## 1. General Information

Tai Cheung Holdings Limited is a limited liability company incorporated in Bermuda.

The company has its primary listing on The Stock Exchange of Hong Kong Limited.

## 2. Principal Accounting Policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### (a) Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKASs") (collectively "HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of available-for-sale financial assets and investment properties, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

## 2. Principal Accounting Policies (continued)

### (b) Changes in accounting policies

In the year ended 31st March 2006, the group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The prior year comparatives have been amended as required, in accordance with the relevant requirements.

| | |
|---|---|
| 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 16 | Property, Plant and Equipment |
| HKAS 17 | Leases |
| HKAS 18 | Revenue |
| HKAS 19 | Employee Benefits |
| 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 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 39 | Financial Instruments: Recognition and Measurement |
| HKAS 40 | Investment Property |
| HKAS-Int 15 | Operating Leases – Incentives |
| HKAS-Int 21 | Income Taxes – Recovery of Revalued Non-Depreciable Assets |
| HK-Int 2 | The Appropriate Policies for Hotel Properties |

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 18, 19, 21, 23, 24, 27, 28, 33, 36, 37 and HKAS-Int 15 did not result in substantial changes to the group's accounting policies, except that HKAS 1 has affected the presentation of share of net after-tax results of associates and other disclosures.

## 2. Principal Accounting Policies (continued)

### (b) Changes in Accounting Policies (continued)

The major changes of the group's principal accounting policies as a result of the adoption of the new/revised HKFRS are summarised below.

(i) *Leasehold land*

The adoption of the revised HKAS 17 "Leases" has resulted in a change in the accounting policy relating to the reclassification of leasehold land from properties for sale and properties under development to operating leases. The up-front prepayments made for the leasehold land are expensed in the profit and loss account on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the profit and loss account.

In prior years, the leasehold land was accounted for at the lower of cost and estimated net realisable value.

(ii) *Investment properties*

The adoption of the revised HKAS 40 "Investment Property" has resulted in a change in the accounting policy whereby changes in fair values are recorded in the profit and loss account.

In prior years, increases in fair value were credited to the investment properties valuation reserve; decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter were charged to the profit and loss account. Any subsequent increase was credited to the profit and loss account to the extent of the amount previously charged.

(iii) *Deferred income tax*

The adoption of the revised HKAS Interpretation ("HKAS-Int") 21 "Income Taxes-Recovery of Revalued Non-Depreciable Assets" has resulted in a change in the accounting policy relating to the measurement of deferred income tax arising from the revaluation of investment properties. Such deferred income tax is measured on the basis of tax consequences that would follow from recovery of the carrying amount of the investment properties through use and is calculated at the profits tax rate.

In prior years, the carrying amount of the investment properties was assumed to be recovered through sale for the purpose of calculating deferred income tax. As a result, no provision for deferred income tax on revaluation of investment properties in Hong Kong was made as the tax rate applicable on sale of investment properties in Hong Kong is nil.

## 2. Principal Accounting Policies (continued)

### (b) Changes in Accounting Policies (continued)

*(iv) Hotel property*

The adoption of HK Interpretation ("HK-Int") 2 "The Appropriate Policies for Hotel Properties" has resulted in a change in the accounting policy whereby an owner-operated hotel property is accounted for as property, plant and equipment. The depreciable amount of the hotel building is depreciated over its remaining useful economic life and the carrying amount of the leasehold land is amortised over the remaining term of the lease.

In prior years, the hotel property held by the associates was accounted for as an investment property. No depreciation or amortisation was required.

*(v) Financial instruments*

The adoption of HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement" has resulted in a change in accounting policy for recognition, measurement and disclosure of financial instruments. In accordance with the requirements of HKASs 32 and 39, the group has reclassified its investment securities as available-for-sale financial assets. Available-for-sale financial assets are stated at fair value and any changes in fair values are recognised in equity. When there is cumulative loss which is considered to be impairment in nature, the amount is charged to the profit and loss account.

In prior years, investment securities were stated at cost less provision.

All changes in the accounting policies have been made in accordance with transition provisions in the respective standards, which require retrospective application other than HKAS 39.

## 2. Principal Accounting Policies (continued)

### (b) Changes in Accounting Policies (continued)

The following is a summary of the effect of adopting the new/revised HKFRS on the consolidated profit and loss account for the years ended 31st March 2005 and 2006.

| | Increase/(decrease) Effect of adopting | | | | | |
|---|---|---|---|---|---|---|
| | HKAS 17 *HK$Million* | HKAS 40 *HK$Million* | HKAS-Int 21 *HK$Million* | HK-Int 2 *HK$Million* | HKAS 39 *HK$Million* | Total *HK$Million* |
| **For the year ended 31st March 2006** | | | | | | |
| Property expenses | **29.9** | **–** | **–** | **–** | **–** | **29.9** |
| Cost of property sales | **(2.0)** | **–** | **–** | **–** | **–** | **(2.0)** |
| Fair value gains on investment properties | **–** | **1.5** | **–** | **–** | **–** | **1.5** |
| Income tax expense | **–** | **–** | **0.2** | **–** | **–** | **0.2** |
| Profit attributable to equity holders of the company | **(27.9)** | **1.5** | **(0.2)** | **–** | **–** | **(26.6)** |
| Earnings per share (HK cent) | **(4.5)** | **0.2** | **–** | **–** | **–** | **(4.3)** |
| For the year ended 31st March 2005 | | | | | | |
| Property expenses | 27.6 | – | – | – | – | 27.6 |
| Cost of property sales | (3.9) | – | – | – | – | (3.9) |
| Fair value losses on investment properties | – | 4.4 | – | – | – | 4.4 |
| Income tax expense | – | – | (0.8) | – | – | (0.8) |
| Profit attributable to equity holders of the company | (23.7) | (4.4) | 0.8 | – | – | (27.3) |
| Earnings per share (HK cent) | (3.8) | (0.7) | 0.1 | – | – | (4.4) |

## 2. Principal Accounting Policies (continued)

### (b) Changes in Accounting Policies (continued)

The following is a summary of the effect of adopting the new/revised HKFRS on the consolidated balance sheet as at 31st March 2005 and 2006.

| | Increase/(decrease) Effect of adopting | | | | | |
|---|---|---|---|---|---|---|
| | HKAS 17 | HKAS 40 | HKAS-Int 21 | HK-Int 2 | HKAS 39 | Total |
| | *HK$Million* | *HK$Million* | *HK$Million* | *HK$Million* | *HK$Million* | *HK$Million* |
| **As at 31st March 2006** | | | | | | |
| Leasehold land | **1,499.3** | **–** | **–** | **–** | **–** | **1,499.3** |
| Associates | **–** | **–** | **–** | **(1,922.1)** | **–** | **(1,922.1)** |
| Investment securities | **–** | **–** | **–** | **–** | **(82.6)** | **(82.6)** |
| Available-for-sale financial assets | **–** | **–** | **–** | **–** | **82.6** | **82.6** |
| Properties for sale | **(1,485.2)** | **–** | **–** | **–** | **–** | **(1,485.2)** |
| Properties under development | **(245.0)** | **–** | **–** | **–** | **–** | **(245.0)** |
| Deferred income tax liabilities | **–** | **–** | **1.4** | **–** | **–** | **1.4** |
| Net assets | **(230.9)** | **–** | **(1.4)** | **(1,922.1)** | **–** | **(2,154.4)** |
| Retained profits | **(230.9)** | **8.3** | **(1.4)** | **–** | **–** | **(224.0)** |
| Other reserves | **–** | **(8.3)** | **–** | **(1,922.1)** | **–** | **(1,930.4)** |
| Total equity | **(230.9)** | **–** | **(1.4)** | **(1,922.1)** | **–** | **(2,154.4)** |
| As at 31st March 2005 | | | | | | |
| Leasehold land | 1,526.4 | – | – | – | – | 1,526.4 |
| Associates | – | – | – | (1,523.6) | – | (1,523.6) |
| Investment securities | – | – | – | – | (67.2) | (67.2) |
| Available-for-sale financial assets | – | – | – | – | 67.2 | 67.2 |
| Properties for sale | (1,487.2) | – | – | – | – | (1,487.2) |
| Properties under development | (253.0) | – | – | – | – | (253.0) |
| Deferred income tax liabilities | – | – | 1.2 | – | – | 1.2 |
| Net assets | (213.8) | – | (1.2) | (1,523.6) | – | (1,738.6) |
| Retained profits | (213.8) | 6.8 | (1.2) | – | – | (208.2) |
| Other reserves | – | (6.8) | – | (1,523.6) | – | (1,530.4) |
| Total equity | (213.8) | – | (1.2) | (1,523.6) | – | (1,738.6) |

## 2. Principal Accounting Policies (continued)

### (c) Standards, Interpretations and Amendments to Published Standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published and are mandatory for accounting periods beginning on or after 1st January 2006 or later periods but which the group has not early adopted. The group has already commenced an assessment of the impact of these new standards, amendments and interpretations but is not yet in a position to quantify the impact of these new standards, amendments and interpretations on its results of operations and financial position.

### (d) Consolidation

The consolidated financial statements include the financial statements of the company and its subsidiaries for the year ended 31st March 2006 and the group's share of results of its associates and the relevant share of their post-acquisition reserves. The financial statements of the associates used for this purpose cover a year ended not more than three months before the company's year end. Where a significant event occurs between the associates' year end and that of the group, adjustments are made in the consolidated financial statements for the effect of the event.

*(i) Subsidiaries*

Subsidiaries are all entities over which the group has the power to control the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the company on the basis of dividend received and receivable.

## 2. Principal Accounting Policies (continued)

### (d) Consolidation (continued)

*(ii) Associates*

Associates are all entities over which the group has significant influence but not control. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost.

The group's share of its associates' post-acquisition profits or losses is recognised in the profit and loss account, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

### (e) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Property, plant and equipment are depreciated at an annual rate of 20% to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis.

The assets' useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the profit and loss account during the financial period in which they are incurred.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2(h)).

## 2. Principal Accounting Policies (continued)

### (f) Investment Properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for long term rental yields or for capital appreciation or both.

Investment property comprises land held under operating leases and buildings held under finance leases, and is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are reviewed annually by external valuers.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the profit and loss account during the financial period in which they are incurred.

Changes in fair values are recognised in the profit and loss account.

### (g) Properties under Development and for Sale

Properties under development are investments in freehold land and buildings on which construction work and development have not been completed. Properties under development are stated at cost less accumulated impairment losses. Cost comprises construction costs and amounts capitalised in respect of amortisation of leasehold land and borrowing costs incurred during the construction period and up to the date of completion of construction. On completion, the properties are reclassified to properties for sale at the then carrying amount.

Properties for sale are carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less selling expenses.

## 2. Principal Accounting Policies (continued)

### (h) Impairment of Assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

### (i) Financial Assets

From 1st April 2004 to 31st March 2005, the group classified its investments in securities, other than subsidiaries and associates, as investment securities.

Investment securities were stated at cost less any provision.

The carrying amounts of individual investments were reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary occurred, the carrying amount of such securities was reduced to their fair value. The provision was recognised as an expense in the profit and loss account.

From 1st April 2005 onwards, the group classifies its investments in securities as available-for-sale financial assets. Available-for-sale financial assets are initially recognised at fair value plus transaction costs and are subsequently carried at fair value. Changes in the fair value of available-for-sale financial assets are recognised in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are recognised in the profit and loss account.

The group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indication that the securities are impaired. If any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the profit and loss account – is removed from equity and recognised in the profit and loss account. Such impairment losses are not reversed through the profit and loss account where there is subsequent increase in the fair value of the securities.

## 2. Principal Accounting Policies (continued)

### (j) Trade and Other Receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

### (k) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

### (l) Deferred Income Tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

### (m) Revenue Recognition

Revenue comprises the fair value for the sale of goods and services, net of discounts and after eliminating sales within the group. Revenue is recognised as follows:

*(i) Sales of properties*

Revenue on sales of properties is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the properties sold. The group considers that the significant risks and rewards of ownership are transferred when the buildings or the portions thereof contracted for sale are completed and the relevant occupation permits have been issued by the authorities.

## 2. Principal Accounting Policies (continued)

**(m) Revenue Recognition (continued)**

*(ii) Rental income*

Rental income from letting the group's portfolio of investment properties and other properties is recognised on a straight-line basis over the lease term.

*(iii) Dividend income*

Dividend income is recognised when the group's right to receive payment is established.

*(iv) Interest income*

Interest income is recognised on a time-proportion basis using the effective interest method.

*(v) Property management fee*

Property management fee is recognised when the services are rendered.

**(n) Operating Leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the profit and loss account on a straight-line basis over the period of the lease.

**(o) Employee Benefits**

*(i) Employee leave entitlements*

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

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

*(ii) Provident fund scheme*

For the non-contributory defined contribution provident fund scheme, regular monthly contributions payable by the group at the rate specified in the trust deed are expensed as incurred. Contributions to the scheme by the group are calculated as a percentage of employee's basic salaries. Where there are employees who leave the scheme prior to vesting fully in the contributions, the contributions payable by the group are reduced by the amount of forfeited contributions. The assets of the scheme are held separately from those of the group in funds under the control of a professional trustee and are managed by an independent fund manager.

For the mandatory provident fund scheme, the group's contributions are at 5% of the employees' relevant income as defined in the Hong Kong Mandatory Provident Fund Schemes Ordinance up to a maximum of HK$1,000 per employee per month, and are expensed as incurred.

## 2. Principal Accounting Policies (continued)

### (p) Foreign Currency Translation

*(i) Functional and presentation currency*

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in HK dollars, which is the company's functional and presentation currency.

*(ii) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the fair value reserve in equity.

*(iii) Group companies*

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

– assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

– income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

– all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations and of borrowings are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the profit and loss account as part of the gain or loss on disposal.

## 2. Principal Accounting Policies (continued)

### (q) Borrowing Costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

### (r) Contingent Liabilities

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

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

### (s) Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

In accordance with the group's internal financial reporting the group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment, investment properties, leasehold land, properties for sale, properties under development, available-for-sale financial assets, investment securities, receivables and operating cash excluding taxation. Segment liabilities comprise operating liabilities excluding taxation. Capital expenditure comprises additions to property, plant and equipment.

In respect of geographical segment reporting, turnover, operating results, total assets and capital expenditure are based on the country in which the relevant assets are located.

### (t) Dividend Distribution

Dividend distribution to the company's shareholders is recognised as liability in the group's financial statements in the period in which the dividends are approved by the company's shareholders.

## 3. Financial Risk Management

### (a) Financial risk factors

The group's activities are exposed to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and cash flow interest-rate risk. The group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance.

(i) *Foreign exchange risk*

The group operates internationally but is exposed to limited foreign exchange risk as most debtors and creditors are denominated in HK Dollars and US Dollars.

The group has not entered into any forward contracts to manage the exposure to foreign exchange risk. When considered appropriate, the group will take the necessary actions to ensure that such exposure is properly hedged.

(ii) *Credit risk*

The group has no significant concentrations of credit risk. It has policies in place to ensure that sales and leases of properties are made to customers with an appropriate credit history.

(iii) *Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The group aims to maintain flexibility in funding by keeping committed credit lines available.

(iv) *Cash flow interest-rate risk*

The group's interest-rate risk arises from long term borrowings. Borrowings issued at variable rates expose the group to cash flow interest-rate risk. The group has not entered into any interest-rate swaps contracts as the exposure to interest-rate risk is not significant.

## 3. Financial Risk Management (continued)

**(b) Fair value estimation**

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The nominal value less impairment provision of debtors and creditors are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar financial instruments.

## 4. Critical Accounting Estimates and Assumptions

Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions 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.

**(a) Estimate of net realisable value of properties for sale**

Net realisable value of properties for sale is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of selling properties of similar nature. It could change significantly as a result of changes in market condition. Management will reassess the estimations at each balance sheet date.

## 4. Critical Accounting Estimates and Assumptions (continued)

**(b) Estimate of fair value of investment properties**

The valuation of investment properties is performed in accordance with the 'Valuation Standards on Valuation of Properties' published by the Hong Kong Institute of Surveyors. The valuation is reviewed annually by qualified valuers by considering the information from a variety of sources including i) current prices in an active market for properties of different nature, condition or location, adjusted to reflect those differences; and ii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices and iii) discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using yield rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

**(c) Deferred income tax**

The group's management determines the amount of deferred income tax assets to be recognised by estimating the amount of future profit available to utilise the tax losses in the relevant tax jurisdiction and entity. The estimation is based on the projected profit in respective jurisdiction that is mainly based on market conditions existing on the balance sheet date. It could change as a result of the uncertainties in the market conditions.

## 5. Turnover and Segment Information

The principal activity of the company is investment holding. The group is principally engaged in property investment and development, investment holding and property management.

Turnover recognised during the year comprises:

| | **2006** | 2005 |
|---|---|---|
| | ***HK$Million*** | *HK$Million* |
| Gross proceeds from sales of properties | **158.1** | 206.7 |
| Gross rental income from | | |
| – investment properties | **9.1** | 9.4 |
| – other properties | **94.7** | 88.4 |
| Property management fees | **5.5** | 5.7 |
| | **267.4** | 310.2 |

## 5. Turnover and Segment Information (continued)

### (a) Primary reporting format – business segments
### As at and for the year ended 31st March 2006

| | Property development and leasing HK$Million | Property management HK$Million | Hotel operation HK$Million | Investment holding HK$Million | Group HK$Million |
|---|---|---|---|---|---|
| Turnover | 261.9 | 5.5 | – | – | 267.4 |
| Segment results before provision | 84.9 | 2.4 | – | 1.4 | 88.7 |
| Write-back of provision against properties for sale | 42.1 | – | – | – | 42.1 |
| Write-back of impairment loss on leasehold land | 24.8 | – | – | – | 24.8 |
| Impairment of available-for-sale financial assets | – | – | – | (5.5) | (5.5) |
| Fair value gains on investment properties | 1.5 | – | – | – | 1.5 |
| Segment results | 153.3 | 2.4 | – | (4.1) | 151.6 |
| Unallocated costs | | | | | (0.9) |
| Operating profit | | | | | 150.7 |
| Finance costs | | | | | (5.3) |
| Share of results of associates | 0.6 | – | 83.0 | – | 83.6 |
| Profit before income tax | | | | | 229.0 |
| Income tax expense | | | | | (12.2) |
| Profit attributable to equity holders of the company | | | | | 216.8 |
| Segment assets | 3,438.4 | 40.0 | – | 106.0 | 3,584.4 |
| Associates | 3.0 | – | 68.2 | (3.4) | 67.8 |
| Unallocated assets | | | | | 14.2 |
| Total assets | | | | | 3,666.4 |
| Segment liabilities | 362.3 | 39.5 | – | 4.8 | 406.6 |
| Unallocated liabilities | | | | | 11.7 |
| Total liabilities | | | | | 418.3 |
| Capital expenditure | 1.0 | – | – | – | 1.0 |
| Depreciation | 0.7 | – | – | – | 0.7 |
| Amortisation | 29.9 | – | – | – | 29.9 |

## 5. Turnover and Segment Information (continued)

### (a) Primary reporting format – business segments (continued)

As at and for the year ended 31st March 2005 (As restated)

| | Property development and leasing *HK$Million* | Property management *HK$Million* | Hotel operation *HK$Million* | Investment holding *HK$Million* | Group *HK$Million* |
|---|---|---|---|---|---|
| Turnover | 304.5 | 5.7 | – | – | 310.2 |
| Segment results before provision | 87.7 | 2.7 | – | 0.5 | 90.9 |
| Write-back of provision against properties for sale | 15.5 | – | – | – | 15.5 |
| Write-back of impairment loss on leasehold land | 31.0 | – | – | – | 31.0 |
| Provision for investment securities | – | – | – | (7.0) | (7.0) |
| Fair value losses on investment properties | (4.4) | – | – | – | (4.4) |
| Segment results | 129.8 | 2.7 | – | (6.5) | 126.0 |
| Unallocated costs | | | | | (0.8) |
| Operating profit | | | | | 125.2 |
| Finance costs | | | | | (1.8) |
| Share of results of associates | 0.6 | – | 67.5 | – | 68.1 |
| Profit before income tax | | | | | 191.5 |
| Income tax expense | | | | | (8.5) |
| Profit attributable to equity holders of the company | | | | | 183.0 |
| Segment assets | 3,397.6 | 37.0 | – | 95.7 | 3,530.3 |
| Associates | 1.8 | – | 80.9 | (2.8) | 79.9 |
| Unallocated assets | | | | | 14.7 |
| Total assets | | | | | 3,624.9 |
| Segment liabilities | 467.3 | 36.0 | – | 4.2 | 507.5 |
| Unallocated liabilities | | | | | 11.5 |
| Total liabilities | | | | | 519.0 |
| Capital expenditure | 1.3 | 0.1 | – | – | 1.4 |
| Depreciation | 0.4 | – | – | – | 0.4 |
| Amortisation | 27.6 | – | – | – | 27.6 |

## 5. Turnover and Segment Information (continued)

### (b) Secondary reporting format – geographical segments
**As at and for the year ended 31st March 2006**

| | Turnover *HK$Million* | Operating profit *HK$Million* | Total assets *HK$Million* | Capital expenditure *HK$Million* |
|---|---|---|---|---|
| Hong Kong | **211.3** | **148.8** | **3,547.3** | **0.9** |
| United States of America | **56.1** | **1.9** | **119.1** | **0.1** |
| | **267.4** | **150.7** | **3,666.4** | **1.0** |

As at and for the year ended 31st March 2005 (As restated)

| | Turnover *HK$Million* | Operating profit *HK$Million* | Total assets *HK$Million* | Capital expenditure *HK$Million* |
|---|---|---|---|---|
| Hong Kong | 224.9 | 110.3 | 3,466.6 | 1.2 |
| United States of America | 85.3 | 14.9 | 158.3 | 0.2 |
| | 310.2 | 125.2 | 3,624.9 | 1.4 |

## 6. Other Income

| | **2006** ***HK$Million*** | 2005 *HK$Million* |
|---|---|---|
| Interest income | **1.8** | 0.9 |

## 7. Operating Profit

| | 2006 HK$Million | 2005 (As restated) HK$Million |
|---|---|---|
| Operating profit is stated after charging the following: | | |
| Amortisation of leasehold land | **29.9** | 27.6 |
| Auditors' remuneration | **1.1** | 0.9 |
| Depreciation | **0.7** | 0.4 |
| Loss on disposal of property, plant and equipment | **–** | 0.1 |
| Operating lease rentals in respect of land and buildings | **3.0** | 4.2 |
| Outgoings in respect of | | |
| – investment properties | **2.8** | 3.0 |
| – other properties | **3.1** | 3.2 |

## 8. Staff Costs

The amount of staff costs (excluding directors' emoluments as disclosed in note 9) charged to the consolidated profit and loss account represents:

| | 2006 HK$Million | 2005 HK$Million |
|---|---|---|
| Salaries and allowances | **44.6** | 43.9 |
| Provident fund contributions less forfeitures *(note (a))* | **2.8** | 2.6 |
| *Less:* Recharge of staff costs to building management funds *(note (b))* | **(20.9)** | (20.0) |
| | **26.5** | 26.5 |

*Notes:*

(a) No forfeited contributions arising from employees leaving the scheme were utilised to offset contributions during the year (2005: HK$0.1 million). At the balance sheet date, there was no forfeited contribution (2005: Nil) which is available to reduce the contributions payable in future years. Contributions payable at the year end was HK$0.2 million (2005: HK$0.2 million).

(b) Recharge of staff costs is reimbursed for property management services rendered.

## 9. Directors' and Senior Management's Emoluments

### (a) Directors' emoluments

The remunerations of the directors for the year ended 31st March 2006 are set out below:

| Name of director | Fees | Salaries and other emoluments | Discretionary bonuses | Provident fund contributions | Total |
|---|---|---|---|---|---|
| | *HK$Million* | *HK$Million* | *HK$Million* | *HK$Million* | *HK$Million* |
| David Pun Chan | **0.16** | **1.88** | **0.16** | **0.19** | **2.39** |
| William Wai Lim Lam | **0.08** | **0.93** | **0.08** | **0.09** | **1.18** |
| Wing Sau Li | **0.08** | **1.14** | **0.10** | **0.11** | **1.43** |
| Ivy Sau Ching Chan | **0.08** | **–** | **–** | **–** | **0.08** |
| Joseph Wing Siu Cheung | **0.08** | **–** | **–** | **–** | **0.08** |
| Karl Chi Leung Kwok | **0.08** | **–** | **–** | **–** | **0.08** |
| Benedict Cho Hung Woo | **0.08** | **–** | **–** | **–** | **0.08** |
| | **0.64** | **3.95** | **0.34** | **0.39** | **5.32** |

The remunerations of the directors for the year ended 31st March 2005 are set out below:

| Name of director | Fees | Salaries and other emoluments | Discretionary bonuses | Provident fund contributions | Total |
|---|---|---|---|---|---|
| | *HK$Million* | *HK$Million* | *HK$Million* | *HK$Million* | *HK$Million* |
| David Pun Chan | 0.10 | 1.82 | 0.15 | 0.18 | 2.25 |
| William Wai Lim Lam | 0.03 | 0.84 | 0.07 | 0.08 | 1.02 |
| Wing Sau Li | 0.05 | 1.08 | 0.09 | 0.11 | 1.33 |
| Ivy Sau Ching Chan | 0.05 | – | – | – | 0.05 |
| Joseph Wing Siu Cheung | 0.03 | – | – | – | 0.03 |
| Karl Chi Leung Kwok | 0.05 | – | – | – | 0.05 |
| Benedict Cho Hung Woo | 0.05 | – | – | – | 0.05 |
| | 0.36 | 3.74 | 0.31 | 0.37 | 4.78 |

## 9. Directors' and Senior Management's Emoluments (continued)

### (b) Five highest paid individuals

The five highest paid individuals of the group included three (2005: two) directors of the company, details of whose emoluments are set out above. The emoluments of the remaining two (2005: three) highest paid employees of the group are as follows:

| | **2006** **HK$Million** | 2005 HK$Million |
|---|---|---|
| Salaries and other emoluments | **2.1** | 3.2 |
| Discretionary bonuses | **0.2** | 0.2 |
| Provident fund contributions | **0.2** | 0.2 |
| | **2.5** | 3.6 |

The above emoluments are analysed as follows:

| | **Number of employees** **2006** | 2005 |
|---|---|---|
| HK$1,000,001 – HK$1,500,000 | **2** | 3 |

## 10. Finance Costs

| | **2006** **HK$Million** | 2005 HK$Million |
|---|---|---|
| Finance costs comprise the following: | | |
| Interest on bank borrowings – bank loans and overdrafts wholly repayable within five years | **16.8** | 5.2 |
| *Less:* Amount capitalised in properties under development *(note)* | **(11.5)** | (3.4) |
| | **5.3** | 1.8 |

*Note:* A capitalisation rate of 5.2% (2005: 1.2%) was used, representing the cost of the borrowings used to finance the properties under development.

## 11. Income Tax Expense

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates prevailing in the countries in which the group operates.

| | 2006 | 2005 (As restated) |
|---|---|---|
| | *HK$Million* | *HK$Million* |
| Current income tax | | |
| Hong Kong profits tax | 10.9 | 9.8 |
| Overseas tax | 0.2 | 1.1 |
| Deferred income tax | 1.1 | (2.4) |
| | 12.2 | 8.5 |

The taxation on the group's profit before income tax differs from the theoretical amount that would arise using the tax rate of Hong Kong as follows:

| | 2006 | 2005 (As restated) |
|---|---|---|
| | *HK$Million* | *HK$Million* |
| Profit before income tax | 229.0 | 191.5 |
| *Less:* Share of results of associates | (83.6) | (68.1) |
| | 145.4 | 123.4 |
| Theoretical tax at a tax rate of 17.5% (2005: 17.5%) | 25.4 | 21.6 |
| Effect of different tax rate in other country | 0.1 | 0.6 |
| Expenses not deductible for tax purposes | 6.2 | 6.1 |
| Income not subject to tax | (0.1) | – |
| Utilisation of previously unrecognised tax losses | (19.9) | (19.2) |
| Tax losses not recognised | 0.8 | 0.2 |
| Other temporary differences | (0.3) | (0.8) |
| Income tax expense | 12.2 | 8.5 |

## 12. Profit Attributable to Equity Holders of the Company

The profit attributable to equity holders of the company is dealt with in the financial statements of the company to the extent of HK$75.4 million (2005: HK$40.4 million).

## 13. Dividends

| | **2006** **HK$Million** | 2005 HK$Million |
|---|---|---|
| Interim, paid, of HK 6 cents (2005: HK 4 cents) per ordinary share | **37.1** | 24.7 |
| Final, proposed, of HK 8 cents (2005: HK 6 cents) per ordinary share *(note)* | **49.4** | 37.1 |
| | **86.5** | 61.8 |

*Note:* At a meeting held on 22nd June 2006, the directors proposed a final dividend of HK 8 cents per ordinary share. This proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained profits for the year ending 31st March 2007.

## 14. Earnings Per Share

The calculation of earnings per share is based on the profit attributable to equity holders of the company of HK$216.8 million (2005: HK$183.0 million, as restated) and ordinary shares in issue of 617,531,425 (2005: 617,531,425). There were no potential dilutive ordinary shares outstanding during the year (2005: Nil).

## 15. Property, Plant and Equipment

| | Group 2006 HK$Million | 2005 HK$Million |
|---|---|---|
| **Cost** | | |
| At the beginning of the year | **35.5** | 36.0 |
| Additions | **1.0** | 1.4 |
| Disposals | **(1.0)** | (1.9) |
| At the end of the year | **35.5** | 35.5 |
| **Accumulated depreciation** | | |
| At the beginning of the year | **33.5** | 34.8 |
| Charge for the year | **0.7** | 0.4 |
| Disposals | **(1.0)** | (1.7) |
| At the end of the year | **33.2** | 33.5 |
| **Net book value** | | |
| At the beginning of the year | **2.0** | 1.2 |
| At the end of the year | **2.3** | 2.0 |

## 16. Investment Properties

| | Group 2006 HK$Million | 2005 HK$Million |
|---|---|---|
| At the beginning of the year | **152.1** | 156.5 |
| Fair value gains/(losses) | **1.5** | (4.4) |
| At the end of the year | **153.6** | 152.1 |

## 16. Investment Properties (continued)

Investment properties are held in Hong Kong and their net book values are analysed as follows:

| | Group 2006 HK$Million | 2005 HK$Million |
|---|---|---|
| On long term leases | **8.6** | 7.1 |
| On medium term leases | **145.0** | 145.0 |
| | **153.6** | 152.1 |

Investment properties were revalued on 31st March 2006 by CB Richard Ellis Limited, an independent firm of professional valuers, on an open market value basis.

As at 31st March 2006, investment properties amounting to HK$145.0 million (2005: 145.0 million) were pledged as security for bank loan facilities granted to the group (note 30).

## 17. Leasehold Land

The group's interests in leasehold land in Hong Kong represent prepaid operating lease payments and their net book value are analysed as follows:

| | Group 2006 HK$Million | 2005 (As restated) HK$Million |
|---|---|---|
| On leases of between 10 to 50 years | **1,499.3** | 1,526.4 |

| | 2006 HK$Million | 2005 HK$Million |
|---|---|---|
| At the beginning of the year | **1,526.4** | 1,557.9 |
| Write-back of impairment loss | **24.8** | 31.0 |
| Disposals | **(14.0)** | (25.3) |
| Amortisation | | |
| – charged to profit and loss account | **(29.9)** | (27.6) |
| – capitalised in properties under development | **(8.0)** | (9.6) |
| At the end of the year | **1,499.3** | 1,526.4 |

As at 31st March 2006, leasehold land amounting to HK$526.5 million (2005: HK$638.6 million, as restated) were pledged as security for bank loan facilities granted to the group (note 30).

## 18. Subsidiaries

| | Company 2006 HK$Million | Company 2005 HK$Million |
|---|---|---|
| Unlisted shares, at cost | **2,349.2** | 2,349.2 |

The amount due from a subsidiary is unsecured, interest free and has no fixed terms of repayment.

Particulars of subsidiaries are shown in note 37 to the financial statements.

## 19. Associates

| | Group 2006 HK$Million | Group 2005 (As restated) HK$Million |
|---|---|---|
| At the beginning of the year | **79.9** | 102.4 |
| Share of results of associates | | |
| – profit before income tax | **100.9** | 82.3 |
| – income tax expense | **(17.3)** | (14.2) |
| Dividends | **(95.7)** | (90.6) |
| At the end of the year | **67.8** | 79.9 |

The amount due from the associate is unsecured, interest free and has no fixed terms of repayment.

## 19. Associates (continued)

Share of financial results and positions of the associates, all of which are unlisted, are as follows:

| | Group | |
|---|---|---|
| | 2006 | 2005 |
| | | (As restated) |
| | *HK$Million* | *HK$Million* |
| Assets | | |
| Non-current assets | **268.3** | 326.7 |
| Current assets | **66.1** | 86.9 |
| | **334.4** | 413.6 |
| Liabilities | | |
| Non-current liabilities | **143.6** | 139.6 |
| Current liabilities | **123.0** | 194.1 |
| | **266.6** | 333.7 |
| Net assets | **67.8** | 79.9 |
| Income | **262.2** | 231.2 |
| Expenses | **(178.6)** | (163.1) |
| Share of results | **83.6** | 68.1 |

Other particulars of associates are shown in note 37 to the financial statements.

## 20. Investment Securities

| | Group 2005 *HK$Million* |
|---|---|
| Unlisted equity securities, at cost | 123.3 |
| *Less:* Provision for impairment | (56.1) |
| | 67.2 |

The group's investment securities were denominated in US dollar.

## 21. Available-for-sale Financial Assets

| | **Group 2006** ***HK$Million*** |
|---|---|
| Unlisted equity securities: | |
| At the beginning of the year | **67.2** |
| Additions | **20.9** |
| Impairment loss | **(5.5)** |
| At the end of the year | **82.6** |

The group's available-for-sale financial assets are denominated in US dollar.

## 22. Mortgage Loans Receivable

Mortgage loans receivable carry interest at 1% over the Hong Kong dollars prime rate with interest free periods of 18 months to 3 years from the respective dates when the mortgage loans were drawn. Repayments will commence after the expiry of the interest free period and will be by instalments over a period of 10 years to 23 years thereafter.

The carrying amounts of mortgage loans receivable approximate their fair value.

## 23. Properties for Sale

As at 31st March 2006, properties for sale amounting to HK$253.8 million (2005: HK$404.1 million, as restated) were pledged as security for bank loan facilities granted to the group (note 30).

## 24. Debtors, Deposits and Prepayments

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$Million*** | *HK$Million* |
| Debtors, aged | | |
| 0-3 months | **11.8** | 21.1 |
| Over 3 months | **51.1** | – |
| | **62.9** | 21.1 |
| Deposits and prepayments | **8.9** | 8.9 |
| | **71.8** | 30.0 |

The carrying amounts of debtors, deposits and prepayments approximate their fair value.

Credit terms given to customers vary and are generally ranged from 3 to 6 months.

There is no concentration of credit risk with respect to debtors, as the group has a large number of customers.

## 25. Creditors, Deposits and Accruals

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | ***HK$Million*** | *HK$Million* | ***HK$Million*** | *HK$Million* |
| Creditors, aged | | | | |
| 0-3 months | **1.7** | 5.9 | **–** | – |
| Over 3 months | **1.3** | 3.2 | **–** | – |
| | **3.0** | 9.1 | **–** | – |
| Deposits and accruals | **86.7** | 85.1 | **3.3** | 2.8 |
| | **89.7** | 94.2 | **3.3** | 2.8 |

The carrying amounts of creditors, deposits and accruals approximate their fair value.

## 26. Borrowings

| | Group 2006 HK$Million | 2005 HK$Million |
|---|---|---|
| Non-current | | |
| Bank loans, secured *(note 30)* | **212.9** | 244.5 |
| Current | | |
| Bank loans | | |
| – unsecured | **50.0** | 50.0 |
| – secured *(note 30)* | **54.0** | 118.8 |
| | **104.0** | 168.8 |
| Total borrowings | **316.9** | 413.3 |

The maturity of borrowings is as follows:

| | 2006 HK$Million | 2005 HK$Million |
|---|---|---|
| Within one year | **104.0** | 168.8 |
| In the second year | **212.9** | 4.0 |
| In the third to fifth years | **–** | 240.5 |
| | **316.9** | 413.3 |

The exposure of the group's borrowings to interest-rate changes and the contractual repricing dates are all within 6 months from year end date.

The effective interest rates at the balance sheet date were as follows:

| | 2006 HK$ | 2006 US$ | 2005 HK$ | 2005 US$ |
|---|---|---|---|---|
| Bank loans | **4.9%** | **7.7%** | 3.4% | 5.8% |

The carrying amounts of borrowings approximate their fair value.

## 26. Borrowings (continued)

The carrying amounts of borrowings are denominated in the following currencies:

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$Million*** | *HK$Million* |
| Hong Kong dollar | **289.0** | 348.9 |
| US dollar | **27.9** | 64.4 |
| | **316.9** | 413.3 |

## 27. Deferred Income Tax Assets/(Liabilities)

Deferred taxation is calculated in full on temporary differences under the liability method using a principal tax rate of 17.5% (2005: 17.5%). Movements in the deferred income tax assets and liabilities during the year are as follows:

Deferred income tax assets

| | Group<br>Tax losses | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$Million*** | *HK$Million* |
| At the beginning of the year | **14.7** | 12.8 |
| (Charged)/credited to profit and loss account | **(0.6)** | 1.9 |
| At the end of the year | **14.1** | 14.7 |

## 27. Deferred Income Tax Assets/(Liabilities) (continued)

Deferred income tax liabilities

**Group**

| | Fair value changes on investment properties | | Accelerated depreciation allowances | | Total | |
|---|---|---|---|---|---|---|
| | 2006 | 2005 (As restated) | 2006 | 2005 | 2006 | 2005 (As restated) |
| | *HK$Million* | *HK$Million* | *HK$Million* | *HK$Million* | *HK$Million* | *HK$Million* |
| At the beginning of the year | **1.2** | 2.0 | **2.2** | 1.9 | **3.4** | 3.9 |
| Charged/(credited) to profit and loss account | **0.2** | (0.8) | **0.3** | 0.3 | **0.5** | (0.5) |
| At the end of the year | **1.4** | 1.2 | **2.5** | 2.2 | **3.9** | 3.4 |

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The group did not recognise deferred income tax assets of HK$73.8 million (2005: HK$93.5 million) in respect of losses amounting to HK$360.2 million (2005: HK$470.5 million) that can be carried forward against future taxable income. Included in such unused tax losses are amounts of HK$294.8 million (2005: HK$403.1 million) which have no expiry date. The remaining balance will expire at various dates up to and including 2024.

## 28. Share Capital

| | 2006 | 2005 |
|---|---|---|
| | *HK$Million* | *HK$Million* |
| Authorised: | | |
| 1,000,000,000 (2005: 1,000,000,000) ordinary shares of HK$0.1 each | **100.0** | 100.0 |
| Issued and fully paid: | | |
| 617,531,425 (2005: 617,531,425) ordinary shares of HK$0.1 each | **61.7** | 61.7 |

## 29. Reserves

| | Investment properties valuation reserve | Capital reserve | Exchange fluctuation reserve | Retained profits | Contributed surplus | **Total** |
|---|---|---|---|---|---|---|
| | *HK$Million* | *HK$Million* | *HK$Million* | *HK$Million* | *HK$Million* | ***HK$Million*** |
| **Group** | | | | | | |
| At 1st April 2005, as previously reported | 6.8 | 1,523.6 | 0.6 | 2,903.8 | 348.0 | **4,782.8** |
| Effect of the adoption of HKAS 17 | – | – | – | (213.8) | – | **(213.8)** |
| Effect of the adoption of HKAS 40 | (6.8) | – | – | 6.8 | – | **–** |
| Effect of the adoption of HKAS-Int 21 | – | – | – | (1.2) | – | **(1.2)** |
| Effect of the adoption of HK-Int 2 | – | (1,523.6) | – | – | – | **(1,523.6)** |
| At 1st April 2005, as restated | – | – | 0.6 | 2,695.6 | 348.0 | **3,044.2** |
| Exchange differences | – | – | (0.4) | – | – | **(0.4)** |
| Profit for the year | – | – | – | 216.8 | – | **216.8** |
| 2005 final dividend paid | – | – | – | (37.1) | – | **(37.1)** |
| 2006 interim dividend paid | – | – | – | (37.1) | – | **(37.1)** |
| At 31st March 2006 | – | – | 0.2 | 2,838.2 | 348.0 | **3,186.4** |
| Representing: | | | | | | |
| 2006 final dividend proposed | | | | | | **49.4** |
| Reserves at 31st March 2006 | | | | | | **3,137.0** |
| | | | | | | **3,186.4** |
| **Company** | | | | | | |
| At 1st April 2005 | – | – | – | 889.3 | 1,943.3 | **2,832.6** |
| Profit for the year | – | – | – | 75.4 | – | **75.4** |
| 2005 final dividend paid | – | – | – | (37.1) | – | **(37.1)** |
| 2006 interim dividend paid | – | – | – | (37.1) | – | **(37.1)** |
| At 31st March 2006 | – | – | – | 890.5 | 1,943.3 | **2,833.8** |
| Representing: | | | | | | |
| 2006 final dividend proposed | | | | | | **49.4** |
| Reserves at 31st March 2006 | | | | | | **2,784.4** |
| | | | | | | **2,833.8** |

The contributed surplus is related to the group's restructuring in prior years. The distributable reserves of the company at 31st March 2006 amounted to HK$2,833.8 million (2005: HK$2,832.6 million).

## 29. Reserves (continued)

| | Investment properties valuation reserve HK$Million | Capital reserve HK$Million | Exchange fluctuation reserve HK$Million | Retained profits HK$Million | Contributed surplus HK$Million | **Total HK$Million** |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| At 1st April 2004, as previously reported | 11.2 | 1,338.1 | 0.7 | 2,736.7 | 348.0 | **4,434.7** |
| Effect of the adoption of HKAS 17 | – | – | – | (190.1) | – | **(190.1)** |
| Effect of the adoption of HKAS 40 | (11.2) | – | – | 11.2 | – | **–** |
| Effect of the adoption of HKAS-Int 21 | – | – | – | (2.0) | – | **(2.0)** |
| Effect of the adoption of HK-Int 2 | – | (1,338.1) | – | – | – | **(1,338.1)** |
| At 1st April 2004, as restated | – | – | 0.7 | 2,555.8 | 348.0 | **2,904.5** |
| Exchange differences | – | – | (0.1) | – | – | **(0.1)** |
| Profit for the year | – | – | – | 183.0 | – | **183.0** |
| 2004 final dividend paid | – | – | – | (18.5) | – | **(18.5)** |
| 2005 interim dividend paid | – | – | – | (24.7) | – | **(24.7)** |
| At 31st March 2005 | – | – | 0.6 | 2,695.6 | 348.0 | **3,044.2** |
| Representing: | | | | | | |
| 2005 final dividend proposed | | | | | | **37.1** |
| Reserves at 31st March 2005 | | | | | | **3,007.1** |
| | | | | | | 3,044.2 |
| **Company** | | | | | | |
| At 1st April 2004 | – | – | – | 892.1 | 1,943.3 | **2,835.4** |
| Profit for the year | – | – | – | 40.4 | – | **40.4** |
| 2004 final dividend paid | – | – | – | (18.5) | – | **(18.5)** |
| 2005 interim dividend paid | – | – | – | (24.7) | – | **(24.7)** |
| At 31st March 2005 | – | – | – | 889.3 | 1,943.3 | **2,832.6** |
| Representing: | | | | | | |
| 2005 final dividend proposed | | | | | | **37.1** |
| Reserves at 31st March 2005 | | | | | | **2,795.5** |
| | | | | | | 2,832.6 |

## 30. Pledge of Assets

Certain leasehold land, properties for sale, properties under development and investment properties of the group with a carrying value of HK$1,081.9 million (2005: HK$1,338.1 million, as restated) have been pledged to banks as security for facilities granted to the extent of HK$453.9 million (2005: HK$648.3 million) against which HK$266.9 million (2005: HK$363.3 million) has been utilised at the balance sheet date.

## 31. Commitments

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$Million*** | *HK$Million* |
| Capital commitment | | |
| – investment securities | **–** | 98.0 |
| – available-for-sale financial assets | **95.5** | – |
| Development expenses contracted but not provided for in respect of properties under development | **11.7** | 20.3 |
| | **107.2** | 118.3 |

## 32. Lease Commitments

The group had future aggregate minimum lease payments under non-cancellable operating leases in respect of properties as follows:

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$Million*** | *HK$Million* |
| Not later than one year | **3.0** | 3.0 |
| Later than one year and not later than five years | **9.9** | 11.7 |
| Later than five years | **–** | 1.1 |
| | **12.9** | 15.8 |

## 33. Future Operating Lease Receivables

The group had future minimum lease receivables under non-cancellable operating leases in respect of properties as follows:

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$Million*** | *HK$Million* |
| Not later than one year | **72.8** | 67.9 |
| Later than one year and not later than five years | **58.6** | 59.5 |
| | **131.4** | 127.4 |

## 34. Contingent Liabilities

| | Company | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$Million*** | *HK$Million* |
| Guarantees for credit facilities drawn down by subsidiaries | **316.9** | 413.3 |

## 35. Consolidated Cash Flow Statement

Reconciliation of profit before income tax to cash generated from/(used in) operations:

| | 2006 | 2005 (As restated) |
|---|---|---|
| | *HK$Million* | *HK$Million* |
| Profit before income tax | **229.0** | 191.5 |
| Share of results of associates | **(83.6)** | (68.1) |
| Write-back of provision against properties for sale | **(42.1)** | (15.5) |
| Write-back of impairment loss on leasehold land | **(24.8)** | (31.0) |
| Provision for investment securities | **–** | 7.0 |
| Impairment of available-for-sale financial assets | **5.5** | – |
| Amortisation of leasehold land | **29.9** | 27.6 |
| Depreciation | **0.7** | 0.4 |
| Loss on disposal of property, plant and equipment | **–** | 0.1 |
| Fair value (gains)/losses on investment properties | **(1.5)** | 4.4 |
| Interest expenses | **5.3** | 1.8 |
| Interest income | **(1.8)** | (0.9) |
| Operating profit before working capital changes | **116.6** | 117.3 |
| (Increase)/decrease in leasehold land | **(2.8)** | 3.9 |
| Decrease/(increase) in properties for sale | **33.3** | (73.5) |
| Decrease/(increase) in properties under development | **5.2** | (30.5) |
| (Increase)/decrease in debtors, deposits and prepayments | **(44.7)** | 28.1 |
| (Decrease)/increase in creditors, deposits and accruals | **(5.0)** | 7.2 |
| Decrease in land premium payable | **–** | (225.0) |
| Cash generated from/(used in) operations | **102.6** | (172.5) |

## 36. Related Party Transactions

During the year, in addition to the balance with the associate as disclosed in note 19, the following transactions were carried out with related parties in the normal course of its business:

Key management compensation

| | 2006 | 2005 |
|---|---|---|
| | *HK$Million* | *HK$Million* |
| Salaries and other employee benefits | **2.5** | 3.6 |

## 37. Particulars of Subsidiaries and Associates

| Subsidiaries | Principal Activities | Issued ordinary share capital held by Group % | Issued ordinary share capital held by Company % | Issued ordinary share capital HK$ |
|---|---|---|---|---|
| Tai Cheung (B.V.I.) Company Limited | Investment holding | 100 | 100 | 780 |
| Tai Cheung Properties Limited | Investment holding and property development | 100 | – | 386,633,750 |
| Acmax Enterprises Limited | Property development | 100 | – | 2 |
| Acura Enterprises Limited | Property development | 100 | – | 2 |
| Alsoic Limited | Property development | 100 | – | 8 |
| Antier Investment Company Limited | Property development | 100 | – | 300 |
| Avanzado Technology Park, Inc. | Property development | 100 | – | 7,999 |
| Buruda Limited | Investment holding | 100 | – | 8 |
| +Centrax Limited | Property investment | 100 | – | 2 |
| Cosmopolitan Estates Limited | Property investment | 100 | – | 1,000,000 |
| Denmore Limited | Investment holding | 100 | – | 2 |
| Dumex Limited | Investment holding | 100 | – | 3,000,000 |
| Edward Contractors, Inc. | Contracting services | 100 | – | 77,240 |
| Enrich Investments Limited | Property development | 100 | – | 2 |
| Fliutshire Properties Limited | Property development | 100 | – | 2 |
| French Valley Industrial Development, Inc. | Property development | 100 | – | 7,783 |
| Hoi Ka Company Limited | Property development | 100 | – | 1,000,000 |
| Jaco Limited | Property development | 100 | – | 2 |
| Jumbo Realty Limited | Property development | 100 | – | 36,000,000 |
| Junco (Nominees) Limited | Nominee company | 100 | – | 200 |
| Karness Limited | Investment holding | 100 | – | 8 |
| Kenic Properties Limited | Investment holding | 100 | – | 200 |
| Lee May Investments Limited | Property development | 100 | – | 60 |
| Maidstone Construction Company Limited | Construction | 100 | – | 600,000 |
| South Land Enterprises Limited | Property development | 100 | – | 2 |
| Sum Lung Investment Company Limited | Property development | 100 | – | 10,000,000 |
| Tai Cheung Capital Limited | Investment holding | 100 | – | 5,000,000 |
| Tai Cheung Construction Company Limited | Property development | 100 | – | 500,000 |
| Tai Cheung Management Company Limited | Property management | 100 | – | 4,500,000 |
| Tai Cheung Secretaries Limited | Corporate secretary | 100 | – | 2 |
| Taico Properties, Inc. | Property development | 100 | – | 109,359,743 |
| Talega Technology Park, Inc. | Property development | 100 | – | 1,879,559 |
| Tareau International Company Limited | Investment holding | 100 | – | 2 |
| Tatrine Development Company Limited | Property development | 100 | – | 20 |
| Turnhouse Limited | Property development | 100 | – | 2 |
| Walsmith Corporation Limited | Investment holding | 100 | – | 2 |
| Wang Yip Construction Company Limited | Construction | 100 | – | 5,000,000 |
| Winfield Investments Limited | Property development | 100 | – | 2 |
| +Woodmont Investments Limited | Property development | 100 | – | 2 |
| Y Lee Enterprises Limited | Property development | 100 | – | 14,000,000 |
| Yescott International Limited | Investment holding | 100 | – | 2 |
| Zebrine Investments Limited | Property development | 100 | – | 20 |

## 37. Particulars of Subsidiaries and Associates (continued)

| Associates | Principal Activities | Issued ordinary share capital held by Group % | by Company % |
|---|---|---|---|
| ** Consolidated Hotels Limited | Hotel investment | 35 | – |
| * ** Macfull Limited | Property development | 20 | – |
| * ** Macfull Finance Limited | Investment holding | 20 | – |
| ** Shepherd Investments Limited | Investment holding | 48 | – |

All subsidiaries and associates are incorporated in Hong Kong except Avanzado Technology Park, Inc., Edward Contractors, Inc., French Valley Industrial Development, Inc., Taico Properties, Inc. and Talega Technology Park, Inc. which are incorporated in the United States; Alsoic Limited, Buruda Limited and Tai Cheung (B.V.I.) Company Limited which are incorporated in the British Virgin Islands, and Karness Limited which is incorporated in the Cook Islands. The principal country of operation is the same as the country of incorporation except for Tai Cheung (B.V.I.) Company Limited, Alsoic Limited, Buruda Limited and Karness Limited which operate internationally.

* The financial statements of these associates have been audited by firms other than PricewaterhouseCoopers, Hong Kong. The aggregate net liabilities and profit before income tax of these associates attributable to the group amounted to HK$359.2 million (2005: HK$359.8 million) and HK$0.7 million (2005: HK$0.5 million) respectively.

** Associates with 31st December year ends.

\+ The shares of the subsidiaries have been pledged to banks as security for banking facilities granted to the subsidiaries.