for the year ended 31st December, 2005

1. General

The Company is a listed public limited company incorporated in the Hong Kong Special Administrative Region ("Hong Kong"). Its ultimate holding company is Allied Group Limited ("Allied Group"), a listed public limited company which is also incorporated in Hong Kong.

The address of the registered office is 22nd Floor Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong.

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

The Company acts as an investment holding company. The principal activities of its principal subsidiaries, associates and jointly controlled entities are set out in notes 52, 53 and 54 respectively.

2. Application of Hong Kong Financial Reporting Standards

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates or jointly controlled entities has 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 years are prepared and presented.

Business combinations

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

Goodwill

In previous years, goodwill arising on acquisitions prior to 1st January, 2001 was held in reserves, and goodwill arising on acquisitions after 1st January, 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously recognised in reserves has been transferred to the Group's accumulated profits on 1st January, 2005. With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1st January, 2005 onwards and goodwill will be tested for impairment at least annually as well as in the financial year in which the acquisition takes place. Goodwill arising on acquisitions after 1st January, 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period. Comparative figures for 2004 have not been restated.

2. Application of Hong Kong Financial Reporting Standards (Cont'd)

Business combinations (Cont'd)

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous years, negative goodwill arising on acquisitions prior to 1st January, 2001 was held in reserves, and negative goodwill arising on acquisitions after 1st January, 2001 was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group has derecognised all negative goodwill at 1st January, 2005.

Interests in jointly controlled entities

In previous years, interests in jointly controlled entities were accounted for using the equity method. In the current year, the Group has applied HKAS 31 "Interests in Jointly Controlled Entities" which allows entities to use either proportionate consolidation or the equity method to account for its interests in jointly controlled entities. Upon the application of HKAS 31, the Group has elected to continue applying the equity method to account for its interests in jointly controlled entities. As a result, there has been no change in accounting method in respect of the Group's interests in jointly controlled entities.

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 financial instruments in the financial statements. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit an entity 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.

for the year ended 31st December, 2005

2. Application of Hong Kong Financial Reporting Standards (Cont'd)

Financial instruments (Cont'd)

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

At 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 were classified as "trading securities", "non-trading securities" or "held-to-maturity investments" as appropriate. Both "trading securities" and "non-trading securities" were measured at fair value. Unrealised gains or losses of "trading securities" were reported in the profit or loss for the period in which gains or losses arose. Unrealised gains or losses of "non-trading securities" were reported in equity until the securities were sold or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for that period. From 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. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

The effect of redesignation of investments together with their reclassification at 1st January, 2005 on the adoption of HKAS 39 is summarised in the table below:

				New designation on 1st January, 2005						
	As originally stated at 31st December, 2004 HK$'000	Effect on adoption of HKAS 39 HK$'000	As restated at 1st January, 2005 HK$'000	Intangible assets HK$'000	Available-for-sale financial assets HK$'000	Statutory deposits HK$'000	Loans and receivables HK$'000	Financial assets at fair value through profit or loss HK$'000	Accounts receivable, deposits and prepayments HK$'000	Accounts payable and accrued charges HK$'000
The Group										
Investment in securities										
Non-trading securities	784,778	(2,096)	782,682	–	747,363	–	35,319	–	–	–
Trading securities	48,263	22	48,285	–	–	–	–	48,285	–	–
Other investments										
Club debentures and exchange participation rights *	9,195	–	9,195	9,195	–	–	–	–	–	–
Statutory deposits and other deposits with Exchange and Clearing Companies	26,624	–	26,624	–	–	26,624	–	–	–	–
Amounts due from investee companies, less impairment losses	92,774	(1,447)	91,327	–	–	–	87,921	250	3,156	–
Amounts due to investee companies	(1,891)	–	(1,891)	–	–	–	–	–	–	(1,891)
				9,195	747,363	26,624	123,240	48,535	3,156	(1,891)
The Company										
Other investments										
Club debentures*	510	–	510	510	–	–	–	–	–	–

* Following the adoption of HKAS 39, the Group has reclassified its exchange participation rights and club debentures which were previously grouped under "other investments" to "intangible assets".

for the year ended 31st December, 2005

2. Application of Hong Kong Financial Reporting Standards (cont'd)

Financial instruments (Cont'd)

In addition, warrants of a listed associate and amounts due from associates, which were previously grouped under "interests in associates", together with their reclassification at 1st January, 2005 on the adoption of HKAS 39 are as follows:

	Carrying value HK$'000	Amounts due from HK$'000	Total HK$'000
Interests in associates			
As originally stated at 31st December, 2004	2,340,530	142,583	2,483,113
Share of prior year adjustments of associates	(20,093)	–	(20,093)
As restated	2,320,437	142,583	2,463,020
Adjustments made on 1st January, 2005			
– Adoption of HKAS 39 #	2,469	–	2,469
– Adoption of HKFRS 3, HKASs 36 and 38	153,481	–	153,481
– Share of associates	7,298	–	7,298
	2,483,685	142,583	2,626,268
Less: reclassification			
– Warrants reclassified to financial assets at fair value through profit or loss #	(2,469)	–	(2,469)
– Loan note reclassified to loans and receivables	–	(78,000)	(78,000)
– Amounts due from associates reclassified to accounts receivables, deposits and prepayments	–	(282)	(282)
	2,481,216	64,301	2,545,517

\# The warrants of a listed associate which were previously grouped under "interests in associates" are classified as "financial assets at fair value through profit or loss" and carried at fair value in accordance with the provisions of HKAS 39.

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.

2. Application of Hong Kong Financial Reporting Standards (Cont'd)

Financial instruments (Cont'd)

Bad and doubtful debts

In previous years, allowances for bad and doubtful debts were made having regard to those losses that, although not yet specifically identified, are known from experience to be present in the Group's portfolio of loans and advances and accounts receivable. In determining the level of allowance required, management considered numerous factors including but not limited to, domestic and international economic conditions, the composition of the loan portfolio and accounts receivable and prior loss experience in respect of loans and advances and accounts receivable.

On adoption of HKAS 39, impairment provisions for advances assessed individually are calculated using a discounted cash flow analysis for the impaired advances. Collective assessment of impairment for individually insignificant items or items where no impairment has been identified on an individual basis is made using formula based approaches and statistical methods. Impairment provisions for advances will be presented as individually assessed and collectively assessed instead of general provisions.

Owner-occupied leasehold interest in land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model, as appropriate. 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 land lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively. 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.

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 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 Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1st January, 2005 onwards. The amount held in property revaluation reserve has been transferred to the Group's accumulated profits on 1st January, 2005.

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2. Application of Hong Kong Financial Reporting Standards (Cont'd)

Investment properties (Cont'd)

The adoption of HKAS 40 has resulted in a change of classification of certain properties which were previously classified as investment properties in accordance with SSAP 13. In previous years, property with 15% or less by area of value that was occupied by the company or another company in the group should normally be regarded as an investment property in its entirety even though part of it is not held for investment purposes. HKAS 40 requires that, 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 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 of such owner-occupied properties that could be sold separately (or leased out separately under a finance lease) from investment properties to property, plant and equipment retrospectively. Comparative figures for 2004 have been restated.

Hotel properties

In previous years, the Group's self-operated hotel properties were carried at revalued amounts and were not subject to depreciation. Hong Kong Interpretation 2 "The Appropriate Accounting Policies for Hotel Properties" ("HK-INT 2") requires owner-operated hotel 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 these hotel properties using the cost model. In the absence of any specific transitional provisions in HK-INT 2, the new accounting policy has been applied retrospectively. Comparative figures for 2004 have been restated.

Intangible assets

The adoption of HKAS 38 results in a change of the useful lives of intangible assets according to the provisions of HKAS 38. Certain exchange participation rights with amortisation on a straight line basis over its estimated useful lives of five years before 1st January, 2005 were changed to indefinite useful life on that date. Accumulated amortisation as at 31st December, 2004 has been eliminated with a corresponding decrease in the cost of these intangible assets.

Deferred taxes related to investment properties

In previous years, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor interpretation (SSAP- Interpretation 20). In the current year, the Group has applied HKAS Interpretation 21 (HKAS "INT-21") "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 value of the property at each balance sheet date. In the absence of any specific transitional provisions in HKAS INT-21, this change in accounting policy has been applied retrospectively. Comparative figures for 2004 have been restated.

2. Application of Hong Kong Financial Reporting Standards (Cont'd)

Effect of the changes in accounting policies

The effects of the above changes to the Group's accounting policies as a result of the new HKFRSs on the Group's financial results for the year are summarised in note 3.

Potential impact arising on the new accounting standards not yet effective

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective and are pertinent to the operation of the Group. The Directors anticipate that the application of these standards and 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)	Net Investments in a Foreign Operation[2]
HKAS 39 (Amendment)	The Fair Value Option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial Guarantee Contracts[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HK(IFRIC)-Int 4	Determining whether an Arrangement Contains a Lease[2]

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

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

for the year ended 31st December, 2005

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

The effects of the changes in the accounting policies described in note 2 above on the results for the current and prior years are as follows:

	2005 HK$'000	2004 HK$'000
Decrease in amortisation of intangible assets	**846**	–
Release of negative goodwill and capital reserve and decrease in amortisation of goodwill	**(201,751)**	–
Decrease in changes in fair value of investment properties arising from reclassification of investment properties to property, plant and equipment	**(28,992)**	(39,087)
Increase in deferred tax charge in relation to investment properties	**(34,178)**	(42,960)
Increase in depreciation arising from reclassification of investment properties to property, plant and equipment	**(3,064)**	(2,176)
Increase in amortisation of prepaid land lease payments	**(2,733)**	(2,636)
Loss arising from changes in fair value of financial liabilities, measured at fair value through profit or loss	**(1,914)**	–
Tax on loss arising from fair value changes of financial assets and liabilities, measured at fair value through profit or loss	**2**	–
Increase in finance costs	**(8,692)**	–
(Increase) decrease in deferred tax charge arising from restatement of property at cost	**(18)**	5
Increase in depreciation arising from restatement of property at cost	**(449)**	(31)
Increase in depreciation arising from reinstatement costs	**(260)**	(204)
Increase in deferred tax charge arising from reclassification of land premium to prepaid land lease payments	**(155)**	(90)
Increase (decrease) in share of results of associates	**117,210**	(5,492)
Increase (decrease) in share of results of jointly controlled entities	**60,553**	(14,323)
Decrease in profit for the year	**(103,595)**	(106,994)
Attributable to:		
Equity holders of the Company	**(125,306)**	(105,479)
Minority interests	**21,711**	(1,515)
	(103,595)	(106,994)

for the year ended 31st December, 2005

3. Summary of the Effects of the Changes in Accounting Policies (Cont'd)

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

	2005 **HK$'000**	2004 HK$'000
Decrease in other income	**(1,914)**	–
Increase in other operating expenses	**(5,400)**	(4,880)
Increase in administrative expenses	**(260)**	(204)
Decrease in changes in fair value of investment properties	**(28,992)**	(22,669)
Reclassification of impairment losses recognised in respect of non-trading securities	**–**	(16,418)
Decrease in release of negative goodwill	**(155,219)**	–
Decrease in amortisation of capital reserve	**(17,267)**	–
Increase (decrease) in share of results of associates	**87,945**	(5,455)
Increase (decrease) in share of results of jointly controlled entities	**60,553**	(14,323)
Increase in finance costs	**(8,692)**	–
Increase in taxation	**(34,349)**	(43,045)
	(103,595)	(106,994)

for the year ended 31st December, 2005

3. Summary of the Effects of the Changes in Accounting Policies (Cont'd)

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

	At 31st December, 2004 (Originally stated) HK$'000	Adjustments HK$'000 (Note)	At 31st December, 2004 (Restated) HK$'000	Adjustments HK$'000	At 1st January, 2005 (Restated) HK$'000
Investment properties	2,611,336	(395,668)	2,215,668	–	2,215,668
Property, plant and equipment	130,199	67,757	197,956	–	197,956
Interests in associates	2,483,113	(20,093)	2,463,020	82,497	2,545,517
Interests in jointly controlled entities	1,036,507	(218,709)	817,798	–	817,798
Prepaid land lease payments	–	275,606	275,606	–	275,606
Negative goodwill	(389,264)	–	(389,264)	389,264	–
Deferred tax assets	10,170	109	10,279	–	10,279
Deferred tax liabilities	(25,029)	(158,624)	(183,653)	–	(183,653)
Other assets/liabilities	1,237,542	1,934	1,239,476	91,309	1,330,785
Net assets	7,094,574	(447,688)	6,646,886	563,070	7,209,956
Share capital	1,074,303	–	1,074,303	–	1,074,303
Property revaluation reserve	226,488	(76,575)	149,913	(149,913)	–
Translation reserve	(205,496)	95,512	(109,984)	–	(109,984)
Capital (goodwill) reserve	(39,177)	–	(39,177)	41,987	2,810
Accumulated profits	3,899,912	(461,114)	3,438,798	623,558	4,062,356
Other reserves	862,605	–	862,605	(1,572)	861,033
Minority interests	–	1,270,428	1,270,428	49,010	1,319,438
Total equity	5,818,635	828,251	6,646,886	563,070	7,209,956
Minority interests	1,275,939	(1,275,939)	–	–	–

3. Summary of the Effects of the Changes in Accounting Policies (Cont'd)

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

	At 1st January, 2004 (Originally stated) HK$'000	Adjustments HK$'000	At 1st January, 2004 (Restated) HK$'000
		(Note)	
Share capital	978,768	–	978,768
Property revaluation reserve	245,739	(114,085)	131,654
Translation reserve	(205,761)	95,488	(110,273)
Accumulated profits	939,958	(355,635)	584,323
Other reserves	2,930,610	–	2,930,610
Minority interests	1,148,929	(4,165)	1,144,764
Total equity	6,038,243	(378,397)	5,659,846

Note: The amounts represent adjustments to comparative figures arising from the reclassification of certain investment properties of the Group to property, plant and equipment and prepaid land lease payments as a result of the application of HKASs 3, 16, 17 and 40, recognition of deferred tax liabilities in respect of revalued investment properties in accordance with HKAS INT-21, share of adjustments of associates and jointly controlled entities and changes in presentation of balance sheet items in accordance with HKAS 1. These changes of accounting policies have been applied retrospectively.

Following the adoption of HKAS 39, the Company has reclassified its club debentures which were previously grouped under "other investments" to "intangible assets" at 1st January, 2005.

4. Significant Accounting Policies

Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange") and by the Companies Ordinance.

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 principal accounting policies set out below.

Basis of consolidation

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

4. Significant Accounting Policies (Cont'd)

Basis of consolidation (Cont'd)

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

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

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination (see below) 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.

Business combinations (after 1st January, 2005)

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Investments in subsidiaries

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

Interests in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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4. Significant Accounting Policies (Cont'd)

Interests in associates (Cont'd)
The results and assets and liabilities of associates are incorporated in the financial statements using the equity method of accounting less any identified impairment loss. 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 net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognised.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

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.

Interests in jointly controlled entities
A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control, that is when the strategic financial and operating policy decisions relating to the activities require the unanimous consent of the parties sharing control.

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Group reports its interests in jointly controlled entities using the equity method of accounting less any identified impairment loss. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the jointly controlled entity, less any impairment in the value of individual investments. Losses of jointly controlled entities in excess of the Group's interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity) are not recognised.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the jointly controlled entity recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the joint venture.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Goodwill and negative goodwill (capital reserve)

Goodwill arising on acquisitions prior to 1st January, 2005

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

For previously capitalised goodwill arising on acquisitions before 1st January, 2001, the Group has discontinued amortisation from 1st January, 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired.

Goodwill arising on acquisitions on or after 1st January, 2005

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

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet. Capitalised goodwill arising on an acquisition of an associate or a jointly controlled entity is included in the cost of the investment of the relevant associate or jointly controlled entity.

Impairment testing on capitalised goodwill

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

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

4. Significant Accounting Policies (Cont'd)

Goodwill and negative goodwill (capital reserve) (Cont'd)

Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions")

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

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

Revenue recognition

Revenue is measured at the fair value of consideration received or receivable.

When properties are developed for sale, income is recognised on the execution of a binding sales agreement or when the relevant building occupation permit is issued by the building authority, whichever is the later. Payments received from purchasers prior to this stage are recorded as deposits received, which are shown as a current liability. When the consideration is in the form of cash or cash equivalents, and the receipt of the consideration is deferred, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest.

Rental income, including rentals invoiced in advance from properties under operating leases, is recognised on a straight line basis over the terms of the relevant leases.

Sales of investments are recognised on a trade date or contract date basis, where appropriate.

Service income is recognised when services are provided.

Revenue from hotel operations is recognised when 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 asset to that asset's net carrying amount.

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

4. Significant Accounting Policies (Cont'd)

Revenue recognition (Cont'd)

Commission income is recognised as income on trade date basis.

Underwriting commission, sub-underwriting income, placing commission and sub-placing commission are recognised as income in accordance with the terms and conditions of the relevant agreement or deal mandate when a relevant significant act has been completed.

Fees for management and advisory of funds are recognised when the related services are rendered.

Realised profits or losses from financial assets at fair value through profit or loss and derivative contracts are recognised on a trade date basis whilst the unrealised profits or losses are recognised from valuation at the balance sheet date.

Profits or losses on trading in foreign currencies include both realised and unrealised gains less losses and charges less premium arising from position squaring and valuation at the balance sheet date of foreign currency positions on hand.

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

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases. Rental income from operating leases is recognised 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 on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below).

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 also spread on a straight-line basis over the lease term.

4. Significant Accounting Policies (Cont'd)

Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Hong Kong dollars, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded 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 retranslation of monetary items are included in profit or loss for the period. 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. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in Hong Kong dollars using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such times as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

4. Significant Accounting Policies (Cont'd)

Employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

The contributions payable to the Group's retirement benefit schemes and mandatory provident fund schemes are charged to the income statement when incurred.

Taxation

Taxation 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 income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arise 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 interests in associates and jointly controlled entities, except where the Group as a parent or a venturer is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable 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, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Investment properties

Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at its fair value at the balance sheet date. 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.

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4. Significant Accounting Policies (Cont'd)

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and accumulated impairment losses. Expenditure on major inspections and overhauls of property, plant and equipment is capitalised as a separate component of the relevant asset.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives, using the straight-line method, at the following rates per annum:

Land and buildings	2% to 3% or over the remaining terms of the leases
Leasehold improvements	20%
Furniture, fixtures and equipment	10% to 50%
Motor vehicles and vessels	16⅔% to 20%

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Properties held for development

Freehold land and buildings in the course of development for production, rental or administrative purposes or for purposes not yet determined, are carried at cost, less any impairment loss considered necessary by the Directors. Cost includes freehold land cost, development cost, borrowing cost and other direct costs attributable to such properties, net of any rentals and interest income earned, until the relevant properties reach a marketable state. Depreciation of these assets, calculated on the same basis as other property assets, commences when the assets are put into use.

Prepaid land lease payments

The up-front prepayments made for the leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease.

Intangible assets

On initial recognition, intangible assets acquired separately and from business combinations are recognised at cost and at fair value respectively.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Exchange participation rights and club debentures

They comprise:

- The eligibility right to trade through the Stock Exchange, Hong Kong Futures Exchange Limited and other Exchanges; and

- The eligibility right to use the facilities of various clubs.

4. Significant Accounting Policies (Cont'd)

Intangible assets (Cont'd)

Exchange participation rights and club debentures (cont'd)

The exchange participation rights are considered by the management of the Group as having an indefinite useful life because they are expected to contribute to net cash flows indefinitely. The management also considers that the club debentures does not have a definite useful life. They are carried at cost less any impairment losses and are tested for impairment annually by comparing their recoverable amount with their carrying amount. Useful lives are also examined on an annual basis and adjustments where applicable are made on a prospective basis.

Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised using the straight-line method over their estimated useful lives (three to five years).

Costs associated with developing or maintaining computer software are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised from the dates when the software are available for use using the straight-line method over their estimated useful lives (not exceeding ten years).

Impairment of tangible and intangible assets excluding goodwill and intangible assets with indefinite lives

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered impairment losses. 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.

4. Significant Accounting Policies (Cont'd)

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated balance sheet when the Group 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

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

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4. Significant Accounting Policies (Cont'd)

Financial instruments (Cont'd)

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 through profit or loss in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

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

Financial liabilities and equity

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss has two 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 accounts payable and accrued charges, amount due to Allied Group Limited, amounts due to associates, amounts due to a jointly controlled entity and bank and other borrowings are subsequently measured at amortised cost, using the effective interest rate method.

4. Significant Accounting Policies (Cont'd)

Financial instruments (Cont'd)

Fair value measurement principles

Fair values of quoted investments are based on bid prices. For unlisted securities or financial assets without an active market, the Group establishes the fair value by using valuation techniques including the use of recent arm's length transaction, reference to other investments that are substantially the same, discounted cash flow analysis, and option pricing models.

Equity instruments

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

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost includes freehold and leasehold land cost, development cost, borrowing costs and other direct costs attributable to such properties, until the relevant properties reach a marketable state. Net realisable value is determined by reference to management estimates of the selling price based on prevailing market conditions, less all estimated costs to completion and costs to be incurred in marketing and selling.

Inventories

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

5. Critical Accounting Judgments and Key Sources of Estimation Uncertainty

In preparing these financial statements, management is required to exercise significant judgments in the selection and application of accounting principles, including making estimates and assumptions. The following is a review of the more significant accounting policies that are impacted by judgments and uncertainties and for which different amounts may be reported under a different set of conditions or using different assumptions.

Estimate of fair value of investment properties

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

Impairment allowances on loans and receivables

The Group periodically reviews its loan portfolios to assess whether impairment allowances exist. In determining whether impairment allowances should be recorded in the income statement, the Group has individually evaluated each loan account for impairment after taking into account the value of each client account's underlying collateral and the latest financial position of those borrowers in default of settlement.

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5. Critical Accounting Judgments and Key Sources of Estimation Uncertainty (Cont'd)

Impairment of available-for-sale financial assets

For listed available-for-sale equity investments, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. Judgment is required when determining whether a decline in fair value has been significant or prolonged. In making this judgment, the historical data on market volatility as well as the price of the specific investment are taken into account.

For those unlisted equity investments, the Group determines their fair values by using appropriate valuation techniques and making assumptions that are based on market conditions existing at each balance sheet date. The Group also takes into account other factors, such as industry and sector performance and financial information regarding the investee.

Estimated impairment of goodwill

The Group conducts tests for impairment of goodwill annually in accordance with the relevant accounting standards. Determining whether the goodwill is impaired requires an estimation of the value in use on basis of data available to the Group. Where the future cash flows are less than expected, an impairments loss may arise.

Deferred tax

Estimating the amount for deferred tax asset arising from tax losses requires a process that involves determining appropriate provisions for taxation, forecasting future years' taxable income and assessing the Group's ability to utilise tax benefits through future earnings. In case where the actual future profits generated are less than expected, a reversal of the deferred tax asset may arise, which would be recognised in the income statement for the period in which such a reversal takes place. The Group's deferred tax asset arising from tax losses is mainly from term loan business. While the current financial models indicate that the tax losses can be utilised in future, any changes in assumptions, estimates and tax regulation can affect the recoverability of this deferred tax assets.

Provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event if it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Were the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

for the year ended 31st December, 2005

5. Critical Accounting Judgments and Key Sources of Estimation Uncertainty (Cont'd)

Depreciation and amortisation

The Group's net book value of property, plant and equipment as at 31st December 2005 was HK$209,419,000. The Group depreciates the property, plant and equipment on a straight line basis over the estimated useful life of three to fifteen years, after taking into account of their estimated residual value, using the straight-line method, commencing from the date the property, plant or equipment is placed into productive use. The estimated useful life and dates that the Group places the property, plant or equipment into productive use reflects the directors' estimate of the periods that the Group intend to derive future economic benefits from the use of the Group's property, plant and equipment.

Litigation

Sun Hung Kai Securities Limited ("SHKS"), an indirectly non-wholly owned subsidiary, has obtained leave to appeal the judgment of the Court of Appeal made on 29th June, 2005 ("Court of Appeal Judgment") to the Court of Final Appeal ("Final Appeal") in relation to litigation involving SHKS, New World Development Company Limited ("NWDC") and Stapleton Development Limited ("SDL"). The litigation relates to a disputed interest in a joint venture between NWDC and/or SDL and IGB Corporation Bhd. to purchase land and to build two hotels at the city centre of Kuala Lumpur. The Group's understanding of the effect of the Court of Appeal Judgment is that SHKS now effectively owns 25% ("SHKS Interest") of NWDC's entire interest in the joint venture. The Final Appeal will be heard between 19th June, 2006 and 21st June, 2006. The Group has considered that it is not possible to decide with any degree of accuracy as to what the final position may be.

At 31st December, 2005, a sum of HK$118,003,000 representing SHKS Interest was recognised, as amounts due from investee companies under Loans and Receivables. In addition, contingent liabilities amounting to approximately HK$37,500,000 have been disclosed regarding the payments demanded by NWDC for what it asserts as pro-rata shareholders' contributions advanced by NWDC on behalf of SHKS. Furthermore, included in the 2004 income statement was a sum of HK$2,934,000 representing the interest expense paid by SHKS to NWDC pursuant to the 1st April, 2004 judgment of the High Court of Hong Kong (the "Judgment") on shareholders' contributions advanced by NWDC on behalf of SHKS. The nature of the interests and the uncertainty of the Final Appeal result in a situation where it is not possible to decide with any degree of accuracy as to what the final position may be. This in turn affects the recovery of the above mentioned receivables or interest payments and the crystallisation or discharge of the above mentioned contingent liabilities. The Group has thus decided that it is not presently appropriate to make any impairment allowance for the above mentioned receivables, any provisions in respect of the above mentioned contingencies, or any recoveries of the above mentioned interest expenses. Details of the receivables, contingent liabilities and interest expenses are disclosed in notes 28, 44, and 12 respectively.

6. Financial Risk Management Objectives and Policies

The Group's activities expose it to a variety of financial risks: market risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

6. Financial Risk Management Objectives and Policies (Cont'd)

The Group has established policies and procedures for risk management which are reviewed regularly by the management and the credit & risks management committee ("CRM"), which reports to the executive committee of the concerned group company, to ensure the proper monitoring and control of all major risks arising from the Group's activities at all times. The concerned internal audit and compliance department ("IAC") (which reports independently to respective chairman and the audit committee) also performs regular reviews to supplement the various internal control measures adopted by the management and various divisions within the Group, to ensure compliance with policies and procedures.

Market risk

(i) Trading Risk

Market risk arises from trading activities, including market-making and proprietary trading. Trading activities across the Group are subject to limits approved by management. The Group's trading risk control unit ("TRCU") of the concerned group company independently monitors and reports the positions, risks and profit and loss of its proprietary trading activities involving derivatives, foreign exchange and bullion. In addition to the TRCU, part of the Group's proprietary trading exposure is closely monitored by the credit department. Proprietary trading exposures are measured on both a "mark-to-market" and a "mark-to-fair" basis, and "maximum loss" and "position" limits are used. Value at Risk ("VaR") and stress-tests are also used in the assessment of risk. These are approaches that assist in the quantification of risk by combining the size of a position and the extent of a potential market movement into a potential impact on the profit and loss.

The Group's various proprietary trading positions and the profit and loss are reported daily to senior management for review. The Group's IAC also performs audits to supplement the above controls to ensure compliance with the established market risk limits and guidelines.

(ii) Foreign Exchange Risk

Foreign exchange risk is the risk to earnings or capital arising from movements of foreign exchange rates.

The Group's foreign exchange risk primarily arises from currency exposures originating from its leveraged foreign exchange business or purchases of foreign securities on behalf of clients. Foreign exchange risk is managed and monitored by the relevant department under the limits approved by the management. In relation to our leveraged foreign exchange activity, our position is that of a market-maker, and accordingly our risk is our open currency positions which are subject to management approved limits and are monitored and reported daily. The other possible risk is primarily a derivative foreign exchange risk for a client who does not or cannot meet margin calls following any period of substantial currency turbulence. Our principal lending operations are carried out in local currency to obviate foreign exchange risk. Accordingly, the Group has no significant exposure to foreign exchange fluctuations on loan assets.

6. Financial Risk Management Objectives and Policies (Cont'd)

Credit risk

Credit risk arises from a number of areas. These include the possibility that a customer or counter-party in a transaction may default during the settlement process. It also arises from lending, settlement, treasury, market-making, derivatives, proprietary trading, rental business and hotel operation and other activities undertaken by the Group.

The Group's credit manual sets out in detail the credit approval and monitoring procedures, which are established in accordance with sound business practices, the requirements and provisions of the relevant ordinances, and where applicable, the codes or guidelines issued by the Securities and Futures Commission.

Day-to-day credit management is performed by the credit department with reference to the aforementioned criteria including creditworthiness, collateral pledged, and risk concentration of the counter-parties. Decisions made daily by the credit department are reported and reviewed by the management of the Group and by the CRM at its regular meetings.

Liquidity risk

The Group manages its liquidity position to ensure the Group maintains a prudent and adequate liquidity ratio, in strict accordance with statutory requirements. This is achieved by the management, monitoring the liquidity position of the Group on a daily basis to ensure the availability of sufficient liquid funds to meet all obligations and compliance with the statutory requirements such as the Financial Resources Rules applying to various licensed subsidiaries.

Interest rate risk

Interest rate risk primarily results from timing differences in the re-pricing of interest bearing assets, liabilities and commitments. The Group's interest rate risk exposure arises mainly from margin financing and other lending activities undertaken. The Group has the legal capacity to quickly recall such loans or re-price its margin loans to an appropriate level. Its interest-sensitive positions can readily be identified. Interest rates paid by the Group are managed by the finance department with the aim of maximising the spread of interest consistent with liquidity and funding obligations. Most of the Group's bank borrowings are subject to floating interest rates.

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6. Financial Risk Management Objectives and Policies (Cont'd)

Interest rate risk (cont'd)

The exposure of the Group's material fixed-rate assets and liabilities to fair value interest rate risk and their contractual maturity dates are as follows:

	Interest rates	In first year HK$'000	In second year HK$'000	In third year HK$'000	In fourth year HK$'000	In fifth year HK$'000	More than 5 years HK$'000	Total HK$'000
At 31st December, 2005								
Fixed deposits	0.28% to 7.25%	110,902	–	–	–	–	–	110,902
Treasury bills	3.78%	7,680	–	–	–	–	–	7,680
Loan note due from a listed associate	2.5%	–	–	78,000	–	–	–	78,000
Bank loans	4.85% to 5.35%	(255,000)	–	–	–	–	–	(255,000)
Loan notes (note)	7.9%	–	–	(64,252)	–	–	–	(64,252)
At 31st December, 2004								
Fixed deposits	0.01% to 7.50%	144,181	–	–	–	–	–	144,181
Loan note due from a listed associate	2.5%	–	–	–	78,000	–	–	78,000
Marketable debt securities	1.86%	7,741	–	–	–	–	–	7,741
Loan notes (note)	7.9%	–	–	–	(129,637)	–	–	(129,637)

Note: The coupon rate of the loan notes is 4.00% per annum. The interest rate disclosed in the table above represents the effective interest rate applied in calculating the corresponding amortised cost of the loan notes.

The exposure of the Group's material floating rate assets and liabilities to cash flow interest rate risk and their contractual maturity dates are as follows:

	Interest rates	In first year HK$'000	In second year HK$'000	In third year HK$'000	In fourth year HK$'000	In fifth year HK$'000	More than 5 years HK$'000	Total HK$'000
At 31st December, 2005								
Secured margin loans	7.00% to 30.00%	N/A	N/A	N/A	N/A	N/A	N/A	1,293,285
Term loans	7.00% to 26.82%	371,909	–	–	–	–	–	371,909
Bank overdrafts	4.85% to 8.50%	(83,040)	–	–	–	–	–	(83,040)
Bank loans	4.89% to 6.69%	(612,193)	(606,939)	(36,119)	(100,473)	(74,622)	(57,610)	(1,487,956)
At 31st December, 2004								
Secured margin loans	4.00% to 30.00%	N/A	N/A	N/A	N/A	N/A	N/A	1,441,056
Term loans	5.00% to 26.82%	181,310	3,200	–	–	–	–	184,510
Bank overdrafts	5.5%	(57,905)	–	–	–	–	–	(57,905)
Bank loans	1.15% to 3.00%	(545,275)	(226,738)	(613,160)	(28,981)	(91,328)	(86,362)	(1,591,844)

for the year ended 31st December, 2005

7. Revenue#

Revenue represents the gross proceeds received and receivable derived from the sale of properties, securities trading and broking, income from property rental, hotel operations and property management services, interest and dividend income, income from corporate finance and advisory services, and income from securities margin financing and term loan financing and insurance broking services, and the following stated net of losses: income from bullion transactions and differences on foreign exchange transactions.

	2005	2004
	HK$'000	HK$'000
Securities broking	**225,664**	236,854
Interest income	**180,696**	171,510
Property rental, hotel operations and management services	**173,358**	169,935
Income from corporate finance and others	**169,297**	156,849
Income from forex, bullion, commodities and futures	**149,289**	149,380
Securities trading	**203,993**	145,205
Dividend income	**41,856**	73,653
Sale of properties	**–**	24,783
	1,144,153	1,128,169

Revenue is also the Group's turnover.

8. Segmental Information

The Group has the following main business segments:

– Investment, broking and finance – trading in securities, provision of securities broking and related services, provision of broking services in forex, bullion and commodities, provision of securities margin financing and insurance broking services, provision of related financing and advisory products, and provision of term loan financing.

– Property rental, hotel operations and management services – property rental, hotel operations managed by third parties and provision of property management services.

– Sales of properties and property based investments – development and sale of properties and property based investments.

Business segments are presented as the primary reporting format and geographical segments as the secondary reporting format.

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8. Segmental Information (Cont'd)

Analysis of the Group's business segmental information is as follows:

	2005			
	Investment, broking and finance HK$'000	**Property rental, hotel operations and management services** HK$'000	**Sale of properties and property based investments** HK$'000	**Total** HK$'000
Revenue	987,628	177,957	–	1,165,585
Less: inter-segment revenue	(16,833)	(4,599)	–	(21,432)
	970,795	173,358	–	1,144,153
Segment results	299,353	631,147	26,340	956,840
Finance costs				(96,778)
Share of results of associates				150,388
Share of results of jointly controlled entities				105,298
Profit before taxation				1,115,748
Taxation				(79,306)
Profit for the year				1,036,442
Segment assets	4,697,322	3,112,221	520,991	8,330,534
Interests in associates				2,710,057
Interests in jointly controlled entities				866,394
Deferred tax assets				4,143
Amounts due from associates				7,384
Amount due from a jointly controlled entity				2,159
Tax recoverable				3,842
Total assets				11,924,513
Segment liabilities	(1,029,132)	(63,144)	(744)	(1,093,020)
Amounts due to associates				(62,828)
Amount due to a jointly controlled entity				(81,063)
Tax payable				(13,489)
Bank and other borrowings				(1,891,222)
Deferred tax liabilities				(230,615)
Total liabilities				(3,372,237)
Other information				
Depreciation	17,258	7,221	–	24,479
Amortisation of prepaid land lease payments	1,645	2,756	–	4,401
Amortisation of intangible assets	3,662	–	–	3,662
Impairment losses recognised (reversed)	37,462	(4,424)	(82,152)	(49,114)
Increase in fair value of investment properties	–	(522,250)	–	(522,250)
Allowance for bad and doubtful debts	1,079	10,963	–	12,042
Capital additions	22,081	5,958	–	28,039

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8. Segmental Information (Cont'd)

	2004			
	Investment, broking and finance HK$'000 (Restated)	Property rental, hotel operations and management services HK$'000 (Restated)	Sale of properties and property based investments HK$'000 (Restated)	Total HK$'000 (Restated)
Revenue	944,846	172,835	24,783	1,142,464
Less: inter-segment revenue	(11,395)	(2,900)	–	(14,295)
	933,451	169,935	24,783	1,128,169
Segment results	232,585	169,473	26,532	428,590
Finance costs				(47,208)
Release of negative goodwill				156,741
Amortisation of capital reserve				17,267
Share of results of associates				165,856
Share of results of jointly controlled entities				19,090
Profit before taxation				740,336
Taxation				(80,108)
Profit for the year				660,228
Segment assets	3,609,403	2,593,453	499,938	6,702,794
Interests in associates				2,463,020
Interests in jointly controlled entities				817,798
Deferred tax assets				10,279
Amounts due from associates				231
Amount due from a jointly controlled entity				2,040
Tax recoverable				1,464
Total assets				9,997,626
Segment liabilities	(1,084,601)	(86,305)	(648)	(1,171,554)
Amounts due to associates				(49,260)
Amount due to a jointly controlled entity				(141,063)
Tax payable				(24,726)
Bank and other borrowings				(1,780,484)
Deferred tax liabilities				(183,653)
Total liabilities				(3,350,740)
Other information				
Depreciation	15,852	5,751	–	21,603
Amortisation of prepaid land lease payments	616	2,659	–	3,275
Amortisation of intangible assets	2,701	–	–	2,701
Impairment losses recognised (reversed)	16,418	(4,314)	(25,924)	(13,820)
Increase in fair value of investment properties	–	(91,719)	–	(91,719)
Allowance for bad and doubtful debts written back	(528)	(374)	–	(902)
Capital additions	18,930	20,248	253	39,431

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8. Segmental Information (Cont'd)

Inter-segment transactions have been entered into on terms agreed by the parties concerned.

During the year, less than 10% of the operations of the Group in terms of revenue, segment results and assets were carried on or were situated outside Hong Kong. Accordingly, no geographical segmental information is shown.

9. Changes in Values of Properties

	2005	2004
	HK$'000	HK$'000
		(Restated)
Changes in values of properties comprise:		
Increase in fair value of investment properties	**522,250**	91,719
Reversal of write-down of properties held for sale	**47,452**	22,924
Reversal of impairment loss of properties held for development	**34,700**	3,000
Reversal of impairment loss of buildings	**4,284**	4,314
	608,686	121,957

The impairment losses reversed were determined with reference to the respective fair values based on independent professional valuations at 31st December, 2005.

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10. Information Regarding Directors' and Employees' Emoluments

(a) The emoluments paid or payable to each of the seven (2004: seven) Directors were as follows:

	2005				
	Directors' fees	Salaries, consultancy fees and other benefits	Performance related incentive payments	Retirement benefit scheme contributions	Total emoluments
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
			(Note)		
Gordon Macwhinnie ***	10	1,145	–	–	1,155
Patrick Lee Seng Wei	10	2,952	1,000	88	4,050
Li Chi Kong	–	494	95	22	611
Henry Lai Hin Wing	–	75	–	–	75
Steven Lee Siu Chung	–	325	55	13	393
John Douglas Mackie	–	–	–	–	–
Steven Samuel Zoellner	–	40	–	–	40
	20	5,031	1,150	123	6,324

Certain Directors of the Company received remuneration from the Company's ultimate holding company or its wholly owned subsidiary. The ultimate holding company provided management services to the Group and charged the Group a fee, which is included in share of management service expenses/management service fee as disclosed in note 49(a), for services provided by those Directors as well as other management personnel who are not Directors of the Company.

Prior to 2005, the management service fee could not be apportioned and allocated to any individuals. From 1st January, 2005, the management service fee is calculated by reference to the time devoted by the management personnel on the affairs of the Group and can be apportioned to the Directors mentioned above. The total of such apportioned amounts, which have been included in the above table, is HK$2,149,000.

Note: The amounts represented the actual bonus of year 2004 or before paid to the respective Directors during 2005. The bonus of year 2005 has yet to be decided.

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10. Information Regarding Directors' and Employees' Emoluments (Cont'd)

(a) The emoluments paid or payable to each of the seven (2004: seven) Directors were as follows: (Cont'd)

	2004				
	Directors' fees HK$'000	Salaries, consultancy fees and other benefits HK$'000	Performance related incentive payments HK$'000	Retirement benefit scheme contributions HK$'000	Total emoluments HK$'000
Gordon Macwhinnie	10	–	–	–	10
Patrick Lee Seng Wei	10	2,911	250	86	3,257
Li Chi Kong	–	–	–	–	–
Henry Lai Hin Wing	–	75	–	–	75
Steven Lee Siu Chung	–	–	–	–	–
John Douglas Mackie *	–	–	–	–	–
Steven Samuel Zoellner **	–	10	–	–	10
	20	2,996	250	86	3,352

* Appointed on 1st February, 2004
** Appointed on 28th September, 2004
*** Retired on 30th December, 2005

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10. Information Regarding Directors' and Employees' Emoluments (Cont'd)

(b) Employees' emoluments

The five highest paid individuals included one (2004: one) of the Directors, details of whose emoluments are set out in note 10(a) above. The combined emoluments of the remaining four (2004: four) individuals are as follows:

	2005	2004
	HK$'000	HK$'000
Salaries and other benefits	**10,129**	9,992
Performance related incentive payments	**4,811**	4,760
Retirement benefit scheme contributions	**237**	222
	15,177	14,974

The emoluments of the above employees, who were not Directors of the Company, were within the following bands:

	Number of employees	
	2005	2004
HK$2,000,001 – HK$2,500,000	**–**	1
HK$2,500,001 – HK$3,000,000	**1**	2
HK$3,000,001 – HK$3,500,000	**1**	–
HK$3,500,001 – HK$4,000,000	**1**	–
HK$5,000,001 – HK$5,500,000	**1**	–
HK$7,000,001 – HK$7,500,000	**–**	1

11. Finance Costs

	2005	2004
	HK$'000	HK$'000
Interest on:		
Bank borrowings wholly repayable within five years	**81,935**	35,287
Bank borrowings not wholly repayable within five years	**6,151**	4,749
Loan notes wholly repayable within five years	**8,692**	7,175
Obligations under a finance lease	**–**	26
Other borrowings wholly repayable within five years	**–**	106
	96,778	47,343
Less: Amount capitalised in respect of properties held for development	**–**	(135)
	96,778	47,208

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12. PROFIT BEFORE TAXATION

	2005	2004
	HK$'000	HK$'000
		(Restated)
Profit before taxation has been arrived at after charging:		
Auditors' remuneration		
Current year	**5,161**	4,671
Overprovision in prior years	**(697)**	(76)
	4,464	4,595
Amortisation of intangible assets (included in other operating expenses)	**3,662**	2,701
Amortisation of prepaid land lease payments	**4,401**	3,275
Commission expenses and sales incentives to account executives and certain staff	**135,592**	128,783
Depreciation		
Owned assets	**24,437**	21,090
Asset under a finance lease	**42**	513
	24,479	21,603
Impairment loss recognised in respect of an associate	**4,981**	–
Impairment loss recognised in respect of available-for-sale financial assets transferred from investment revaluation reserve	**14,411**	–
Impairment loss recognised in respect of intangible assets	**980**	–
Impairment loss recognised in respect of goodwill of associates	**13,323**	–
Impairment loss recognised in respect of goodwill of a subsidiary	**267**	–
Impairment loss recognised in respect of non-trading securities	**–**	16,418
Impairment loss recognised in respect of property, plant and equipment	**3,680**	–
Loss on dilution of interests in an associate	**–**	4,492
Loss on disposal of property, plant and equipment	**671**	579
Loss on write off of intangible assets	**23**	96
Net unrealised loss on trading securities	**–**	2,109
Net unrealised loss on derivatives	**744**	–
Provision for interest in respect of a litigation with NWDC (note)	**–**	2,934
Retirement benefit scheme contributions, net of forfeited contributions of HK$242,000 (2004: HK$805,000) (note 47)	**10,918**	10,096
Staff costs (including Directors' emoluments but excluding retirement benefit scheme contributions)	**213,584**	221,627
and after crediting:		
Dividend income from listed equity securities	**16,853**	36,843
Dividend income from unlisted equity securities	**25,003**	36,810
Excess of net fair value over consideration arising from acquisition of subsidiaries	**199**	–
Net profit on other dealing activities	**7,733**	8,141

for the year ended 31st December, 2005

12. Profit before Taxation (Cont'd)

	2005 HK$'000	2004 HK$'000 (Restated)
Net realised profit on derivatives	**20,513**	15,455
Net realised profit on trading in equity securities	**3,132**	–
Net realised profit on trading securities	–	4,321
Net unrealised profit on trading in equity securities	**1,334**	–
Profit on dealing in foreign currencies	**6,753**	18,180
Profit on disposal of an investment property	**2,061**	–
Profit on disposal of available-for-sale financial assets	**56,748**	–
Profit on disposal of non-trading securities	–	2,483
Profit on disposal of partial interest in a subsidiary	–	789
Profit on disposal/deemed disposal of a jointly controlled entity	**1,219**	942
Rental income from investment properties under operating leases, net of outgoings of HK$21,369,000 (2004: HK$18,000,000)	**65,841**	50,952
Repayment of interest expenses in respect of litigation with NWDC pursuant to court of Appeal Judgment (note)	**14,783**	–
Reversal of impairment loss of intangible assets	**320**	–
Write back of loss arising from default of loan agreement with Millennium Touch Limited	–	2,847

Note:

On 1st April, 2004, the High Court of Hong Kong awarded the Judgment in favour of NWDC against SHKS, a wholly-owned subsidiary of Sun Hung Kai & Co. Limited ("Sun Hung Kai"), following legal proceedings regarding a joint venture in respect of land and two hotels in Kuala Lumpur, Malaysia. The Judgment was for a principal amount of HK$80,117,653 together with interest of HK$25,416,366 and interest at judgment rate from 16th December, 1998 until payment, and costs.

SHKS has since year 2000 recorded as "Investments" (note 27) (redesignated as loans and receivables on 1st January, 2005 on adoption of HKAS 39) an amount of approximately HK$118,003,000 including payments already made to NWDC in a total sum of HK$35,319,000. Additionally, a provision of approximately HK$18,700,000 for interest was made in 2000. A further provision of HK$58,364,000 has been made in these accounts in respect of interest and legal costs in 2003 and interest expense of HK$2,934,000 was paid in 2004.

SHKS appealed against the Judgment to the Court of Appeal. The Court of Appeal has handed down the Court of Appeal Judgment in which the Court of Appeal ordered a repayment to SHKS of part of the interest element for the period from 16th December, 1998 to 31st March, 2004 previously ordered against SHKS in the High Court but otherwise broadly confirmed the Judgment. The sum repayable amounted to HK$14,783,091 and has now been repaid.

SHKS has obtained leave to appeal the Court of Appeal Judgment to the Court of Final Appeal. The Final Appeal will be heard on 19th June, 2006.

Pending any judgment pursuant to the Final Appeal, Sun Hung Kai's present understanding of the effect of the Court of Appeal Judgment is that SHKS now effectively owns 25% of NWDC's entire interest (including the shareholder loans advanced by, or on behalf of, NWDC, and/or SDL and/or SHKS to Great Union Properties Sdn Bhd ("GUP")) in the Joint Venture (as defined in the Judgment), being the 50-50 joint venture between NWDC and/or SDL and IGB Corporation Bhd. to purchase land and to build two hotels of 1,000 rooms and a 200 unit service apartment block at the city centre of Kuala Lumpur and SDL holds 12.5% of the shares in GUP on trust for SHKS.

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13. Taxation

	2005 HK$'000	2004 HK$'000 (Restated)
The charge comprises:		
Current tax:		
Hong Kong	**26,254**	31,637
Outside Hong Kong	**229**	3,099
	26,483	34,736
Deferred tax (note 29)	**52,823**	45,372
	79,306	80,108

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

Taxation outside Hong Kong is calculated at the rates prevailing in the relevant jurisdictions.

The total charge for the year can be reconciled to the profit before taxation as follows:

	2005 HK$'000	2004 HK$'000 (Restated)
Profit before taxation	**1,115,748**	740,336
Less: Share of results of associates	**(150,388)**	(165,856)
Share of results of jointly controlled entities	**(105,298)**	(19,090)
	860,062	555,390
Tax at Hong Kong Profits Tax rate of 17.5% (2004: 17.5%)	**150,510**	97,193
Effect of different income tax rate of overseas subsidiaries	**1,289**	(1,476)
Tax effect of expenses that are not deductible for tax purposes	**16,182**	46,930
Tax effect of income that is not assessable for tax purposes	**(84,206)**	(77,546)
Tax effect of tax losses not recognised	**2,645**	6,748
Tax effect of utilisation of tax losses not previously recognised	**(7,074)**	(3,377)
Tax effect of utilisation of unrecognised deductible temporary difference	**(302)**	(2,951)
Tax effect of initial recognition exemption	**–**	13,652
Others	**262**	935
Taxation for the year	**79,306**	80,108

Details of deferred taxation are set out in note 29.

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14. Dividend

A final dividend of HK10 cents (2004: HK 5 cents) per share has been proposed by the Directors and is subject to approval by the shareholders at the forthcoming Annual General Meeting of the Company.

The amount of the proposed final dividend for the year ended 31st December, 2005 has been calculated by reference to 537,151,901 shares in issue at 12th April, 2006.

15. Earnings per Share

The calculation of the basic earnings per share is based on the profit attributable to equity holders of the Company of HK$935,342,000 (2004: HK$563,023,000, as restated) and on the weighted average number of 537,151,901 (2004: 492,746,074) shares in issue during the year.

Changes in the Group's accounting policies during the year are described in detail in note 2. To the extent that those changes have had an impact on results reported for 2005 and 2004, they have had impact on the amounts reported for earnings per share. The following tables summarise that impact on both the basic and diluted earnings per share.

Basic earnings per share

	2005	2004
	HK$	HK$
Figure before adjustments	**1.97**	1.36
Adjustments arising from changes in accounting policies	**(0.23)**	(0.22)
As reported/restated	**1.74**	1.14

Diluted earnings per share

	2004
	HK$
Figure before adjustments	1.32
Adjustments arising from changes in accounting policies	(0.20)
As restated	1.12

Diluted earnings per share is not presented for the year as the Company had no dilutive potential ordinary shares during the year. The calculation of the diluted earnings per share for 2004 was based on the profit attributable to equity holders of the Company of HK$563,023,000, as restated, and on the weighted average number of 504,809,099 shares in issue during the year 2004 after adjusting for the effects of all dilutive potential ordinary shares.

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16. Investment Properties

	Hotel property HK$'000	Others HK$'000	Total HK$'000
The Group			
Valuation			
At 1st January, 2004, as originally stated	278,038	1,978,035	2,256,073
Effect on adoption of HKAS 17, HKAS 40 and HK-INT 2			
– transferred to property, plant and equipment and prepaid land lease payments	(278,038)	(22,980)	(301,018)
At 1st January, 2004, as restated	–	1,955,055	1,955,055
Additions	–	110	110
Acquisition of a subsidiary	–	126,375	126,375
Transferred from properties held for sale	–	44,795	44,795
Overprovision of construction costs	–	(2,386)	(2,386)
Increase in fair value during the year	–	91,719	91,719
At 31st December, 2004	–	2,215,668	2,215,668
Additions	–	2,605	2,605
Acquisition of subsidiaries	–	39,362	39,362
Disposal	–	(12,600)	(12,600)
Transferred from properties held for sale	–	47,160	47,160
Transferred to property, plant and equipment and prepaid land lease payments	–	(17,531)	(17,531)
Overprovision of construction costs	–	(12,814)	(12,814)
Increase in fair value during the year	–	522,250	522,250
At 31st December, 2005	–	2,784,100	2,784,100

The carrying amount of investment properties held by the Group at 31st December, 2005 and 2004 comprises:

	2005 **HK$'000**	2004 HK$'000
Properties in Hong Kong		
Long-term	**2,300,400**	1,823,868
Medium-term	**440,300**	391,800
Medium-term properties outside Hong Kong	**43,400**	–
	2,784,100	2,215,668

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16. Investment Properties (Cont'd)

The Group's investment properties are held for rental purposes under operating leases. The fair value of the Group's investment properties at 31st December, 2005 has been arrived at on the basis of a valuation carried out at that date by Norton Appraisals Limited, independent valuers not connected with the Group. Norton Appraisals Limited have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to The Hong Kong Institute of Surveyors Valuation Standards on Properties (1st Edition) published by the Hong Kong Institute of Surveyors, was based on rental capitalisation.

Details of the Group's investment properties and other assets being pledged to secure loans and general banking facilities are set out in note 48.

17. Property, Plant and Equipment

	Hotel property HK$'000	Land and buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles and vessels HK$'000	Total HK$'000
The Group						
Cost						
At 1st January, 2004, as originally stated	–	99,743	33,480	96,046	22,181	251,450
Effect on adoption of HKASs 17, 40 and HK-INT 2	339,755	(62,920)	147	–	–	276,982
At 1st January, 2004, as restated	339,755	36,823	33,627	96,046	22,181	528,432
Exchange adjustments	–	–	(1)	(4)	–	(5)
Additions	–	–	5,674	9,332	3,904	18,910
Transferred from properties held for development	32,049	–	–	–	–	32,049
Disposals	–	–	(1,190)	(815)	(1,588)	(3,593)
At 31st December, 2004	371,804	36,823	38,110	104,559	24,497	575,793
Exchange adjustments	–	–	6	(264)	–	(258)
Additions	2,395	–	4,637	12,440	–	19,472
Transferred from investment properties	–	5,849	–	–	–	5,849
Acquisition of subsidiaries	–	5,228	–	5,800	–	11,028
Disposals	–	–	(2,270)	(2,721)	(347)	(5,338)
At 31st December, 2005	374,199	47,900	40,483	119,814	24,150	606,546
Accumulated depreciation and impairment						
At 1st January, 2004, as originally stated	–	6,697	21,348	69,696	21,308	119,049
Effect on adoption of HKASs 17, 40 and HK-INT 2	242,719	1,721	21	–	–	244,461
At 1st January, 2004, as restated	242,719	8,418	21,369	69,696	21,308	363,510
Exchange adjustments	–	–	(1)	(3)	–	(4)
Provided for the year	2,064	1,106	5,702	12,001	730	21,603
Eliminated on disposals	–	–	(661)	(709)	(1,588)	(2,958)
Impairment loss reversed	(4,314)	–	–	–	–	(4,314)
At 31st December, 2004	240,469	9,524	26,409	80,985	20,450	377,837
Exchange and other adjustments	–	–	29	(89)	–	(60)
Provided for the year	2,863	907	6,101	13,647	961	24,479
Eliminated on disposals	–	–	(1,629)	(2,594)	(302)	(4,525)
Impairment loss (reversed)	(4,284)	–	–	3,675	5	(604)
At 31st December, 2005	239,048	10,431	30,910	95,624	21,114	397,127
Carrying amounts						
At 31st December, 2005	135,151	37,469	9,573	24,190	3,036	209,419
At 31st December, 2004	131,335	27,299	11,701	23,574	4,047	197,956

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17. Property, Plant and Equipment (Cont'd)

The carrying amount of furniture, fixtures and equipment at 31st December, 2005 of HK$24,190,000 (2004: HK$23,574,000) included nil amount (2004: HK$1,067,000) in respect of asset held under a finance lease.

The Company did not have any property, plant and equipment at 31st December, 2005 or 2004.

18. Properties Held for Development

	The Group	
	2005	2004
	HK$'000	HK$'000
		(Restated)
At cost, less impairment loss recognised:		
At 1st January, as originally stated	**97,377**	131,174
Effect on adoption of HKAS 17	**–**	(19,200)
At 1st January, as restated	**97,377**	111,974
Exchange adjustments	**(241)**	131
Additions, including interest of nil amount (2004: HK$135,000) capitalised	**–**	14,321
Impairment loss reversed	**34,700**	3,000
Transferred to properties held for sale and other inventories	**(131,836)**	–
Transferred to property, plant and equipment	**–**	(32,049)
At 31st December	**–**	97,377

The carrying value of properties held for development held by the Group at 31st December, 2004 represented freehold properties outside Hong Kong.

The impairment loss reversal was determined with reference to the fair value based on an independent professional valuation at 31st December, 2005.

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19. Prepaid Land Lease Payments

The Group's prepaid land lease payments comprise:

	The Group	
	2005	2004
	HK$'000	HK$'000
		(Restated)
Leasehold land in Hong Kong		
Long-term	**282,364**	274,796
Leasehold land outside Hong Kong		
Medium-term	**8,693**	–
Short-term	**730**	810
	291,787	275,606
Analysed for reporting purposes as:		
Non-current portion	**287,367**	271,505
Current portion included in current assets	**4,420**	4,101
	291,787	275,606

20. Goodwill

	The Group
	HK$'000
Cost	
Arising on acquisition of subsidiaries and at 31st December, 2005	267
Impairment	
Amount recognised during the year and at 31st December, 2005	267
Carrying amount	
At 31st December, 2005	–

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21. Negative Goodwill

	The Group HK$'000
Gross amount	
At 1st January, 2004	765,570
Adjustment on acquisition of subsidiaries in prior year	15,700
Acquisition of additional interest in a subsidiary	902
At 31st December, 2004	782,172
Released to income statement	
At 1st January, 2004	236,167
Released during the year	156,741
At 31st December, 2004	392,908
Carrying amount	
At 31st December, 2004	389,264
Derecognised upon adoption of HKFRS 3	(389,264)
At 31st December, 2005	–

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22. Intangible Assets

	Computer software HK$'000	Exchange participation rights HK$'000	Club debentures HK$'000	Total HK$'000
The Group				
Cost				
At 1st January, 2004	9,633	–	–	9,633
Additions	6,091	–	–	6,091
Write off	(120)	–	–	(120)
At 31st December, 2004	15,604	–	–	15,604
Opening balance adjustments arising from changes in accounting policies	–	2,507	6,868	9,375
Exchange adjustments	284	–	–	284
Acquisition of subsidiaries	–	1,200	–	1,200
Additions	5,962	–	–	5,962
Write off	–	–	(23)	(23)
At 31st December, 2005	21,850	3,707	6,845	32,402
Amortisation and impairment				
At 1st January, 2004	2,552	–	–	2,552
Provided for the year	2,701	–	–	2,701
Eliminated on write off	(24)	–	–	(24)
At 31st December, 2004	5,229	–	–	5,229
Opening balance adjustments arising from changes in accounting policies	–	–	180	180
Exchange adjustments	85	–	–	85
Provided for the year	3,662	–	–	3,662
Impairment loss	10	240	730	980
Impairment loss reversed	–	–	(320)	(320)
At 31st December, 2005	8,986	240	590	9,816
Carrying amounts				
At 31st December, 2005	12,864	3,467	6,255	22,586
At 31st December, 2004	10,375	–	–	10,375
The Company				
Cost				
Opening balance adjustment arising from changes in accounting policies and at 31st December, 2005	–	–	510	510

The computer software included above have finite useful lives, over which the assets are amortised whereas the exchange participation rights and club debentures have infinite useful lives and are not subject to amortisation. The amortisation period for computer software is three to five years.

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23. Interests in Subsidiaries

	2005 HK$'000	2004 HK$'000
Investment, at cost	**14**	14
Amounts due from subsidiaries, less allowance	**3,231,969**	2,696,483
	3,231,983	2,696,497

The amounts due from subsidiaries are unsecured and interest-free. These amounts are considered as quasi-equity loans to the subsidiaries.

Other than the loan notes issued by Sun Hung Kai, terms of which are shown in note 40, none of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

Particulars of the Company's principal subsidiaries at 31st December, 2005 are set out in note 52.

24. Interests in Associates

	The Group	
	2005	2004
	HK$'000	HK$'000
		(Restated)
Listed securities in Hong Kong (note 24(i))	**2,560,483**	2,305,571
Unlisted shares (note 24 (ii))	**149,574**	157,449
	2,710,057	2,463,020

for the year ended 31st December, 2005

24. Interests in Associates (Cont'd)

Notes:

	The Group 2005 HK$'000	The Group 2004 HK$'000 (Restated)
(i) Listed securities in Hong Kong		
Cost of investment	**1,806,717**	1,801,125
Share of post-acquisition reserves	**753,766**	579,140
Negative goodwill on acquisition of associates (note (iv))	**–**	(152,694)
	2,560,483	2,227,571
Amount due from an associate	**–**	78,000
	2,560,483	2,305,571
Market value of listed securities	**1,301,161**	1,109,200

Included in cost of investment is goodwill of HK$86,127,000 (2004: HK$84,998,000) arising on acquisition of certain associates. The movement is set out in note (iii) below.

	The Group 2005 HK$'000	The Group 2004 HK$'000 (Restated)
(ii) Unlisted shares		
Cost of investment	**35,376**	35,376
Share of post-acquisition reserves	**76,489**	80,178
Negative goodwill on acquisition of associates (note (vi))	**–**	(787)
	111,865	114,767
Less: impairment loss recognised	**(26,873)**	(21,892)
	84,992	92,875
Amounts due from associates	**64,582**	64,574
	149,574	157,449

In 2004, cost of investment included goodwill of HK$894,000 arising on acquisition of certain associates. The movement is set out in note (v) below.

The amounts due from associates are unsecured and interest-free. They are considered as quasi-equity loans.

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24. Interests in Associates (Cont'd)

(iii) Goodwill on acquisition of listed associates

	The Group
	HK$'000
Cost	
At 1st January, 2004	232,304
Acquisition of associates	3,469
Disposal of associates	(433)
At 31st December, 2004	235,340
Eliminated against accumulated amortisation upon adoption of HKFRS 3	(150,342)
Acquisition of additional interests in associates	13,683
Disposal of associates	(125)
At 31st December, 2005	98,556
Amortisation	
At 1st January, 2004	119,899
Provided for the year	30,860
Disposal of associates	(417)
At 31st December, 2004	150,342
Eliminated upon adoption of HKFRS 3	(150,342)
At 31st December, 2005	–
Impairment	
Amount recognised during the year and at 31st December, 2005	12,429
Carrying amounts	
At 31st December, 2005	86,127
At 31st December, 2004	84,998

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24. Interests in Associates (Cont'd)

(iv) Negative goodwill on acquisition of listed associates

	The Group
	HK$'000
Gross amount	
At 1st January, 2004	(339,190)
Acquisition of associates	(11,997)
Disposal of associates	1,755
At 31st December, 2004	(349,432)
Released to income statement	
At 1st January, 2004	(138,821)
Released during the year	(58,693)
Disposal of associates	776
At 31st December, 2004	(196,738)
Carrying amount	
At 31st December, 2004	(152,694)
Derecognised upon adoption of HKFRS 3	152,694
At 31st December, 2005	–

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24. Interests in Associates (Cont'd)

(v) Goodwill on acquisition of unlisted associates

	The Group
	HK$'000
Cost	
At 1st January, 2004	14,169
Adjustment in goodwill	(5,145)
At 31st December, 2004	9,024
Eliminated against accumulated amortisation upon adoption of HKFRS 3	(8,130)
At 31st December, 2005	894
Amortisation	
At 1st January, 2004	8,229
Adjustment in amortisation	(343)
Provided for the year	244
At 31st December, 2004	8,130
Eliminated upon adoption of HKFRS 3	(8,130)
At 31st December, 2005	–
Impairment	
Amount recognised during the year and at 31st December, 2005	894
Carrying amounts	
At 31st December, 2005	–
At 31st December, 2004	894

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24. Interests in Associates (Cont'd)

(vi) Negative goodwill on acquisition of unlisted associates

	The Group HK$'000
Gross amount	
At 1st January, 2004 and 31st December, 2004	(2,981)
Released to income statement	
At 1st January, 2004	(1,606)
Released during the year	(588)
At 31st December, 2004	(2,194)
Carrying amount	
At 31st December, 2004	(787)
Derecognised upon adoption of HKFRS 3	787
At 31st December, 2005	–

The Group tests goodwill annually, or whenever there is an indication that goodwill might be impaired. The impairment loss of HK$13,323,000 arose during the year mainly from the Group's interests in associates due to the prolonged decline in the fair value of the Group's interests in the associates below the Group's carrying amount.

Particulars of the Group's principal associates at 31st December, 2005 are set out in note 53.

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

	2005 HK$'000	2004 HK$'000
Total assets	**12,504,896**	10,936,258
Total liabilities	**(6,112,961)**	(5,117,700)
Minority interests	**(569,177)**	(451,110)
Net assets	**5,822,758**	5,367,448
Revenue	**2,990,345**	3,157,413
Profit for the year	**469,356**	338,208

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25. Interests in Jointly Controlled Entities

	The Group	
	2005	2004
	HK$'000	HK$'000
		(Restated)
Unlisted shares		
Cost of investment	**1,536**	3,830
Share of post-acquisition reserves	**882,480**	831,590
	884,016	835,420
Elimination of unrealised profit	**(17,622)**	(17,622)
	866,394	817,798

In 2004, cost of investment included goodwill of HK$506,000 arising from acquisition of certain jointly controlled entities. The movement is set out in note below.

Note: Goodwill on acquisition of a jointly controlled entity

	The Group
	HK$'000
Cost	
Acquisition of a jointly controlled entity	1,253
Released on deemed disposal	(626)
At 31st December, 2004	627
Eliminated against accumulated amortisation upon adoption of HKFRS 3	(121)
Disposal of a jointly controlled entity	(506)
At 31st December, 2005	–
Amortisation	
Provided for the year	219
Released on deemed disposal	(98)
At 31st December, 2004	121
Eliminated upon adoption of HKFRS 3	(121)
At 31st December, 2005	–
Carrying amounts	
At 31st December, 2005	–
At 31st December, 2004	506

Particulars of the Group's principal jointly controlled entities at 31st December, 2005 are set out in note 54.

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25. Interests in Jointly Controlled Entities (Cont'd)

The summarised financial information of the Group's jointly controlled entities is set out below:

	2005 HK$'000	2004 HK$'000
Non-current assets	**2,115,265**	1,929,003
Current assets	**319,212**	409,289
Non-current liabilities	**(575,870)**	(567,377)
Current liabilities	**(89,638)**	(103,837)
Revenue	**371,773**	335,303
Expenses	**(294,621)**	(287,093)
Increase in fair value of investment properties	**183,297**	–

26. Available-for-sale Financial Assets

	The Group	
	2005 HK$'000	2004 HK$'000
Listed equity securities, at market value, issued by corporate entities		
Hong Kong	**530,543**	–
Outside Hong Kong	**4,444**	–
	534,987	–
Unlisted equity securities, at fair value, issued by corporate entities		
Hong Kong (note)	**399,901**	–
Outside Hong Kong	**58,251**	–
	458,152	–
	993,139	–

Note: The amount includes the Group's interest in a fellow subsidiary of HK$399,900,000.

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27. Investments

	Investments in securities							
	Non-trading securities		Trading securities		Other investments		Total	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
The Group								
Listed equity securities, at market value, issued by corporate entities								
Hong Kong	–	476,810	–	23,152	–	–	–	499,962
Outside Hong Kong	–	4,474	–	3,740	–	–	–	8,214
issued by banks								
Hong Kong	–	–	–	13,133	–	–	–	13,133
Outside Hong Kong	–	–	–	59	–	–	–	59
issued by public utility entities								
Hong Kong	–	–	–	32	–	–	–	32
	–	481,284	–	40,116	–	–	–	521,400
Unlisted equity securities issued by corporate entities								
Hong Kong (note (i))	–	183,501	–	–	–	–	–	183,501
Outside Hong Kong (note (ii))	–	119,993	–	–	–	–	–	119,993
	–	303,494	–	–	–	–	–	303,494
Unlisted marketable debt securities issued by overseas government	–	–	–	7,741	–	–	–	7,741
Other unlisted securities	–	–	–	406	–	–	–	406
Club debentures, exchange seats and statutory deposits and other deposits with Exchange and Clearing Companies	–	–	–	–	–	35,819	–	35,819
Amounts due from investee companies less impairment losses recognised (note (ii))	–	–	–	–	–	90,883	–	90,883
	–	784,778	–	48,263	–	126,702	–	959,743
Carrying amount analysed for reporting purposes as:								
Non-current	–	784,778	–	–	–	126,702	–	911,480
Current	–	–	–	48,263	–	–	–	48,263
	–	784,778	–	48,263	–	126,702	–	959,743

27. Investments (Cont'd)

	Investments in securities							
	Non-trading securities		Trading securities		Other investments		Total	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
The Company								
Club debentures	**–**	–	**–**	–	**–**	510	**–**	510
Carrying amount analysed for reporting purposes as:								
Non-current	**–**	–	**–**	–	**–**	510	**–**	510

Notes:

(i) The investment represents the Group's interest in a fellow subsidiary.

(ii) Included a sum totalling HK$118,003,000 for the interests in the Kuala Lumpur hotels project in comparative figures of 2004. Please refer to footnote of note 28.

28. Loans and Receivables

	The Group	
	2005	2004
	HK$'000	HK$'000
Loan note of a listed associate	**78,000**	–
Amounts due from investee companies (note)	**124,687**	–
Other	**1,066**	3,200
	203,753	3,200
Less: impairment	**(1,447)**	–
	202,306	3,200

The fair value of the Group's loans and receivables at 31st December, 2005 was approximate to the corresponding carrying amounts.

Note: Pending any Judgment pursuant to such appeal to the Court of Final Appeal, Sun Hung Kai's present understanding of the effect of the Court of Appeal Judgment is that SHKS now effectively owns 25% ("SHKS Interest") of NWDC's entire interest (including the shareholder loans advanced by, or on behalf of, NWDC and/or SDL and/or SHKS to GUP) in the Joint Venture (as defined in the Judgment), being the 50-50 joint venture between NWDC and/or SDL and IGB Corporation Bhd. to purchase land and to build two hotels of 1,000 rooms and a 200 unit service apartment block at the city centre of Kuala Lumpur and SDL holds 12.5% of the shares in GUP on trust for SHKS. A sum totalling HK$118,003,000 is included in "amounts due from investee companies" being the amount, (excluding interest which has been expensed in prior years) which represents the carrying value of the SHKS Interest.

28. Loans and Receivables (Cont'd)

Note: (cont'd)

The Group has decided that it is not presently appropriate to make any provisions in respect of the litigation or for impairment of the value of its interest in the total Kuala Lumpur hotels project pursuant to the Judgment and the Court of Appeal Judgment (together "Judgments"). This decision has been taken because it is considered that the current circumstances regarding the nature and value of the interest existing under the Judgments and the uncertainty of the Final Appeal, result in a situation where it is not possible to decide with any degree of accuracy as to what the final position may be. On the one hand if SHKS is completely successful in the Final Appeal then it may be entitled to recovery of monies already paid. On the other hand if it is not successful or only partially successful then it may be possible that further provision for impairment of the value of its final interests in the Kuala Lumpur hotels project may be required. The extent of such provision is not presently capable of determination as the holding company of the hotel namely GUP has not provided a current valuation of the project and SHKS has not had sufficient access to the detailed books and records of GUP to reach a supportable view as to the value of the project.

29. Deferred Taxation

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

	Accelerated tax depreciation HK$'000	Revaluation of properties and other assets HK$'000	Provisions HK$'000	Unrealised profit HK$'000	Un-distributed earnings and others HK$'000	Tax losses HK$'000	Total HK$'000
At 1st January, 2004, as originally stated	50,587	13,282	(5,431)	1,393	1,708	(49,986)	11,553
Effect of changes in accounting policies	94,815	54,187	(377)	–	–	(35,881)	112,744
At 1st January, 2004, as restated	145,402	67,469	(5,808)	1,393	1,708	(85,867)	124,297
Exchange adjustments	–	–	–	(13)	–	–	(13)
Transferred from tax payable	–	–	–	–	2,726	–	2,726
Acquisition of a subsidiary	770	–	–	–	–	–	770
Charged (credited) to income statement	22,178	31,638	(2,078)	(106)	(869)	(5,391)	45,372
Charged to equity	–	167	–	–	55	–	222
At 31st December, 2004	168,350	99,274	(7,886)	1,274	3,620	(91,258)	173,374
Exchange adjustments	–	–	–	67	–	–	67
Acquisition of subsidiaries	–	–	–	132	–	(8)	124
Charged (credited) to income statement	9,325	47,638	1,447	31	(866)	(4,752)	52,823
(Credited) charged to equity	–	(26)	–	–	110	–	84
At 31st December, 2005	177,675	146,886	(6,439)	1,504	2,864	(96,018)	226,472

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29. Deferred Taxation (Cont'd)

The following is the analysis of the deferred tax balances (after offset) for balance sheet presentation purposes:

	The Group	
	2005	2004
	HK$'000	HK$'000
		(Restated)
Deferred tax liabilities	**230,615**	183,653
Deferred tax assets	**(4,143)**	(10,279)
	226,472	173,374

At 31st December, 2005, the Group had unrecognised deductible temporary differences of HK$5,880,000 (2004: HK$6,023,0000) and estimated unused tax losses of HK$2,012,760,000 (2004: HK$1,977,056,000, as restated) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$548,679,000 (2004: HK$521,474,000, as restated) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$1,464,081,000 (2004: HK$1,455,582,000, as restated) due to the unpredictability of future profit streams. There were no other significant temporary differences that are not recognised arising during the year or at the balance sheet date.

Included in unrecognised tax losses are losses of HK$4,467,000, HK$54,000 and HK$13,349,000 that will expire in 2006, 2007 and 2008, respectively. Other losses may be carried forward indefinitely.

At 31st December, 2005 the Company had estimated unused tax losses of HK$24,456,000 (2004: HK$23,511,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. Tax losses may be carried forward indefinitely.

30. Properties Held for Sale and other Inventories

	The Group	
	2005	2004
	HK$'000	HK$'000
Properties in Hong Kong, at net realisable value	**389,000**	401,600
Non-current freehold properties outside Hong Kong, at net realisable value	**131,836**	–
Other inventories, at cost	**114**	121
	520,950	401,721

Certain of the Group's properties previously held for sale with a net realisable value of HK$47,160,000 (2004: HK$44,795,000) were rented out under operating leases during the year and were therefore reclassified as investment properties.

The cost of properties held for sale recognised as an expense in 2005 was nil (2004: HK$20,753,000).

The non-current freehold properties outside Hong Kong represent a property project in the United States of America. The Group has the intention to realise this asset. The freehold properties are included in the Group's sale of properties and property based investments for segment reporting purpose (note 8).

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31. Financial Assets at Fair Value through Profit or Loss

	The Group	
	2005	2004
	HK$'000	HK$'000
Listed equity securities, at market value		
issued by corporate entities		
Hong Kong	**32,396**	–
Outside Hong Kong		
issued by banks	**2,534**	–
Hong Kong	**20,654**	–
Outside Hong Kong	**87**	–
issued by public utilities		
Hong Kong	**33**	–
	55,704	–
Unlisted equity securities, at fair value		
issued by a corporate entity outside Hong Kong	**119,514**	–
Warrants and options listed in Hong Kong, at fair value	**3,508**	–
Others	**478**	–
	179,204	–

32. Accounts Receivable, Deposits and Prepayments

Included in accounts receivable, deposits and prepayments are trade receivables totalling HK$1,181,355,000 (2004: HK$833,906,000, as restated), the aged analysis of which is as follows:

	The Group	
	2005	2004
	HK$'000	HK$'000
		(Restated)
0 to 30 days	**1,155,721**	790,286
31 to 180 days	**16,849**	20,671
181 to 365 days	**778**	2,888
over 365 days	**167,080**	218,207
	1,340,428	1,032,052
Allowance for doubtful debts	**(159,073)**	(198,146)
	1,181,355	833,906

No aging analysis on margin clients' receivables is disclosed as, in the opinion of the Directors, an aging analysis is not meaningful in view of the nature of the business of securities margin financing.

Details of the interest rates and maturity dates of term loans and margin loans are disclosed in note 6.

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32. Accounts Receivable, Deposits and Prepayments (Cont'd)

There were listed and unlisted securities and properties of clients held as collateral against secured margin loans and term loans. The fair value of the listed securities at 31st December, 2005 was HK$6,272,527,000 (2004: HK$6,420,945,000).

33. Accounts Payable and Accrued Charges

Included in accounts payable and accrued charges are trade payables of HK$848,151,000 (2004: HK$921,363,000), the aged analysis of which is stated as follows:

	The Group	
	2005	2004
	HK$'000	HK$'000
0 to 30 days	**820,787**	855,672
31 to 180 days	**4,336**	9,787
181 to 365 days	**508**	1,296
over 365 days	**22,520**	54,608
	848,151	921,363

34. Current Assets and Current Liabilities

The fair value of the Group's accounts receivable, amounts due from associates, amount due from a jointly controlled entity, short-term pledged bank deposit, bank deposits, bank balances and cash, accounts payable and accrued charges, amount due to Allied Group Limited, amounts due to associates and amount due to jointly controlled entity at 31st December was approximate to the corresponding carrying amounts.

The Group maintains trust and segregated accounts with licensed banks to hold clients' deposits arising from normal business transactions. At 31st December, 2005, trust and segregated accounts not otherwise dealt with in these accounts totalled HK$2,130,593,000 (2004: HK$2,178,901,000).

Amounts due from associates of the Group are unsecured, non-interest bearing and are expected to be settled within one year.

The fair value of the Company's accounts receivable, bank deposits, bank balances and cash, accounts payable and accrued charges and amount due to Allied Group Limited at 31st December was approximate to the corresponding carrying amount.

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35. Share Capital

	Number of shares	Value HK$'000
Authorised:		
Ordinary shares of HK$2.0 each at 31st December, 2004 and at 31st December, 2005	3,000,000,000	6,000,000
Issued and fully paid:		
Ordinary shares of HK$2.0 each at 1st January, 2004	489,384,217	978,768
Exercise of warrant subscription rights	47,767,684	95,535
Ordinary shares of HK$2.0 each at 31st December, 2004 and 31st December, 2005	537,151,901	1,074,303

36. Reserves

	2005 HK$'000	2004 HK$'000 (Restated)
The Group		
Share premium	**516,644**	516,644
Property revaluation reserve	**–**	149,913
Investment revaluation reserve	**490,639**	247,059
Capital redemption reserve	**72,044**	72,044
Translation reserve	**(86,753)**	(109,984)
Capital (goodwill) reserve (note 36 (b))	**4,827**	(39,177)
Accumulated profits	**4,945,116**	3,438,798
Dividend reserve	**53,715**	26,858
	5,996,232	4,302,155

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36. Reserves (Cont'd)

	Share premium HK$'000	Special capital reserve HK$'000	Capital redemption reserve HK$'000	Accumulated profits (losses) HK$'000	Dividend reserve HK$'000	Total HK$'000
The Company						
At 1st January, 2004	492,784	2,320,430	72,044	(1,485,404)	–	1,399,854
Transferred from special capital reserve to accumulated profits (losses) (note 36(a))	–	(2,320,430)	–	2,320,430	–	–
Premium on issue of shares	23,884	–	–	–	–	23,884
Share issue expenses	(24)	–	–	–	–	(24)
Final dividend	–	–	–	(26,858)	26,858	–
Loss attributable to equity holders	–	–	–	(197,844)	–	(197,844)
At 31st December, 2004	516,644	–	72,044	610,324	26,858	1,225,870
Dividend paid	–	–	–	–	(26,858)	(26,858)
Proposed final dividend	–	–	–	(53,715)	53,715	–
Profit attributable to equity holders	–	–	–	572,577	–	572,577
At 31st December, 2005	516,644	–	72,044	1,129,186	53,715	1,771,589

The Company's reserves available for distribution to shareholders at 31st December, 2005 are represented by accumulated profits and dividend reserve totalling HK$1,182,901,000 (2004: 637,182,000).

Notes:

(a) When sanctioning a reduction in nominal value of the Company's shares in 1998, the High Court of Hong Kong stipulated that the credit arising on the reduction be transferred to a special capital reserve, and that the reserve is not to be distributable until all of the liabilities of the Company as at the date of the order, 14th July, 1998, are settled. There were no outstanding liabilities at 31st December, 2004 in respect of liabilities in existence at 14th July, 1998. Accordingly, the special capital reserve became distributable and was transferred to accumulated profits (losses) at 31st December, 2004.

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36. Reserves (Cont'd)

Notes (Cont'd)

(b)

	Goodwill HK$'000	Capital reserve HK$'000	Statutory reserve HK$'000	Total HK$'000
The Group				
At 1st January, 2004	(79,888)	54,464	1,397	(24,027)
Released on dilution of interests in an associate	–	–	(3)	(3)
Amortisation of capital reserve	–	(17,267)	–	(17,267)
Transferred from accumulated profits	–	–	2,120	2,120
At 31st December, 2004	(79,888)	37,197	3,514	(39,177)
Opening balance adjustment arising from changes in accounting policies	79,888	(37,197)	(704)	41,987
Balance after opening balance adjustments	–	–	2,810	2,810
Share of post-acquisition reserve movements of associates	–	1,754	–	1,754
Transferred from accumulated profits	–	–	263	263
At 31st December, 2005	–	1,754	3,073	4,827

Statutory reserve represents reserve required under relevant rules and regulations of Mainland China.

37. Amounts due to Subsidiaries

The amounts due to subsidiaries are unsecured. An amount of HK$156,016,000 (2004: HK$229,980,000) bears interest at 3.2% (2004: 2.5%) per annum and the remaining balances are non-interest bearing. The amounts due to subsidiaries are not repayable within twelve months from the balance sheet date and the balances are therefore shown as non-current liabilities.

The interest-free amounts are considered as quasi-equity loans from subsidiaries to finance the Company's investment in other subsidiaries.

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38. Financial Liabilities at Fair Value Through Profit or Loss

	The Group	
	2005	2004
	HK$'000	HK$'000
Stock borrowings	**17,700**	–
Stock option	**56**	–
	17,756	–

39. Bank Borrowings

	The Group		The Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank borrowings comprise:				
Bank loans	**1,742,956**	1,591,844	–	–
Bank overdrafts	**83,040**	57,905	**3,115**	–
	1,825,996	1,649,749	**3,115**	–
Analysed as:				
Secured	**1,792,881**	1,649,749	–	–
Unsecured	**33,115**	–	**3,115**	–
	1,825,996	1,649,749	**3,115**	–
Bank loans and overdrafts are repayable as follows:				
Within one year or on demand	**950,233**	603,180	**3,115**	–
More than one year but not exceeding two years	**606,939**	226,738	–	–
More than two years but not exceeding five years	**211,214**	733,469	–	–
More than five years	**57,610**	86,362	–	–
	1,825,996	1,649,749	**3,115**	–
Less: Amount repayable within one year and shown under current liabilities	**(950,233)**	(603,180)	**(3,115)**	–
Amount due after one year	**875,763**	1,046,569	–	–

Most of the bank loans and overdrafts are in Hong Kong Dollars. Details of the interest rates and dates of maturity are disclosed in note 6.

Details of the assets of the Group pledged to secure bank borrowings are set out in note 48.

The fair value of the Group's bank borrowings was approximate to the corresponding carrying amount.

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40. Loan Notes

The amount represents the loan notes issued in part consideration of the repurchase of shares by a listed subsidiary. The loan notes bear interest at 4% per annum and are due on 7th March, 2008. The effective interest rate is 7.9% per annum.

	The Group	
	2005	2004
	HK$'000	HK$'000
Principal		
At 1st January	**129,637**	231,637
Repurchased and cancelled	**(60,000)**	(102,000)
	69,637	129,637
Difference using the effective interest method		
At 1st January	**–**	–
Adjustments to opening balance on the adoption of HKAS 39	**(14,077)**	–
Interest expense	**8,692**	–
At 31st December	**(5,385)**	–
Carrying amounts at 31st December	**64,252**	129,637

The fair value of the Group's loan notes was approximate to the corresponding amount.

41. Other Liabilities

	The Group	
	2005	2004
	HK$'000	HK$'000
		(Restated)
Provisions (note)	**35,135**	44,739
Advance from minority shareholders	**974**	1,022
	36,109	45,761
Less: Amount repayable within one year and shown under current liabilities	**(33,366)**	(42,122)
Amount due after one year	**2,743**	3,639

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41. Other Liabilities (Cont'd)

Note:

	The Group		
	Employee benefits	**Others**	**Total**
	HK$'000	HK$'000	HK$'000
At 1st January, 2005	**43,871**	**868**	**44,739**
Provided for the year	**33,449**	**846**	**34,295**
Written back	**(13,473)**	**–**	**(13,473)**
Utilisation of provision	**(11,428)**	**–**	**(11,428)**
Amount paid during the year	**(18,922)**	**(76)**	**(18,998)**
At 31st December, 2005	**33,497**	**1,638**	**35,135**
Less: Amount repayable within one year and shown under current liabilities	**(32,520)**	**(846)**	**(33,366)**
	977	**792**	**1,769**

42. Acquisition of Subsidiaries

The Group acquired the following subsidiaries during the year:

Name	**Principal activities**	**Date of acquisition**	**Percentage acquired**	**Component of cost**	**Cost including capitalised expenses**
					HK$'000
Hing Yip Holdings Limited	Property investment	1st February, 2005	100%	Cash	13,811
Excalibur Futures Limited	Futures dealing and broking	17th March, 2005	100%	Cash	16,853
Excalibur Securities Limited	Securities broking	17th March, 2005	100%	Cash	9,033
Sing Hing Investment Limited	Property investment	18th April, 2005	100%	Cash	38,477
					78,174

42. Acquisition of Subsidiaries (Cont'd)

The net assets acquired and the goodwill arising from the acquisition are as follows:

	Acquiree's carrying amount	Fair value
	HK$'000	HK$'000
Net assets acquired:		
Investment property	26,934	39,362
Property, plant and equipment	9,565	11,028
Prepaid land lease payments	6,408	8,900
Intangible assets	1,200	1,200
Statutory deposits	1,734	1,734
Accounts receivable, deposits and prepayments	17,723	16,823
Bank balances and cash	15,758	15,758
Accounts payable and accrued charges	(16,575)	(16,575)
Deferred tax liabilities	(124)	(124)
Net assets	62,623	78,106
Total consideration, satisfied by cash		78,174
		68
Excess of net fair value over consideration recognised in consolidated income statement as other income		199
Goodwill		267
Net cash outflow arising on acquisition:		
Cash consideration paid		78,174
Bank balances and cash acquired		(15,758)
		62,416

The goodwill is attributable to the synergies expected to arise after the Group's acquisition of the subsidiaries.

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42. Acquisition of Subsidiaries (Cont'd)

The aggregate revenue and the profit for the year of the acquired subsidiaries are as follows:

	For the year ended 31st December, 2005 HK$'000	**Post acquisition attributable to the Group** HK$'000
Total revenue	46,695	43,743
Profit for the year	11,061	7,800

The subsidiary acquired in 2004 did not have any significant impact on the Group's revenue and profit for that year.

The information for the year 2005 is for illustrative purposes only and is not necessarily an indication of revenue and results of operation of the acquired subsidiaries that are included in the consolidated income statement of the Group, nor is it intended to be a projection of future results.

43. Major Non-cash Transaction

During the year, dividend income declared by a jointly controlled entity of HK$60,000,000 (2004: HK$60,000,000) was recorded by setting off the amount against the current account of the jointly controlled entity.

44. Contingent Liabilities

(a) At 31st December, 2005, the Group had guarantees as follows:

	2005 **HK$'000**	2004 HK$'000
Guarantees for banking facilities granted to an investee company	**6,979**	7,000
Indemnities on banking guarantees made available to a clearing house and regulatory body	**5,540**	5,540
Other guarantees	**7,084**	3,184
	19,603	15,724

44. Contingent Liabilities (Cont'd)

(b) On 4th February, 2004, Sun Tai Cheung Credits Limited ("STCC") and Sun Hung Kai Investment Services Limited ("SHKIS"), both indirect wholly-owned subsidiaries of Sun Hung Kai, were served with a writ attaching a statement of claim ("200/2004") by Shanghai Finance Holdings Limited ("SFHL"), claiming, inter alia, that the sale of the shares in Shun Loong Holdings Limited ("Shun Loong Shares") by STCC as assignee to SHKIS (for a consideration of HK$36,500,000 subject to additional amounts of HK$15,700,000 which may be payable one year from the date of completion under certain conditions) pursuant to a sale and purchase agreement dated 25th June, 2003 be set aside, or alternatively, against STCC for damages and the amount received by STCC in respect of the Shun Loong Shares. The writ is being vigorously defended. STCC and SHKIS were properly advised at all times during the transaction and believe that the claim is not soundly based and have applied to have the claim struck-out. The proceedings have now been stayed until further order by the court.

While a provision has been made for legal costs, at this stage, the management is of the view that it is not appropriate for any other provision to be made with respect to this action.

(c) By the Judgment of High Court of Hong Kong on 1st April, 2004 ("Judgment") in HCA 3191/1999 between NWDC and SDL against SHKS, SHKS was ordered to pay NWDC the sum of HK$105,534,018 together with interest on the principal sum of HK$80,117,653 at judgment rate from 16th December, 1998 until payment, pursuant to the terms of an oral agreement which was found by the court ("Oral Agreement"). As at 17th June, 2004, the date when the Judgment sum was paid, the amount was HK$150,115,682 (being HK$105,534,018 plus interest of HK$44,581,664). SHKS has paid the Judgment amounts. SHKS has filed an appeal against the Judgment both as to liability and quantum to the Court of Appeal. That Court of Appeal has now handed down the Court of Appeal Judgment in which the Court of Appeal ordered a repayment to SHKS of part of the interest element for the period from 16th December, 1998 to 31st March, 2004 previously ordered against SHKS in the High Court but otherwise broadly confirmed the Judgment. The sum repayable amounted to HK$14,783,091 and has now been repaid.

SHKS has obtained leave to appeal the Court of Appeal Judgment to the Court of Final Appeal. The Final Appeal will be heard on 19th June, 2006.

Since the handing down of the Judgment, NWDC has written to SHKS demanding payment of three further amounts for what it asserts as pro-rata shareholders' contributions advanced by NWDC on behalf of SHKS ("New Claims"):

(i) on 1st March, 2000 in the sum of HK$27,234,754;

(ii) on 2nd January, 2001 in the sum of HK$7,697,418 (Sun Hung Kai understands that a further writ was issued by NWDC in April 2004, naming SHKS as defendant, and claiming the aforesaid two amounts as well as interest thereon from March 2000 and January 2001 respectively ("Further Writ"). The Further Writ has not been served on SHKS); and

(iii) on 4th June, 2004 in the sum of HK$2,565,839 in respect of a bank loan by GUP. (a provision has been made with respect to this claim in the accounts of SHKS).

44. Contingent Liabilities (Cont'd)

(c) (Cont'd)

The Group understands that a second further writ including a statement of claim ("HCA 376/2006") was issued by NWDC and SDL in February 2006, claiming, inter alia, the sum of HK$37,498,011 being the aggregate of amounts of the New Claims, together with interest thereon at such rate and for such period as the Court considers appropriate. This second further writ has not been served on SHKS.

The outcome of the Final Appeal as well as other issues will be relevant to the determination of whether SHKS is liable to pay the New Claims which NWDC asserts are due under the Oral Agreement. Accordingly, the Group takes the view that the New Claims are a contingent liability, and that while a provision has been made for legal costs, it is considered that it is not presently appropriate for any other provision to be made with respect to the Final Appeal or the Further Writ. An analysis as to the possible financial implications for the Group depending on the ultimate outcome of the Final Appeal was provided in note 28.

At 31st December, 2005, the Company had guarantees of HK$1,470,857,000 (2004: HK$1,559,800,000) given to banks in respect of credit facilities utilised by its subsidiaries.

45. Capital Commitments

	The Group	
	2005	2004
	HK$'000	HK$'000
Capital expenditure contracted for but not provided for in the financial statements	**29,952**	29,039
Capital expenditure authorised but not contracted for	**2,259**	2,209

The Company did not have any significant capital commitments at 31st December, 2005 and 2004.

46. Operating Lease Arrangements

The Group as lessee

	The Group	
	2005	2004
	HK$'000	HK$'000
Minimum lease payments under operating leases recognised in the income statement for the year:		
Land and buildings	**17,170**	17,374
Others	**50**	658
	17,220	18,032

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46. Operating Lease Arrangements (Cont'd)

At 31st December, 2005, the Group had outstanding minimum lease payments under non-cancellable operating leases, which fall due as follows:

	The Group			
	2005		2004	
	Land and buildings HK$'000	**Others HK$'000**	Land and buildings HK$'000	Others HK$'000
Within one year	**14,477**	**406**	20,155	578
In the second to fifth year inclusive	**14,463**	**–**	34,466	–
	28,940	**406**	54,621	578

Operating leases are negotiated for terms ranging from one to two years.

The Group as lessor

Property rental income earned during the year was HK$87,210,000 (2004: HK$68,952,000). The property held has committed tenants whose tenancy agreements expire or are terminable over the next three years.

At 31st December, 2005, the Group had contracted with tenants for the following future minimum lease payments:

	The Group	
	2005 HK$'000	2004 HK$'000
Within one year	**69,460**	39,746
In the second to fifth years inclusive	**37,793**	18,487
	107,253	58,233

The Company did not have any significant lease commitments as lessee or lessor under non-cancellable operating leases at 31st December, 2005 and 2004.

47. Retirement Benefit Schemes

The Group operates defined contribution retirement benefit schemes for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group under provident funds managed by independent trustees.

The retirement benefit cost charged to the income statement represents contributions payable to the fund by the Group at rates specified in the rules of the schemes. Where there are employees who leave the schemes prior to vesting fully in the contributions, in accordance with the terms of the schemes, the contributions payable by the Group are reduced by the amount of forfeited employer's contributions.

At 31st December, 2005 and 2004, there were no material forfeited contributions which arose when employees left the retirement benefit schemes before they were fully vested in the contributions and which were available to reduce the contributions payable by the Group in the future years.

The schemes have been closed in 2000 to new employees as a consequence of the Mandatory Provident Fund Schemes Ordinance introduced by the Hong Kong Government.

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

48. Pledge of Assets

At 31st December, 2005, certain of the Group's investment properties, land and buildings, properties held for development, prepaid land lease payments and properties held for sale with an aggregate carrying value of HK$3,545,804,000 (2004: HK$3,026,237,000, as restated), certain securities in respect of a listed subsidiary with a cost of HK$902,933,000 (2004: HK$902,933,000), and listed investments belonging to the Group and margin clients with an aggregate carrying value of HK$1,387,659,000 (2004: HK$1,074,406,000) were pledged to secure loans and general banking facilities to the extent of HK$3,098,756,000 (2004: HK$3,404,144,000) granted to the Group. Facilities amounting to HK$1,792,881,000 (2004: HK$1,649,749,000) were utilised at 31st December, 2005.

At 31st December, 2005, a bank deposit of HK$972,000 (2004: HK$1,220,000) was pledged to secure a bank guarantee amounting to HK$2,000,000 (2004: HK$2,000,000).

At 31st December, 2005 and 2004, the Company had not pledged any assets.

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49. Related Party Transactions and Balances

The following is a summary of the significant transactions and balances with related parties during the year and as at the year end.

(a) Summary of transactions

	(Income)/Expense	
	2005	2004
	HK$'000	HK$'000
Ultimate holding company		
Share of management service expenses/ corporate management service fee (note)	**7,120**	6,112
Share of administrative expenses (note)	**661**	6,935
Advertising income	**(800)**	(800)
Rent, property management and air-conditioning fees (note)	**(3,437)**	(3,464)
Fellow subsidiaries		
Management service fee	**–**	2,200
Advertising income	**(400)**	(400)
Dividend income	**(21,810)**	(7,270)
Jointly controlled entity		
Administration, management and consultancy fees	**(3,775)**	(4,860)
Dividend income	**(60,000)**	(60,000)
Property management and air-conditioning fees and other property related service fee	**(13,996)**	(14,020)
Associates		
Dividend income	**(750)**	(6,182)
Interest income	**(6,754)**	(7,287)
Insurance premium	**(4,402)**	(4,543)
Service fee income	**(2,718)**	(1,137)
Rent, property management, air-conditioning fees and other related service fees	**(1,674)**	(910)

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49. Related Party Transactions and Balances (Cont'd)

(b) Key management personnel compensation

	2005	2004
	HK$'000	HK$'000
Short term benefits	**11,437**	5,879
Post-employment benefits	**266**	175
	11,703	6,054

Certain key management personnel of the Group received remuneration from the Company's ultimate holding company or its wholly-owned subsidiary. The ultimate holding company provided management services to the Group and charged the Group a fee, which is included in share of management service expenses/management service fee as disclosed above in part (a) of this note, for services provided by those personnel as well as others who are not key management personnel of the Group.

Prior to 2005, the management service fee could not be apportioned and allocated to any individuals. From 1st January, 2005, the management service fee is calculated by reference to the time devoted by the management personnel on the affairs of the Group and can be apportioned to the above key management personnel. The total of such apportioned amounts, which have been included in the key management personnel compensation above for 2005, is HK$4,400,000.

(c) During the year, both the Group and a joint venture partner, each having a 50% interest in a jointly controlled entity, received and repaid various interest-free loans from such jointly controlled entity. At 31st December 2005, the amounts lent to the Group totalling HK$81,000,000 (2004: HK$141,000,000) are unsecured, interest-free and repayable on demand.

(d) During the year, the Group acquired two companies from a subsidiary of a listed associate at a total consideration of HK$52,283,000.

(e) During the year, a loan facility to the extent of HK$280,000,000 was granted to a subsidiary of a listed associate for a term of 36 months from 7th November, 2005. The loan is charged at an interest rate of 1% over prime rate per annum and guaranteed by the listed associate. At 31st December, 2005, the loan drawn down amounted to HK$245,000,000.

Note: Apart from the tenancy agreement entered into by a subsidiary of the Company and the Sharing of Administrative Services and Management Services Agreement entered into by the Company with the ultimate holding company, none of the above related party transactions constitutes a discloseable connected transaction as defined in Listing Rules.

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49. Related Party Transactions and Balances (Cont'd)

The net balances due from (to) related parties at 31st December, 2005 and 2004 are summarised as follows:

	The Group		The Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Ultimate holding company	**(8,235)**	(6,115)	**(8,183)**	(6,094)
Associates	**331,822**	88,444	**–**	911
Jointly controlled entities	**(78,916)**	(139,023)	**–**	–
	244,671	(56,694)	**(8,183)**	(5,183)

The above amounts are included in the balance sheets of the Group and the Company in the following ways:

	The Group		The Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Interests in associates	**64,582**	136,953	**–**	–
Loans and receivables from an associate	**78,000**	–	**–**	–
Accounts receivable, deposits and prepayments	**245,116**	979	**–**	911
Amounts due from associates	**7,384**	231	**–**	–
Amount due from a jointly controlled entity	**2,159**	2,040	**–**	–
Accounts payable and accrued charges	**(496)**	(480)	**–**	–
Amount due to Allied Group Limited	**(8,183)**	(6,094)	**(8,183)**	(6,094)
Amounts due to associates	**(62,828)**	(49,260)	**–**	–
Amount due to a jointly controlled entity	**(81,063)**	(141,063)	**–**	–
	244,671	(56,694)	**(8,183)**	(5,183)

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50. Maturity Profile of Term Assets And Liabilities

The following table lists the assets and liabilities of the Group which have a term of maturity. Overdue assets are included as on demand.

	At 31st December, 2005					
	On demand	**Within 3 months**	**3 months to 1 year**	**1 year to 5 years**	**After 5 years**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets						
Fixed deposits with banks	–	110,902	–	–	–	110,902
Term loan of a listed associate	–	245,000	–	–	–	245,000
Loan note of a listed associate	–	–	–	78,000	–	78,000
Treasury bills	–	7,680	–	–	–	7,680
Term loans	183,630	66,200	5,667	–	–	255,497
Liabilities						
Bank loans and overdrafts	–	554,910	395,323	818,153	57,610	1,825,996
Loan notes	–	–	–	64,252	–	64,252

	At 31st December, 2004					
	On demand	Within 3 months	3 months to 1 year	1 year to 5 years	After 5 years	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets						
Fixed deposits with banks	–	144,181	–	–	–	144,181
Loans and receivables	–	–	–	3,200	–	3,200
Loan note of a listed associate	–	–	–	78,000	–	78,000
Term loans	232,911	61,145	34,600	–	–	328,656
Marketable debt securities	–	7,741	–	–	–	7,741
Liabilities						
Bank loans and overdrafts	–	76,247	526,933	960,207	86,362	1,649,749
Loan notes	–	–	–	129,637	–	129,637

51. Events After the Balance Sheet Date

(a) on 3rd April, 2006, Wah Cheong Development (B.V.I.) Limited ("Wah Cheong"), a wholly-owned subsidiary of Sun Hung Kai, entered into a conditional option agreement with CLSA Capital Limited ("CLSA"), pursuant to which Wah Cheong was granted the option to acquire further 34,156,666 shares in Quality HealthCare Asia Limited ("QHA") from CLSA at an option consideration of HK$27,752,291. The option agreement will only take effect after the approval of the shareholders of the Company, Sun Hung Kai and Allied Group Limited, the ultimate holding company of the Company respectively, and the confirmation from the Securities and Futures Commission on terms that are not considered detrimental that Wah Cheong and CLSA will not be regarded as parties acting in concert and that Wah Cheong is not required to make a mandatory offer to all QHA's shareholders until it exercises the option.

The option will entitle Wah Cheong to:

- acquire all (but not part) of the option shares (being 34,156,666 QHA shares held by CLSA) at an aggregate exercise price of HK$83,256,873 (i.e. HK$2.4375 per option share), and

- exercise all or part of the option warrants (being such number of QHA warrants held by CLSA as would, if exercised, lead to the subscription of 6,943,333 QHA shares at HK$2.5 per share).

The option is exercisable by Wah Cheong, with respect to the option shares, at any time within a period of 4 years and, with respect to the option warrants, on or before 13th January, 2007.

At 7th April, 2006, Wah Cheong has an equity interest of approximately 34.39% in QHA. It also holds such number of warrants as would, if exercised, lead to the subscription of 12,544,632 shares. Exercise of such warrants in full would result in Wah Cheong holding an equity interest of approximately 38.36% in QHA.

Assuming that (i) no new shares are issued by QHA (other than those issued following exercise in full of the option warrants), (ii) the option is exercised in respect of the option shares and the option warrants as mentioned in the option agreement have been exercised, and (iii) Wah Cheong does not exercise any of the warrants held by it, Wah Cheong's equity interest in QHA will increase to approximately 53.54% of the enlarged capital. In case Wah Cheong exercises all the warrants held by it, Wah Cheong's equity interest in QHA will further increase to approximately 56.25%.

(b) On 6th April, 2006, the following agreements were entered into

- a placing agreement between Sun Hung Kai as vendor and 3V Capital Limited as a placing agent in respect of the placing of 175,000,000 existing shares in Tian An China Investments Company Limited ("Tian An") to independent investors at a price of HK$5.1 per share, and

- a subscription agreement between Sun Hung Kai and Tian An in respect of Sun Hung Kai's subscription for 175,000,000 new shares in Tian An ("Subscription Shares") at the same price on completion of the placing.

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51. Events After the Balance Sheet Date (Cont'd)

The placing agreement is unconditional and completion of the placing has taken place. However, the subscription agreement is conditional upon:

– the Stock Exchange granting listing of and permission to deal in the Subscription Shares.

– granting of a waiver from any obligation to make a general offer under Rule 26 of the Takeover Code arising as a result of the subscription, and

– completion of the placing.

The completion of the above will result in Sun Hung Kai's equity interest in Tian An reducing from approximately 48.60% to approximately 40.51%. The Board does not anticipate any significant gain or loss to the Group arising from this transaction.

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52. Particulars of Principal Subsidiaries

Particulars of the Company's principal subsidiaries at 31st December, 2005 which have their principal place of operations in Hong Kong are set out below:

Subsidiaries	Paid up issued ordinary share capital HK$	Proportion of nominal value of issued capital held by the Company*/ subsidiaries %	Proportion of nominal value of issued capital attributable to the Group %	Principal activity
Alaston Development Limited	US$1	100	100	Property trading
Allied Real Estate Agency Limited	2	100	100	Real estate agency
AP Administration Limited	2	100	100	Provision of management and consultancy services
AP Corporate Services Limited	2	100	100	Provision of corporate services
AP Development Limited	2	100*	100	Investment holding
AP Diamond Limited	US$1	100	100	Property trading and holding
AP Emerald Limited	US$1	100	100	Investment holding
AP Finance Limited	2	100	100	Money lending
AP Property Management Limited	2	100	100	Building management
Bali International Finance Limited	137,500,000	100	75	Financial service and investment holding
Bali Securities Co. Limited	7,000,000	100	75	Securities dealer
Best Melody Development Limited	5,000	100	100	Property holding
Cheeroll Limited	2	100	75	Investment holding, securities and bullion trading
Cowslip Company Limited	2	100	75	Investment holding
Excalibur Futures Limited	20,000,000	100	75	Futures dealing and broking
Excalibur Securities Limited	20,000,000	100	75	Securities broking
Fame Arrow Company Limited	100,000	95	95	Loan financing
Florich Development Limited	10,000	100	100	Investment holding
Front Sail Limited	5,000	100	100	Property holding
Gilmore Limited	2	100	100	Property holding
Gloria (Nominees) Limited	200	100	75	Investment holding
Gloxin Limited	2	100	75	Investment holding
Grand Securities Company Limited	20,000,000	100	75	Securities broking
Hilarious (Nominees) Limited	10,000	100	75	Investment holding
Hillcrest Development Limited	20	100	100	Property holding
Hi-Link Limited	200	100	100	Investment holding
Integrated Custodian Limited	2	100	100	Property holding
Itso Limited	2	100	75	Securities trading
Jaffe Development Limited	US$1	100	100	Property holding

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52. Particulars of Principal Subsidiaries (Cont'd)

Subsidiaries	Paid up issued ordinary share capital HK$	Proportion of nominal value of issued capital held by the Company*/ subsidiaries %	Proportion of nominal value of issued capital attributable to the Group %	Principal activity
Kalix Investment Limited	2	100	100	Property holding
King Policy Development Limited	2	100	100	Property holding
Lexshan Nominees Limited	2	100	75	Nominee service
Macdonnell (Nominees) Limited	10,000	100	75	Investment holding
Maxplan Investment Limited	2	100	100	Securities trading
Mightyton Limited	10,000	100	100	Property holding
Oakfame Investment Limited	2	100	75	Investment holding
Ontone Limited	2	100	100	Hotel operations, property development and property holding
Pioneer Score Development Limited	2	100	75	Investment holding
Plentiwind Limited	2	100	75	Futures trading
Polyking Services Limited	2	100	65	Building maintenance and cleaning services
Protech Property Management Limited	5,000	100	65	Building management
Quick Art Limited	3,540,000	100	75	Property holding
Ranbridge Finance Limited	20,000,000	100	75	Money lending
San Pack Properties Limited	10	100	100	Property holding
Scienter Investments Limited	20	100	75	Share trading
SHK Consultancy Services Limited	2	100	75	Provision of consultancy service
SHK Financial Data Limited	100	51	38	Provision of financial information service
SHK Fund Management Limited	5,000,000	100	75	Funds marketing and management
SHK Investment Services Limited	1,000,000	100	75	Asset holding and leasing
SHK Online (Securities) Limited	30,000,000	100	75	Online securities broking and margin financing

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52. Particulars of Principal Subsidiaries (Cont'd)

Subsidiaries	Paid up issued ordinary share capital HK$	Proportion of nominal value of issued capital held by the Company*/ subsidiaries %	Proportion of nominal value of issued capital attributable to the Group %	Principal activity
SHK Online Limited	20,000,000	100	75	Online financial services
SHK Pearl River Delta Investment Company Limited	75,000,000	100	75	Investment holding
Shun Loong Bullion Limited	6,000,000	100	75	Bullion dealing and broking
Shun Loong Capital Limited	6,500,000	100	75	Investment holding
Shun Loong Finance Limited	1,000,000	100	75	Money lending
Shun Loong Forex Company Limited	32,000,000	100	75	Leveraged foreign exchange dealing and broking
Shun Loong Futures Limited	15,000,000	100	75	Futures and option dealing
Shun Loong Holdings Limited	200,000,000	100	75	Investment holding
Shun Loong Nominees Limited	100,000	100	75	Provision of nominee and secretarial services
Shun Loong On-line Investment Services (H.K.) Limited	25,000,000	100	75	Computer and marketing advisory services and securities trading
Shun Loong Securities Company Limited	50,000,000	100	75	Securities broking and share margin financing
Sierra Joy Limited	2	100	100	Property holding
Splendid Gain Limited	2	100	75	Investment holding
Sun Hing Bullion Company Limited	5,000,000	100	75	Bullion trading
Sun Hung Kai & Co. Limited **	249,140,631	75	75	Investment holding
Sun Hung Kai (Nominees) Limited	200	100	75	Nominee service
Sun Hung Kai Bullion Company Limited	30,000,000	100	75	Bullion trading and investment holding
Sun Hung Kai Commodities Limited	80,000,600	100	75	Commodities broking
Sun Hung Kai Forex Limited	150,000,000	100	75	Foreign exchange dealing

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52. Particulars of Principal Subsidiaries (Cont'd)

Subsidiaries	Paid up issued ordinary share capital HK$	Proportion of nominal value of issued capital held by the Company*/ subsidiaries %	attributable to the Group %	Principal activity
Sun Hung Kai Insurance Consultants Limited	1,000,000	100	75	Insurance broking and consultancy services
Sun Hung Kai International Limited	10,000,000	100	75	Corporate finance service
Sun Hung Kai International Commodities Limited	5,000,000	100	75	Securities, futures and options trading
Sun Hung Kai Investment Services Limited	290,000,000	100	75	Investment holding, share broking and margin financing
Sun Hung Kai Research Limited	100,000	100	75	Securities research service
Sun Hung Kai Securities (Overseas) Limited	60,000	100	75	Investment holding
Sun Hung Kai Securities (Trustees) Limited	3,000,000	100	75	Provision of trustee service
Sun Hung Kai Securities Capital Markets Limited	1,000	100	75	Investment holding
Sun Hung Kai Securities Limited	124,898,589	100	75	Investment holding
Sun Hung Kai Venture Capital Limited	2	100	75	Investment holding
Sun Hung Kai Wealth Management Limited	5,000,000	100	75	Investment advisory, financial planning and wealth management
Sun Tai Cheung Credits Limited	150,000,000	100	75	Share margin financing
Sun Tai Cheung Finance Company Limited	25,000,000	100	75	Financial service
Texgulf Limited	20	100	75	Property holding
To Wan Development Company Limited	10,000	100	75	Investment holding
Tung Wo Investment Company, Limited	10,000	100	75	Investment holding
Wah Cheong Development Company, Limited	25,100,000	100	75	Investment holding
Wineur Secretaries Limited	2	100	75	Secretarial service
Yee Li Ko Investment Limited	58,330,000	100	75	Property holding

With the exception of Alaston Development Limited, AP Diamond Limited, AP Emerald Limited and Jaffe Development Limited, which were incorporated in the British Virgin Islands, all the above subsidiaries were incorporated in Hong Kong.

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52. Particulars of Principal Subsidiaries (Cont'd)

Particulars of the Company's principal subsidiaries at 31st December, 2005 which were incorporated and have their principal place of operations outside Hong Kong are set out below:

Subsidiaries	Place of incorporation/ operation	Paid up issued ordinary share capital	Proportion of nominal value of issued capital held by the Company*/ subsidiaries %	Proportion of nominal value of issued capital attributable to the Group %	Principal activity
Allied Properties China Limited	Cayman Islands	US$1,000	100 *	100	Investment holding
Best Decision Investments Limited	British Virgin Islands	US$50,000	65	49	Investment holding
Best Delta International Limited	British Virgin Islands	US$1	100	75	Investment holding
Boneast Assets Limited	British Virgin Islands	US$1	100	75	Investment holding
Constable Development S.A.	Panama	US$5	100	75	Investment holding
Hing Yip Holdings Limited	British Virgin Islands	US$1	100	75	Property holding
I-Market Limited	British Virgin Islands	US$1	100	75	Investment holding
Kenworld Corporation	Republic of Liberia	US$1	100	100	Investment holding
Lakewood Development Corporation	United States of America	US$1,000	100	100	Property held for sale
Ranbridge, Inc.	The Philippines	Peso5,385,000	100	75	Money lending
Shipshape Investments Limited	British Virgin Islands	US$1	100	75	Investment holding
SHK Absolute Return Managers Limited	Cayman Islands	US$10	100	75	Investment holding
SHK Global Managers Limited	British Virgin Islands	US$5,000	100	75	Funds management
SHK Quant Managers Limited	Cayman Islands	US$10	100	75	Funds management

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52. Particulars of Principal Subsidiaries (Cont'd)

Subsidiaries	Place of incorporation/ operation	Paid up issued ordinary share capital	Proportion of nominal value of issued capital held by the Company*/ subsidiaries %	Proportion of nominal value of issued capital attributable to the Group %	Principal activity
Sing Hing Investment Limited	British Virgin Islands	US$1	100	75	Property holding
SL Meridian Holdings Limited	British Virgin Islands	HK$1,000,000	100	75	Investment holding
Sun Hung Kai International Bank [Brunei] Limited	Brunei Darussalam	SGD10,000,000	100	75	International banking business
Sun Hung Kai International Investment Management Limited	British Virgin Islands	US$50,000	100	75	Investment holding
Sun Hung Kai Investment Services (Macau) Limited	Macau	MOP1,000,000	100	75	Property holding
Sun Hung Kai Online Limited	British Virgin Islands	US$1	100	75	Online service
Sun Hung Kai Securities (Bermuda) Limited	Bermuda	US$12,000	100	75	Investment holding and management service
Sun Hung Kai Securities (Phil.), Inc.	The Philippines	Peso 273,600,000	100	75	Investment holding
Swan Islands Limited	British Virgin Islands	US$1	100	75	Investment holding
Tailwind Consultants Limited	British Virgin Islands	US$1	100	75	Investment holding
Upper Selection Investments Limited	British Virgin Islands	US$1	100	75	Investment holding
Upstand Assets Limited	British Virgin Islands	US$1	100	75	Investment holding
Wah Cheong Development (B.V.I.) Limited	British Virgin Islands	US$2,675,400	100	75	Investment holding
Zeal Goal International Limited	British Virgin Islands	US$1	100	75	Investment holding

** This subsidiary is listed in Hong Kong and further details about this subsidiary are available in its published audited accounts.

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

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53. Particulars of Principal Associates

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

Associates	Place of incorporation/ operation	Proportion of nominal value of issued capital held by subsidiaries	Proportion of nominal value of issued capital attributable to the Group	Principal activity
		%	%	
Chronicle Gain Limited	Hong Kong	45	34	Property holding
Drinkwater Investment Limited	Hong Kong	22	16	Property holding
Omicron International Limited	British Virgin Islands	44	33	Investment holding
Quality HealthCare Asia Limited **	Bermuda	34	25	Investment holding
Real Estate Investments (N.T.) Limited	Hong Kong	40	30	Property development
Silver York Development Limited	Hong Kong	40	30	Investment holding
Start Hold Limited	Hong Kong	33	25	Investment holding
Tian An China Investments Company Limited **	Hong Kong	49	37	Investment holding
Yu Ming Investments Limited **	Hong Kong	22	16	Investment holding

** These associates are listed in Hong Kong and further details about these associates are available in their published audited accounts.

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

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54. Particulars of Principal Jointly Controlled Entities

Particulars of the Group's principal jointly controlled entities at 31st December, 2005 are set out below:

Jointly controlled entities	Place of incorporation/ operation	Proportion of nominal value of issued capital held by subsidiaries %	Proportion of nominal value of issued capital attributable to the Group %	Principal activity
Allied Kajima Limited	Hong Kong	50	50	Property and investment holding
SHK Corporate Finance (Shanghai) Limited	People's Republic of China	33	25	Corporate finance advisory

The above table lists the jointly controlled entities of the Group which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group.