–	–	–	125
Mr. LO Hong Sui, Antony	60	1,029	129	–	51	1,269
Madam LAW Wai Duen	60	420	53	–	21	554
Mr. LO Hong Sui, Vincent	60	–	–	–	–	60
Dr. LO Ying Sui, Archie	60	–	–	–	–	60
Mr. KAN Tak Kwong	60	2,590	539	579	130	3,898
	930	11,697	1,406	3,619	388	18,040

13. Directors' and Employees' Emoluments (continued)

2004

	Fee HK$'000	Salaries and other benefits HK$'000	Discretionary bonuses HK$'000	Share option HK$'000 (restated)	Retirement benefits scheme contributions HK$'000	Total HK$'000 (restated)
Mr. LO Ying Shek	20	3,574	29	494	–	4,117
Madam LO TO Lee Kwan	20	–	–	–	–	20
Dr. LO Ka Shui	20	2,946	156	494	93	3,709
Mr. LO Kai Shui	20	1,052	87	494	53	1,706
Mr. CHENG Hoi Chuen, Vincent	–	–	–	–	–	–
Professor WONG Yue Chim, Richard	20	–	–	–	–	20
Mrs. LEE Pui Ling, Angelina	20	–	–	–	–	20
Mr. LO Hong Sui, Antony	20	1,004	84	–	50	1,158
Madam LAW Wai Duen	20	350	29	–	18	417
Mr. LO Hong Sui, Vincent	20	–	–	–	–	20
Dr. LO Ying Sui, Archie	20	–	–	–	–	20
Mr. KAN Tak Kwong	20	2,526	421	261	126	3,354
	220	11,452	806	1,743	340	14,561

Mr. CHENG Hoi Chuen, Vincent, an Independent Non-executive Director, had waived his director's fee for the year ended 31st December 2004.

Employees' emoluments

Of the five individuals with the highest emoluments in the Group, three (2004: three) were Directors of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining two (2004: two) individuals were as follows:

	2005 HK$'000	2004 HK$'000 (restated)
Salaries and other benefits	**5,294**	4,897
Discretionary bonuses	**345**	178
Share option	**366**	145
Retirement schemes contributions	**355**	201
	6,360	5,421

13. Directors' and Employees' Emoluments (continued)

Employees' emoluments (continued)

	2005 Number of employees	2004 Number of employees
Bands:		
HK$2,000,001 – HK$2,500,000	**–**	1
HK$2,500,001 – HK$3,000,000	**1**	1
HK$3,500,001 – HK$4,000,000	**1**	–
	2	2

14. Dividends

	2005 HK$'000	2004 HK$'000
Dividends paid:		
– Final dividend of HK13 cents in respect of 2004 (2004: HK10 cents in respect of 2003) per ordinary share	**76,849**	58,491
– Interim dividend of HK3.5 cents (2004: HK3.5 cents) per ordinary share	**20,801**	20,638
	97,650	79,129
Dividends proposed:		
– Proposed final dividend of HK20 cents (2004: HK13 cents) per ordinary share	**119,129**	76,816

A final dividend in respect of 2005 at HK20 cents per share has been proposed by the Directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

15. Earnings Per Share

The calculation of basic and diluted earnings per share is based on the following data:

	2005 HK$'000	2004 HK$'000 (restated)
Earnings		
Earnings for the purpose of basic and diluted earnings per share (profit for the year attributable to equity holders of the parent)	**10,028,139**	3,103,952

	2005	2004
Number of shares		
Weighted average number of shares for the purpose of basic earnings per share	**592,177,466**	587,368,774
Effect of dilutive potential shares:		
Share options	**1,380,383**	1,413,347
Weighted average number of shares for the purpose of diluted earnings per share	**593,557,849**	588,782,121

The following table summarises the impact on both basic and diluted earnings per share as a result of:

	Impact on basic earnings per share		Impact on diluted earnings per share	
	2005	2004	2005	2004
Reported figures before adjustments	**HK$0.51**	HK$0.53	**HK$0.51**	HK$0.53
Adjustments arising from changes in accounting policies (see Note 3)	**HK$16.42**	HK$4.75	**HK$16.38**	HK$4.74
Restated	**HK$16.93**	HK$5.28	**HK$16.89**	HK$5.27

16. Property, Plant And Equipment

	Hotel properties HK$'000	Property under development HK$'000	Buildings situated in Hong Kong HK$'000	Furniture and fixture HK$'000	Motor vehicles HK$'000	Plant and machinery HK$'000	Total HK$'000
THE GROUP							
COST							
At 1st January 2004, restated	5,824,896	8,963,057	15,922	76,114	4,867	3,793	14,888,649
Exchange adjustments	274,516	–	–	1	–	–	274,517
Additions	66,548	1,784,831	34	68,030	570	17	1,920,030
Transfer in (out)	1,910,833	(10,747,888)	–	–	–	–	(8,837,055)
Disposals/written off	(29,927)	–	–	(1,139)	(567)	–	(31,633)
At 31st December 2004, restated	8,046,866	–	15,956	143,006	4,870	3,810	8,214,508
Exchange adjustments	(245,274)	–	–	(2)	–	–	(245,276)
Additions	48,305	–	–	141,368	1,038	5	190,716
Transfer in	146,965	–	207,768	–	–	–	354,733
Disposals/written off	(3,752)	–	–	(6,377)	(135)	–	(10,264)
At 31st December 2005	7,993,110	–	223,724	277,995	5,773	3,815	8,504,417
DEPRECIATION AND IMPAIRMENT							
At 1st January 2004	787,885	–	6,174	63,795	4,055	3,058	864,967
Exchange adjustments	34,314	–	–	1	–	–	34,315
Charge for the year	117,557	–	328	17,694	492	206	136,277
Eliminated on disposal	–	–	–	(1)	(567)	–	(568)
At 31st December 2004	939,756	–	6,502	81,489	3,980	3,264	1,034,991
Exchange adjustments	(30,405)	–	–	(318)	–	–	(30,723)
Charge for the year	155,481	–	4,155	43,197	567	190	203,590
Eliminated on disposal	–	–	–	(6,218)	(135)	–	(6,353)
At 31st December 2005	1,064,832	–	10,657	118,150	4,412	3,454	1,201,505
CARRYING VALUES							
At 31st December 2005	6,928,278	–	213,067	159,845	1,361	361	7,302,912
At 31st December 2004	7,107,110	–	9,454	61,517	890	546	7,179,517

Hotel properties and buildings with carrying amount of HK$9,092,000 (2004: HK$9,420,000) and HK$3,241,242,000 (2004: HK$3,098,736,000) are situated on land in Hong Kong which are held under long-term and medium-term leases respectively. Hotel properties with carrying amount of HK$3,891,011,000 (2004: 4,008,408,000) situated outside Hong Kong are held under freehold land.

17. Prepaid Lease Payments

	2005 HK$'000	2004 HK$'000 (restated)
The Group's prepaid lease payments comprise:		
Leasehold land in Hong Kong:		
Long lease	**20,363**	20,529
Medium-term lease	**1,865,134**	1,909,739
	1,885,497	1,930,268
Analysed for reporting purposes as:		
Current asset	**44,771**	44,771
Non-current asset	**1,840,726**	1,885,497
	1,885,497	1,930,268

18. Investment Properties

	2005 HK$'000	2004 HK$'000 (restated)
FAIR VALUE		
At 1st January	**24,793,003**	12,302,317
Exchange adjustments	**(21,971)**	2,557
Additions	**208,594**	200,540
Disposal of subsidiaries	**–**	(124,200)
Net increase in fair value recognised in the income statement	**12,982,057**	3,781,275
Disposals/written off	**(309,645)**	(206,541)
Transfers (to) from property, plant and equipment	**(354,733)**	8,837,055
Reclassified as non-current assets held for sale	**(253,800)**	–
At 31st December	**37,043,505**	24,793,003

	2005 HK$'000	2004 HK$'000 (restated)
Fair value of investment properties	**37,043,505**	24,793,003
Deferred initial direct costs	**6,240**	–
	37,049,745	24,793,003

18. Investment Properties (continued)

(a) The Group's property interests of approximately HK$35,340,485,000 (2004: HK$23,146,840,000) which are 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.

(b) The fair value of the Group's investment properties except for Citibank Plaza at 31st December 2005 have been arrived at on a basis of valuation carried out by independent professional property valuers not connected with the Group:

Investment properties in Hong Kong except Citibank Plaza - Chesterton Petty Ltd. Investment properties in the United States of America ("USA") - Cushman & Wakefield of California, Inc.

The fair values of Citibank Plaza as at 31st December 2005 have been determined by the directors of the Group. No valuation has been performed by independent qualified professional valuers. The valuation performed by the directors of the Group was arrived at by reference to recent market prices for similar properties.

(c) The carrying amount of investment properties includes land situated in Hong Kong and outside of Hong Kong as follows:

	2005	2004
	HK$'000	HK$'000
		(restated)
Long leases in Hong Kong	**2,044,655**	1,825,340
Medium-term leases in Hong Kong	**33,295,830**	21,321,500
Freehold land outside Hong Kong	**1,703,020**	1,646,163
	37,043,505	24,793,003

(d) Deferred initial direct costs arose in connection with the negotiation of operating leases for a substantial portion of the Group's investment properties portfolio which are being amortised over the term of these leases.

19. Interests in Associates

	2005 HK$'000	2004 HK$'000
Cost of investment in associates:		
Unlisted associates in Hong Kong	12	12
Listed associate in Hong Kong	2,649	2,649
Share of post acquisition reserves	16,099	6,849
	18,760	9,510
Fair value of listed securities	39,069	28,352

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

	2005 HK$'000	2004 HK$'000
Total assets	363,752	252,993
Total liabilities	(282,729)	(215,745)
Net assets	81,023	37,248
Group's share of associates' net assets	18,760	9,510
Revenue	330,341	198,347
Profit for the year	42,181	25,972
Group's share of associates' profit for the year	9,250	7,396

Particulars regarding the principal associates are set out in note 41.

20. Available-for-sale Investments

Available-for-sale investments as at 31st December 2005 comprises:

	2005 HK$'000
Unlisted securities in Hong Kong	246
Listed securities in Hong Kong	16,186
	16,432

As mentioned in note 2, from 1st January 2005 onwards, not-for-trading securities has been reclassified to available-for-sale investments in accordance with the requirements of HKAS 39.

As at the balance sheet date, all available-for-sale investments are stated at fair value, except for those unlisted equity investments of which their fair values cannot be measured reliably. Fair values of those investments have been determined by reference to bid prices quoted in active markets.

The above unlisted investments represent investments in unlisted equity securities issued by private entities. 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 directors of the Company are of the opinion that their fair values cannot be measured reliably.

21. Other Investments

	2004 HK$'000
Not-for-trading securities:	
Unlisted in Hong Kong	246
Listed in Hong Kong	15,028
	15,274

22. Loan Receivables

	2005 HK$'000	2004 HK$'000
Amounts due from minority shareholders	265,967	257,860
Amounts due from associates	12,377	12,377
	278,344	270,237

The loan to minority shareholders of the Group are unsecured, carries interest at Hong Kong Interbank Offering Rates plus 0.9125 per cent per annum, and have no fixed repayment terms.

The amounts due from associates are unsecured, interest free and have no fixed repayment terms. The associates are not expected to repay within twelve months from the balance sheet date and the balances are classified as non-current.

The fair value of the Group's loan receivables as at the balance sheet date approximates to the carrying amount of the receivables.

23. Pledged Bank Deposits, Bank Balances and Cash

The pledged deposits have been placed in designated banks as part of the securities provided for long-term facilities granted to the Group.

The fair value of the Group's fixed deposits included in bank balances and cash approximate to their carrying amounts as the fixed deposits are short term.

24. Inventories

	2005 HK$'000	2004 HK$'000
Completed properties held for sale	42	42
Raw materials	29,342	25,451
Provisions and beverages	23,151	19,314
Work-in-progress	22,774	38,564
	75,309	83,371

25. Debtors, Deposits and Prepayments

	2005 HK$'000	2004 HK$'000
Trade debtors	207,815	161,041
Deferred rent receivables	79,258	48,210
Other receivables	46,941	29,730
Deposits and prepayments	73,977	75,201
	407,991	314,182

The Group maintains a defined credit policy. For sales of goods, the Group allows an average credit period of 30-60 days to its trade customers. Rentals receivable from tenants and service income receivable from customers are payable on presentation of invoices. The aged analysis of trade debtors is as follows:

	2005 HK$'000	2004 HK$'000
0 – 3 months	192,729	147,643
3 – 6 months	13,885	6,385
Over 6 months	1,201	7,013
	207,815	161,041

The fair value of the Group's trade and other receivables at 31st December 2005 approximates to the corresponding carrying amount.

26. Non-current Assets Held for Sale

During the year ended 31st December 2005, the Group entered into two sales and purchase agreements with third parties in relation to the disposal of two floors at Langham Place Office Tower. Accordingly, the carrying amounts of these properties were classified as non-current assets held for sale and the disposal were completed subsequent to the balance sheet date.

27. Creditors, Deposits and Accruals

	2005 HK$'000	2004 HK$'000
Trade creditors	161,154	163,516
Rental deposits	279,083	224,167
Construction fee payable and retention payables	609,430	751,981
Accruals, interest payable and other payables	482,506	313,939
	1,532,173	1,453,603
Rental deposits:		
– Due within one year	126,814	89,390
– Due more than one year	152,269	134,777
	279,083	224,167

Retention payables amounted to HK$89,103,000 (2004: HK$94,584,000) are estimated to be payable within one year.

The aged analysis of trade creditors is as follows:

	2005 HK$'000	2004 HK$'000
0 – 3 months	156,398	157,165
3 – 6 months	2,685	4,024
Over 6 months	2,071	2,327
	161,154	163,516

The fair value of the Group's trade and other payables at 31st December 2005 approximates to the corresponding carrying amount.

28. Derivatives Financial Instruments

In the current year, the Group has used interest rate swaps to manage its exposure to interest rate movements on its bank borrowings, details of such major swaps are summarised below:–

(a) Interest rate swap contracts of nominal amount of HK$2,982,000,000 were entered for periods up to 2009, to swap floating rate borrowings to fixed rate borrowings of interest rates ranging from 4.72% to 5.53%; and

(b) Interest rate swap contracts of nominal amount of HK$3,520,000,000 were entered for periods up to 2007 to swap borrowings from floating rates based on Hong Kong Interbank Offer Rate ("HIBOR") to floating rates based on London Interbank Offer Rate ("LIBOR").

The fair value of outstanding swaps at 31 December 2005 is estimated at liability of HK$44,356,000, which is estimated by discounting the future expected cash flow at the balance sheet date. Changes in fair value of these swaps during the year were recorded in the income statement.

29. Borrowings

	2005	2004
	HK$'000	HK$'000
Bills payable	**1,722**	1,043
Bank loans and revolving loans (secured)	**14,192,423**	14,847,060
Other non-current loans (secured)	**1,748,027**	1,594,773
	15,942,172	16,442,876
Loan front-end fee	**(25,164)**	–
	15,917,008	16,442,876
The maturity of the above loans and overdrafts is as follows:		
On demand or within one year	**1,390,620**	1,685,710
More than one year but not exceeding two years	**1,396,452**	1,357,695
More than two years but not exceeding five years	**11,498,616**	12,760,471
More than five years	**1,631,320**	639,000
	15,917,008	16,442,876
Less: Amounts due within one year shown under current liabilities	**(1,390,620)**	(1,685,710)
Amounts due after one year	**14,526,388**	14,757,166

29. Borrowings (continued)

The exposure of the Group's fixed-rate borrowings and the contractual maturity dates are as follows:

	2005 HK$'000	2004 HK$'000
Within one year	12,270	8,245
In more than one year but not more than two years	14,878	12,768
In more than two years but not more than three years	674,829	15,383
In more than three years but not more than four years	6,760	677,224
In more than four years but not more than five years	49,923	5,872
In more than five years	500,968	379,000
	1,259,628	1,098,492

The exposure of the Group's floating-rate borrowings and the contractual maturity dates are as follows:

	2005 HK$'000	2004 HK$'000
Within one year	1,378,350	1,677,465
In more than one year but not more than two years	1,381,574	1,344,927
In more than two years but not more than three years	6,519,108	1,859,675
In more than three years but not more than four years	1,871,114	8,606,228
In more than four years but not more than five years	2,376,884	1,596,089
In more than five years	1,130,350	260,000
	14,657,380	15,344,384

29. Borrowings (continued)

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2005	2004
Effective interest rate:		
Fixed-rate borrowings	**4.52% to 12.50%**	4.52% to 8.22%
Variable-rate borrowings	**2.79% to 8.02%**	1.01% to 6.92%

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

	2005	2004
	HK$'000	HK$'000
United State Dollar	**1,745,720**	1,594,773
Sterling	**1,029,526**	1,212,224
Canadian Dollar	**581,882**	592,202
Australian Dollar	**434,237**	480,675
New Zealand Dollar	**254,778**	285,959
Hong Kong Dollar	**11,870,865**	12,277,043

Secured bank loans include a loan of HK$3,050,000,000 (2004: HK$3,100,000,000) obtained from a syndicate of banks by an indirect subsidiary in which the Group has an 85.93% (2004: 85.93%) interest.

During the year, the Group refinanced loans in the amount of HK$5,000,000,000. The loans bear interest at floating rates and will be repayable by instalments with maturity dates in 2008 and 2010. The proceeds were used to finance operating activities of the Group.

The directors consider that the carrying amount of interest-bearing borrowings approximates their fair value.

30. Deferred Taxation

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

The Group

	Accelerated tax depreciation	Tax losses	Others	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 1st January 2004	1,210,969	(251,484)	312,717	1,272,202
Effect of changes in accounting policies (note 2)	459,372	70,633	–	530,005
At 1st January 2004 (as restated)	1,670,341	(180,851)	312,717	1,802,207
Exchange differences	19,566	(7,166)	(22)	12,378
Charge (credit) to income for the year	1,174,348	(197,450)	(326,084)	650,814
Released upon disposal of subsidiaries	(1,033)	207	–	(826)
Effect of changes in tax rates credit to income statement	(148)	–	–	(148)
At 31st December 2004	2,863,074	(385,260)	(13,389)	2,464,425
Effect of changes in accounting policies (note 2)	–	–	(54,860)	(54,860)
At 1st January 2005 (as restated)	2,863,074	(385,260)	(68,249)	2,409,565
Exchange differences	(20,406)	8,866	155	(11,385)
Charge to income for the year	2,162,062	46,625	46,363	2,255,050
At 31st December 2005	5,004,730	(329,769)	(21,731)	4,653,230

At the balance sheet date, the Group has unutilised tax losses of HK$2,717,003,000 (2004: HK$3,150,364,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$1,597,634,000 (2004: HK$1,895,629,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$1,119,369,000 (2004: HK$1,254,735,000) due to the unpredictability of future profit streams.

31. Share Capital

		2005		2004	
		Number of shares ‘000	**Nominal value HK$’000**	Number of shares ‘000	Nominal value HK$’000
(a)	Authorised:				
	Shares of HK$0.50 each				
	Balance brought forward and carried forward	**800,000**	**400,000**	800,000	400,000
(b)	Issued and fully paid:				
	Shares of HK$0.50 each				
	Balance brought forward	**589,765**	**294,883**	584,305	292,153
	Issued upon exercise of share options under the Share Option Scheme	**2,043**	**1,022**	769	385
	Issued as scrip dividends	**2,993**	**1,496**	4,691	2,345
	Balance carried forward	**594,801**	**297,401**	589,765	294,883

During the year, 2,992,910 (2004: 4,690,857) shares of HK$0.50 each in the Company were issued at HK$17.18 (2004: HK$9.52) per share as scrip dividends.

32. Share Option

In accordance with the Company's Great Eagle Holdings Limited Share Option Scheme (formerly Executive Share Option Scheme) (the "Scheme"), which was adopted pursuant to an ordinary resolution passed on 10th June 1999 and amended by an ordinary resolution passed on 20th December 2001, the Board of Directors of the Company may grant options to eligible employees, including executive directors of the Company and its subsidiaries, to subscribe for shares in the Company.

Summary of the Scheme

a. The purpose of the Scheme is to motivate officers, employees, associates, agents and contractors of the Company or any subsidiary (the "Participants") and to allow them to participate in the growth of the Company.

b. Participants of the Scheme include any person the Board may select to be offered an option, subject to compliance with applicable laws, including, without limitation, any full-time or part-time employee of the Company or any subsidiary, any executive or non-executive director of the Company or any subsidiary and any associate, agent or contractor of the Company or any subsidiary.

c. The maximum number of shares of HK$0.50 each of the Company (the "Shares") in respect of which options may be granted (together with options exercised and options then outstanding) under the Scheme, when aggregated with any number of Shares subject to any other schemes, will be such number of Shares as shall represent 10% of the issued share capital of the Company on the date of adoption of the Scheme. The total number of Shares available for issue under the Scheme is 54,636,853 Shares, representing 9% of the Company's issued share capital as at 19th April, 2006, the latest practicable date before the approval of these financial statements.

d. No option may be granted to any one Participant under the Scheme which, if exercised in full, would result in the total number of Shares already issued and issuable to him under all the options previously granted and to be granted to him in any 12-month period up to the proposed date of the latest grant exceeding 1% of the Company's Shares in issue.

e. The period within which the Shares must be taken up under an option is 36 months commencing on the expiry of 24 months after the date upon which the option is deemed to be granted and accepted and expiring on the last day of the 36 months' period.

f. The minimum period within which an option must be held before it can be exercised is the 24 months referred to in paragraph (e) above.

32. Share Option (continued)

Summary of the Scheme (continued)

g. Any Participant who accepts an offer of the grant of an option in accordance with the terms of the Scheme shall pay to the Company HK$1.00 by way of consideration for the grant thereof within a period of 28 days from the date on which an option is offered to the Participant.

h. The subscription price, the price per Share at which a grantee may subscribe for Shares on the exercise of an option, shall be the higher of (i) the last dealt price of the Shares quoted in the Stock Exchange daily quotations sheets on the date of offer of an option, which must be a business day (as defined in the Rules Governing the Listing of Securities on the Stock Exchange), and (ii) the average of the last dealt prices of the Shares quoted in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the said offer date, provided that the subscription price shall in no event be less than the nominal value of a Share.

i. The Scheme has a life of 10 years and will expire on 10th June 2009.

The following table discloses details of the Company's share options held by employees and movements in such holdings during the year:

In 2005	Number of shares					
Year of grant of options	Outstanding options at 1st January 2005	Options granted	Options exercised	Options cancelled	Options lapsed at 14th February 2005	Outstanding options at 31st December 2005
2000	600,000	–	(583,000)	–	(17,000)	–
2001	1,013,000	–	(511,000)	–	–	502,000
2002	824,000	–	(387,000)	–	–	437,000
2003	973,000	–	(562,000)	–	–	411,000
2004	1,201,000	–	–	(14,000)	–	1,187,000
2005	–	1,606,000	–	(10,000)	–	1,596,000
	4,611,000	1,606,000	(2,043,000)	(24,000)	(17,000)	4,133,000
Exercisable at end of the year						
Weighted average exercisable price	$10.27	$18.21	$9.11	$15.49	$10.12	$13.90

32. Share Option (continued)

Summary of the Scheme (continued)

In 2004 Year of grant of options	Number of shares Outstanding options at 1st January 2004	Options granted	Options exercised	Options cancelled	Options lapsed at 12th March 2004	Outstanding options at 31st December 2004
1999	494,000	–	(484,000)	–	(10,000)	–
2000	711,000	–	(105,000)	(6,000)	–	600,000
2001	1,065,000	–	(46,000)	(6,000)	–	1,013,000
2002	964,000	–	(134,000)	(6,000)	–	824,000
2003	986,000	–	–	(13,000)	–	973,000
2004	–	1,210,000	–	(9,000)	–	1,201,000
	4,220,000	1,210,000	(769,000)	(40,000)	(10,000)	4,611,000
Exercisable at end of the year						
Weighted average exercisable price	$8.91	$13.55	$8.07	$9.34	$7.02	$10.27

Details of the share options held by the directors included in the above table are as follows:

In 2005 **Year of grant of options**	**Number of shares** **Outstanding options at 1st January 2005**	**Options granted**	**Options exercised**	**Options lapsed at 14th February 2005**	**Outstanding options at 31st December 2005**
2000 – 2005	**2,920,000**	**770,000**	**(1,400,000)**	**–**	**2,290,000**

In 2004 Year of grant of options	Number of shares Outstanding options at 1st January 2004	Options granted	Options exercised	Options lapsed at 12th March 2004	Outstanding options at 31st December 2004
1999 – 2004	2,605,000	700,000	(385,000)	–	2,920,000

The options were exercised during the year and the weighted average price of the shares on the exercise date was HK$15.20.

32. Share Option (continued)

Summary of the Scheme (continued)

Details of Options granted in each year are as follows:

Year	Date of grant	Exercisable period	Subscription price per share (HK$)
1999	12/3/1999	13/3/2001 – 12/3/2004	7.020
2000	14/2/2000	15/2/2002 – 14/2/2005	10.116
2001	16/1/2001	17/1/2003 – 16/1/2006	13.392
2002	28/1/2002	29/1/2004 – 28/1/2007	8.440
2003	10/2/2003	11/2/2005 – 10/2/2008	4.625
2004	16/3/2004	17/3/2006 – 16/3/2009	13.550
2005	17/3/2005	18/3/2007 – 17/3/2010	18.210

Notes:

(i) Options granted in 1999 were granted under the previous scheme which expired on 16th March 1999. Options granted in 2000 to 2005 were granted under the Scheme of the Company adopted on 10th June 1999.

(ii) Consideration paid for each grant of an option was HK$1.00.

(iii) The closing price of the shares of HK$0.50 each of the Company quoted on the Stock Exchange on 7th February 2003, 15th March 2004 and 16th March 2005, being the business date immediately before the date on which share options were granted, were HK$4.55, HK$13.5 and HK$18.05 respectively.

(iv) The vesting period for the option grant is 24 months from date of grant.

32. Share Option (continued)

Summary of the Scheme (continued)

Notes: (continued)

(v) The following significant assumptions were used to derive the fair value, using the Black-Scholes option pricing model:

Date of grant:	17/3/2005	16/3/2004	10/2/2003
Exercise price:	HK$18.21	HK$13.55	HK$4.625
Expected volatility (note a):	41.88%	46.49%	32%
Expected dividend yield (note b):	0.95%	0.96%	2.82%
Expected life from grant date:	5 years	5 years	5 years
Risk free interest rate (note c):	3.81%	2.52%	2.98%
Fair value per option:	HK$6.63	HK$5.43	HK$1.15

Notes:

(a) The expected volatility was based on historical volatility.

(b) The expected dividend yield was based on historical dividends.

(c) Risk free interest rate was approximate yield of 5-year Exchange Fund Note on the grant date.

All the options forfeited before expiry of the options will be treated as lapsed options under the relevant share option scheme.

33. Retirement Benefit Schemes

The Group has established various retirement benefit schemes for the benefit of its staff in Hong Kong and overseas. In Hong Kong, the Group operates several defined contribution schemes for qualifying employees. The schemes are registered under the Occupational Retirement Schemes Ordinance. The assets of the schemes are administered by independent third parties and are held separately from the Group's assets. The schemes are funded by contributions from both employees and employers at rates ranging from 5% to 10% of the employee's basic monthly salary. Arrangements for staff retirement benefits of overseas employees vary from country to country and are made in accordance with local regulations and custom.

The Occupational Retirement Scheme in Hong Kong had been closed to new employees as a consequence of the new Mandatory Provident Fund Pension Legislation introduced by The Government of Hong Kong Special Administration Region in 2000.

From 1st December, 2000 onwards, new staff in Hong Kong joining the Group are required to join the new Mandatory Provident Fund Scheme. The Group is required to contribute 5% to 10%, while the employees are required to contribute 5% of their salaries to the Scheme.

Forfeited contributions to retirement schemes for the year ended 31st December 2005 amounting to approximately HK$1,031,000 (2004: HK$826,000) have been used to reduce the existing level of contributions. Total contributions to retirement fund schemes for the year ended 31st December 2005 charged to the income statement amounted to approximately HK$34,543,000 (2004: HK$29,401,000). As at 31st December 2005, contributions of approximately HK$301,000 (2004: HK$1,256,000) due in respect of the year had not been paid over to the schemes.

34. Disposal of Property Investment Subsidiaries

During the year ended 31st December 2004, the Group had disposed of its subsidiaries, Bright View Holdings Limited and Capital Win Development Limited. The net assets of these subsidiaries at the date of disposal were as follows:

	2004 HK$'000 (restated)
NET ASSETS DISPOSED OF:	
Investment properties	124,200
Debtors, deposits and prepayments	1,027
Creditors, deposits and accruals	(1,444)
Provision for taxation	(24)
Deferred taxation	(826)
	122,933
Gain on disposal of property investment subsidiaries	51,862
Total consideration	174,795
Satisfied by:	
Cash	174,795
Cash inflow arising on disposal:	
Cash consideration	174,795

The subsidiaries disposed of during last year contributed approximately HK$3,671,000 to the Group's turnover and approximately HK$3,143,000 to the Group's profit from operations. The subsidiaries disposed of during the year had no significant impact on cash flows of the Group.

35. Major Non-cash Transaction

During the year, 2,992,910 (2004: 4,690,857) shares of HK$0.50 each in the Company were issued at HK$17.18 (2004: HK$9.52) per share as scrip dividends.

36. Pledge of Assets

At 31st December 2005, the Group pledged their following assets for credit facilities granted to the Group:

(a) the Group's investment properties with a total carrying value of approximately HK$37,005,245,000 (2004: HK$24,758,633,000) together with assignments of sales proceeds, insurance proceeds, rental income, revenues and all other income generated from the relevant properties;

(b) the Group's hotel buildings and prepaid land costs with a total carrying value of approximately HK$6,928,278,000 and HK$1,865,132,000 (2004: HK$7,107,110,000 and HK$1,909,739,000) respectively;

(c) the Group's owner use properties and prepaid land costs with a total carrying value of approximately HK$213,033,000 and HK$20,365,000 (2004: HK$9,420,000 and HK$20,529,000) respectively;

(d) the Group's non-current assets held for sale of approximately HK$253,800,000 (2004: HK$nil); and

(e) bank deposits of HK$489,346,000 (2004: HK$3,604,000).

37. Commitments and Contingent Liabilities

At 31st December 2005, the Group has authorised capital expenditure not provided for in these financial statements amounting to approximately HK$11,911,000 (2004: HK$33,625,000) of which approximately HK$8,522,000 (2004: HK$18,821,000) was contracted for.

Other than set out above, the Group did not have any significant commitments and contingent liabilities at 31st December 2005.

38. Operating Lease Arrangements

The Group as lessor

Property rental income earned during the year was HK$959,537,000 (2004: HK$660,570,000). The properties held had committed leases typically running for one to six years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments in respect of investment properties which fall due as follows:

	2005	2004
	HK$'000	HK$'000
Within one year	**874,890**	773,061
In the second to fifth years inclusive	**1,436,708**	1,544,359
After five years	**200,021**	265,897
	2,511,619	2,583,317

Certain future minimum lease payments are calculated based on the estimated market rent to be received from the contracted tenants during specified time intervals of the contracted period as stipulated in the lease agreement.

The Group as lessee

At the balance sheet date, the Group has outstanding commitments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2005	2004
	HK$'000	HK$'000
Within one year	**2,836**	1,446
In the second to fifth years inclusive	**1,479**	466
	4,315	1,912

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for term of one to three years and rental are fixed over the respective leases.

39. Related Party Transactions

The Group had the following significant related party transactions during the year and balances at the balance sheet date with certain companies in which some shareholders and directors of the Company have beneficial interests. The transactions were carried out in the normal course of the Group's business on terms mutually agreed between the parties.

	2005	2004
	HK$'000	HK$'000
		(restated)
Transactions for the year ended 31st December		
Trading income	**1,613**	2,355
Rental income	**1,483**	1,670
Management fee received	**240**	240
Rental charges paid for Director's accommodation	**1,950**	2,400
Cost and expenses incurred for super-structural works	**97,415**	765,003
Payment for renovation works	**2,316**	3,013
Balances as at 31st December		
Amounts due from minority shareholders (see note 22)	**265,967**	257,860
Amounts due from associates (see note 22)	**12,377**	12,377
Debtors, deposits and prepayments (see note a)	**4,306**	3,543
Creditors, deposits and accruals (see note b)	**477,034**	561,951

Notes:

a. The amounts represent the trade receivables from the related companies. The amounts are unsecured, interest-free and have no fixed repayment terms. The fair value of debtors, deposits and prepayments at the balance sheet date approximates to the corresponding carrying amount.

b. The amounts represent the construction fee payable to the related companies. The amounts are unsecured, interest-free and have no fixed repayment terms. The fair value of creditors, deposits and accruals at the balance sheet date approximates to the corresponding carrying amount.

c. The remuneration of directors and other members of key management during the year were disclosed in note 13. The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

40. Particulars of the Principal Subsidiaries

Details of the Company's principal subsidiaries at 31st December 2005 are set out below:

Direct subsidiary	Issued and paid up equity share capital	Principal activity	Percentage of issued equity share capital held by the Company
– incorporated and operating in the British Virgin Islands:			
Jolly Trend Limited	2 shares of US$1 each	Investment holding	100%

Indirect subsidiaries	Issued and paid up equity share capital	Principal activities	Percentage of issued equity share capital held by the Company
– incorporated and operating in Hong Kong:			
Bon Project Limited	2 shares of HK$1 each	Property investment	100%
Chance Mark Limited	2 shares of HK$1 each	Property investment	100%
Clever Gain Investment Limited	2 shares of HK$1 each	Restaurant operation	100%
CP (Portion A) Limited	2 shares of HK$1 each	Property investment	100%
CP (Portion B) Limited	2 shares of HK$1 each	Property investment	100%
Ease Billion Development Limited	2 shares of HK$1 each	Property investment	100%
Easy Wealth Limited	2 shares of HK$1 each	Property investment	100%
Eaton House International Limited	2 shares of HK$10 each	Management of furnished apartments	100%
Fortuna Wealth Company Limited	2 shares of HK$1 each	Property investment	100%
G E Advertising Agency Limited	2 shares of HK$1 each	Advertising agency	100%
Gold Epoch Investment Limited	2 shares of HK$1 each	Property investment	100%

40. Particulars of the Principal Subsidiaries (continued)

Indirect subsidiaries	Issued and paid up equity share capital	Principal activities	Percentage of issued equity share capital held by the Company
– incorporated and operating in Hong Kong: (continued)			
Grow On Development Limited	5,000 shares of HK$1 each	Hotel ownership and operation	100%
Harvest Star International Limited	2 shares of HK$1 each	Hotel ownership and operation	100%
Keysen Engineering Company, Limited	2 shares of HK$1 each	Maintenance services	100%
Langham Hotels International Limited	2 shares of HK$1 each	Hotel management	100%
Langham Place Hotel (HK) Limited	2 shares of HK$1 each	Hotel ownership and operation	100%
Longworth Management Limited	10,000 shares of HK$1 each	Property management	100%
Million Prime Company Limited	2 shares of HK$1 each	Property investment	100%
Moon Yik Company, Limited	10,000,000 shares of HK$1 each	Property investment	100%
Panhy Limited	2 shares of HK$1 each	Property investment	100%
Renaissance City Development Company Limited	2 shares of HK$10 each	Property investment	100%
Selex Properties Management Company, Limited	2 shares of HK$1 each	Property management	100%
Strong Dynamic Limited	2 shares of HK$1 each	Fitness Centre Operation	100%
The Great Eagle Company, Limited	2,000,000 shares of HK$0.5 each	Investment holding	100%
The Great Eagle Development and Project Management Limited	2 shares of HK$10 each	Project management	100%
The Great Eagle Engineering Company Limited	2 shares of HK$1 each	Maintenance services	100%

40. Particulars of the Principal Subsidiaries (continued)

Indirect subsidiaries	Issued and paid up equity share capital	Principal activities	Percentage of issued equity share capital held by the Company
– incorporated and operating in Hong Kong: (continued)			
The Great Eagle Estate Agents Limited	2 shares of HK$10 each	Real estate agency	100%
The Great Eagle Finance Company, Limited	100,000 shares of HK$100 each	Financing	100%
The Great Eagle Insurance Company, Limited	1,000 shares of HK$1 each	Insurance agency	100%
The Great Eagle Properties Management Company, Limited	100,000 shares of HK$1 each	Property management	100%
Toptech Co. Limited	600,000 shares of HK$1 each	Trading of building materials	100%
Venus Glory Company Limited	2 shares of HK$1 each	Property investment	100%
Well Charm Development Limited	2 shares of HK$1 each	Property investment	100%
Worth Bright Company Limited	2 shares of HK$1 each	Property investment	100%
Zamanta Investments Limited	100 shares of HK$10 each	Property investment	100%
Maple Court Limited	2 shares of HK$1 each	Property investment	85.93%
Missleton Finance Limited	1,000,000 shares of HK$1 each	Financing	85.93%
Shine Hill Development Limited	1,000,000 shares of HK$1 each	Property investment	85.93%
– incorporated in the British Virgin Islands and operating in United Kingdom:			
Great Eagle Hotels (UK) Limited	1 share of US$1	Hotel ownership and operation	100%

40. Particulars of the Principal Subsidiaries (continued)

Indirect subsidiaries	Issued and paid up equity share capital	Principal activities	Percentage of issued equity share capital held by the Company
– incorporated and operating in Canada:			
Great Eagle Hotels (Canada) Limited	10 common shares of C$1 each	Hotel ownership and operation	100%
– incorporated in the British Virgin Islands and operating in Australia:			
Katesbridge Group Limited	1 share of US$1	Investment holding	100%
– incorporated and operating in Australia:			
Southgate Hotel Management Pty. Ltd.	17,408 shares of A$2 each	Hotel operation	100%
– incorporated in the British Virgin Islands and operating in New Zealand:			
Great Eagle Hotels (New Zealand) Limited	1 share of US$1	Property investment	100%
– incorporated and operating in New Zealand:			
Great Eagle Hotels (Auckland) Limited	1,000 shares of no par value	Hotel operation	100%

40. Particulars of the Principal Subsidiaries (continued)

Indirect subsidiaries	Issued and paid up equity share capital	Principal activities	Percentage of issued equity share capital held by the Company
– incorporated and operating in USA:			
EIH Properties Company – XX, LLC	US$1,000	Property investment	100%
Pacific Dolphin Corporation	100 shares of no par value	Property investment	100%
Pacific Spear Corporation	100 shares of US$0.001 each	Property investment	100%
Pacific 2700 Ygnacio Corporation	100 shares of US$1 each	Property investment	100%
Pacific Ygnacio Corporation	100 shares of no par value	Property investment	100%
Shorthills NJ, Inc.	100 shares of US$1 each	Property investment	100%

Note: All these subsidiaries have no debt securities subsisting at the end of the year or at any time during the year.

The Directors are of the opinion that a complete list of the particulars of all subsidiaries will be of excessive length and therefore the above list contains only the particulars of the subsidiaries which principally affect the results or assets and liabilities of the Group.

41. Particulars of the Principal Associates

Details of the Group's principal associates at 31st December 2005 are set out below:

Indirect associates	Issued and paid up equity share capital	Principal activities	Percentage of issued equity share capital held by the Group
City Apex Limited	3,500 of US$1 each	Investment holding	23%
Recruit Holdings Limited	274,218,000 of HK$0.2 each	Investment holding and publishing	22.98%