Notes to the Financial Statements

1. CORPORATE INFORMATION

Hongkong Chinese Limited is a limited liability company incorporated in Bermuda. The principal place of business of the Company is located at 24th Floor, Tower One, Lippo Centre, 89 Queensway, Hong Kong.

The principal activity of the Company is investment holding. Its subsidiaries, associates and jointly controlled entities are principally engaged in investment holding, property investment and development, fund management, underwriting, corporate finance, securities broking, securities investment, treasury investment, money lending, banking and other related financial services.

In the opinion of the Directors, the immediate holding company of the Company is HKCL Holdings Limited, which is incorporated in the Cayman Islands and the ultimate holding company of the Company is Lippo Cayman Limited, which is incorporated in the Cayman Islands.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and certain financial assets, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries for the year ended 31st December, 2005. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests shown in the consolidated profit and loss account and the consolidated balance sheet represent the interests of outsider shareholders of the Company's subsidiaries in the results and net assets of such subsidiaries, respectively.

Notes to the Financial Statements

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 11	Construction Contracts
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 30	Disclosures in the Financial Statements of Banks and Similar Financial Institutions
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases
HK(SIC)-Int 15	Operating Leases-Incentives
HK(SIC)-Int 21	Income Taxes – Recovery of Revalued Non-depreciable Assets

Notes to the Financial Statements

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

The adoption of HKASs 2, 7, 8, 10, 11, 12, 14, 16, 17, 18, 19, 20, 23, 24, 28, 30, 31 ,33, 37, 38, HKFRS 2, HK-Int 4 and HK(SIC)-Int 15 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated profit and loss account, consolidated summary statement of changes in equity and other disclosures. In addition, in prior years, the Group's share of tax attributable to associates was presented as a component of the Group's total tax charge in the consolidated profit and loss account. Upon the adoption of HKAS 1, the Group's share of the post-acquisition results of associates and jointly controlled entities is presented net of the Group's share of tax attributable to associates and jointly controlled entities.

HKAS 21 had no material impact on the Group. As permitted by the transitional provisions of HKAS 21, goodwill arising in a business combination prior to 1st January, 2005 and fair value adjustments arising on that acquisition are deemed to be in the currency of the Company. In respect of acquisitions subsequent to 1st January, 2005, any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of the assets and liabilities are treated as asset and liabilities of the foreign operation and are translated at the closing rate in accordance with HKAS 21.

The impacts of adopting the other HKFRSs are summarised as follows:

(a) HKAS 27 – Consolidated and Separate Financial Statements

(i) Banking subsidiary

In prior years, due to dissimilar nature of banking and non-banking operations, on consolidation of the banking subsidiary of the Company, respective assets and liabilities attributable to the banking operation were recognised in aggregate under "Assets less liabilities attributable to banking operation". Net interest income, commissions, dealing income and other revenues arising from the banking business were reported as "Turnover" in the consolidated profit and loss account.

With effect from 1st January, 2005, in accordance with HKAS 27, banking subsidiary is consolidated into the Group on a line-by-line basis. Assets and liabilities of the banking subsidiary are reported according to the respective type of the assets and liabilities as presented in the Group's consolidated balance sheet. Revenue attributable to the banking business is reported on a gross basis and the relevant direct expenses are included in the "Cost of sales" as shown in the consolidated profit and loss account.

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

(a) HKAS 27 – Consolidated and Separate Financial Statements *(Continued)*

(ii) Investment fund

In prior years, the Group's certain unlisted investment fund was accounted for as other investment in securities which was stated in the balance sheet at fair value.

With effect from 1st January, 2005, in accordance with HKAS 27, requirement for consolidation of an investee should be based on the parent's ability to control the investee, which captures both the power to control and actual control. Accordingly, the underlying assets, liabilities and returns derived from such investment fund are now consolidated into the Group on a line-by-line basis.

The above changes have been adopted retrospectively and comparative amounts have been restated to reflect the aforesaid reclassifications. The effects of the above changes are summarised in Note 2.4 to the financial statements.

(b) HKAS 32 and HKAS 39 – Financial Instruments

Until 31st December, 2004, the Group classified its investments in securities into investment securities, held-to-maturity securities and other investments in securities, which were stated in the balance sheet at cost and amortised cost less any impairment losses and at fair value, respectively. Any impairment losses on investment securities and held-to-maturity securities and changes in fair value on other investments in securities were recognised in the profit and loss account for the period in which they arise. Loans and receivables were reported on the balance sheet at the total of principal amount outstanding and accrued interest receivable (if applicable) net of provisions for doubtful debts.

From 1st January, 2005 onwards, the Group classifies its investments into the following categories, taking into account the purpose for which the investments are acquired:

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading and those designated at fair value through profit or loss at inception. Derivatives are also categorised as held for trading unless they are designated as hedges. They are carried at fair value in the balance sheet. Any change in fair value shall be recognised in the profit and loss account.

Notes to the Financial Statements

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

(b) HKAS 32 and HKAS 39 – Financial Instruments *(Continued)*

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are recognised initially at fair value and subsequently carried at amortised costs using effective interest method, less any accumulated impairment losses. If the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss shall be reversed to the extent that such reversal shall not result in a carrying amount of the loans and receivables that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of such reversal shall be recognised in the profit and loss account.

Impairment provisions for loans and receivables 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, with similar risk characteristic, made using formula-based approaches or statistical methods. Impairment provisions for loans and receivables will be presented as individually assessed and collectively assessed instead of specific provisions and general provisions. Loans and receivables are included in loans and advances and debtors, prepayments and deposits in the balance sheet.

(iii) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. They are carried at amortised costs using effective interest method, less any accumulated impairment losses.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any other categories. They are carried at fair value except for certain available-for-sale financial assets that do not have a published quoted price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any accumulated impairment losses. The impairment loss is charged to the profit and loss account for the period in which they arise.

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

(b) HKAS 32 and HKAS 39 – Financial Instruments *(Continued)*

(iv) Available-for-sale financial assets (Continued)

For available-for-sale financial assets carried at fair value, any gain or loss arising from the change in fair value shall be recognised directly in equity except for impairment losses, until the financial asset is derecognised at which time the cumulative gain or loss previously recognised in equity shall be recognised in the profit and loss account.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity shall be removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments shall not be reversed through profit or loss. For debt instruments, impairment losses shall be reversed through profit or loss if the fair value of the debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised.

Interest on available-for-sale financial assets is calculated using the effective interest method and recognised in the profit and loss account and dividends are recognised in the profit and loss account when the Group's right to receive payment is established.

The fair values of quoted financial assets are based on current bid prices at the close of business at the balance sheet date. If the market for a financial asset is not active (and for unlisted financial assets), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length market transactions; reference to the current market values of other instruments that are substantially the same; a discounted cash flow analysis; and option pricing models refined to reflect the issuer's specific circumstances.

In accordance with the transitional provisions of HKAS 39, the Group re-designated:

(i) other investments in securities with total carrying amount of HK$935,515,000 and HK$197,702,000 into financial assets at fair value through profit or loss and available-for-sale financial assets on 1st January, 2005, respectively. There is no effect on re-measurement as the accounting policy on measurement of the Group's other investments in securities as at 31st December, 2004 is the same as that for the financial assets at fair value through profit or loss and the available-for-sale financial assets which are carried at fair value;

Notes to the Financial Statements

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

(b) HKAS 32 and HKAS 39 – Financial Instruments *(Continued)*

(iv) Available-for-sale financial assets (Continued)

(ii) investment securities with total carrying amount of HK$195,672,000 and HK$121,082,000 into financial assets at fair value through profit or loss and available-for-sale financial assets on 1st January, 2005, respectively, resulting in an adjustment of HK$5,062,000 debited to the opening balance of accumulated profit or loss to reflect the difference in fair value; and

(iii) the remaining investment securities with total carrying amount of HK$48,904,000 into available-for-sale financial assets which are carried at cost less any impairment losses. There is no effect on re-measurement as the accounting policy on measurement of the Group's investment securities as at 31st December, 2004 is the same as that for available-for-sale financial assets which are carried at cost.

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

(c) HKAS 40 – Investment Property

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

Upon the adoption of HKAS 40, gains or losses arising from changes in the fair values of investment properties are included in the profit and loss account in the period in which they arise. Any gains or losses on the retirement or disposal of an investment property are recognised in the profit and loss account in the period of the retirement or disposal.

The Group has taken advantage of the transitional provisions of HKAS 40 to adjust the effect of adopting the standard to the opening balance of accumulated profit or loss rather than restating the comparative amounts to reflect the changes retrospectively. The effects of the above changes are summarised in Note 2.4 to the financial statements.

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

(d) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets

In prior years, goodwill/negative goodwill arising on acquisitions prior to 1st January, 2001 was eliminated against consolidated capital reserve in the year of acquisition and was not recognised in the consolidated profit and loss account until disposal or impairment of the acquired business.

Goodwill arising on acquisitions on or after 1st January, 2001 was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment. Negative goodwill was carried in the consolidated balance sheet and was recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets, except to the extent it related to expectations of future losses and expenses that were identified in the acquisition plan and that could be measured reliably, in which case, it was recognised as income in the consolidated profit and loss account when the future losses and expenses were recognised.

Upon the adoption of HKFRS 3 and HKAS 36, goodwill arising on acquisitions is no longer amortised but subject to an annual impairment review (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired). Any impairment loss recognised for goodwill is not reversed in a subsequent period.

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

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1st January, 2005 the carrying amounts of accumulated amortisation with a corresponding entry to the cost of goodwill and to derecognise the carrying amounts of negative goodwill (including that remaining in consolidated capital reserve) against accumulated profit or loss. Goodwill previously eliminated against consolidated capital reserve remains eliminated against consolidated capital reserve and is not recognised in the consolidated profit and loss account when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

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

Notes to the Financial Statements

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

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

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

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

The change has been adopted retrospectively and the comparative amounts have been restated to reflect the deferred tax liabilities incurred. The effects of the above changes are summarised in Note 2.4 to the financial statements.

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

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

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 and HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

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

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

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

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

The HKAS 19 Amendment regarding actuarial gains and losses, group plans and disclosures and HKAS 39 Amendments regarding: (i) cash flow hedge accounting of forecast intragroup transactions and (ii) the fair value option shall be applied for annual periods beginning on or after 1st January, 2006.

The above new HKFRSs may result in changes in the future as to how the Group's financial performance and financial position are prepared and presented.

Notes to the Financial Statements

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

	Effect of adopting					
At 1st January, 2005	HKAS 27#	HKASs 32 and 39*	HKAS 40*	HKFRS 3*	HK(SIC) – Int 21#	
Effect of new policies (Increase/(Decrease))	Change in presentation	Change in classification of security investments	Surplus on revaluation of investment properties	Derecognition of negative goodwill	Deferred tax on revaluation of investment properties	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets						
Negative goodwill	–	–	–	1,144	–	1,144
Fixed assets	26,272	–	–	–	–	26,272
Held-to-maturity financial assets	9,643	–	–	–	–	9,643
Assets less liabilities attributable to banking operation	(175,411)	–	–	–	–	(175,411)
Available-for-sale financial assets	–	365,441	–	–	–	365,441
Investment securities	–	(365,658)	–	–	–	(365,658)
Financial assets at fair value through profit or loss	–	1,131,270	–	–	–	1,131,270
Other investments in securities	(11,031)	(1,133,217)	–	–	–	(1,144,248)
Loans and advances	147,931	–	–	–	–	147,931
Debtors, prepayments and deposits	4,196	–	–	–	–	4,196
Treasury bills	23,765	–	–	–	–	23,765
Cash and bank balances	95,847	–	–	–	–	95,847
						120,192
Liabilities/Equity						
Creditors, accruals and deposits received	2,477	–	–	–	–	2,477
Current, fixed, savings and other deposits of customers	117,641	–	–	–	–	117,641
Tax payable	1,094	–	–	–	–	1,094
Deferred tax liabilities	–	2,898	–	–	1,234	4,132
Investment property revaluation reserve	–	–	(6,227)	–	(1,234)	(7,461)
Distributable reserves	–	(5,062)	6,227	1,144	–	2,309
						120,192

* *Adjustments taken effect prospectively from 1st January, 2005*

\# *Adjustments/presentation taken effect retrospectively*

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

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

	Effect of adopting					
At 31st December, 2005	HKAS 27	HKASs 32 and 39	HKAS 40	HKFRS 3	HK(SIC) – Int 21	
Effect of new policies (Increase/(Decrease))	Change in presentation HK$'000	Change in classification of security investments HK$'000	Surplus on revaluation of investment properties HK$'000	Discontinuation of amortisation of goodwill/ Derecognition of negative goodwill HK$'000	Deferred tax on revaluation of investment properties HK$'000	Total HK$'000
Assets						
Goodwill	–	–	–	3,971	–	3,971
Fixed assets	33,504	–	–	–	–	33,504
Held-to-maturity financial assets	9,604	–	–	–	–	9,604
Assets less liabilities attributable to banking operation	(195,006)	–	–	–	–	(195,006)
Available-for-sale financial assets	8,439	380,505	–	–	–	388,944
Investment securities	–	(310,089)	–	–	–	(310,089)
Financial assets at fair value through profit or loss	152	886,514	–	–	–	886,666
Other investments in securities	–	(882,569)	–	–	–	(882,569)
Loans and advances	176,740	–	–	–	–	176,740
Debtors, prepayments and deposits	3,185	–	–	–	–	3,185
Treasury bills	15,520	–	–	–	–	15,520
Cash and bank balances	68,022	–	–	–	–	68,022
						198,492
Liabilities/Equity						
Creditors, accruals and deposits received	2,855	–	–	–	–	2,855
Current, fixed, savings and other deposits of customers	116,743	–	–	–	–	116,743
Tax payable	429	–	–	–	–	429
Deferred tax liabilities	133	5,026	–	–	10,770	15,929
Investment property revaluation reserve	–	–	(81,011)	–	(1,234)	(82,245)
Investment revaluation reserve	–	81,876	–	–	–	81,876
Distributable reserves	–	(12,541)	81,011	3,971	(9,536)	62,905
						198,492

Notes to the Financial Statements

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

(b) Effect on the balance of equity at 1st January, 2004 and at 1st January, 2005

At 1st January, 2005	Effect of adopting				
	HKASs 32 and 39	HKAS 40	HKFRS 3	HK(SIC) – Int 21	
Effect of new policies (Increase/(Decrease))	Designation of financial assets at fair value through profit or loss and available-for-sale financial assets	Surplus on revaluation of investment properties	Negative goodwill	Deferred tax on revaluation of investment properties	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Investment property revaluation reserve	–	(6,227)	–	(1,234)	(7,461)
Distributable reserves	(5,062)	6,227	1,144	–	2,309
					(5,152)

The adoption of HKFRSs and HKASs has had no material impact on the balance of equity at 1st January, 2004.

Notes to the Financial Statements

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

(c) Effect on the consolidated profit and loss account for the years ended 31st December, 2005 and 2004

Year ended 31st December, 2005	Effect of adopting						
	HKAS 1	HKAS 27	HKASs 32 and 39	HKAS 40	HKFRS 3	HK(SIC)–Int 21	
Effect of new policies	Share of post-tax results of associates HK$'000	Change in presentation HK$'000	Designation of financial assets at fair value through profit or loss and available-for-sale financial assets HK$'000	Surplus on revaluation of investment properties HK$'000	Discontinuation of amortisation of goodwill HK$'000	Deferred tax on revaluation of investment properties HK$'000	Total HK$'000
Increase in revenue	–	149,294	–	–	–	–	149,294
Increase in cost of sales	–	(140,069)	(10,423)	–	–	–	(150,492)
Increase/(Decrease) in net fair value gain on financial assets at fair value through profit or loss	–	(9,225)	2,944	–	–	–	(6,281)
Increase in fair value gains on investment properties	–	–	–	74,784	–	–	74,784
Decrease in other operating expenses	–	–	–	–	2,827	–	2,827
Decrease in share of results of associates	(1,037)	–	–	–	–	–	(1,037)
Decrease/(Increase) in tax	1,037	–	–	–	–	(9,536)	(8,499)
Total increase/(decrease) in profit attributable to equity holders of the Company	–	–	(7,479)	74,784	2,827	(9,536)	60,596
Increase/(Decrease) in basic earnings per share	–	–	(0.6) cents	5.6 cents	0.2 cents	(0.7) cents	4.5 cents
Increase/(Decrease) in diluted earnings per share	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Notes to the Financial Statements

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

(c) Effect on the consolidated profit and loss account for the years ended 31st December, 2005 and 2004 *(Continued)*

Year ended 31st December, 2004	Effect of adopting HKAS 1	HKAS 27	HKASs 32 and 39	HKAS 40	HKFRS 3	HK(SIC)–Int 21	
Effect of new policies	Share of post–tax results of associates HK$'000	Change in presentation HK$'000	Designation of financial assets at fair value through profit or loss and available-for–sale financial assets HK$'000	Surplus on revaluation of investment properties HK$'000	Discontinuation of amortisation of goodwill HK$'000	Deferred tax on revaluation of investment properties HK$'000	Total HK$'000
Increase in revenue	–	147,224	–	–	–	–	147,224
Increase in cost of sales	–	(140,322)	–	–	–	–	(140,322)
Increase in net unrealised holding loss on other investments in securities	–	(10,794)	–	–	–	–	(10,794)
Decrease in other operating expenses	–	3,892	–	–	–	–	3,892
Decrease in share of results of associates	(1,208)	–	–	–	–	–	(1,208)
Decrease in tax	1,208	–	–	–	–	–	1,208
Total increase/(decrease) in profit attributable to equity holders of the Company	–	–	–	–	–	–	–
Increase/(Decrease) in basic earnings per share	–	–	–	–	–	–	–
Increase/(Decrease) in diluted earnings per share	N/A	N/A	N/A	N/A	N/A	N/A	N/A

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. Interests in subsidiaries are stated in the Company's balance sheet at cost less any impairment losses.

(b) Joint venture companies

A joint venture company is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture company and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

(i) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture company;

(ii) a jointly controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;

(iii) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20 per cent. of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or

(iv) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20 per cent. of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Notes to the Financial Statements

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Jointly controlled entities

A jointly controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly controlled entity.

The Group's share of the post-acquisition results and reserves of jointly controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill arising from the acquisition of jointly controlled entities is included as part of the Group's interests in jointly controlled entities. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The results of jointly controlled entities are included in the Company's profit and loss account to the extent of dividend received and receivable. The Company's interests in jointly controlled entities are treated as non-current assets and are stated at cost less any impairment losses.

(d) Associates

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

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill arising from the acquisition of associates is included as part of the Group's interests in associates. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The results of associates are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in associates are treated as non-current assets and are stated at cost less any impairment losses.

(e) Goodwill

Goodwill arising on the acquisition of subsidiaries, associates, and jointly controlled entities represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired and contingent liabilities assumed as at the date of acquisition.

Notes to the Financial Statements

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Goodwill *(Continued)*

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

Goodwill arising on acquisition is initially recognised in the consolidated balance sheet as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. In the case of associates and jointly controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

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

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

Notes to the Financial Statements

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Goodwill *(Continued)*

Goodwill previously eliminated against the consolidated reserve

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

Excess over the cost of business combinations (applicable to business combinations for which the agreement date is on or after 1st January, 2005)

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of the acquisition of subsidiaries, associates and jointly controlled entities (previously referred to as negative goodwill), after reassessment, is recognised immediately in the consolidated profit and loss account.

The excess for the associates and jointly controlled entities is included in the determination of the Group's share of the associates and jointly controlled entities' profit or loss in the period in which the investments are acquired.

(f) Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets, investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Impairment of assets *(Continued)*

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

(g) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of fixed assets comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of fixed assets and the cost of the item can be measured realiably, the expenditure is capitalised as an additional cost to that asset or as a replacement.

Depreciation of fixed assets is calculated on the straight-line basis to write off the cost of each item of fixed assets to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land and buildings	1 per cent.
Leasehold improvements	Over the remaining lease terms
Furniture, fixtures and equipment	10 per cent. to $33\frac{1}{3}$ per cent.
Motor vehicles	20 per cent. to 25 per cent.

When parts of an item of fixed assets have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of fixed asset is derecognised upon disposal or when no future economic benefits are expected from its used or disposal. Any gain or loss on disposal or retirement recognised in the profit and loss account in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Notes to the Financial Statements

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Investment properties

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

Gains or losses arising from changes in the fair values of investment properties are included in the profit and loss account in the year in which they arise.

Any gains or losses on the retirement or disposal of investment properties are recognised in the profit and loss account in the year of the retirement or disposal.

(i) Properties under development

Properties under development intended for sale are stated at the lower of cost and net realisable value, which is determined by reference to prevailing market prices, on an individual property basis. Other properties under development are stated at cost less any impairment losses. Costs comprise the cost of land, development expenditure, other attributable costs and borrowing costs capitalised.

(j) Investments and other financial assets

Applicable to the year ended 31st December, 2004

The Group classified its investments in securities other than subsidiaries, associates and jointly controlled entities, as investment securities, held-to-maturity securities and other investments in securities.

Investment securities

Investment securities are investments in equity securities, debt securities and investment funds which are intended to be held on a continuing strategic or long term purpose. Investment securities are included in the balance sheet at cost less impairment losses, on an individual investment basis.

When a decline in the fair value of a security below its carrying amount has occurred, the carrying amount of the security is reduced to its fair value, as determined by the Directors. The amount of the impairment is charged to the profit and loss account for the period in which it arises. When the circumstances and events which led to the impairment losses cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amounts of the impairment previously charged is credited to the profit and loss account to the extent of the amount previously charged.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Held-to-maturity securities

Held-to-maturity securities are investments in dated debt securities which the Group has the expressed intention and ability to hold to maturity, and are stated at cost adjusted for the amortisation of premiums or discounts arising on acquisition, less any impairment losses which reflect their credit risk.

Premiums and discounts arising on acquisition of held-to-maturity securities are amortised over the period to maturity and are included as part of interest income. Profits or losses on realisation of held-to-maturity securities are accounted for in the profit and loss account as they arise.

Other investments in securities

Other investments in securities are those securities which are not classified as investment securities nor held-to-maturity securities, and are stated at their fair values on the basis of their quoted prices at the balance sheet date, on an individual investment basis. Unrealised holding gains or losses arising from changes in fair values of securities are dealt with in the profit and loss account as they arise.

Applicable to the year ended 31st December, 2005

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets, as appropriate. When financial assets are recognised initially they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the profit and loss account.

Notes to the Financial Statements

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

The Group's financial assets at fair value through profit or loss which are under regular way of purchases or sales are accounted for at trade dates. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Financial assets intended to be held for an undefined period are not included in this classification. Other long term financial assets that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For financial assets carried at amortised cost, gains and losses are recognised in the profit and loss account when the financial assets are derecognised or impaired, as well as through the amortisation process.

All regular way purchases and sales of held-to-maturity financial assets are recognised on the settlement dates, i.e., the dates the assets are received or delivered by the Group.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the profit and loss account when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

All regular way purchases and sales of loans and receivables are recognised on the settlement dates, i.e., the dates the assets are received or delivered by the Group.

Notes to the Financial Statements

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets in listed and unlisted equity securities, debt securities, and investment funds that are designated as available-for-sale or are not classified in any of the other three categories. After initial recognition, an available-for-sale financial assets is measured at fair value with gain or loss being recognised as a separate component of equity until the financial asset is derecognised or until the financial asset is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the profit and loss account.

When the fair value of unlisted equity securities and debt securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that financial asset or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

All regular way purchases and sales of available-for-sale financial assets are recognised on the settlement dates, i.e., the dates the assets are received or delivered by the Group.

Fair value

The fair value of financial assets that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For a financial asset where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis and option pricing models.

(k) Impairment of financial assets

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

Notes to the Financial Statements

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Impairment of financial assets *(Continued)*

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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

Assets carried at cost

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

Available-for-sale financial assets

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the profit and loss account. Impairment losses on equity instruments classified as available-for-sale are not reversed through profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Impairment of financial assets *(Continued)*

Impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event, occurring after the impairment loss was recognised in profit or loss.

(l) Derecognition of financial assets (Applicable to year ended 31st December, 2005)

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

(i) the rights to receive cash flows from the asset have expired;

(ii) the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

(iii) the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and reward of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchase option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

(m) Interest-bearing loans and borrowings

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

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

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

Notes to the Financial Statements

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Derecognition of financial liabilities (Applicable to the year ended 31st December, 2005)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another financial liability from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

(o) Property held for sale

Property held for sale is stated at the lower of cost and net realisable value which is determined by reference to prevailing market prices, on an individual property basis.

(p) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

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

(ii) dealings in securities and sale of investments, on the transaction dates when the relevant contract notes are exchanged or the settlement dates when the securities are delivered;

(iii) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instruments to the net carrying amount of the financial assets;

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

(v) commission income is accounted for, in the period when receivable, unless it is charged to cover the costs of a continuing service to, or risk borne for, customers, or is interest income in nature. In this case, commission income is recognised on a pro-rata basis over the relevant period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised. In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if legally enforceable right exists to set off current assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Notes to the Financial Statements

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Provisions

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

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

(s) Employee benefits

Paid leave entitlement

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

Retirement benefits costs

Employer's contributions made by the Group to the Mandatory Provident Funds operated for the benefits of employees of the Group as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are charged to the profit and loss account when incurred. The assets of the schemes are held separately from those of the Group in independently administrated funds.

(t) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents represent cash on hand, cash at banks, demand deposits, treasury bills and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand, cash at banks, term deposits and treasury bills, which are not restricted as to use.

(v) Foreign currencies

The financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are re-translated at the functional currency rates of exchange ruling at that balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries, jointly controlled entities and associates are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at exchange rates ruling at the balance sheet date and, their profit and loss accounts are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange equalisation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in exchange equalisation reserve relating to that particular foreign operation is recognised in the profit and loss account.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows or at an approximation thereto, the weighted average exchange rates for the year. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Notes to the Financial Statements

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Related parties

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

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

(b) the party is an associate;

(c) the party is a jointly controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) to (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

(x) Dividends and distributions

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

Interim dividends and distributions are simultaneously proposed and declared because the Company's memorandum of association and bye-laws grant the Directors the authority to declare interim dividends and distributions. Consequently, interim dividends and distributions are recognised immediately as a liability when they are proposed and declared.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(y) Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

(z) Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating unit to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31st December, 2005 was HK$57,285,000 (2004 – HK$57,697,000). Further details are given in Note 17.

Notes to the Financial Statements

4. SEGMENT INFORMATION

Segment information is presented by way of business segment as the primary segment reporting format and geographical segment as the secondary segment reporting format.

The Group's operating businesses are structured and managed separately, according to the nature of their operations. The Group's business segments represent different strategic business units which are subject to risks and returns that are different from those of the other business segments. In respect of geographical segment reporting, revenue is based on the location of customers, and assets and capital expenditure are based on the location of the assets. Descriptions of the business segments are as follows:

(a) the property investment and development segment includes letting, resale and development of properties;

(b) the treasury investment segment includes investments in cash and bond markets;

(c) the securities investment segment includes dealings in securities and disposals of investments;

(d) the corporate finance and securities broking segment provides securities and futures brokerage, investment banking, underwriting and other related advisory services;

(e) the banking business segment engages in the provision of commercial and retail banking services;

(f) the information technology segment engages in the development of computer hardware and software; and

(g) the "other" segment comprises principally money lending and the provision of fund management services.

Notes to the Financial Statements

4. SEGMENT INFORMATION *(Continued)*

An analysis of the Group's segment information by business segment is set out as follows:

Group

2005	Property investment and development HK$'000	Treasury investment HK$'000	Securities investment HK$'000	Corporate finance and securities broking HK$'000	Banking business HK$'000	Information technology HK$'000	Other HK$'000	Inter-segment elimination HK$'000	Consolidated HK$'000
Revenue									
External	9,845	16,810	1,076,656	59,740	18,076	–	5,806	–	1,186,933
Inter-segment	–	970	–	650	–	883	2,015	(4,518)	–
Total	9,845	17,780	1,076,656	60,390	18,076	883	7,821	(4,518)	1,186,933
Segment results	76,838	17,084	127,801	(25,646)	6,638	(3,678)	(8,915)	(2,939)	187,183
Unallocated corporate expenses									(58,459)
Share of results of associates	(6,723)	–	(32)	–	–	–	4,207	–	(2,548)
Share of results of jointly controlled entities	(313)	–	–	–	–	–	(110)	–	(423)
Profit before tax									125,753
Tax									(15,033)
Profit for the year									110,720

Notes to the Financial Statements

4. SEGMENT INFORMATION *(Continued)*

An analysis of the Group's segment information by business segment is set out as follows: *(Continued)*

Group

2005	Property investment and development HK$'000	Treasury investment HK$'000	Securities investment HK$'000	Corporate finance and securities broking HK$'000	Banking business HK$'000	Information technology HK$'000	Other HK$'000	Inter-segment elimination HK$'000	Consolidated HK$'000
Segment assets	570,842	548,513	1,270,414	663,002	372,452	1,674	22,420	–	3,449,317
Interests in associates	151,071	–	–	814	–	–	23,350	–	175,235
Interests in jointly controlled entities	7,000	–	–	–	–	–	5,615	–	12,615
Unallocated assets									15,356
Total assets									3,652,523
Segment liabilities	3,513	–	1,351	625,899	120,071	60	9,338	–	760,232
Unallocated liabilities									31,196
Total liabilities									791,428
Other segment information:									
Capital expenditure	1,536	–	–	801	8,123	12	1,124	–	11,596
Depreciation	(978)	–	(390)	(633)	(890)	(270)	(359)	–	(3,520)
Write-back of allowance/ (Allowance) for bad and doubtful debts relating to:									
Banking operation	–	–	–	–	2,140	–	–	–	2,140
Non-banking operations	(94)	–	–	(30,272)	–	–	(2,670)	–	(33,036)
Provisions for impairment losses on:									
Associates	–	–	–	–	–	–	(5,859)	–	(5,859)
Available-for-sale financial assets	–	–	(53,757)	–	–	–	–	–	(53,757)
Goodwill	–	–	–	–	–	–	(412)	–	(412)
Net fair value gain on financial assets at fair value through profit or loss	–	–	70,370	–	–	–	–	–	70,370
Fair value gains on investment properties	74,784	–	–	–	–	–	–	–	74,784
Unallocated:									
Capital expenditure									6,213
Depreciation									(1,093)

Notes to the Financial Statements

4. SEGMENT INFORMATION *(Continued)*

An analysis of the Group's segment information by business segment is set out as follows: *(Continued)*

Group

2004 (restated)	Property investment and development HK$'000	Treasury investment HK$'000	Securities investment HK$'000	Corporate finance and securities broking HK$'000	Banking business HK$'000	Information technology HK$'000	Other HK$'000	Inter-segment elimination HK$'000	Consolidated HK$'000
Revenue									
External	2,056	12,988	1,219,029	65,045	17,975	900	7,143	–	1,325,136
Inter-segment	–	906	–	1,453	–	–	–	(2,359)	–
Total	2,056	13,894	1,219,029	66,498	17,975	900	7,143	(2,359)	1,325,136
Segment results	(2,486)	12,327	(5,263)	4,077	3,972	(10,817)	(18,828)	–	(17,018)
Unallocated corporate expenses									(39,364)
Share of results of associates	–	–	–	–	–	(2,379)	(4,138)	–	(6,517)
Loss before tax									(62,899)
Tax									(3,535)
Loss for the year									(66,434)

Notes to the Financial Statements

4. SEGMENT INFORMATION *(Continued)*

An analysis of the Group's segment information by business segment is set out as follows: *(Continued)*

Group

2004 (restated)	Property investment and development HK$'000	Treasury investment HK$'000	Securities investment HK$'000	Corporate finance and securities broking HK$'000	Banking business HK$'000	Information technology HK$'000	Other HK$'000	Inter-segment elimination HK$'000	Consolidated HK$'000
Segment assets	226,930	721,008	1,507,047	721,143	353,908	3,567	20,394	–	3,553,997
Interests in associates	–	–	–	1,334	–	–	25,832	–	27,166
Interests in a jointly controlled entity	7,313	–	–	–	–	–	–	–	7,313
Unallocated assets									20,330
Total assets									3,608,806
Segment liabilities	2,672	–	110,250	622,890	120,118	22	2,805	–	858,757
Unallocated liabilities									14,745
Total liabilities									873,502
Other segment information:									
Capital expenditure	4,948	–	–	781	–	101	1,012	–	6,842
Depreciation	(564)	–	(402)	(681)	(785)	(267)	(241)	–	(2,940)
Write-back of allowance/ (Allowance) for bad and doubtful debts relating to:									
Banking operation	–	–	–	–	666	–	–	–	666
Non-banking operations	–	–	–	(1,203)	–	–	–	–	(1,203)
Provisions for impairment loss on:									
An associate	–	–	–	–	–	–	(16,603)	–	(16,603)
Investment securities	–	–	(2,776)	–	–	–	–	–	(2,776)
Net unrealised holding loss on other investments in securities	–	–	(72,097)	–	–	–	–	–	(72,097)
Negative goodwill recognised as income/ (Amortisation of goodwill) arising from acquisition of subsidiaries	–	–	–	–	(3,356)	(806)	146	–	(4,016)
Write-back of deficit on revaluation of investment properties	316	–	–	–	–	–	–	–	316
Unallocated:									
Capital expenditure									922
Depreciation									(431)

Notes to the Financial Statements

4. SEGMENT INFORMATION *(Continued)*

An analysis of the Group's segment information by geographical segment is set out as follows:

Group

2005	**Hong Kong** **HK$'000**	**Macau** **HK$'000**	**Republic of Singapore** **HK$'000**	**Japan** **HK$'000**	**Ireland** **HK$'000**	**Other** **HK$'000**	**Consolidated** **HK$'000**
Revenue	**251,947**	**18,076**	**336,375**	**264,860**	**176,168**	**139,507**	**1,186,933**
Segment assets	**1,546,310**	**645,969**	**548,913**	**148,779**	**–**	**574,702**	**3,464,673**
Interests in associates	**20,533**	**–**	**151,211**	**–**	**–**	**3,491**	**175,235**
Interests in jointly controlled entities						**12,615**	**12,615**
Total assets							**3,652,523**
Capital expenditure	**2,173**	**8,123**	**6,941**	**–**	**–**	**572**	**17,809**

2004 (restated)	Hong Kong HK$'000	Macau HK$'000	Republic of Singapore HK$'000	Japan HK$'000	Ireland HK$'000	Other HK$'000	Consolidated HK$'000
Revenue	551,467	18,875	216,778	265,628	–	272,388	1,325,136
Segment assets	1,702,340	353,908	571,149	201,857	–	745,073	3,574,327
Interests in associates	17,477	–	–	–	–	9,689	27,166
Interests in a jointly controlled entity	–	–	–	–	–	7,313	7,313
Total assets							3,608,806
Capital expenditure	2,816	–	–	–	–	4,948	7,764

Notes to the Financial Statements

5. REVENUE

Revenue which is also the Group's turnover, representing the aggregate of gross rental income, gross income on treasury investment which includes interest income on bank deposits and debt securities, gross income from securities investment which includes proceeds from sales of investments, dividend income and related interest income, gross income from underwriting and securities broking, interest and other income from money lending business, and gross interest income, commissions, dealing income and other revenues from a banking subsidiary, after eliminations of all significant intra-group transactions.

An analysis of the revenue of the Group by principal activity is as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
		(restated)
Property investment and development	**9,845**	2,056
Treasury investment	**16,810**	12,988
Securities investment	**1,076,656**	1,219,029
Corporate finance and securities broking	**59,740**	65,045
Banking business	**18,076**	17,975
Information technology	**–**	900
Other	**5,806**	7,143
	1,186,933	1,325,136

Revenue attributable to banking business represents revenue generated from The Macau Chinese Bank Limited ("MCB"), a licensed credit institution under the Financial System Act of the Macao Special Administrative Region of the People's Republic of China. Revenue attributable to banking business is analysed as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
		(restated)
Interest income	**15,722**	11,247
Commission income	**2,180**	5,793
Other revenues	**174**	935
	18,076	17,975

6. ALLOWANCE FOR BAD AND DOUBTFUL DEBTS RELATING TO NON-BANKING OPERATIONS

The allowance for the year includes an individual provision of HK$29,883,000 made for a loan advanced to a margin client, which has been secured by certain shares in a listed company and a guarantee provided by a director of the client. Currently, both the client and the listed company are under provisional liquidation and in the opinion of Directors, the probability for recovery of the loan is uncertain.

7. NET UNREALISED LOSS ON TRANSFER OF INVESTMENT SECURITIES AND HELD-TO-MATURITY SECURITIES TO OTHER INVESTMENTS IN SECURITIES

During the year ended 31st December, 2004, investment securities of a total cost of HK$19,019,000 were transferred to other investments in securities at market value or fair value to reflect the Group's intention to sell the investments in response to changes in market conditions, resulting in a loss at the date of transfer of HK$7,856,000.

Notes to the Financial Statements

8. PROFIT/(LOSS) BEFORE TAX

Profit/(Loss) before tax is arrived at after crediting/(charging):

	Group	
	2005	2004
	HK$'000	HK$'000
		(restated)
Gross rental income	**9,845**	2,056
Less: Outgoings	**(2,328)**	(1,378)
Net rental income	**7,517**	678
Employee benefits expense *(Note (a))*:		
Wages and salaries	**(53,211)**	(53,952)
Retirement benefit costs	**(2,803)**	(3,221)
Less: Forfeited contributions	**369**	181
Net retirement benefit costs	**(2,434)**	(3,040)
Total staff costs	**(55,645)**	(56,992)
Interest income:		
Listed investments	**18,112**	19,259
Unlisted investments	**2,028**	1,171
Banking operation	**15,722**	11,247
Other	**16,810**	12,988
Dividend income:		
Listed investments	**20,165**	16,716
Unlisted investments	**1,465**	478
Provision for impairment losses on:		
Unlisted available-for-sale financial assets	**(53,757)**	–
Unlisted investment securities	**–**	(2,776)
Net realised gain/(loss) on:		
Listed financial assets at fair value through profit or loss	**68,978**	–
Unlisted financial assets at fair value through profit or loss	**(1,117)**	–
Listed available-for-sale financial assets	**1,006**	–
Unlisted available-for-sale financial assets	**7,341**	–
Unlisted investment securities	**–**	340
Net realised and unrealised holding gain/(loss) on other investments in securities:		
Listed	**–**	(55,488)
Unlisted	**–**	20,832
Net fair value gain/(loss) on financial assets at fair value through profit or loss:		
Listed	**(2,621)**	–
Unlisted	**72,991**	–
Other unlisted investment income	**681**	5,253
Net unrealised loss on transfer of investment securities and held-to-maturity securities to other investments in securities:		
Listed	**–**	(3,766)
Unlisted	**–**	(4,090)
Depreciation	**(4,613)**	(3,371)
Loss on disposal of fixed assets	**(48)**	(415)
Foreign exchange gains/(losses) – net	**(6,006)**	7,468
Fair value gains on investment properties	**74,784**	–
Write-back of deficit on revaluation of investment properties	**–**	316
Auditors' remuneration	**(1,626)**	(1,342)
Minimum lease payments under operating lease rentals in respect of land and buildings	**(12,158)**	(8,827)
Amortisation of goodwill arising from acquisition of subsidiaries *(Note (b))*	**–**	(4,245)
Negative goodwill recognised as income *(Note (b))*	**–**	229

8. PROFIT/(LOSS) BEFORE TAX *(Continued)*

Notes:

(a) The amounts include the Directors' emoluments disclosed in Note 9 to the financial statements.

(b) The amortisation of goodwill and negative goodwill recognised as income for the year ended 31st December, 2004 were included under "Other operating expenses" on the face of the consolidated profit and loss account.

9. DIRECTORS' EMOLUMENTS

Directors' emoluments for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Section 161 of the Hong Kong Companies Ordinance, are as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Directors' fees	**517**	389
Basic salaries, housing and other allowances and benefits in kind	**4,784**	12,367
Discretionary bonuses paid and payable	**–**	1,200
Retirement benefits costs	**29**	36
	5,330	13,992

Notes to the Financial Statements

9. DIRECTORS' EMOLUMENTS *(Continued)*

The emoluments paid to each of the individual director during the year are as follows:

	Fees HK$'000	Basic salaries, housing and other allowances and benefits in kind HK$'000	Retirement benefits costs HK$'000	Total HK$'000
2005				
Executive directors:				
Mr. Stephen Riady	–	–	–	–
Mr. John Lee Luen Wai	29	1,742	12	1,783
Mr. Kor Kee Yee	–	1,731	12	1,743
Mr. Jesse Leung Nai Chau	19	1,311	5	1,335
	48	4,784	29	4,861
Non-executive directors:				
Dr. Mochtar Riady	–	–	–	–
Mr. Leon Chan Nim Leung	169	–	–	169
	169	–	–	169
Independent non-executive directors:				
Mr. Albert Saychuan Cheok	140	–	–	140
Mr. Victor Yung Ha Kuk	80	–	–	80
Mr. Tsui King Fai	80	–	–	80
	300	–	–	300
	517	4,784	29	5,330

Notes to the Financial Statements

9. DIRECTORS' EMOLUMENTS *(Continued)*

The emoluments paid to each of the individual director during the year are as follows: *(Continued)*

	Fees HK$'000	Basic salaries, housing and other allowances and benefits in kind HK$'000	Discretionary bonuses paid and payable HK$'000	Retirement benefits costs HK$'000	Total HK$'000
2004					
Executive directors:					
Mr. Stephen Riady	–	–	–	–	–
Mr. John Lee Luen Wai	20	1,638	1,200	12	2,870
Mr. Kor Kee Yee	–	1,729	–	12	1,741
Mr. Jesse Leung Nai Chau	20	1,000	–	12	1,032
	40	4,367	1,200	36	5,643
Non-executive directors:					
Dr. Mochtar Riady	–	8,000	–	–	8,000
Mr. Leon Chan Nim Leung	169	–	–	–	169
	169	8,000	–	–	8,169
Independent non-executive directors:					
Mr. Albert Saychuan Cheok	140	–	–	–	140
Mr. Victor Yung Ha Kuk	20	–	–	–	20
Mr. Tsui King Fai	20	–	–	–	20
	180	–	–	–	180
	389	12,367	1,200	36	13,992

There were no arrangements under which a director waived or agreed to waive any emoluments during the years.

Notes to the Financial Statements

10. FIVE HIGHEST PAID EMPLOYEES' EMOLUMENTS

The five highest paid employees during the year included two directors (2004 – three), details of whose emoluments are set out in Note 9 to the financial statements. Details of the emoluments of the remaining three (2004 – two) non-director, highest paid employees for the year are as follows:

	Group 2005 HK$'000	Group 2004 HK$'000 (restated)
Basic salaries, housing and other allowances and benefits in kind	**3,912**	7,097
Bonuses paid and payable	**7,142**	560
Retirement benefits costs	**81**	248
	11,135	7,905

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

Emoluments bands *(HK$):*	Group 2005 Number of employees	Group 2004 Number of employees (restated)
1,500,001 – 2,000,000	**1**	–
2,000,001 – 2,500,000	**–**	1
3,000,001 – 3,500,000	**1**	–
5,500,001 – 6,000,000	**–**	1
6,000,001 – 6,500,000	**1**	–
	3	2

11. RETIREMENT BENEFITS COSTS

The Group previously operated several defined contribution schemes pursuant to the Occupational Retirement Schemes Ordinance which were replaced by the Mandatory Provident Fund schemes (the "MPF schemes") in December 2000 when the Mandatory Provident Fund Schemes Ordinance became effective. The assets of the schemes are held separately from those of the Group in independently administered funds.

Notes to the Financial Statements

11. RETIREMENT BENEFITS COSTS *(Continued)*

Contributions made to the MPF schemes are based on a percentage of the employees' relevant income and are charged to the profit and loss account as they become payable in accordance with the rules of the schemes. The Group's employer contributions vest fully with the employees when contributed into the schemes except for the Group's employer voluntary contributions forfeited when the employees leave employment prior to fully vesting in such contributions, which can be used to reduce the amount of future employer contributions or to offset against future administration expenses, in accordance with the rules of the schemes.

During the year, the amounts of forfeited employer contributions under the MPF schemes utilised to reduce the amount of employer contributions or for payments of administrative expenses amounted to HK$369,000 (2004 – HK$181,000). The amounts of forfeited voluntary contributions available to offset future employer contributions against the above schemes were not material at the year end. The retirement benefits scheme costs charged to the consolidated profit and loss account represent employer contributions paid and payable by the Group to the schemes and amounted to HK$2,434,000 (2004 – HK$3,040,000).

12. FINANCE COSTS

	Group	
	2005	2004
	HK$'000	HK$'000
Interest on bank loans wholly repayable within five years	**7,363**	4,873

The amount excludes interest expense incurred by a banking subsidiary of the Group.

13. TAX

	Group	
	2005	2004
	HK$'000	HK$'000
		(restated)
Hong Kong:		
Charge for the year	**639**	–
Underprovision/ (Overprovision) in prior years	**(11)**	2,059
	628	2,059
Overseas:		
Charge for the year	**6,446**	1,095
Underprovision/ (Overprovision) in prior years	**(232)**	381
	6,214	1,476
Deferred *(Note 33)*	**8,191**	–
Total charge for the year	**15,033**	3,535

Notes to the Financial Statements

13. TAX *(Continued)*

Hong Kong profits tax has been provided at the rate of 17.5 per cent. on the estimated assessable profits arising in Hong Kong during the year. No provision for Hong Kong profits tax has been provided for the year ended 31st December, 2004 as the Group has available tax losses brought forward from prior years to offset the estimated assessable profits generated during the year ended 31st December, 2004. Overseas taxes have been calculated on the estimated assessable profits for the year at the tax rates prevailing in the countries in which the Group operates based on existing legislation, interpretations and practices in respect thereof.

A reconciliation of the tax charge applicable to profit/(loss) before tax using the statutory rate for the country in which the Company and the majority of its subsidiaries, associates and jointly controlled entities are domiciled to the tax charge is as follows:

	Group	
	2005	2004
	HK$'000	HK$'000 (restated)
Profit/(Loss) before tax	**125,753**	(62,899)
Tax at the statutory tax rate of 17.5 per cent. (2004 – 17.5 per cent.)	**22,007**	(11,007)
Effect of different tax rates in other jurisdictions	**(5,694)**	(1,019)
Adjustments in respect of current tax of previous years	**(243)**	2,441
Profits and losses attributable to jointly controlled entities and associates	**520**	1,140
Income not subject to tax	**(16,585)**	(14,943)
Expenses not deductible for tax	**5,335**	15,738
Tax losses utilised from previous years	**–**	(1,533)
Tax losses not recognised	**9,693**	12,718
Tax charge at the Group's effective rate of 12.0 per cent. (2004 – 5.6 per cent., as restated)	**15,033**	3,535

For a company operated in Macau, corporate taxes have been calculated on the estimated assessable profits for the year at the rate of 12 per cent. (2004 – 15.75 per cent.).

The share of tax attributable to associates amounting to HK$1,037,000 (2004 – HK$1,208,000) is included in "Share of results of associates" on the face of the consolidated profit and loss account.

Notes to the Financial Statements

14. PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit from ordinary activities attributable to equity holders of the Company for the year dealt with in the financial statements of the Company amounting to HK$4,715,000 (2004 – loss of HK$27,241,000) as set out in Note 35 to the financial statements.

15. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

(a) Basic earnings/(loss) per share

Basic earnings/(loss) per share is calculated based on (i) the consolidated profit for the year attributable to equity holders of the Company of HK$111,761,000 (2004 – loss of HK$64,957,000); and (ii) the weighted average number of 1,346,829,000 ordinary shares (2004 – 1,346,829,000 ordinary shares) in issue during the year.

(b) Diluted earnings/(loss) per share

No diluted earnings/(loss) per share is presented for the years ended 31st December, 2005 and 2004 as there were no dilutive potential ordinary shares during these years.

16. DISTRIBUTIONS

	Group and Company	
	2005	2004
	HK$'000	HK$'000
Interim, declared and paid, of HK1.5 cents (2004 – HK1.5 cents) per ordinary share	**20,202**	20,202
Final, proposed, of HK3 cents (2004 – HK3 cents, paid) per ordinary share	**40,405**	40,405
	60,607	60,607

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

Notes to the Financial Statements

17. GOODWILL/NEGATIVE GOODWILL

2005	**Goodwill**	**Group Negative goodwill**	**Total**
	HK$'000	**HK$'000**	**HK$'000**
At 1st January, 2005:			
Cost as previously reported	70,984	(1,373)	69,611
Effect of adopting HKFRS 3 *(Note 2.2(d))*	(9,957)	1,373	(8,584)
Cost as restated	61,027	–	61,027
Accumulated amortisation and impairment as previously reported	(13,287)	229	(13,058)
Effect of adopting HKFRS 3 *(Note 2.2(d))*	9,957	(229)	9,728
Accumulated impairment as restated	(3,330)	–	(3,330)
Net carrying amount	57,697	–	57,697
Cost at 1st January, 2005, net of accumulated impairment	57,697	–	57,697
Impairment during the year	(412)	–	(412)
Cost and carrying amount at 31st December, 2005	57,285	–	57,285
At 31st December, 2005:			
Cost	**61,027**	**–**	**61,027**
Accumulated impairment	**(3,742)**	**–**	**(3,742)**
Net carrying amount	**57,285**	**–**	**57,285**
2004			
At 1st January, 2004:			
Cost	69,935	–	69,935
Accumulated amortisation and impairment	(9,042)	–	(9,042)
Net carrying amount	60,893	–	60,893
Cost at 1st January, 2004, net of accumulated amortisation and impairment	60,893	–	60,893
Acquisition of subsidiaries	1,049	(1,373)	(324)
Recognised as income/(Amortisation provided) during the year	(4,245)	229	(4,016)
Cost and carrying amount at 31st December, 2004	57,697	(1,144)	56,553
At 31st December, 2004:			
Cost	70,984	(1,373)	69,611
Accumulated amortisation and impairment	(13,287)	229	(13,058)
Net carrying amount	57,697	(1,144)	56,553

For the year ended 31st December, 2004, goodwill not previously eliminated against reserves was amortised on the straight-line basis over its estimate useful life of 3 to 20 years.

Notes to the Financial Statements

17. GOODWILL/NEGATIVE GOODWILL *(Continued)*

Impairment testing of goodwill

Goodwill acquired through business combinations have been allocated to the following cash-generating units, which are reportable segments, for impairment testing:

- Banking business segment cash generating unit; and
- Other segment cash-generating unit.

Banking business cash-generating unit

The recoverable amount of the banking business cash-generating unit is determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period. The discount rate applied to the cash flow projection is 4.4 per cent. The growth rate used to extrapolate the cash flows of the banking business beyond the five-year period is assumed to be nil.

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	Banking business		**Other business**		**Total**	
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Carrying amount of goodwill	**57,285**	57,285	**–**	412	**57,285**	57,697

Notes to the Financial Statements

18. FIXED ASSETS

Group

2005	**Leasehold land and buildings HK$'000**	**Leasehold improvements, furniture, fixtures, equipment and motor vehicles HK$'000**	**Total HK$'000**
Cost:			
At 1st January, 2005, as restated	25,047	57,952	82,999
Additions during the year	–	17,809	17,809
Disposals during the year	–	(48)	(48)
Exchange adjustments	–	(689)	(689)
At 31st December, 2005	**25,047**	**75,024**	**100,071**
Accumulated depreciation:			
At 1st January, 2005, as restated	271	45,752	46,023
Provided for the year	251	4,362	4,613
Exchange adjustments	–	(158)	(158)
At 31st December, 2005	**522**	**49,956**	**50,478**
Net book value:			
At 31st December, 2005	**24,525**	**25,068**	**49,593**

2004 (restated)			
Cost:			
At 1st January, 2004	25,047	54,294	79,341
Additions during the year	–	7,764	7,764
Acquisition of subsidiaries	–	1,317	1,317
Disposal of a subsidiary	–	(1,181)	(1,181)
Disposals during the year	–	(4,286)	(4,286)
Exchange adjustments	–	44	44
At 31st December, 2004	25,047	57,952	82,999
Accumulated depreciation:			
At 1st January, 2004	21	47,259	47,280
Provided for the year	250	3,121	3,371
Acquisition of subsidiaries	–	333	333
Disposal of a subsidiary	–	(1,175)	(1,175)
Disposals during the year	–	(3,871)	(3,871)
Exchange adjustments	–	85	85
At 31st December, 2004	271	45,752	46,023
Net book value:			
At 31st December, 2004	24,776	12,200	36,976

The leasehold land and buildings situated outside Hong Kong are held under medium term leases.

Notes to the Financial Statements

18. FIXED ASSETS *(Continued)*

Company

2005	**Furniture, fixtures, equipment and motor vehicles HK$'000**
Cost:	
At 1st January, 2005	3,300
Additions during the year	1,271
At 31st December, 2005	**4,571**
Accumulated depreciation:	
At 1st January, 2005	1,165
Provided for the year	717
At 31st December, 2005	**1,882**
Net book value:	
At 31st December, 2005	**2,689**

2004	
Cost:	
At 1st January, 2004	2,378
Additions during the year	922
At 31st December, 2004	3,300
Accumulated depreciation:	
At 1st January, 2004	752
Provided for the year	413
At 31st December, 2004	1,165
Net book value:	
At 31st December, 2004	2,135

Notes to the Financial Statements

19. INVESTMENT PROPERTIES

	Group	
	2005	2004
	HK$'000	HK$'000
Medium term leasehold land and buildings situated in Hong Kong:		
Balance at beginning of year	**14,800**	9,700
Fair value adjustments	**2,000**	5,100
Balance at end of year	**16,800**	14,800
Long term leasehold land and buildings situated in Hong Kong:		
Balance at beginning of year	**73,843**	–
Additions during the year	**–**	71,682
Fair value adjustments	**10,275**	2,161
Balance at end of year	**84,118**	73,843
Medium term leasehold land and buildings situated outside Hong Kong:		
Additions during the year	**250,172**	–
Fair value adjustments	**61,828**	–
Balance at end of year	**312,000**	–
Freehold land and buildings situated outside Hong Kong:		
Balance at beginning of year	**7,501**	7,050
Fair value adjustments	**681**	516
Exchange adjustments	**423**	(65)
Balance at end of year	**8,605**	7,501
Total	**421,523**	96,144

Based on professional valuations as at 31st December, 2005 made by Mr. Jonathan Miles Foxall, a chartered surveyor and a director of certain subsidiaries of the Company, the investment properties in Hong Kong were valued on an open market, existing use basis at HK$100,918,000 (2004 – HK$88,643,000).

Based on professional valuations as at 31st December, 2005 made by Savills Consultancy Limited and Professional Asset Valuers, Incorporated, professionally qualified property appraisers, the investment properties situated outside Hong Kong were valued on an open market, existing use basis at HK$312,000,000 (2004 – Nil) and HK$8,605,000 (2004 – HK$7,501,000), respectively.

Notes to the Financial Statements

20. PROPERTIES UNDER DEVELOPMENT

	Group	
	2005	2004
	HK$'000	HK$'000
Land and buildings situated outside Hong Kong, at cost:		
Balance at beginning of year	**99,767**	–
Additions during the year	**9,514**	97,193
Exchange adjustments	**(4,185)**	2,574
Balance at end of year	**105,096**	99,767
Land and buildings held under the following lease terms:		
Leasehold *(Note)*	**69,795**	62,367
Freehold	**35,301**	37,400
	105,096	99,767

Note: The lease terms of the properties under development situated outside Hong Kong are 99 years.

21. INTERESTS IN ASSOCIATES

	Group	
	2005	2004
	HK$'000	HK$'000
Share of net assets in unlisted companies	**184,804**	33,169
Goodwill from acquisition less impairment	**1,759**	2,305
Due from associates	**5,060**	2,767
	191,623	38,241
Provisions for impairment losses	**(16,388)**	(11,075)
	175,235	27,166
Share of post-acquisition reserves/(deficits) at the balance sheet date	**(1,155)**	5,145

The share of post-acquisition reserves/(deficits) represents that portion attributable to the Group before minority interests therein. The balances with the associates are unsecured, interest-free and have no fixed terms of repayment. The carrying amount of the balances are approximate to their fair values.

Notes to the Financial Statements

21. INTERESTS IN ASSOCIATES *(Continued)*

The amount of goodwill arising from the acquisition of associates is as follows:

Group

2005	**Goodwill HK$'000**
Cost:	
As previously reported at 1st January, 2005	20,269
Effect of adopting HKFRS 3 *(Note 2.2 (d))*	(11,074)
	9,195
Accumulated amortisation:	
As previously reported at 1st January, 2005	11,074
Effect of adopting HKFRS 3 *(Note 2.2 (d))*	(11,074)
	–
Cost as restated at 1st January, 2005 and at 31st December, 2005	**9,195**
Accumulated impairment:	
At 1st January, 2005	6,890
Impairment provided for the year	546
At 31st December, 2005	**7,436**
Net carrying amount at 31st December, 2005	**1,759**

2004

Cost:	
At 1st January, 2004	15,445
Additions during the year	4,824
At 31st December, 2004	20,269
Accumulated amortisation and impairment:	
At 1st January, 2004	5,005
Amortisation provided for the year	6,069
Impairment provided for the year	6,890
At 31st December, 2004	17,964
Net carrying amount at 31st December, 2004	2,305

Details of the principal associates are set out on page 126.

21. INTERESTS IN ASSOCIATES *(Continued)*

The following table illustrates the summarised financial information of the Group's associates as extracted from their management accounts:

	Group	
	2005	2004
	HK$'000	HK$'000
Assets	**308,190**	130,887
Liabilities	**74,972**	49,204
Revenues	**251,846**	168,622
Profit/(Loss)	**(1,676)**	7,401

22. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	Group	
	2005	2004
	HK$'000	HK$'000
Share of net assets in unlisted companies	**3,974**	–
Goodwill from acquisition	**1,324**	–
Due from jointly controlled entities	**7,317**	7,313
	12,615	7,313
Share of post-acquisition deficits at the balance sheet date	**(423)**	–

The share of post-acquisition deficits represents that portion attributable to the Group before minority interests therein. The balances with the jointly controlled entities are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of the balances are approximate to their fair values.

Notes to the Financial Statements

22. INTERESTS IN JOINTLY CONTROLLED ENTITIES *(Continued)*

The following table illustrates the summarised financial information of the Group's jointly controlled entities as extracted from their management accounts:

	Group	
	2005	2004
	HK$'000	HK$'000
Share of the jointly controlled entities' assets and liabilities:		
Current assets	**5,043**	62
Non-current assets	**8,654**	9,552
Current liabilities	**(1,111)**	(419)
Non-current liabilities	**(1,936)**	(2,050)
Net assets	**10,650**	7,145
Share of the jointly controlled entities' results:		
Total expenses and loss after tax	**(423)**	–
Share of the jointly controlled entities' capital commitments	**2,042**	813

Details of the principal jointly controlled entities are set out on page 127.

23. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets stated at fair value:				
Equity securities listed in Hong Kong	**262,666**	–	**48,770**	–
Unlisted equity securities	**43,854**	–	**–**	–
	306,520	–	**48,770**	–
Unlisted investment funds	**74,036**	–	**–**	–
	380,556	–	**48,770**	–
Financial assets stated at cost:				
Unlisted equity securities	**74,004**	–	**–**	–
Unlisted debt securities	**10,862**	–	**3,165**	–
Provision for impairment losses	**(76,478)**	–	**–**	–
	8,388	–	**3,165**	–
	388,944	–	**51,935**	–
Less: Amount classified under current portion	**(213,896)**	–	**–**	–
Non-current portion	**175,048**	–	**51,935**	–

The debt securities have effective interest rates ranging from nil to 8 per cent. per annum.

	Group 2005	Group 2004	Company 2005	Company 2004
An analysis of the issuers of available-for-sale financial assets is as follows:				
Equity securities:				
Corporate entities	**380,524**	–	**48,770**	–
Debt securities:				
Club debenture	**3,165**	–	**3,165**	–
Corporate entities	**7,697**	–	**–**	–
	10,862	–	**3,165**	–

Notes to the Financial Statements

23. AVAILABLE-FOR-SALE FINANCIAL ASSETS *(Continued)*

During the year, the gross gain of the Group's available-for-sale financial assets, recognised directly in equity amounted to HK$85,636,000.

The above financial assets consist of investments in equity securities and investment funds which were designated as available-for-sale financial assets on 1st January, 2005 and have no fixed maturity date or coupon rate.

The fair values of listed equity securities are based on quoted market prices. The fair values of certain unlisted available-for-sale financial assets have been estimated using a valuation technique based on assumptions that are not supported by observable market prices or rates. The Directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated balance sheet, and the related changes in fair values, which are recorded in the investment revaluation reserve, are reasonable, and that they are the most appropriate values at the balance sheet.

Apart from the above, certain unlisted equity securities and debt securities issued by private entities are measured at cost less impairment at each balance sheet date. The Directors consider that information to be applied in the valuation techniques cannot be reliably obtained on a continuous basis. The fair value of these unlisted equity securities and debt securities cannot be reliably measured.

During the year, the Directors reviewed the carrying amount of certain unlisted available-for-sale financial assets in light of their business performances and with reference to the profit projections prepared by the investees' management. An impairment loss of HK$53,757,000 has been charged to the consolidated profit and loss account.

As at 31st December, 2005, particulars of the Group's available-for-sale financial assets which exceed 20 per cents. of the nominal value of the investee company's issued shares disclosed pursuant to section 129(1) of the Hong Kong Companies Ordinance are as follows:

Name of company	Place of incorporation	Class of shares	Percentage of issued share capital held by the Group
Vigor Online Offshore Limited	British Virgin Islands	Ordinary shares	32.3

The above company is not regarded as an associate of the Group in accordance with HKAS 28 as the Group has no significant influence over its financing and operating policies.

Notes to the Financial Statements

24. INVESTMENT SECURITIES

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Equity securities, at cost:				
Listed in Hong Kong	**–**	28,750	**–**	28,750
Unlisted	**–**	152,060	**–**	–
	–	180,810	**–**	28,750
Provision for impairment loss for unlisted equity securities	**–**	(20,000)	**–**	–
	–	160,810	**–**	28,750
Unlisted debt securities, at cost	**–**	7,680	**–**	3,165
Provision for impairment loss for unlisted debt securities	**–**	(2,776)	**–**	–
	–	4,904	**–**	3,165
Unlisted investment funds, at cost	**–**	199,944	**–**	–
	–	365,658	**–**	31,915
Market value of listed investments at the balance sheet date	**–**	47,725	**–**	47,725
An analysis of the issuers of investment securities is as follows:				
Equity securities:				
Corporate entities	**–**	160,810	**–**	28,750
Debt securities:				
Club debentures	**–**	3,165	**–**	3,165
Corporate entities	**–**	1,739	**–**	–
	–	4,904	**–**	3,165

Notes to the Financial Statements

25. HELD-TO-MATURITY FINANCIAL ASSETS/SECURITIES

	Group	
	2005	2004
	HK$'000	HK$'000
		(restated)
Debt securities, at amortised cost:		
Listed overseas	**9,604**	9,643
Market value of listed debt securities	**11,019**	10,877

The debt securities have effective interest rates of 9 per cent. per annum.

An analysis of the issuers of held-to-maturity financial assets/securities is as follows:		
Banks and other financial institutions	**9,604**	9,643

Notes to the Financial Statements

26. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Held for trading:				
Listed equity securities:				
Hong Kong	**64,425**	–	**38,605**	–
Overseas	**68,275**	–	**6,523**	–
	132,700	–	**45,128**	–
Debt securities:				
Listed in Hong Kong	**1,967**	–	**–**	–
Listed overseas	**162,143**	–	**4,454**	–
Unlisted	**84,808**	–	**54,308**	–
	248,918	–	**58,762**	–
Investment funds:				
Listed in Hong Kong	**25**	–	**–**	–
Listed overseas	**50,913**	–	**4,258**	–
Unlisted	**131,708**	–	**–**	–
	182,646	–	**4,258**	–
Other:				
Unlisted	**53,649**	–	**–**	–
	617,913	–	**108,148**	–
Designated as financial assets at fair value through profit or loss:				
Unlisted investment funds	**268,753**	–	**–**	–
	886,666	–	**108,148**	–
Less: Amount classified under current portion	**(617,913)**	–	**(108,148)**	–
Non-current portion	**268,753**	–	**–**	–

The debt securities have effective interest rates ranging from 4.3 per cent. to 14.8 per cent. per annum.

Notes to the Financial Statements

26. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
An analysis of the issuers of financial assets at fair value through profit or loss is as follows:				
Equity securities:				
Banks and other financial institutions	**13,266**	–	**–**	–
Corporate entities	**119,434**	–	**45,128**	–
	132,700	–	**45,128**	–
Debt securities:				
Central governments and central banks	**9,289**	–	**–**	–
Public sector entities	**4,397**	–	**–**	–
Banks and other financial institutions	**93,431**	–	**22,504**	–
Corporate entities	**141,801**	–	**36,258**	–
	248,918	–	**58,762**	–

27. OTHER INVESTMENTS IN SECURITIES

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000 (restated)	**HK$'000**	HK$'000
Listed equity securities, at market value:				
Hong Kong	–	251,454	–	90,733
Overseas	–	72,594	–	7,102
	–	324,048	–	97,835
Debt securities:				
Listed overseas, at market value	–	234,435	–	4,601
Unlisted, at fair value	–	165,374	–	50,033
	–	399,809	–	54,634
Investment funds:				
Listed overseas, at market value	–	229,252	–	176,671
Unlisted, at fair value	–	180,108	–	7,893
	–	409,360	–	184,564
	–	1,133,217	–	337,033
An analysis of the issuers of other investments in securities is as follows:				
Equity securities:				
Public sector entities	–	493	–	–
Banks and other financial institutions	–	6,341	–	1,848
Corporate entities	–	317,214	–	95,987
	–	324,048	–	97,835
Debt securities:				
Central governments and central banks	–	13,869	–	–
Banks and other financial institutions	–	113,008	–	23,213
Corporate entities	–	223,799	–	31,421
Others	–	49,133	–	–
	–	399,809	–	54,634

Notes to the Financial Statements

28. LOANS AND ADVANCES

The loans and advances to customers of the Group have effective interest rates ranging from 3.5 per cent. to 18 per cent. (2004 – 3 per cent. to 10.5 per cent.) per annum. The carrying amounts of loans and advances are approximate to their fair values.

Movements of allowance for bad and doubtful debts relating to banking operation during the year are as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Balance at beginning of year	**5,140**	5,050
Allowance for bad and doubtful debts	**2,910**	90
Impairment allowance released	**(5,050)**	–
Balance at end of year	**3,000**	5,140

29. DEBTORS, PREPAYMENTS AND DEPOSITS

Included in the balances are trade debtors with an aged analysis as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Outstanding balances with ages:		
Repayable on demand	**55,282**	32,835
Within 30 days	**78,903**	95,347
Between 31 and 60 days	**295**	–
Between 61 and 90 days	**157**	–
	134,637	128,182

Trading terms with customers are either on a cash basis or credit. For those customers who trade on credit, a credit period is allowed according to relevant business practice. Credit limits are set for customers. The Group seeks to maintain tight control over its outstanding receivables in order to minimise credit risk. Overdue balances are regularly reviewed by senior management.

Except for receivables from certain securities brokers which are interest-bearing, the balances of trade debtors are non-interest-bearing. The carrying amount of debtors and deposits are approximate to their fair values.

Notes to the Financial Statements

30. BANK LOANS

	Group	
	2005	2004
	HK$'000	HK$'000
Repayable within one year:		
Secured *(Note)*	**25,000**	188,761
Unsecured	**–**	20,000
	25,000	208,761

	Company	
	2005	2004
	HK$'000	HK$'000
Repayable within one year:		
Secured	**–**	108,761

The carrying amounts of the Group's and Company's bank loans are approximate to their fair values and bear interest at 5.3 per cent. to 5.5 per cent. (2004 – 1.4 per cent. to 2.5 per cent.) per annum.

Note: The bank loans as at 31st December, 2005 were secured by certain securities owned by the margin clients of the Group. The bank loans as at 31st December, 2004 were secured by certain securities of the Group and certain securities owned by the margin clients of the Group.

31. CREDITORS, ACCRUALS AND DEPOSITS RECEIVED

Included in the balances are trade creditors with an aged analysis as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Outstanding balances with ages:		
Repayable on demand	**495,639**	486,189
Within 30 days	**91,427**	21,217
	587,066	507,406

The outstanding balances that are repayable on demand include client payable relating to cash balances held on trust for the customers in respect of the Group's securities broking business. As at 31st December, 2005, total client trust bank balances amounted to HK$444,460,000 (2004 – HK$389,123,000). The balances of trade creditors are non-interest-bearing.

Notes to the Financial Statements

32. CURRENT, FIXED, SAVINGS AND OTHER DEPOSITS OF CUSTOMERS

The current, fixed, savings and other deposits of customers attributable to banking operation have effective interest rates ranging from 0.25 per cent. to 4.18 per cent. (2004 – 0.1 per cent. to 3.75 per cent.) per annum.

33. DEFERRED TAX

The movements in deferred tax liabilities during the year are as follows:

Deferred tax liabilities

	Group			
	Accelerated tax depreciation HK$000	**Revaluation of properties HK$000**	**Fair value gains on available-for-sale financial assets HK$000**	**Total HK$000**
2005				
At 1st January, 2005				
Restated before opening adjustment	–	1,234	–	1,234
Opening adjustment	–	–	2,898	2,898
As restated	–	1,234	2,898	4,132
Deferred tax charged to profit and loss account during the year *(Note 13)*	193	9,536	(1,538)	8,191
Deferred tax debited to equity during the year	–	–	3,670	3,670
Exchange adjustments	–	–	(4)	(4)
At 31st December, 2005	**193**	**10,770**	**5,026**	**15,989**
2004 (restated)				
At 1st January, 2004	–	–	–	–
Deferred tax debited to equity during the year	–	1,234	–	1,234
At 31st December, 2004	–	1,234	–	1,234

At 31st December, 2005, there was no significant unrecognised deferred tax liabilities (2004 – Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, jointly controlled entities or associates as the Group had no liability to additional tax should such amounts be remitted.

Notes to the Financial Statements

33. DEFERRED TAX *(Continued)*

Deferred tax assets

The Group has tax losses arising in Hong Kong of HK$178,468,000 (2004 – HK$120,726,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses at the balance sheet date due to the unpredictability of future profit streams.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

34. SHARE CAPITAL

Shares	Group and Company **2005** **HK$'000**	 2004 HK$'000
Authorised:		
2,000,000,000 (2004 – 2,000,000,000) ordinary shares of HK$1.00 each	**2,000,000**	2,000,000
Issued and fully paid:		
1,346,829,094 (2004 – 1,346,829,094) ordinary shares of HK$1.00 each	**1,346,829**	1,346,829

Notes to the Financial Statements

35. RESERVES

Group

	Share premium account HK$'000	Capital redemption reserve *(Note (d))* HK$'000	Legal reserve *(Note (e))* HK$'000	Regulatory reserve *(Note (f))* HK$'000	Investment property revaluation reserve HK$'000	Investment revaluation reserve HK$'000	Distributable reserves *(Note (c))* HK$'000	Exchange equalisation reserve HK$'000	Total HK$'000	Minority interests HK$'000
At 1st January, 2005										
As previously reported	50,988	11,760	2,053	–	7,461	–	1,297,500	(10,257)	1,359,505	30,204
Prior year adjustment:										
HK(SIC)-Int 21										
Deferred tax arising from revaluation of investment properties	–	–	–	–	(1,234)	–	–	–	(1,234)	–
As restated before opening adjustments	50,988	11,760	2,053	–	6,227	–	1,297,500	(10,257)	1,358,271	30,204
Opening adjustments:										
In respect of financial instruments	–	–	–	–	–	–	(5,062)	–	(5,062)	–
In respect of investment properties	–	–	–	–	(6,227)	–	6,227	–	–	–
In respect of negative goodwill	–	–	–	–	–	–	1,144	–	1,144	–
As restated after opening adjustments	50,988	11,760	2,053	–	–	–	1,299,809	(10,257)	1,354,353	30,204
Net fair value gain on available-for-sale financial assets	–	–	–	–	–	85,546	–	–	85,546	90
Deferred tax arising from net fair value gain on available-for-sale financial assets	–	–	–	–	–	(3,670)	–	–	(3,670)	–
Transfer of reserves	–	–	981	1,169	–	–	(2,150)	–	–	–
Exchange realignment	–	–	–	–	–	–	–	(5,196)	(5,196)	44
Issue of shares by subsidiaries to minority shareholders	–	–	–	–	–	–	–	–	–	6,128
Advance from minority shareholders of a subsidiary	–	–	–	–	–	–	–	–	–	870
Changes in interests in subsidiaries	–	–	–	–	–	–	–	–	–	(4,216)
Profit/(Loss) for the year *(Note (b))*	–	–	–	–	–	–	111,761	–	111,761	(1,041)
2004 final distribution, declared and paid	–	–	–	–	–	–	(40,405)	–	(40,405)	–
2005 interim distribution, declared and paid	–	–	–	–	–	–	(20,202)	–	(20,202)	–
At 31st December, 2005	**50,988**	**11,760**	**3,034**	**1,169**	**–**	**81,876**	**1,348,813**	**(15,453)**	**1,482,187**	**32,079**

Notes to the Financial Statements

35. RESERVES *(Continued)*

Group

	Share premium account HK$'000	Capital redemption reserve *(Note (d))* HK$'000	Legal reserve *(Note (e))* HK$'000	Investment property revaluation reserve HK$'000	Investment revaluation reserve HK$'000	Distributable reserves *(Note (c))* HK$'000	Exchange equalisation reserve HK$'000	Total HK$'000	Minority interests HK$'000
At 1st January, 2004	50,988	11,760	845	–	–	1,424,272	(13,371)	1,474,494	24,793
Surplus on revaluation of investment properties	–	–	–	7,461	–	–	–	7,461	–
Deferred tax arising from revaluation of investment properties	–	–	–	(1,234)	–	–	–	(1,234)	–
Transfer of reserve	–	–	1,208	–	–	(1,208)	–	–	–
Exchange realignment	–	–	–	–	–	–	3,114	3,114	(45)
Issue of shares by subsidiaries to minority shareholders	–	–	–	–	–	–	–	–	4,398
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	2,174
Disposal of a subsidiary	–	–	–	–	–	–	–	–	(803)
Changes in interests in a subsidiary	–	–	–	–	–	–	–	–	554
Advance from minority shareholders of a subsidiary	–	–	–	–	–	–	–	–	610
Loss for the year *(Note (b))*	–	–	–	–	–	(64,957)	–	(64,957)	(1,477)
2003 final distribution, declared and paid	–	–	–	–	–	(40,405)	–	(40,405)	–
2004 interim distribution, declared and paid	–	–	–	–	–	(20,202)	–	(20,202)	–
At 31st December, 2004, as restated	50,988	11,760	2,053	6,227	–	1,297,500	(10,257)	1,358,271	30,204

Notes to the Financial Statements

35. RESERVES *(Continued)*

Company

	Share premium account HK$'000	Capital redemption reserve *(Note (d))* HK$'000	Investment revaluation reserve HK$'000	Distributable reserves *(Note (c))* HK$'000	Total HK$'000
At 1st January, 2004	50,988	11,760	–	1,330,857	1,393,605
Loss for the year *(Note 14)*	–	–	–	(27,241)	(27,241)
2003 final distribution, declared and paid	–	–	–	(40,405)	(40,405)
2004 interim distribution, declared and paid	–	–	–	(20,202)	(20,202)
At 31st December, 2004 and 1st January, 2005, before opening adjustment	50,988	11,760	–	1,243,009	1,305,757
Opening adjustment in respect of financial instruments	–	–	–	18,975	18,975
As restated after opening adjustment	50,988	11,760	–	1,261,984	1,324,732
Net fair value gain on available-for-sale financial assets	–	–	6,604	–	6,604
Profit for the year *(Note 14)*	–	–	–	4,715	4,715
2004 final distribution, declared and paid	–	–	–	(40,405)	(40,405)
2005 interim distribution, declared and paid	–	–	–	(20,202)	(20,202)
At 31st December, 2005	**50,988**	**11,760**	**6,604**	**1,206,092**	**1,275,444**

35. RESERVES *(Continued)*

Note:

(a) Cancellation of the share premium account and transfer to distributable reserves:

Pursuant to a special resolution passed at a special general meeting of the Company on 2nd December, 1997, the entire amount standing to the credit of the share premium account of HK$3,630,765,000 was cancelled (the "Cancellation"). The credit arising from the Cancellation was transferred to distributable reserves. The balance of the reserves arising from the Cancellation could be applied towards any capitalisation issues of the Company in future, or for making distributions to shareholders of the Company.

(b) Consolidated profit/(loss) for the year attributable to equity holders of the Company is retained/(accumulated) as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
The Company and its subsidiaries	**114,732**	(58,440)
Associates	**(2,548)**	(6,517)
Jointly controlled entities	**(423)**	–
	111,761	(64,957)

(c) Distributable reserves of the Group at 31st December, 2005 comprise retained profit of HK$42,148,000 (1st January, 2005 – accumulated losses of HK$67,463,000; 31st December, 2004 -accumulated losses of HK$69,772,000) and the remaining balance arising from the Cancellation of HK$1,306,665,000 (2004 – HK$1,367,272,000). Included in the distributable reserves of the Group at 31st December, 2005 was an amount of proposed final distribution for the year then ended of HK$40,405,000 (2004 – HK$40,405,000) declared after the balance sheet date.

Distributable reserves of the Company at 31st December, 2005 comprise contributed surplus of HK$134,329,000 (2004 – HK$134,329,000), accumulated losses of HK$234,902,000 (1st January, 2005 – HK$239,617,000; 31st December, 2004 – HK$258,592,000) and the remaining balance arising from the Cancellation of HK$1,306,665,000 (2004 – HK$1,367,272,000). Included in the distributable reserves of the Company at 31st December, 2005 was an amount of proposed final distributable for the year then ended of HK$40,405,000 (2004 – HK$40,405,000) declared after the balance sheet date.

(d) The capital redemption reserve is not available for distribution to shareholders.

(e) The legal reserve represents the part of reserve generated by a banking subsidiary of the Company which may only be distributable in accordance with certain limited circumstances prescribed by the statute of the country in which the subsidiary operates.

(f) The regulatory reserve made under HKAS 30 represents the part of reserve generated by a banking subsidiary of the Company arising from the difference between the impairment allowance made under HKAS 39 and for regulatory purpose.

Notes to the Financial Statements

36. INTERESTS IN SUBSIDIARIES

	Company	
	2005	2004
	HK$'000	HK$'000
Unlisted shares, at cost	**44,953**	44,953
Due from subsidiaries	**2,497,693**	2,201,677
Due to subsidiaries	**(181,537)**	(137,067)
	2,361,109	2,109,563
Provisions for impairment losses	**(103,569)**	(103,569)
	2,257,540	2,005,994

The balances with subsidiaries are unsecured, have no fixed terms of repayment and are approximate to their fair values. Certain balances bear interest at rates reflecting the respective costs of funds within the Group.

Details of the principal subsidiaries are set out on pages 121 to 125.

Notes to the Financial Statements

37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit/(loss) before tax to cash from/(used in) operations

	Note	Group 2005 HK$'000	Group 2004 HK$'000 (restated)
Profit/(Loss) before tax		**125,753**	(62,899)
Adjustments for:			
Share of results of associates		**2,548**	6,517
Share of results of jointly controlled entities		**423**	–
Loss/(Gain) on disposal of:			
Items of fixed assets	*8*	**48**	415
Available-for-sale financial assets		**(8,347)**	–
Investment securities	*8*	**–**	(340)
A subsidiary		**295**	140
Gain on changes in interests in subsidiaries		**(4,216)**	–
Net allowance for bad and doubtful debts		**30,896**	537
Provisions for impairment losses on:			
Available-for-sale financial assets	*8*	**53,757**	–
Investment securities	*8*	**–**	2,776
Associates		**5,859**	16,603
Goodwill		**412**	–
Net fair value gain on financial assets at fair value through profit or loss		**(70,370)**	–
Net unrealised loss on transfer of investment securities and held-to-maturity securities to other investments in securities	*7*	**–**	7,856
Fair value gains on investment properties	*8*	**(74,784)**	–
Write-back of deficit on revaluation of investment properties	*8*	**–**	(316)
Interest expenses	*12*	**7,363**	4,873
Interest income		**(52,672)**	(44,665)
Dividend income		**(21,630)**	(17,194)
Depreciation	*8*	**4,613**	3,371
Amortisation of goodwill arising from acquisition of subsidiaries	*8*	**–**	4,245
Negative goodwill recognised as income	*8*	**–**	(229)
Operating loss before working capital changes		**(52)**	(78,310)
Decrease in financial assets at fair value through profit or loss		**314,974**	–
Decrease in held-to-maturity financial assets/securities		**39**	29
Increase in other investments in securities		**–**	(79,831)
Increase in property held for sale		**(2,301)**	(10,140)
Decrease/(Increase) in loans and advances		**22,643**	(80,585)
Decrease/(Increase) in debtors, prepayments and deposits		**(19,003)**	119,653
Increase/(Decrease) in creditors, accruals and deposit received		**89,254**	(249,639)
Decrease in current, fixed, savings and other deposits of customers		**(898)**	(548,649)
Decrease/(Increase) in client trust bank balances		**(55,337)**	41,435
Cash from/(used in) operations		**349,319**	(886,037)

Notes to the Financial Statements

37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Disposal of a subsidiary

	Group	
	2005	2004
	HK$'000	HK$'000
Net assets disposed of:		
Fixed assets	**–**	6
Cash and bank balances	**–**	1,964
Debtors, prepayment and deposits	**11,393**	40,069
Creditors and accruals	**–**	(40,400)
Release of exchange reserve	**–**	4
Minority interests	**–**	(803)
	11,393	840
Loss on disposal of a subsidiary	**(295)**	(140)
Cash consideration received	**11,098**	700
An analysis of net inflow/(outflow) of cash and cash equivalents in respect of the disposal of a subsidiary is as follow:		
Cash consideration received	**11,098**	700
Cash and bank balances disposed of	**–**	(1,964)
Net inflow/(outflow) of cash and cash equivalents in respect of the disposal of a subsidiary	**11,098**	(1,264)

(c) Acquisition of subsidiaries

	Group	
	2005	2004
	HK$'000	HK$'000
Net assets acquired:		
Fixed assets	**–**	984
Cash and bank balances	**–**	40,500
Debtors, prepayments and deposits	**–**	1,163
Creditors and accruals	**–**	(2,428)
Minority interests	**–**	(2,174)
	–	38,045
Reclassification from interest in an associate	**–**	(17,891)
	–	20,154
Negative goodwill arising on acquisition	**–**	(878)
Cash consideration paid	**–**	19,276

Notes to the Financial Statements

37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(c) Acquisition of subsidiaries *(Continued)*

An analysis of net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Cash consideration paid	**–**	(19,276)
Cash and bank balances acquired	**–**	40,500
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	**–**	21,224

38. MATURITY PROFILE OF ASSETS AND LIABILITIES

An analysis of the maturity profile of assets and liabilities of the Group analysed by the remaining period at the balance sheet date to the contractual maturity date is as follows:

	Repayable on demand HK$'000	3 months or less HK$'000	1 year or less but over 3 months HK$'000	5 years or less but over 1 year HK$'000	After 5 years HK$'000	Undated HK$'000	Total HK$'000
At 31st December, 2005							
Assets							
Debt securities:							
Held-to-maturity financial assets	–	–	–	–	9,604	–	9,604
Available-for-sale financial assets	–	–	–	7,697	–	3,165	10,862
Financial assets at fair value through profit or loss	–	–	10,177	159,103	71,496	8,142	248,918
Loans and advances	133,983	62,255	44,260	12,642	17,333	–	270,473
Client trust bank balances	21,150	423,310	–	–	–	–	444,460
Treasury bills	–	15,520	–	–	–	–	15,520
Cash and bank balances	98,303	523,437	–	–	–	–	621,740
	253,436	1,024,522	54,437	179,442	98,433	11,307	1,621,577
Liabilities							
Bank loans	–	25,000	–	–	–	–	25,000
Current, fixed, savings and other deposits of customers	43,601	71,643	1,499	–	–	–	116,743
	43,601	96,643	1,499	–	–	–	141,743

Notes to the Financial Statements

38. MATURITY PROFILE OF ASSETS AND LIABILITIES *(Continued)*

	Repayable on demand HK$'000	3 months or less HK$'000	1 year or less but over 3 months HK$'000	5 years or less but over 1 year HK$'000	After 5 years HK$'000	Undated HK$'000	Total HK$'000
At 31st December, 2004 (restated)							
Assets							
Debt securities:							
Held-to-maturity securities	–	–	–	–	9,643	–	9,643
Investment securities	–	–	–	1,739	–	3,165	4,904
Other investments in securities	–	–	28,722	242,584	70,180	58,323	399,809
Loans and advances	194,212	61,854	21,573	33,310	12,580	–	323,529
Client trust bank balances	43,244	345,879	–	–	–	–	389,123
Treasury bills	–	23,765	–	–	–	–	23,765
Cash and bank balances	168,091	690,029	–	–	–	–	858,120
	405,547	1,121,527	50,295	277,633	92,403	61,488	2,008,893
Liabilities							
Bank loans	–	193,213	15,548	–	–	–	208,761
Current, fixed, savings and other deposits of customers	19,912	88,576	9,153	–	–	–	117,641
	19,912	281,789	24,701	–	–	–	326,402

39. CONTINGENT LIABILITIES

Group

As at 31st December, 2005, the Group had contingent liabilities relating to its banking subsidiary of HK$29,953,000 (2004 – HK$29,245,000) comprising guarantees and other endorsements of HK$11,785,000 (2004 – HK$15,528,000) and liabilities under letters of credit on behalf of customers of HK$18,168,000 (2004 – HK$13,717,000).

Company

As at 31st December, 2005, guarantees provided by the Company in respect of banking facilities granted to its subsidiaries amounted to HK$257,500,000 (2004 – HK$257,500,000).

40. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties under operating lease arrangements with leases negotiated for terms of two years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the prevailing market condition. At 31st December, 2005, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Within one year	**7,058**	2,900
In the second to fifth years, inclusive	**2,868**	16
	9,926	2,916

(b) As lessee

The Group leases certain properties under lease agreements which are non-cancellable. The leases expire on various dates until 30th November, 2008 and the leases for properties contain provision for rental adjustments. As at 31st December, 2005, the Group had total future minimum lease payments under non-cancellable operating leases in respect of land and buildings falling due as follows:

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**12,258**	6,529	**1,016**	1,434
In the second to fifth years, inclusive	**6,172**	7,877	**–**	1,016
	18,430	14,406	**1,016**	2,450

Notes to the Financial Statements

41. CAPITAL COMMITMENTS

The Group had the following commitments at the balance sheet date:

	Group	
	2005	2004
	HK$'000	HK$'000
Capital commitment in respect of property, plant and equipment:		
Contracted, but not provided for	**59,988**	–
Other capital commitments:		
Contracted, but not provided for *(Note)*	**1,471,472**	160,118
	1,531,460	160,118

Note: The balance as at 31st December, 2005 included the Group's commitment in Lippo ASM Asia Property LP, a limited partnership established with an investment objective to invest in real estate in the East Asia region, of approximately HK$1,292,000,000 (2004 – Nil).

The Company did not have any material commitments at the balance sheet date (2004 – Nil).

42. RELATED PARTY TRANSACTIONS

Listed below are related party transactions disclosed in accordance with the HKAS 24 "Related party disclosures".

(a) During the year, Lippo Securities Holdings Limited ("LSHL"), being a wholly-owned subsidiary of the Company, paid rental expenses of HK$3,005,000 (2004 – HK$2,311,000) to Prime Power Investment Limited, being a fellow subsidiary of the Company, in respect of office premises occupied by LSHL, and the Company and ImPac Asset Management (HK) Limited ("ImPac"), being a wholly-owned subsidiary of the Company, paid rental expenses of HK$1,434,000 (2004 – HK$934,000) and nil (2004 – HK$142,000) to Porbandar Limited, being a fellow subsidiary of the Company, in respect of office premises occupied by the Company and ImPac, respectively. The above rentals were determined by reference to open market rentals.

Details of the tenancy agreements between group companies in respect of the letting of office premises are disclosed in the section headed "Directors' and controlling shareholders' interests in contracts" in the Report of the Directors.

42. RELATED PARTY TRANSACTIONS *(Continued)*

(b) During the year, LSHL and its subsidiaries (the "LSHL Group") received commission income for dealing in listed securities in the market from The Hong Kong Building and Loan Agency Limited, being a former fellow subsidiary of the Company, for itself and its subsidiaries, amounted to HK$164,000 (2004 – HK$803,000), Lippo China Resources Limited, being an indirect controlling shareholder of the Company, for itself and its subsidiaries, amounted to HK$181,000 (2004 – HK$805,000), Lippo Limited, being an indirect controlling shareholder of the Company, for itself and its subsidiaries, amounted to HK$4,000 (2004 – HK$65,000) and Lippo Cayman Limited, being an indirect controlling shareholder of the Company, for itself and its subsidiaries, amounted to HK$14,000 (2004 – HK$25,000). The commissions were in line with those offered by LSHL Group to its customers.

(c) During the year, HKCL Investments Limited ("HKCL Investments"), a wholly-owned subsidiary of the Company, sold the entired issue share capital of HKCL Investments Pte. Ltd. ("HKCL Pte") and assigned the related shareholder's loan in aggregate of HK$6,495,000 owing by HKCL Pte to HKCL Investments to Timemore Limited, a fellow subsidiary of the Company, for a consideration of HK$11,098,000.

(d) During the year, ImPac received investment advisory income from Lippo ASM Investment Management Limited, being an associate of the Group, amounted to HK$4,112,000.

(e) As at 31st December, 2005, the Group had balances with its associates and jointly controlled entities as set out in Note 21 and Note 22 respectively to the financial statements.

The transactions in respect of items (a) & (b) above are continuing connected transactions as defined in Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Further details of the transaction are disclosed in the section headed "Directors' and controlling shareholders' interests in contracts" in the Report of the Directors.

43. POST BALANCE SHEET EVENTS

(a) On 18th January, 2006, the Group entered into a total of twenty two sale and purchase agreements to acquire certain strata interest in a commercial building located at 79 Anson Road in Singapore for an aggregate consideration of HK$448,020,000 for property investment purpose. The acquisition was completed on 12th April, 2006.

(b) On 17th March, 2006 and 27th March, 2006, the Group entered into a subscription agreement and a shareholders' agreement respectively, in respect of investment in and formation of a joint venture (the "Joint Venture"). Pursuant to the subscription agreement, the Group has subscribed for 45 per cent. of the issued share capital of the Joint Venture for a consideration of US$4,500. Pursuant to the shareholders' agreement, the Joint Venture will acquire and hold 86.25 per cent. equity interest in Tongren Healthcare Management Group Co., Ltd. and its subsidiaries ("Tongren Healthcare Group"). The funding for the acquisition will be met by shareholders' loans in proportion to the respective equity interests of the shareholders in the Joint Venture. Tongren Healthcare Group is mainly engaged in medical and healthcare related business in the People's Republic of China. The completion of the acquisition will be subject to the fulfillments of certain conditions precedent as stipulated in the agreements.

Notes to the Financial Statements

44. COMPARATIVE AMOUNTS

As explained in Note 2.2 and Note 2.4 to the financial statements, due to the adoption of the new and revised HKFRSs and HKASs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirement. Accordingly, certain comparative amounts have been restated to conform with current year's presentation.

45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 19th April, 2006.