NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

In the opinion of the directors, the Company's ultimate holding company is China Poly Group Corporation ("China Poly"), a state-owned enterprise established in the People's Republic of China (the "PRC"). Its parent is Ringo Trading Limited, a company incorporated in the British Virgin Islands. China Poly and its affiliated companies, other than members of the Group, are hereinafter collectively referred to as the China Poly Group. The addresses of the registered office and principal place of business of the Company are disclosed in the section of "Corporate Information" to the annual report.

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

The Company is an investment holding company. The subsidiaries are engaged in hotel operations, property investment and management, supply of electricity and gas, securities investment, financial services and general trading.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In preparing the financial statements, the directors of the Company have given careful consideration to the liquidity of the Group in light of the Group's net current liabilities of approximately HK$236.7 million as at 31st December, 2005.

As disclosed in note 55, the Group has obtained a new bank loan facility of HK$250 million in March 2006. In addition, the Group is in discussion with other banks for additional facilities. Also, the directors of the Company are currently exploring various options to provide additional equity funding to the Group. On this basis, the directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

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

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations ("INT") (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates and discontinued operations have been changed. The change of presentation have been applied retrospectively and do not have effect on the results for current and prior accounting period. The adoption of the new HKFRSs has also resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting years are prepared and presented:

(i) Share-based payments

HKFRS 2 "Share-based Payment" requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Group determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. In accordance with the relevant transitional provisions, the Group has not applied HKFRS 2 to share options granted on or before 7th November, 2002 and share options that were granted after 7th November, 2002 (but prior to 1st January, 2005) and vested before 1st January, 2005. However, the Group is still required to apply HKFRS 2 retrospectively to share options that were granted after 7th November, 2002 and which were not yet vested on 1st January 2005. Because there were no unvested share options at 1st January, 2005, no prior period adjustment has been required.

The Group has applied HKFRS 2 to share options granted on or after 1st January, 2005 and recognised share option expenses of HK$7,757,000 in relation to the share options granted by the Company during the year, with a corresponding adjustment recognised in the Group's share option reserve.

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES *(continued)*

(ii) Business combinations

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

Goodwill

In previous years, goodwill arising on acquisitions prior to 1st January, 2001 was held in reserves, and goodwill arising on acquisitions after 1st January, 2001 was capitalised and amortised over its estimated useful life.

The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously recognised in reserves of HK$58,892,000 was transferred to the Group's accumulated profits on 1st January, 2005. With respect to goodwill previously capitalised on the balance sheet, the Group, on 1st January, 2005, eliminated the carrying amount of the related accumulated amortisation of HK$341,000 and HK$26,000, with a corresponding decrease in the cost of goodwill and interest in associates, respectively. The Group has discontinued amortising such goodwill from 1st January, 2005 onwards and such goodwill will be tested for impairment at least annually or in the financial year in which the acquisition takes place. Goodwill arising on acquisitions after 1st January, 2005 is measured at cost less accumulated impairment losses after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill was charged in the current year. Comparative figures for 2004 are not required to be restated.

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

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous years negative goodwill arising on acquisitions after 1st January, 2001 was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance was resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group derecognised all negative goodwill on 1st January, 2005 of HK$3,444,000 (previously presented as a deduction from interest in associates), with a corresponding increase to accumulated profits as at 1st January, 2005.

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES *(continued)*

(iii) Investment properties

In previous years, the Group's investment properties were measured at open market values, with revaluation surplus or deficits credited or charged to investment properties revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment properties revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and revaluation subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged.

In the current year, the Group has, for the first time, applied HKAS 40 "Investment Property". The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the year in which they arise. The Group has also applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1st January, 2005 onwards. The amount held in investment properties revaluation reserve at 1st January, 2005 of HK$32,865,000 was transferred to the Group's accumulated profits as at that date and the financial impact on the Group is set out in note 4.

(iv) Hotel properties

HK-INT 2 "The Appropriate Accounting Policies for Hotel Properties" clarifies the accounting policy for owner-operated hotel properties. In previous years, the Group's self-operated hotel properties were carried at revalued amounts and were not subject to depreciation. HK-INT 2 requires owner-operated properties to be classified as property, plant and equipment in accordance with HKAS 16 "Property, Plant and Equipment", and therefore be accounted for either using the cost model or the revaluation model. The Group has resolved to account for these hotel properties using the revaluation model. In the absence of any specific transitional provisions in HK-INT 2, the new accounting policy has been applied retrospectively. Comparative figures have been restated, the financial impact of which is set out in note 4.

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES *(continued)*

(v) Owner-occupied leasehold interest in land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and is stated at cost or valuation less depreciation and amortisation at the balance sheet date and any accumulated impairment losses. In the current year, the Group has applied HKAS 17 "Leases".

Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight line basis. This change in accounting policy has been applied retrospectively and the financial impact on the Group is set out in note 4.

(vi) Deferred taxes related to investment properties

In previous years, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor interpretation.

In the current year, the Group has applied Hong Kong (SIC) Interpretation ("HK(SIC)-INT") 21 "Income Taxes – Recovery of Revalued Non-Depreciable Assets" which removes the presumption that the carrying amount of investment properties is to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflects the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HK(SIC)-INT 21, this change in accounting policy has been applied retrospectively. Comparative figures for 2004 have been restated, the financial impact of which is set out in note 4.

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES *(continued)*

(vii) Financial Instruments

HKAS 32 "Financial Instruments: Disclosure and Presentation" requires retrospective application whereas HKAS 39 "Financial Instruments: Recognition and Measurement", which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The adoption of HKAS 32 has had no material effect on how financial instruments of the Group and the Company are presented for current and prior accounting periods. The principal effects on the Group as a result of implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

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

Financial assets previously within the scope of Statement of Standard Accounting Practice No. 24 "Accounting for Investments in Securities" issued by the HKICPA ("SSAP 24")

On or before 31st December, 2004, the Group classified and measured its investments in equity securities in accordance with the benchmark treatment of SSAP 24. Under SSAP 24, investments in equity securities are classified as "investment securities" or "other investments" as appropriate. "Investment securities" are carried at cost less impairment losses while "other investments" are measured at fair value, with unrealised gains or losses included in the profit or loss. From 1st January 2005 onwards, the Group has classified and measured its equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition.

On 1st January, 2005, the Group classified and measured its investments in equity securities in accordance with the requirements of HKAS 39. Investments in securities classified under non-current assets and current assets with an aggregate carrying amount of HK$94,311,000 were reclassified to available-for-sale investments of HK$15,935,000 and investments held-for-trading of HK$46,916,000, after adjusting for a decrease in fair value of investments held-for-trading of HK$31,460,000 based on bid prices quoted in the market with a corresponding decrease to accumulated profits as at 1st January, 2005.

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES *(continued)*

(vii) Financial Instruments *(continued)*

Financial assets previously within the scope of Statement of Standard Accounting Practice No. 24 "Accounting for Investments in Securities" issued by the HKICPA ("SSAP 24") (continued)

The available-for-sale investments represent unlisted equity investments of which fair value cannot be measured reliably and are therefore stated at cost less impairment loss at subsequent balance sheet dates. The investments held-for-trading represent listed equity securities and are stated at fair value.

Financial assets and financial liabilities other than debt and equity securities

From 1st January, 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39.

As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". "Financial liabilities at fair value through profit or loss" are measured at fair value with changes in fair value being recognised in profit or loss directly. "Other financial liabilities" are carried at amortised cost using the effective interest method after initial recognition.

Prior to the application of HKAS 39, an interest-free non-current loan from a fellow subsidiary of HK$168,224,000 and an interest-free non-current loan to an associate of HK$165,000,000 were stated at the nominal amount at 31st December, 2004. HKAS 39 requires all financial assets and financial liabilities to be measured at fair value on initial recognition and such interest-free loans are measured at amortised cost determined using the effective interest method at subsequent balance sheet dates. The Group has applied the relevant transitional provisions in HKAS 39.

As a result of this change in the accounting policy, the carrying amount of the loan from a fellow subsidiary as at 1st January, 2005 was reduced by HK$62,678,000 in order to state the loan at amortised cost in accordance with HKAS 39 with a corresponding increase in the Group's other capital reserve by the same amount on the same date.

The interest in an associate at 1st January, 2005 was increased by HK$22,367,000 representing the imputed interest portion of the loan to the associate. Correspondingly, the carrying amount of the loan to that associate (previously presented as "investment in a property development project") and accumulated profits at 1st January, 2005 was reduced by HK$13,809,000 and increased by HK$8,558,000, respectively.

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES *(continued)*

(vii) Financial Instruments *(continued)*

Financial assets and financial liabilities other than debt and equity securities (continued)

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective.

The directors of the Company anticipate that the application of these standards, amendments and interpretations will have no material impact on the financial statements of the Group and the Company except for HKAS 39 and HKFRS 4 (Amendments) "Financial Guarantee Contracts" which require all financial guarantee contracts to be initially measured at fair value. The directors consider the impact resulting from this amendment cannot be reasonably estimated as at the balance sheet date.

HKAS 1 (Amendment)	Capital Disclosure [1]
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures [2]
HKAS 21 (Amendment)	Net Investment in a Foreign operation [2]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions [2]
HKAS 39 (Amendment)	The Fair Value Option [2]
HKAS 39 and HKFRS 4 (Amendments)	Financial Guarantee Contracts [2]
HKFRS 6	Exploration for and Evaluation of Mineral Resources [2]
HKFRS 7	Financial Instruments: Disclosures [1]
HK (IFRIC) – INT 4	Determining whether an Arrangement Contains a Lease [2]
HK (IFRIC) – INT 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds [2]
HK (IFRIC) – INT 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment [3]
HK (IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies [4]
HK (IFRIC) – INT 8	Scope of HKFRS 2[5]

[1] Effective for annual periods beginning on or after 1st January, 2007.
[2] Effective for annual periods beginning on or after 1st January, 2006.
[3] Effective for annual periods beginning on or after 1st December, 2005.
[4] Effective for annual periods beginning on or after 1st March, 2006.
[5] Effective for annual periods beginning on or after 1st May, 2006.

4. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described in note 3 above are as follows:

(i) On profit for the year

	2005 HK$'000	2004 HK$'000
Amortisation of prepaid lease payments	**–**	(4,148)
Depreciation of owner-operated hotel properties	**(11,673)**	(9,476)
Recognition of discount on acquisition of subsidiaries as income	**2,880**	–
Recognition of share options expense	**(7,757)**	–
Recognition of imputed interest expense on loan from (to):		
– a fellow subsidiary	**(6,515)**	–
– minority shareholders	**(3,043)**	–
– an associate	**9,071**	–
Gains arising from changes in fair value of investment properties	**113,722**	–
Increase in deferred taxes relating to investment properties	**(13,777)**	(2,574)
Increase (decrease) in profit for the year	**82,908**	(16,198)

(ii) On income statement line items

	2005 HK$'000	2004 HK$'000
Increase in other income	**11,951**	–
Increase in administrative expenses	**(7,757)**	–
Increase in cost of sales	**(11,673)**	(13,624)
Increase in fair value of investment properties	**113,722**	–
Increase in finance costs	**(9,558)**	–
Decrease in share of results of associates	**(1,333)**	(3,191)
(Increase) decrease in taxation expense	**(12,444)**	617
Increase (decrease) in profit for the year	**82,908**	(16,198)
Attributable to:		
Equity holders of the parent	**85,569**	(12,148)
Minority interests	**(2,661)**	(4,050)
	82,908	(16,198)

4. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(continued)*

(iii) On balance sheet items

	As at 31st December, 2004 (originally stated)	Retrospective adjustments				As at 31st December, 2004 (restated)	Prospective adjustments					As at 1st January 2005 (restated)
	HK$'000	*HK$'000* HKAS 1	*HK$'000* HK-INT 2	*HK$'000* HKAS 17	*HK$'000* HK(SIC)–INT 21	*HK$'000*	*HK$'000* HKFRS 3	*HK$'000* HKAS 39 *(note i)*	*HK$'000* HKAS 39 *(note ii)*	*HK$'000* HKAS 39 *(note iii)*	*HK$'000* HKAS 40	*HK$'000*
Hotel properties	647,400	–	(647,400)	–	–	–	–	–	–	–	–	–
Property, plant and equipment	817,155	–	647,400	(313,216)	–	1,151,339	–	–	–	–	–	1,151,339
Prepaid lease payments (non-current portion)	–	–	–	284,118	–	284,118	–	–	–	–	–	284,118
Interest in associates	467,380	–	–	–	–	467,380	3,444	–	22,367	–	–	493,191
Investment in a property development project	210,000	–	–	–	–	210,000	–	–	(210,000)	–	–	–
Short-term loan receivables	21,500	–	–	–	–	21,500	–	–	196,191	–	–	217,691
Available-for-sales investments	–	–	–	–	–	–	–	–	–	15,935	–	15,935
Investments in securities (non-current portion)	76,461	–	–	–	–	76,461	–	–	–	(76,461)	–	–
Prepaid lease payments (current portion)	–	–	–	6,938	–	6,938	–	–	–	–	–	6,938
Investments held-for-trading	–	–	–	–	–	–	–	–	–	46,916	–	46,916
Investments in securities (current portion)	17,850	–	–	–	–	17,850	–	–	–	(17,850)	–	–
Loan from a fellow subsidiary	(168,224)	–	–	–	–	(168,224)	–	62,678	–	–	–	(105,546)
Deferred tax liabilities	–	–	–	–	(47,224)	(47,224)	–	–	–	–	–	(47,224)
Total effects on assets and liabilities	2,089,522	–	–	(22,160)	(47,224)	2,020,138	3,444	62,678	8,558	(31,460)	–	2,063,358

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

4. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(continued)*

(iii) On balance sheet items *(continued)*

	As at 31st December, 2004 (originally stated)	Retrospective adjustments				As at 31st December, 2004 (restated)	Prospective adjustments					As at 1st January 2005 (restated)
	HK$'000	*HK$'000* HKAS 1	*HK$'000* HK-INT 2	*HK$'000* HKAS 17	*HK$'000* HK(SIC)–INT 21	*HK$'000*	*HK$'000* HKFRS 3	*HK$'000* HKAS 39 *(note i)*	*HK$'000* HKAS 39 *(note ii)*	*HK$'000* HKAS 39 *(note iii)*	*HK$'000* HKAS 40	*HK$'000*
Investment properties revaluation reserve	32,865	–	–	–	–	32,865	–	–	–	–	(32,865)	–
Hotel properties revaluation reserves	3,510	–	54,908	–	(18,044)	40,374	–	–	–	–	–	40,374
Goodwill reserve	(58,892)	–	–	–	–	(58,892)	58,892	–	–	–	–	–
Other capital reserve	164,137	–	–	–	–	164,137	–	62,678	–	–	–	226,815
Accumulated profits	380,259	–	(54,908)	(16,620)	(17,374)	291,357	(55,448)	–	8,558	(31,460)	32,865	245,872
Minority interests	–	221,505	–	(5,540)	(11,806)	204,159	–	–	–	–	–	204,159
Total effects on equity	521,879	221,505	–	(22,160)	(47,224)	674,000	3,444	62,678	8,558	(31,460)	–	717,220
Minority interests	221,505	(221,505)	–	–	–	–	–	–	–	–	–	–

4. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(continued)*

(iii) On balance sheet items *(continued)*

Notes:

The data of following adjustments are set out in note 3(vii):

(i) To adjust the fair value of an interest-free loan from a fellow subsidiary by HK$62,678,000, representing deemed contribution from the Company's holding company.

(ii) To reclassify the carrying amount of investment in a property development project to loan receivables at fair value and deemed investment cost in an associate.

(iii) To reclassify investments in securities with an aggregate carrying amount of HK$94,311,000 to available-for-sale investments of HK$15,935,000 and investments held-for-trading of HK$46,916,000, after adjusting for a decrease in fair value of investments held-for-trading by HK$31,460,000 as at 1st January, 2005.

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

	As originally stated	Adjustment	Adjustment	Adjustment	Adjustment	As restated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		HKAS 1	HK-INT 2	HKAS17	HK(SIC) -INT 21	
Hotel properties revaluation reserve	–	–	44,690	–	(13,514)	31,176
Accumulated profits	309,411	–	(44,690)	(16,620)	(15,444)	232,657
Minority interests	–	202,531	–	(5,540)	(9,652)	187,339
Equity	309,411	202,531	–	(22,160)	(38,610)	451,172

The adoption of the new HKFRS have had no material impact to the Company's balance sheet.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

5. SIGNIFICANT ACCOUNTING POLICIES

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

The financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

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

Acquisition of additional interests of subsidiaries that do not result in a change in control do not fall within the definition of business combination under HKFRS 3. The excess of the cost of acquisition over the carrying value of the minority interest is recognised as goodwill.

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

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

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill

Goodwill arising on acquisitions prior to 1st January, 2005

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

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

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

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

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet. Capitalised goodwill arising on an acquisition of an associate (which is accounted for using the equity method) is included in the cost of the investment of the relevant associate.

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

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

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

As explained in note 3 above, all negative goodwill as at 1st January, 2005 has been derecognised with a corresponding adjustment to the Group's accumulated profits.

Interest in subsidiaries

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

Interest in associates

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

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Interest in jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which ventures have joint control over the economic activity of the entity are referred to as jointly controlled entities.

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

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Revenue recognition

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

Sales of electricity are recognised when electricity is generated and transmitted to the power grids operated by the power grid companies.

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

Service revenue is recognised when services are provided.

Revenue from hotel operations and related services is recognised when the relevant services are provided.

Licence fees for the exclusive right of managing certain of the Group's assets are recognised on a straight line basis over the period of the respective licence agreement.

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*

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

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

Charterhire income is recognised on a straight line basis over the charterhire period.

Government subsidies are recognised as income when they become receivable.

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

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

Property, plant and equipment

Property, plant and equipment, other than hotel properties and construction in progress, are stated at cost less subsequent depreciation and amortisation and accumulated impairment losses.

Hotel properties are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, less any subsequent depreciation and accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using the fair values at the balance sheet date.

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

Any revaluation increase arising on the revaluation of hotel properties is credited to the hotel properties revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such buildings is charged to profit or loss to the extent that it exceeds the balance, if any, held on the hotel properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued hotel properties is charged to profit or loss. On the subsequent sale or retirement of a revalued hotel property, the attributable revaluation surplus remaining in the hotel properties revaluation reserve is transferred directly to accumulated profits.

Construction in progress is stated at cost which includes all development expenditure and other direct costs attributable to such projects. It is not depreciated until completion of construction. Costs of completed construction works are transferred to the appropriate categories of property, plant and equipment.

Depreciation is provided to write off the cost or valuation of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account of their estimated residual value, using the straight line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Prepaid lease payments

Prepaid lease payments, which represents up-front payments to acquire leasehold land interest, are stated at cost and amortised over the period of the lease on a straight line basis.

Leasing

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The Group as lessor

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

The Group as lessee

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financials statements.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Retirement benefits scheme contributions

Payments to Group's defined contribution retirement benefits schemes and Mandatory Provident Fund Scheme are charged as expenses as they fall due. Payments made to state-managed retirement benefits schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

Taxation

Taxation represents the sum of the tax currently payable and deferred tax.

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

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group as the parent is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Stores

Stores which represent lubricants and bunkers on board are stated at the lower of cost and net realisable value and is calculated using the first-in, first-out method.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

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

Financial assets at fair value through profit or loss

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial assets *(continued)*

Loans and receivables

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse through profit or loss in subsequent periods.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including trade and other payables, property rental deposits, amounts due to minority shareholders of subsidiaries, bank borrowings, other borrowings, loan from a fellow subsidiary and loans from minority shareholders of subsidiaries are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

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

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet when, and only when, it is extinguished (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expired). The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

Equity-settled share-based payment transactions

For share options granted to directors and employees of the Company, the fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight line basis over the vesting period, with a corresponding increase in the share options reserve in equity.

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

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment losses (other than goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

6. KEY SOURCES OF ESTIMATION UNCERTAINTY

The Group makes estimates and assumptions concerning the future. 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:

Allowance on trade and other receivables and short-term loan receivables

The assessment of the allowance on trade and other receivables and short-term loan receivables of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness of each counterparty. If the financial conditions of customers of the Group or the counterparty were deteriorate, resulting in an impairment of their ability to make payments, additional allowances may required. As at 31st December, 2005, the carrying amount of trade receivable (net of allowance) and short-term loan receivables (net of allowance) is HK$78,931,000 (2004: HK$53,243,000) and HK$262,791,000 (2004: HK$21,500,000) respectively.

Income tax

As at 31st December, 2005, deferred tax asset in relation to unused tax losses amounted to HK$277 million has not been recognised in the Group's balance sheet. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are more than expected, a material deferred tax assets may arise, which would be recognised in the income statement for the period.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include equity investments, trade receivables, trade payables, loan receivables, borrowings and bank balances and cash. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) *Currency risk*

Most of the Group's transactions are denominated in the functional currency of the respective group entity and is therefore not expose to material currency risk.

(ii) *Fair value interest rate risk*

The Group's fair value interest rate risk relates primarily to fixed-rate bank and other borrowings. The Group is also exposed to cash flow interest rate risk from the variable rate borrowings. Currently, the Group does not have a hedging policy. However, the management monitors interest rate exposure and will consider hedging significant bank borrowings should the need arises.

(iii) *Price risk*

The Group is exposed to equity security price risk mainly through its investments held-for-trading purposes. The management manages this exposure by reviewing the investments regularly.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities. The Group aims at maintaining flexibility in funding by arranging banking facilities and other external financing. As disclosed in note 2, the Group has obtained additional banking facility of HK$250 million in March 2006.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Credit risk

The Group's principal financial assets are bank balances and cash, equity investments and trade and loan receivables.

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December, 2005 is the carrying amounts of trade receivables and short-term loan receivables as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group reviews the recoverable amount of each individual trade receivables and short-term loan receivables at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group's credit risk on liquid funds is limited because the counterparties are banks with good reputation.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers, except for the loan receivables from an associate (see notes 26 and 32).

8. TURNOVER

Turnover represents the aggregate of the net amounts received and receivable from third parties, net of business tax payable in the PRC and is summarised as follows:

	2005	2004
	HK$'000	*HK$'000*
Continuing operations		
Sales of electricity and gas	**365,124**	151,738
Sales of goods	**87,335**	73,995
Income from hotel operation	**132,897**	68,760
Rental income and property management	**106,013**	68,542
Sale proceeds from disposal of other investments	**–**	18,079
Interest income from investments	**16,336**	17,773
Sales of properties	**4,437**	15,101
Consultancy fees	**1,850**	2,750
Shipment handling fees	**–**	597
Dividend income	**100**	274
	714,092	417,609
Discontinued operations		
Vessel charterhire income *(note 15)*	**25,304**	149,581
	739,396	567,190

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

9. OTHER INCOME

	Continuing operations		Discontinued operations		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Sales of investment properties	**15,633**	–	**–**	–	**15,633**	–
Compensation for guarantee profit *(note i)*	**13,051**	–	**–**	–	**13,051**	–
Discount on acquisition of subsidiaries *(note ii)*	**2,880**	–	**–**	–	**2,880**	–
Subsidies from PRC government	**6,658**	1,953	**–**	–	**6,658**	1,953
Sale of scrap material	**3,029**	1,228	**–**	–	**3,029**	1,228
Exchange gain	**3,855**	147	**–**	–	**3,855**	147
Imputed interest income	**9,071**	–	**–**	–	**9,071**	–
Rental income from car parks	**3,650**	1,684	**–**	–	**3,650**	1,684
Others	**11,910**	7,837	**770**	972	**12,680**	8,809
	69,737	12,849	**770**	972	**70,507**	13,821

Notes:

(i) Pursuant to the sales and purchase agreements entered into between the Group and Golden Concord Holdings Limited ("GCH"), certain subsidiaries and associates of the Group engaged in provision of electricity and gas are guaranteed by GCH for a pre-agreed level of income. During the year, compensation for guarantee profit of HK$13,051,000 was recognised as income.

(ii) Upon the application of HKFRS 3, the excess of the Group's interest in the net fair value of acquirees' identifiable assets and liabilities is recognised immediately in the income statement, which represents the increase in net assets of the acquirees from the contract date to the acquisition date.

10. FINANCE COSTS

	Continuing operations		Discontinued operations		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Interest on bank and other borrowings:						
– wholly repayable within five years	**49,031**	14,030	**46**	1,138	**49,077**	15,168
– repayable after five years	**–**	651	**–**	1,166	**–**	1,817
Imputed interest expense on non-current interest-free borrowings	**9,558**	–	**–**	–	**9,558**	–
	58,589	14,681	**46**	2,304	**58,635**	16,985

11. DIRECTORS' EMOLUMENTS

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

2005	Fees	Other emoluments: Salaries and other benefits	Other emoluments: Bonuses	Other emoluments: Equity-settled share-based payment expense	Other emoluments: Retirement benefit scheme contributions	Total emoluments
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Wang Jun	20	–	–	1,617	–	1,637
He Ping	20	–	–	2,246	–	2,266
Li Shi Liang	–	1,517	60	1,042	63	2,682
Chan Tak Chi, William	20	–	–	63	–	83
Chen Hong Sheng	20	–	–	2,110	–	2,130
Ip Chun Chung, Robert	50	–	–	63	–	113
Yao Kang, J. P.	80	–	–	105	–	185
Choy Shu Kwan, Wilson	50	–	–	63	–	113
Lam Tak Shing	50	–	–	63	–	113
Total	310	1,517	60	7,372	63	9,322

2004	Fees	Other emoluments: Salaries and other benefits	Other emoluments: Bonuses	Other emoluments: Equity-settled share-based payment expense	Other emoluments: Retirement benefit scheme contributions	Total emoluments
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Wang Jun	20	–	–	–	–	20
He Ping	20	–	–	–	–	20
Li Shi Liang	–	1,362	–	–	94	1,456
Chan Tak Chi, William	20	–	–	–	–	20
Chen Hong Sheng	20	–	–	–	–	20
Xie Da Tong	–	–	–	–	–	–
Ip Chun Chung, Robert	40	–	–	–	–	40
Yao Kang, J. P.	110	–	–	–	–	110
Choy Shu Kwan, Wilson	50	–	–	–	–	50
Lam Tak Shing	70	–	–	–	–	70
Total	350	1,362	–	–	94	1,806

In each of the two years ended 31st December, 2005, no emoluments were paid by the Group to the directors, as an inducement to join or upon joining the Group or as a compensation for loss of office. None of the directors has waived any emoluments during each of the two years ended 31st December, 2005.

Bonus was determined with reference to the Group's operating results, individual performances and comparable market statistics.

12. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals included four (2004: one) executive directors of the Company, whose emoluments are included in note 11 above. The aggregate emoluments of the remaining one (2004: four) highest paid individuals are as follows:

	2005 ***HK$'000***	2004 *HK$'000*
Salaries and other benefits	**1,155**	3,460
Bonuses	**60**	–
Retirement benefits scheme contributions	**50**	181
	1,265	3,641

The emoluments of the remaining one (2004: four) highest paid individuals were within the following bands:

	2005 **Number of employees**	2004 Number of employees
Nil to HK$1,000,000	–	3
HK$1,000,001 to HK$1,500,000	1	1

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

13. PROFIT BEFORE TAXATION

	Continuing operations		Discontinued operations		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
		(Restated)		*(Restated)*		*(Restated)*
Profit before taxation has been arrived at after charging:						
Staff costs						
– directors' emoluments *(note 11)*	**9,322**	1,806	**–**	–	**9,322**	1,806
– other staff costs	**67,317**	45,606	**1,207**	6,595	**68,524**	52,201
– other staff's retirement benefit scheme contributions	**5,981**	4,892	**–**	–	**5,981**	4,892
– other staff's equity-settled share-based payment expense	**385**	–	**–**	–	**385**	–
	83,005	52,304	**1,207**	6,595	**84,212**	58,899
Amortisation of goodwill (included in administrative expenses)	**–**	341	**–**	–	**–**	341
Amortisation of prepaid lease payments (included in administrative expenses)	**8,804**	2,864	**–**	–	**8,804**	2,864
Depreciation of property, plant and equipment	**94,913**	73,322	**2,468**	17,343	**97,381**	90,665
Total depreciation and amortisation	**103,717**	76,527	**2,468**	17,343	**106,185**	93,870
Auditors' remuneration						
– current year	**1,800**	1,386	**–**	42	**1,800**	1,428
– underprovision in prior year	**56**	90	**–**	–	**56**	90
Loss on disposal of investment properties	**–**	326	**–**	–	**–**	326
Operating lease rentals in respect of						
– rented premises	**2,441**	1,779	**–**	–	**2,441**	1,779
– satellite	**4,680**	5,460	**–**	–	**4,680**	5,460
Share of tax of associates (included in share of results of associates)	**1,333**	3,191	**–**	–	**1,333**	3,191
and after crediting:						
Discount on acquisition of subsidiaries (included in other income)	**2,880**	–	**–**	–	**2,880**	–
Gain on disposal of investment properties	**15,633**	–	**–**	–	**15,633**	–
Gain on disposal of property, plant and equipment	**165**	61	**–**	–	**165**	61
Property rental income, net of direct expenses of HK$5,235,000 (2004: HK$5,918,000)	**100,778**	62,199	**–**	–	**100,778**	62,199

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

14. TAXATION

	Continuing operations		Discontinued operations		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
		(Restated)		(Restated)		(Restated)
The charge comprises:						
Hong Kong Profits Tax	**–**	–	**–**	–	**–**	–
PRC Enterprise Income Tax	**16,107**	6,080	**–**	–	**16,107**	6,080
	16,107	6,080	**–**	–	**16,107**	6,080
Deferred taxation *(note 47)*	**13,777**	2,574	**–**	–	**13,777**	2,574
	29,884	8,654	**–**	–	**29,884**	8,654

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

The provision of PRC Enterprise Income Tax is calculated at a range of 15% to 33% of the estimated assessable profit for the year in accordance with the relevant income tax rates and regulations in the PRC.

Pursuant to the relevant laws and regulations as stated in 中華人民共和國主席令第45號 issued in 1991, Shanghai Puly Real Estate Development Company Limited ("Shanghai Puly Real Estate"), a PRC subsidiary of the Company, is subject to a preferential PRC Enterprise Income Tax rate of 15%.

Details of deferred taxation are set out in note 47.

14. TAXATION *(continued)*

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

	2005 *HK$'000*	2004 *HK$'000* (Restated)
Profit before taxation:		
Continuing operations	**136,039**	25,169
Discontinued operations	**75,771**	156,618
	211,810	181,787
Tax at PRC statutory tax rate of 33% (2004: 33%)	**69,897**	59,990
Tax effect of share of results of associates	**10,066**	(1,340)
Tax effect of expenses not deductible for tax purpose	**16,615**	41,999
Tax effect of income not taxable for tax purpose	**(31,164)**	(74,597)
Tax effect of tax losses not recognised	**19,173**	16,030
Tax effect of utilisation of tax losses previously not recognised	**(331)**	(8,404)
Effect of tax exemptions granted to PRC subsidiaries	**(5,184)**	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(49,188)**	(25,024)
Tax charge for the year	**29,884**	8,654

15. DISCONTINUED OPERATIONS

In November 2004, the Group entered into agreements to dispose of two motor vessels, namely "Hai Ji" and "Hai Kang", for a consideration of US$27,175,000 (equivalent to approximately HK$211,965,000) and US$25,175,000 (equivalent to HK$196,365,000) respectively. The Group's shipping operation ceased upon the completion of the sales of these two motor vessels.

The disposal of motor vessel "Hai Ji" was completed in 2004 and resulted in a gain of HK$54,637,000 to the Group.

The disposal of motor vessel "Hai Kang" was completed in April 2005 and resulted in a gain of HK$59,503,000 to the Group.

The assets and liabilities attributable to the discontinued operations have been classified as a disposal group held for sale and are presented separately in the consolidated balance sheet.

(a) Income statement

The profit for the year from the discontinued operations is analysed as follows:

	2005	2004
	HK$'000	*HK$'000*
Profit of discontinued operations (see note below)	**16,268**	101,981
Gain on disposal of discontinued operations	**59,503**	54,637
Presented in consolidated income statement	**75,771**	156,618

Note: Profit of discontinued operations as follows:

	2005	2004
	HK$'000	*HK$'000*
Turnover	**25,304**	149,581
Cost of sales	**(9,414)**	(45,544)
Gross profit	**15,890**	104,037
Other income	**770**	972
Administrative expenses	**(346)**	(724)
Finance costs	**(46)**	(2,304)
Profit for the year	**16,268**	101,981

15. DISCONTINUED OPERATIONS *(continued)*

(b) Balance sheet

The assets and liabilities of the discontinued operations at the balance sheet date are as follows:

	2004
	HK$'000
Assets	
Property, plant and equipment	135,348
Other receivables	610
Total assets classified as held for sale	135,958
Liabilities	
Other payables	2,382
Net assets of disposal group	133,576

(c) Cash flow statement

The cash flows of the discontinued operations for the year are as follows:

	2005	2004
	HK$'000	*HK$'000*
Net cash (used in) from operating activities	**(40,757)**	64,687
Net cash from investing activities	**196,365**	211,965

16. DIVIDENDS

	2005	2004
	HK$'000	*HK$'000*
Interim dividend of HK$0.02 (2004: HK$0.02) per share	**17,900**	17,908
2004 final dividend of HK$0.03 (2003: HK$0.06) per share	**26,872**	53,706
	44,772	71,614

A final dividend of HK$0.03 (2004: HK$0.03) per share has been proposed by the board of directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

17. EARNINGS PER SHARE

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

	2005 HK$'000	2004 HK$'000
Earnings:		
Profit (loss) for the year attributable to equity holders of the parent:		
– Continuing operations	**88,830**	(3,769)
– Discontinued operations	**75,771**	156,618
	164,601	152,849

	2005	2004
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**895,247,581**	886,517,392
Effect of dilutive potential ordinary shares on share options	**8,256,639**	12,697,607
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**903,504,220**	899,214,999

The basic and diluted earnings per share from discontinued operations based on the above data are as follows:

	2005	2004
From discontinued operations		
– Basic	**8.46 cents**	17.67 cents
– Diluted	**8.39 cents**	17.42 cents

No diluted loss per share from continuing operations for the year ended 31st December, 2004 had been presented since the exercise of the Company's share options would result in a decrease in loss per share.

The Group's adoption of new and revised accounting policies during the year are described in detail in note 3 above. To the extent that those changes have had an impact on the results reported for 2005 and 2004, the reported earnings per share are affected. The following table summarises the impact on both basic and diluted earnings per share from continuing and discontinued operations:

	Impact on basic earnings per share		Impact on diluted earnings per share	
	2005 HKcents	2004 HKcents	2005 HKcents	2004 HKcents
Figures before adjustments	**8.83**	18.61	**8.75**	18.35
Adjustments arising from changes in accounting policies	**9.56**	(1.37)	**9.47**	(1.35)
Reported/restated	**18.39**	17.24	**18.22**	17.00

18. INVESTMENT PROPERTIES

	HK$'000
THE GROUP	
FAIR VALUE	
At 1st January, 2004	698,440
Increase in fair value recognised in the income statement	23,752
Disposals	(1,228)
At 31st December, 2004	720,964
Exchange adjustments	15,750
Acquired on an acquisition of a subsidiary	546,000
Increase in fair value recognised in the income statement	113,722
Disposals	(38,662)
At 31st December, 2005	**1,357,774**

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

The fair value of the Group's investment properties at 31st December, 2005 was arrived at on the basis of a valuation carried out as on that date by AA Property Services Limited, an independent professional surveyor and property valuer not connected with the Group. AA Property Services Limited is a member of the Institute of Valuers, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to International Valuation Standards, was arrived at by reference to comparable sales transactions as available in the relevant market.

The carrying value of investment properties comprises:

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
Properties held under		
– long leases in Hong Kong	**76,000**	55,000
– medium-term land use rights in the PRC	**1,281,774**	665,964
	1,357,774	720,964

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

19. PROPERTY, PLANT AND EQUIPMENT

	Hotel properties	Buildings	Furniture, fixtures and equipment	Motor vehicles	Motor vessels	Plant and machinery	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE GROUP								
COST OR VALUATION								
At 1st January, 2004	471,900	157,941	93,094	7,149	464,244	344,972	25,900	1,565,200
Acquired on acquisition of subsidiaries	–	–	–	19	–	–	–	19
Additions	–	14,307	4,844	4,659	–	580	174,925	199,315
Transfer	(8,828)	33	10,344	–	–	62,742	(64,291)	–
Disposals	–	(7,593)	(2,817)	(374)	(231,226)	(802)	–	(242,812)
Adjustment arising on revaluation	8,828	–	–	–	–	–	–	8,828
Reclassified as held for sale	–	–	–	–	(233,018)	–	–	(233,018)
At 31st December, 2004	471,900	164,688	105,465	11,453	–	407,492	136,534	1,297,532
Exchange adjustment	–	34,380	2,970	372	–	13,354	1,265	52,341
Additions	–	19,515	2,173	5,569	–	7,468	459,227	493,952
Acquired on acquisition of subsidiaries	78,400	198,714	2,970	2,677	–	224,636	5,000	512,397
Transfer	–	18,457	–	–	–	52,568	(71,025)	–
Disposals	–	(499)	(2,152)	(1,841)	–	(38)	–	(4,530)
At 31st December, 2005	**550,300**	**435,255**	**111,426**	**18,230**	**–**	**705,480**	**531,001**	**2,351,692**
Comprising:								
At cost	–	291,723	102,598	18,230	–	705,480	531,001	1,649,032
At valuation – 1995	–	27,893	–	–	–	–	–	27,893
– 1997	–	115,639	–	–	–	–	–	115,639
– 2004	–	–	8,828	–	–	–	–	8,828
– 2005	550,300	–	–	–	–	–	–	550,300
	550,300	435,255	111,426	18,230	–	705,480	531,001	2,351,692

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

19. PROPERTY, PLANT AND EQUIPMENT *(continued)*

	Hotel properties HK$'000	Buildings HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Motor vessels HK$'000	Plant and machinery HK$'000	Construction in progress HK$'000	Total HK$'000
DEPRECIATION AND AMORTISATION								
At 1st January, 2004	–	48,544	78,122	3,928	174,922	99,588	–	405,104
Provided for the year	9,476	19,691	8,487	2,624	17,343	29,351	–	86,972
Eliminated on disposals	–	(5,767)	(1,986)	(374)	(94,595)	(667)	–	(103,389)
Eliminated on revaluation	(9,476)	–	–	–	–	–	–	(9,476)
Reclassified as held for sale	–	–	–	–	(97,670)	–	–	(97,670)
At 31st December, 2004	–	62,468	84,623	6,178	–	128,272	–	281,541
Exchange adjustment	–	1,969	2,379	274	–	4,148	–	8,770
Provided for the year	11,673	27,536	8,089	2,715	–	44,900	–	94,913
Eliminated on disposals	–	(373)	(884)	(1,605)	–	(38)	–	(2,900)
Eliminated on revaluation	(11,673)	–	–	–	–	–	–	(11,673)
At 31st December, 2005	**–**	**91,600**	**94,207**	**7,562**	**–**	**177,282**	**–**	**370,651**
NET BOOK VALUE								
At 31st December, 2005	**550,300**	**343,655**	**17,219**	**10,668**	**–**	**528,198**	**531,001**	**1,981,041**
At 31st December, 2004 (restated)	471,900	102,220	20,842	5,275	–	279,220	136,534	1,015,991

Depreciation is provided to write off the cost or fair value of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method, at the following rate per annum:

Hotel properties	2%
Buildings	2% - 18%
Furniture, fixtures and equipment	20%
Motor vehicles	20%
Plant and machinery	6% - 23%

19. PROPERTY, PLANT AND EQUIPMENT *(continued)*

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
		(Restated)
The net book value of hotel properties and buildings located at:		
Long-term leases in Hong Kong	**23,232**	23,798
Medium-term lease in the PRC	**870,723**	550,322
	893,955	574,120

Certain buildings of the Group were valued at 31st March, 1995 and 31st March, 1997 by an independent professional surveyor and property valuer, on an open market value basis before being transferred from investment properties. No further valuation has been carried out on these properties thereafter.

Had these buildings been carried at cost less accumulated depreciation, their carrying values would have been approximately HK$343,014,000 (2004: HK$101,578,000).

All motor vessels were held for use under operating leases prior to their disposal.

20. PREPAID LEASE PAYMENTS

	2005	2004
	HK$'000	*HK$'000*
The Group's prepaid lease payments comprise:		
Long-term leases in Hong Kong	**94,587**	96,892
Medium-term land use rights in the PRC	**905,948**	194,164
	1,000,535	291,056
Analysed for reporting purposes as:		
Current asset	**24,525**	6,938
Non-current asset	**976,010**	284,118
	1,000,535	291,056

21. GOODWILL

	THE GROUP
	HK$'000
COST	
Arising on acquisition of subsidiaries during the year ended 31st December, 2004 and balance at 1st January, 2005	6,815
Elimination of accumulated amortisation upon the application of HKFRS 3	(341)
At 31st December, 2005	6,474
AMORTISATION	
Charge for the year ended 31st December, 2004 and balance at 1st January, 2005	341
Elimination of accumulated amortisation upon the application of HKFRS 3	(341)
At 31st December, 2005	–
IMPAIRMENT	
Impairment loss recognised during the year and balance at 31st December, 2005	6,474
CARRYING VALUE	
At 31st December, 2005	–
At 31st December, 2004	6,474

Prior to 31st December, 2004, goodwill was amortised on straight line basis over its estimated useful life of 20 years.

During the year, the directors reviewed the carrying amount of goodwill and recognised an impairment loss of HK$6,474,000 as the underlying business has been disposed of in 2005.

22. OTHER INTANGIBLE ASSET

Other intangible asset represent premium on acquisition of prepaid lease payments which is to be amortised on the same basis as the related prepaid lease payments.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

23. INTEREST IN SUBSIDIARIES

	THE COMPANY	
	2005	2004
	HK$'000	*HK$'000*
Unlisted shares, at cost	**160,056**	160,056
Amounts due from subsidiaries less impairment loss recognised	**–**	2,570,840
	160,056	2,730,896

Details of the Company's principal subsidiaries at 31st December, 2005 are set out in note 56.

At 31st December, 2004, the amounts due from subsidiaries were unsecured and had no fixed terms of repayment. Except for an amount of HK$14,872,000 which bore interest at commercial rates, the balances were non-interest bearing.

24. INTEREST IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cost of unlisted investments in associates	**261,191**	353,280	**77,060**	77,060
Share of post-acquisition profits and reserves, net of dividends received	**(16,894)**	114,100	**–**	–
	244,297	467,380	**77,060**	77,060

24. INTEREST IN ASSOCIATES *(continued)*

Included in the cost of investments of the Group at 31st December, 2004 is goodwill of HK$594,000 arising on acquisition of interests in associates. The movement of goodwill is set out below:

	THE GROUP
	HK$'000
COST	
At 1st January, 2004	69,936
Contingent consideration adjustments for acquisitions in prior periods	(8,662)
Goodwill arising on acquisition	620
Eliminated on disposal of interest in an associate	(61,274)
At 31st December, 2004 and 1st January, 2005	620
Elimination of accumulated amortisation upon the application of HKFRS 3	(26)
At 31st December, 2005	594
AMORTISATION	
At 1st January, 2004	24,943
Adjustments to charges made in prior periods	(866)
Provided for the year	12,714
Eliminated on disposal of interest in an associate	(36,765)
At 31st December, 2004 and 1st January, 2005	26
Elimination of accumulated amortisation upon the application of HKFRS 3	(26)
At 31st December, 2005	–
IMPAIRMENT	
Impairment loss recognised for the year ended 31st December, 2005 and balance at 31st December, 2005	594
CARRYING AMOUNT	
At 31st December, 2005	–
At 31st December, 2004	594

Until 31st December, 2004, goodwill was amortised over its estimated useful life, ranging from 5 to 20 years and such amortisation was included in the Group's share of results of associates.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

24. INTEREST IN ASSOCIATES *(continued)*

Negative goodwill with carrying amount of HK$3,444,000 as at 31st December, 2004 (1st January, 2004: nil) was presented as a deduction from the cost of investments in associates. In prior years, negative goodwill was released to income on a straight line basis of 20 years, representing the remaining weighted average useful life of the depreciable assets acquired. All negative goodwill was derecognised on 1st January, 2005 upon the application of HKFRS 3.

	THE GROUP HK$'000
GROSS AMOUNT	
Negative goodwill arising on acquisition in 2004	1,716
Negative goodwill arising on adjustments to measurement of consideration for acquisitions in prior periods	1,728
At 31st December, 2004 and 1st January, 2005	3,444
Derecognised upon the application of HKFRS 3	(3,444)
At 31st December, 2005	–

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

	2005 ***HK$'000***	2004 *HK$'000*
Total assets	**3,053,797**	1,773,578
Total liabilities	**(2,504,030)**	(765,780)
Net assets	**549,767**	1,007,798
Group's share of net assets of associates	**244,297**	466,786
Turnover	**1,660,766**	457,156
(Loss) profit for the year	**(83,045)**	66,297
Group's share of (loss) profit of associates for the year	**(30,503)**	4,062

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

24. INTEREST IN ASSOCIATES *(continued)*

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

Name of associate	Place of incorporation/ establishment	Attributable proportion of nominal value of issued capital/ registered capital held by the Company directly	indirectly	Principal activities
Funing Golden Concord Environmental Protection Co-generation Co., Ltd. ("Funing Power")	PRC	–	29.4%	Provision of electricity and gas
Tong Sun Limited ("Tong Sun")	Samoa	–	49%	Investment holding in a property development company
Xuzhou Western Co-generation Power Co., Ltd. ("Xuzhou Power")	PRC	–	36.75%	Provision of electricity and gas
Winterthur Insurance (Asia) Limited ("Winterthur")	Hong Kong	48%	–	Insurance business
東方聯合音像發展有限公司 United East Audio & Video Co., Ltd.	PRC	–	31.7%	Manufacturing and wholesaling of compact disc, video compact disc and digital video disc
陽光市保豐碼頭有限公司	PRC	–	35%	Port operations

25. INTEREST IN A JOINTLY CONTROLLED ENTITY

	2005	2004
	HK$'000	*HK$'000*
Cost of unlisted investments in jointly controlled entities	**6,392**	6,392
Share of post-acquisition profits and reserves, net of dividends received	**(6,392)**	(6,392)
	–	–

25. INTEREST IN A JOINTLY CONTROLLED ENTITY *(continued)*

The Group has discontinued recognition of its share of loss of the jointly controlled entity. The amounts of unrecognised share of the jointly controlled entity, both for the year and cumulatively, are as follows:

	2005	2004
	HK$'000	*HK$'000*
Unrecognised share of losses of jointly controlled entity	**89**	1,472
Accumulated unrecognised share of losses of jointly controlled entity	**27,954**	27,865

Details of the Group's jointly controlled entity which was indirectly held by the Company at 31st December, 2005 are as follows:

Name of controlled entity	**Place of establishment**	**Attributable proportion of nominal value of registered capital**	**Principal activities**
天津華盛房地產發展有限公司 Tianjin Winson Real Estate Development Company Limited	PRC	25%	Property development in Tianjin, the PRC

26. INVESTMENT IN A PROPERTY DEVELOPMENT PROJECT

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
Investment cost	–	210,000

The amount represents the Group's investment cost in the development of a property project, China Securities Plaza in Beijing, the PRC (the "Project"). The investment cost comprises a 49% equity interest in Tong Sun of US$49 (approximately HK$382), shareholders loan to Tong Sun of HK$165,000,000 (2004: HK$152,271,000) and a loan of HK$45,000,000 (2004: HK$45,000,000) to New City (Beijing) Development Limited ("New City", New City and its subsidiaries are collectively referred to as the "New City Group"), which held 51% equity interest in Tong Sun. Tong Sun is a company incorporated in Samoa which holds 66% of the registered capital of Beijing Zhong Zheng Real Estate Development Co. Ltd. 北京中証房地產開發有限公司, a sino-foreign co-operative joint venture established in the PRC for the development of the Project.

26. INVESTMENT IN A PROPERTY DEVELOPMENT PROJECT *(continued)*

In accordance with an agreement dated 8th May, 2004 ("Agreement"), the Group subscribed for 49 new ordinary shares (which were subsequently reclassified as "Class A Ordinary Shares" for which the Group is entitled to receive a preferred dividend distribution) in Tong Sun at a subscription price of US$49 and would advance an interest-free shareholders loan of HK$165,000,000 to Tong Sun to finance exclusively the working capital of the Project.

In addition, the Group advanced a loan to New City ("New City loan") which bears interest at 6% per annum and is repayable in 2005 in accordance with the Agreement. The shareholders loan and New City loan are secured by shares in New City.

In accordance with the terms of the shareholders' agreement of Tong Sun, the dividend policy of Tong Sun is to distribute at the end of each financial year a cash dividend equivalent to the total amount of surplus/profits of that financial year available for distribution to its shareholders in accordance with the applicable laws of Samoa. Out of such distributable dividends, the Group will be entitled to receive a preferred dividend distribution of up to HK$94,600,000 (together with the repayment of the shareholders loan and the New City loan (and interest accrued thereon)) in priority to the dividend payment to the New City Group of up to HK$136,000,000. In addition, the loan advanced by the New City Group in the sum of approximately HK$184,000,000 ("New City Group loan") will only be repaid to the New City Group after the full repayment and payment of the shareholders loan and the New City loan (and all interest accrued thereon) and the payment of the said distribution of HK$94,600,000 to the Group.

After the payment in full of the said preferred dividend payments and the repayment of the shareholders loan, the New City loan (and all interest accrued thereon) to the Group and the repayment of the New City Group loan to the New City Group, any further distribution by Tong Sun will be distributed and paid to the Group and the New City Group in the proportion of 25% and 75% respectively.

As explained in note 3 above, upon the application of HKAS 39 on 1st January, 2005, the investment in the above property development project was reclassified to short-term loan receivables.

The interest-free non-current loan to Tong Sun of HK$165,000,000 was stated at the nominal amount at 31st December, 2004. In accordance with the relevant transitional provision in HKAS 39, the Group measured the loan to Tong Sun at initially at fair value and at amortised cost of HK$151,191,000 as at 1st January, 2005 (see note 32).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

27. INVESTMENTS IN SECURITIES

Investments in securities as at 31st December, 2004 are set out below.

	Investment securities	Other investments	Total
	HK$'000	*HK$'000*	*HK$'000*
THE GROUP			
Equity securities:			
Listed in Hong Kong	75,526	2,850	78,376
Unlisted	–	15,935	15,935
Total	75,526	18,785	94,311
Market value of listed securities	44,066	2,850	46,916
Carrying amount analysed for reporting purposes as:			
Current	–	17,850	17,850
Non-current	75,526	935	76,461
	75,526	18,785	94,311
THE COMPANY			
Current investments:			
Listed equity securities	–	2,850	2,850
Market value of listed securities	–	2,850	2,850

During the year ended 31st December, 2004, the directors of the Company reviewed the carrying amount of certain investments securities in light of current economic conditions with reference to the market value of these securities. An impairment loss of HK$3,790,000 was recognised and charged to the income statement for the year ended 31st December, 2004.

Upon the application of HKAS 39 on 1st January, 2005, investments in these securities were reclassified to appropriate categories under HKAS 39.

28. DEPOSIT PAID FOR A HOTEL PROJECT

The deposit was paid by the Group in connection with the development of a hotel project in the PRC. The deposit was fully utilised in 2005.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

29. DEPOSITS PAID ON ACQUISITION OF SUBSIDIARIES AND ASSOCIATES

At 31st December, 2005, the balances represent deposits paid by the Group in connection with the acquisition of a subsidiary of HK$798,000 and an associate of HK$132,860,000 which were mainly engaged in the provision of electricity and gas and property development, respectively. The related capital commitments are included in note 49.

In 2004, the deposits were paid by the Group in connection with the acquisition of certain subsidiaries and associates which were engaged in property holding, production and sale of soyabean meals, soyabean oil and related by-products, and port operations. Included in the deposits were the amount of approximately HK$93,458,000 and HK$28,037,000 which carried interest at 10% and 17% per annum respectively.

30. INVENTORIES

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
Raw materials	**41,417**	18,010
Work in progress	**146**	127
Finished goods	**1,827**	513
	43,390	18,650

All inventories were carried at cost.

31. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing credit periods ranging from 30 days to 90 days to its trade customers. The following is an aged analysis of trade receivables at the balance sheet date:

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
0 to 30 days	**58,763**	25,504
31 to 90 days	**16,699**	17,241
More than 90 days	**3,469**	10,498
Total trade receivables	**78,931**	53,243
Receivables on partial disposal of subsidiaries	**33,654**	47,664
Other receivables	**34,879**	151,954
	147,464	252,861

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

32. SHORT-TERM LOAN RECEIVABLES

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
Loan to New City	**45,000**	–
Loan to Tong Sun	**165,000**	–
	210,000	–
Less: imputed interest adjustment	**(4,737)**	–
	205,263	–
Other loans	**57,528**	21,500
	262,791	21,500

The Group's loan receivables are denominated in the following currencies:

	2005	2004
	HK$'000	*HK$'000*
Hong Kong dollars	**254,126**	21,500
Renminbi	**8,665**	–
	262,791	21,500

Loan to New City carry fixed interest rate of 6% per annum and loan to Tong Sun is interest-free and discounted at an effective interest rate of 6%. Other details of the New City loan and Tong Sun loan are set out in note 26.

The other loans carry interest from 6% to 12%. Their fair value as at 31st December, 2005 approximates to their carrying amount.

33. AVAILABLE-FOR-SALE INVESTMENTS AND INVESTMENTS HELD-FOR-TRADING

Available-for-sale investments

Amount represented the investments in unlisted equity securities in Hong Kong and are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

Investments held-for-trading

Amount represented the investments in equity securities listed in Hong Kong. The fair value of these securities are based on bid market prices on the Hong Kong stock exchange.

34. PLEDGED BANK DEPOSITS

THE GROUP

Pledged bank deposits represents deposits pledged to banks to secure general banking facilities granted to the Group. Deposits amounting to HK$21,749,000 (2004: HK$25,178,000) have been pledged to secure general banking facilities and are therefore classified as current assets.

The pledged bank deposits carry fixed interest rates of 1.2% per annum. The fair value of bank deposits as at 31st December, 2005 approximates to the corresponding carrying amount.

35. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
0 to 30 days	**24,464**	15,520
31 to 90 days	**4,037**	10,030
More than 90 days	**18,536**	3,853
Total trade payables	**47,037**	29,403
Other payables	**327,423**	289,465
	374,460	318,868

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

36. AMOUNTS DUE TO MINORITY SHAREHOLDERS OF SUBSIDIARIES

THE GROUP

The amounts due to minority shareholders of subsidiaries are unsecured, non-interest bearing and repayable on demand.

The fair value of the amount as at 31st December, 2005 approximates to its carrying amount.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

37. BANK BORROWINGS

	THE GROUP		THE COMPANY	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Bank loans				
– secured	**842,885**	387,684	**460,000**	180,000
– unsecured	**356,707**	102,569	**80,000**	25,000
	1,199,592	490,253	**540,000**	205,000
The bank loans are repayable as follows:				
On demand or within one year	**624,317**	279,061	**246,000**	45,000
More than one year, but not exceeding two years	**406,952**	111,772	**294,000**	70,000
More than two years, but not exceeding five years	**168,323**	99,420	**–**	90,000
	1,199,592	490,253	**540,000**	205,000
Less: Amounts due within one year shown under current liabilities	**(624,317)**	(279,061)	**(246,000)**	(45,000)
Amounts due after one year	**575,275**	211,192	**294,000**	160,000

The Group's bank loans include HK$506,654,000 (2004: HK$285,253,000) fixed-rate borrowings which carry interest at 5% per annum (2004: 5% per annum) and HK$692,938,000 (2004: HK$205,000,000) variable-rate borrowings which carry interest ranging from HIBOR plus 0.76% to HIBOR plus 1.5% (2004: ranging from HIBOR plus 1.2% to HIBOR plus 1.5%).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

37. BANK BORROWINGS *(continued)*

The Group's and the Company's borrowings are denominated in the following currencies as set out below:

	THE GROUP		THE COMPANY	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong dollars	**692,938**	179,533	**540,000**	205,000
United state dollars	**–**	5,500	**–**	–
Renminbi	**506,654**	305,220	**–**	–
	1,199,592	490,253	**540,000**	205,000

During the year, the Group obtained new loans in the amount of HK$300,000,000. The loans drawn during the year bear interest at market rates and will be repayable varying from 2007 to 2008.

The directors consider that the carrying amount of bank borrowings approximates their fair value.

38. SHARE CAPITAL

	Number of ordinary shares	Amount
		HK$'000
Ordinary share of HK$0.50 each		
Authorised:		
At 1st January, 2004, 31st December, 2004 and 31st December, 2005	1,200,000,000	600,000
Issued and fully paid:		
At 1st January, 2004	807,602,200	403,801
Issue of shares	100,000,000	50,000
Exercise of share options	2,660,000	1,330
Shares repurchased and cancelled	(14,864,000)	(7,432)
At 31st December, 2004	895,398,200	447,699
Exercise of share options *(note i)*	350,000	175
Shares repurchased and cancelled *(note ii)*	(1,159,000)	(579)
At 31st December, 2005	894,589,200	447,295

38. SHARE CAPITAL *(continued)*

During the year, the following changes in the share capital of the Company took place:

(i) 350,000 share options were exercised by the eligible option holders, resulting in the issue of 350,000 ordinary shares of HK$0.50 each in the Company at a total consideration of approximately HK$259,000.

(ii) The Company repurchased certain of its own shares through the Stock Exchange as follows:

Month of repurchase	Number of ordinary shares repurchased	Price per share Highest	Price per share Lowest	Aggregate consideration paid
		HK$	*HK$*	*HK$'000*
July 2005	651,000	1.28	1.23	806
August 2005	123,000	1.28	1.26	156
October 2005	385,000	1.17	1.13	443
	1,159,000			1,405

The repurchased shares were subsequently cancelled upon repurchase and accordingly, the issued share capital of the Company was diminished by the nominal value thereof. The premium payable on repurchase was charged against the accumulated profits.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during each of two years ended 31st December, 2005.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

39. SHARE-BASED PAYMENT TRANSACTIONS

Details of the equity-settled share option schemes adopted by the Group are as follows:

(a) Poly HK Old Scheme

A share option scheme of the Company (the "Poly HK Old Scheme") was adopted on 16th June, 1993 for the primary purpose of providing incentives to directors and eligible employees and terminated on 28th May, 2003. Under the Poly HK Old Scheme, the Company could grant options to the directors and the employees of the Company or its subsidiaries to subscribe for shares in the Company for a consideration of HK$1 for each lot of share options granted. Options proposed to be granted had to be accepted within 30 days from the date of offer. The granted options are exercisable during the period commencing on the date one year after the date of grant and expiring on the date ten years after the date of grant. The maximum number of shares in respect of which options could be granted shall not exceed 10% of the issued share capital of the Company from time to time excluding the aggregate number of shares already allotted and issued pursuant to the Poly HK Old Scheme.

The exercise price was determined by the directors of the Company, and shall not be less than the higher of the nominal value of the Company's shares on the date of grant, and 80% of the average closing price of the shares for the five business days immediately preceding the date of offer.

The total number of shares in respect of which options could be granted to an eligible employee under the Poly HK Old Scheme was not permitted to exceed 25% of the aggregate number of share options granted by the Company at any point in time.

Upon termination of the Poly HK Old Scheme, no further options may be offered thereunder. However, in respect of the outstanding options, the provisions of the Poly HK Old Scheme shall remain in force. The outstanding options granted under the Poly HK Old Scheme shall continue to be subject to the provisions of the Poly HK Old Scheme.

At 31st December, 2005, the number of shares in respect of which options had been granted under the Poly HK Old Scheme and remained outstanding was approximately 5.8% (2004: 5.8%) of the shares of the Company in issue at that date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

39. SHARE-BASED PAYMENT TRANSACTIONS *(continued)*

(a) Poly HK Old Scheme *(continued)*

The following table discloses details of the Company's options under the Poly HK Old Scheme held by employees (including directors) and movement in such holdings during the year:

Year ended 31st December, 2005	Date of grant	Exercise price per share *HK$*	Outstanding at 1.1.2005	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2005
Category 1: Directors						
Wang Jun	3.9.1997	5.175	6,000,000	–	–	6,000,000
	5.6.1998	1.370	4,500,000	–	–	4,500,000
	30.11.2000	0.740	5,000,000	–	–	5,000,000
He Ping	3.9.1997	5.175	6,000,000	–	–	6,000,000
	5.6.1998	1.370	4,500,000	–	–	4,500,000
	30.11.2000	0.740	5,000,000	–	–	5,000,000
Li Shi Liang	30.11.2000	0.740	5,000,000	–	–	5,000,000
			36,000,000	–	–	36,000,000
Category 2: Employees	3.9.1997	5.175	8,640,000	–	(360,000)	8,280,000
	5.6.1998	1.370	4,000,000	–	–	4,000,000
	30.11.2000	0.740	3,535,000	(350,000)	–	3,185,000
			16,175,000	(350,000)	(360,000)	15,465,000
Total all categories			52,175,000	(350,000)	(360,000)	51,465,000
Exercisable						51,465,000

Year ended 31st December, 2004	Date of grant	Exercise price per share *HK$*	Outstanding at 1.1.2004	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2004
Category 1: Directors						
Wang Jun	3.9.1997	5.175	6,000,000	–	–	6,000,000
	5.6.1998	1.370	4,500,000	–	–	4,500,000
	30.11.2000	0.740	5,000,000	–	–	5,000,000
He Ping	3.9.1997	5.175	6,000,000	–	–	6,000,000
	5.6.1998	1.370	4,500,000	–	–	4,500,000
	30.11.2000	0.740	5,000,000	–	–	5,000,000
Li Shi Liang	30.11.2000	0.740	5,000,000	–	–	5,000,000
			36,000,000	–	–	36,000,000

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

39. SHARE-BASED PAYMENT TRANSACTIONS *(continued)*

(a) Poly HK Old Scheme *(continued)*

Year ended 31st December, 2004	Date of grant	Exercise price per share *HK$*	Outstanding at 1.1.2004	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2004
Category 2: Former director						
Xie Da Tong (note)	3.9.1997	5.175	4,800,000	–	(4,800,000)	–
	5.6.1998	1.370	3,000,000	–	(3,000,000)	–
	30.11.2000	0.740	4,000,000	–	(4,000,000)	–
			11,800,000	–	(11,800,000)	–
Category 3: Employees	3.9.1997	5.175	14,400,000	–	(5,760,000)	8,640,000
	5.6.1998	1.370	5,000,000	–	(1,000,000)	4,000,000
	30.11.2000	0.740	6,695,000	(2,660,000)	(500,000)	3,535,000
			26,095,000	(2,660,000)	(7,260,000)	16,175,000
Total all categories			73,895,000	(2,660,000)	(19,060,000)	52,175,000
Exercisable						52,175,000

Note: Mr. Xie Da Tong resigned as a director of the Company with effect from 13th January, 2004.

The share options under the Poly HK Old Scheme were vested at the grant date.

The closing price of the Company's shares immediately before the date on which the options were exercised ranged from HK$1.28 to HK$1.30 (2004: HK$1.25 to HK$1.80.).

Total consideration received for shares issued upon exercise of share options under the Poly HK Old Scheme during the year was HK$259,000 (2004: HK$1,968,400).

(b) Poly HK New Scheme

As approved by the shareholders of the Company at the annual general meeting held on 28th May, 2003, the Company has terminated the Poly HK Old Scheme and adopted a new share option scheme (the " Poly HK New Scheme"), which is in accordance with the revised Chapter 17 of the Listing Rules effective on 1st September, 2001.

39. SHARE-BASED PAYMENT TRANSACTIONS *(continued)*

(b) Poly HK New Scheme *(continued)*

The purpose of the Poly HK New Scheme is to provide incentives to eligible participants, and will expire on 27th May, 2013. According to the Poly HK New Scheme, the Board of Directors of the Company may grant options to (i) any director and employee of the Group or an entity in which the Group holds an interest ("Affiliate"); (ii) any customer, supplier, agent, partner, consultant, adviser or shareholder of or contractor to the Group or an Affiliate; (iii) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any director, employee, customer, supplier, agent, partner, consultant, adviser or shareholder of or contractor to the Group or an Affiliate; or (iv) a company beneficially owned by any director, employee, consultant, customer, supplier, agent, partner, shareholder, adviser of or contractor to the Group or an Affiliate to subscribe for shares in the Company for a consideration of HK$1 for each lot of share options granted.

Share option granted should be accepted within 28 days from the date of grant. The Board of Directors may at its absolute discretion determine the period during which a share option may be exercised, such period should expire no later than 10 years from the date of grant of the relevant options. The Board of Directors may also provides restrictions on the exercise of a share option during the period a share option may be exercised.

The exercise price is determined by the Board of Directors of the Company, and shall not be less than the highest of: (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the Company's shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the share.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Poly HK New Scheme and any other share option schemes of the Company shall not, in aggregate, exceed 30% of the total number of shares in issue from time to time.

The total number of shares issued and to be issued upon exercise of the options granted to each individual under the Poly HK New Scheme and any other share option schemes of the Company (including both exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue.

At 31st December, 2005, the number in respect of which options had been granted under the Poly HK New Scheme and remained outstanding was approximately 4.9%.

39. SHARE-BASED PAYMENT TRANSACTIONS *(continued)*

(b) Poly HK New Scheme *(continued)*

Year ended 31st December, 2005	Date of grant	Exercise price per share	Granted during the year and outstanding at 31.12.2005
		HK$	
Category 1: Directors			
Wang Jun	14.7.2005	1.270	8,900,000
He Ping	14.7.2005	1.270	8,900,000
Li Shi Liang	14.7.2005	1.270	8,000,000
Chan Tak Chi, William	14.7.2005	1.270	300,000
Chen Hong Sheng	14.7.2005	1.270	8,000,000
Ip Chun Chung, Robert	14.7.2005	1.270	300,000
Yao Kang, J.P.	14.7.2005	1.270	500,000
Choy Shu Kwan, Wilson	14.7.2005	1.270	300,000
Lam Tak Shing	14.7.2005	1.270	300,000
			35,500,000
Category 2: Employees	14.7.2005	1.270	8,450,000
Total all categories			43,950,000

The share options under the Poly HK New Scheme were vested at the grant date.

During the year ended 31st December, 2005, options were granted on 14th July, 2005. The estimated fair values of the options granted the date of grant are at an average of HK$0.1765.

These fair values were calculated using the Binomial model. The inputs into the model were as follows:

	2005
Closing share price at date of grant	**HK$1.270**
Exercise price	**HK$1.270**
Expected volatility *(Note a)*	**27%**
Expected life *(Note b)*	**3 years**
Risk-free rate *(Note c)*	**3.462%**
Expected dividend yield *(Note d)*	**4%**

39. SHARE-BASED PAYMENT TRANSACTIONS *(continued)*

(b) Poly HK New Scheme *(continued)*

Notes:

a. Expected volatility was determined by using the historical volatility of closing prices of the Company's share in the past one year immediately before the date of grant.

b. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations.

c. The risk-free rate was based on the yield of Exchange Fund Notes.

d. The expected dividend yield was assumed to be 4% per annum.

The Group recognised the total expense of HK$7,757,000 for the year ended 31st December, 2005 (2004: Nil) in relation to share options granted by the Company.

40. RESERVES

	Share premium *HK$'000*	Share option reserve *HK$'000*	Capital redemption reserve *HK$'000*	Accumulated profits *HK$'000*	Total *HK$'000*
THE COMPANY					
At 1st January, 2004	1,458,263	–	15,906	128,625	1,602,794
Shares repurchased and cancelled:					
– Premium on shares repurchased	–	–	–	(14,219)	(14,219)
– Transfer	–	–	7,432	(7,432)	–
Premium arising on issue of shares	116,638	–	–	–	116,638
Share issue expenses	(3,229)	–	–	–	(3,229)
Profit for the year	–	–	–	28,012	28,012
Dividends paid *(note 16)*	–	–	–	(71,614)	(71,614)
At 31st December, 2004	1,571,672	–	23,338	63,372	1,658,382
Recognition of equity-settled share-based payment expense	–	7,757	–	–	7,757
Shares repurchased and cancelled:					
– Premium on shares repurchases	–	–	–	(826)	(826)
– Transfer	–	–	579	(579)	–
Premium arising on issue of shares	83	–	–	–	83
Share issue expenses	(15)	–	–	–	(15)
Profit for the year	–	–	–	47,717	47,717
Dividends paid *(note 16)*	–	–	–	(44,772)	(44,772)
At 31st December, 2005	1,571,740	7,757	23,917	64,912	1,668,326

The Company's reserves available for distribution to shareholders as at 31st December, 2005 represents its accumulated profits of approximately HK$64.9 million (2004: HK$63.3 million).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

41. OTHER BORROWINGS

The Group and the Company

The amount is secured by 41.666% of the Company's interest in Winterthur, interest-bearing at 6% simple rate per annum and is repayable on 21st November, 2010.

The fair value of the amount as at 31st December, 2005 approximates to the corresponding carrying value.

42. AMOUNTS DUE FROM (TO) SUBSIDIARIES

The amounts due from (to) subsidiaries as at 31st December, 2005 are unsecured and repayable on demand. In 2004, except for an amount due from a subsidiary of HK$14,872,000 which bears interest at commercial rates, the remaining balances are interest-free.

The fair value of the amounts due from (to) subsidiaries as at 31st December, 2005 approximates to the corresponding carrying values.

43. LOAN FROM A FELLOW SUBSIDIARY

The Group

The loan is unsecured, interest-free and repayable upon expiration of the joint venture term of Poly Plaza Limited ("PPL"), a subsidiary of the Company.

The fair value of the loan at initial recognition has been determined based on the present value of the estimated future cash flows discounted using the prevailing market rate of 6% on the date the loan was granted. The loan is then carried at amortised cost in subsequent periods of effective interest rate of 6%. The carrying amount of the loan approximates to its fair value.

44. LOANS FROM MINORITY SHAREHOLDERS OF SUBSIDIARIES

The Group

The loans are unsecured, interest-free and repayable in 2020.

The fair value of the loans at initial recognition has been determined based on the present value of the estimated future cash flows discounted using the prevailing market rate of 6% on the date the loans were granted. The loans are then carried at amortised cost in subsequent periods at effective interest rate of 6%. The carrying amount of the loans approximates to their fair values.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

45. DEFERRED LICENCING INCOME

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
Unamortised deferred licencing income brought forward	**44,858**	59,812
Exchange adjustment	**1,297**	–
Less: Licencing income recognised during the year	**(15,385)**	(14,954)
Unamortised deferred licencing income carried forward	**30,770**	44,858

The licencing income was received from China Poly Group, pursuant to an agreement whereby China Poly Group paid an amount of RMB160 million to the Group in January 1998 for the exclusive right to manage the Group's property interest in Poly Plaza, Beijing, the PRC for a period of 10 years.

46. PURCHASE OF SUBSIDIARIES

During the year, the Group completed the acquisition of certain subsidiaries, details of which are as follows:

(a) In January 2005, the Group acquired the remaining 60% equity interest of Shanghai Puly Real Estate from China Poly Group at a consideration of RMB258,000,000 (equivalent to approximately HK$240,448,000).

(b) Also, on the same date, the Group acquired 100% equity interest of Hubei White Rose Hotel Company Limited ("Hubei White Rose") and the related shareholder's loan from the China Poly Group at a consideration of RMB55,000,000 (equivalent to approximately HK$52,854,000) and the assumption of shareholders' loans of RMB99,949,000 (equivalent to approximately HK$93,849,000.

(c) In January 2005, the Group exercised its option to acquire respectively from GCH 1.1% equity interest in Peixian Mine-Site Environmental Gogen-Power Co. Ltd. ("Peixian Power") and Dongtai Suzhon Environment Protection Co-Generation Company Limited ("Dongtai Power") respectively at a consideration of HK$1 each in accordance with an agreement dated 29th November, 2002 and a supplementary agreement dated 3rd January, 2005. Peixian Power and Dongtai Power were 49% owned associates of the Group before the exercise of option.

(d) On 31st August, 2005, the Group acquired 100% equity interest of Yaubond Limited ("Yaubond") from an independent third party at a consideration of HK$158,013,000.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

46. PURCHASE OF SUBSIDIARIES *(continued)*

The fair value of the identifiable assets and liabilities of the subsidiaries acquired during the year are not significantly different from their respective carrying amounts, except for the recognition of other intangible assets amounted to HK$65,012,000 being the difference between the fair value of the prepaid lease payments and the carrying amount. The net assets acquired in these transactions, and the discount on acquisition arising, are as follows:

	Shanghai Puly Real Estate	Hubei White Rose	Peixian Power	Dongtai Power	Yaubond	Acquirees' carrying amount and fair value 2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* *(note)*	*HK$'000*
Net assets acquired:							
Investment properties	546,000	–	–	–	–	546,000	–
Property, plant and equipment	424	79,625	250,254	181,748	346	512,397	19
Other intangible asset	–	–	–	–	65,012	65,012	–
Prepaid lease payments	–	76,320	16,020	17,491	251,300	361,131	–
Loan receivables	27,114	–	–	–	–	27,114	–
Inventories	309	2,175	3,746	8,936	–	15,166	4,171
Trade and other receivables	3,053	5,742	12,568	32,217	–	53,580	8,957
Tax recoverable	–	571	–	161	–	732	–
Bank balances, deposits and cash	36,797	11,675	1,728	4,171	8,053	62,424	13,297
Trade and other payables	(62,252)	(22,843)	(70,042)	(29,705)	(9,684)	(194,526)	(156)
Taxation	(902)	–	(803)	–	–	(1,705)	(1)
Loan from minority shareholder	–	–	–	–	–	–	(20,556)
Bank borrowings	(14,953)	–	(57,464)	(109,199)	–	(181,616)	–
Other borrowings	–	(93,849)	–	–	(91,987)	(185,836)	–
Deferred tax liabilities	(46,564)	(6,562)	–	–	(65,027)	(118,153)	–
Minority interests	–	–	(77,848)	(52,804)	–	(130,652)	(3,546)
Net assets	489,026	52,854	78,159	53,016	158,013	831,068	2,185
Deemed capital contribution	(52,968)	–	–	–	–	(52,968)	–
Discount on acquisition of subsidiaries	–	–	(1,716)	(1,164)	–	(2,880)	–
Goodwill arising on acquisition	–	–	–	–	–	–	6,815
	436,058	52,854	76,443	51,852	158,013	775,220	9,000
Satisfied by:							
Cash consideration paid	240,448	52,854	–	–	158,013	451,315	9,000
Interests in associates	195,610	–	76,443	51,852	–	323,905	–
	436,058	52,854	76,443	51,852	158,013	775,220	9,000
Net (outflow) inflow of cash and cash equivalents in connection with the purchase of subsidiaries:							
Cash consideration paid	(240,448)	(52,854)	–	–	(158,013)	(451,315)	(9,000)
Bank balances and cash acquired	36,797	11,675	1,728	4,171	8,053	62,424	13,297
	(203,651)	(41,179)	1,728	4,171	(149,960)	(388,891)	4,297

46. PURCHASE OF SUBSIDIARIES *(continued)1*

During the year between the dates of acquisition and the balance sheet date, the subsidiaries acquired contributed approximately HK$290 million and HK$94 million to the Group's turnover and profit for the year, respectively.

Had the acquisitions been completed on 1st January, 2005, the Group's turnover and profit for the year would be approximately HK$290 million and HK$94 million respectively. This proforma information is for illustrative purposes only and is not necessarily indicative of the turnover and results of the Group that would actually have been impacted had the acquisitions been completed on 1st January, 2005, nor is it intended to be a projection of future results.

47. DEFERRED TAX LIABILITIES

The deferred tax liabilities recognised by the Group and the movements thereon during the current and prior years are as follows:

	Revaluation of properties *HK$'000*
At 1st January, 2004	–
Effect of changes in accounting policies	38,610
Charge to equity for the year	6,040
Charge to income statement for the year	2,574
At 31st December, 2004 and 1st January, 2005	47,224
Acquired on acquisition of subsidiaries	118,153
Charge to equity for the year	3,852
Charge to income statement for the year	13,777
Reversed on disposal of investment properties	(2,859)
At 31st December, 2005	180,147

At 31st December, 2005, the Group other than its subsidiaries in the PRC had unused tax losses of approximately HK$81.0 million (2004: HK$73.9 million) for offset against future assessable profits. Such unused tax losses may be carried forward indefinitely.

In addition, at 31st December, 2005, the Group's PRC subsidiaries had unused tax losses of approximately HK$196.3 million (2004: HK$146.3 million) for offset against future assessable profits. The maximum benefit from unutilised tax losses can be carried forward up to five years from the year in which the loss was originated to offset future taxable profits.

The deferred tax assets arising from the above unused tax losses have not been recognised in the financial statements due to the unpredictability of future profit streams.

The Company had no significant unprovided deferred taxation for the year or at the balance sheet date.

48. OPERATING LEASE ARRANGEMENTS

The Group as lessee:

	2005 HK$'000	2004 HK$'000
Operating lease rentals in respect of:		
– land and buildings	**2,441**	1,779
– satellite television channel	**4,680**	5,460

At the balance sheet date, the Group had outstanding commitments under non-cancellable operating leases, which fall due as follows:

	THE GROUP			
	Satellite television channel		Office and factory premises	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
Within one year	**4,680**	5,460	**2,352**	2,133
In the second to fifth year inclusive	**18,720**	21,840	**12,833**	9,254
Over five years	**9,360**	16,380	**16,455**	18,606
	32,760	43,680	**31,640**	29,993

Leases are negotiated for a term of twelve years for satellite television channel and twelve years for office and factory premises.

The Group as lessor:

Property rental income earned during the year was approximately HK$100.8 million (2004: HK$62.2 million). Significant leases are negotiated for a lease term of 1 to 10 years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	THE GROUP	
	2005 HK$'000	2004 HK$'000
Within one year	**48,984**	51,196
In the second to fifth year inclusive	**54,896**	46,430
Over five years	**10,090**	15,047
	113,970	112,673

The Company had no operating lease arrangements at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

49. CAPITAL COMMITMENTS

	2005	2004
	HK$'000	*HK$'000*
THE GROUP		
Capital expenditure contracted for but not provided in the financial statements in respect of		
– acquisition of property, plant and equipment	**10,958**	–
– acquisition of interests in subsidiaries	**597,351**	217,009
– acquisition of interests in associates	**36,679**	49,085
– addition of construction in progress	**121,277**	–
	766,265	266,094

50. CONTINGENT LIABILITIES

At 31st December, 2005, the Company had given guarantees to certain banks in respect of credit facilities granted to certain subsidiaries of the Company and the amount utilised was approximately HK$80 million (2004: HK$60 million).

At 31st December, 2004, the Group had given a guarantee of approximately HK$14.3 million to a bank in respect of credit facilities granted to prospective purchasers of properties developed by a jointly controlled entity of the Group.

51. PLEDGE OF ASSETS

At the balance sheet date, the net book value of the Group's assets which were pledged to secure credit facilities granted to the Group are as follow:

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Investment properties	**411,400**	702,400
Hotel properties	**127,793**	471,900
Motor vessels	**–**	135,348
Plant and machinery	**277,701**	–
Buildings	**233,325**	76,653
Prepaid lease payments	**362,342**	313,218
Bank deposits	**21,749**	25,178
	1,434,310	1,724,697

At the balance sheet date, shares in certain subsidiaries and an associate were also pledged to secure credit facilities granted to the Group.

52. RETIREMENT BENEFITS SCHEMES

The Company and its subsidiaries in Hong Kong operate a defined contribution retirement benefits scheme for their qualified employees pursuant to the Occupational Retirement Schemes Ordinance. The assets of the scheme are held separately in a fund which is under the control of an independent trustee. The retirement benefits scheme contributions charged to the income statement represent the contributions payable by the Company to the fund at rates specified in the rules of the scheme. When there are employees who leave the scheme prior to becoming fully vested in the contributions, the amount of the forfeited contributions will be used to reduce future contributions payable by the Company.

To comply with the Mandatory Provident Fund Schemes Ordinance (the "MPFO"), the Group also participates in a Mandatory Provident Fund scheme ("MPF Scheme") for its qualified employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the MPFO. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

The retirement benefit scheme contributions arising from the MPF Scheme charged to the income statement represent contributions payable to the funds by the Group at rates specified in the rules of the scheme.

The employees in the subsidiaries in the PRC are members of state-managed retirement benefits schemes operated by the PRC government. The subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

At the balance sheet date, there was no significant forfeited contributions, which arose upon employees leaving the retirement benefits scheme, available to reduce the contribution payable in the future years.

The total cost charged to income statement of approximately HK$6,044,000 (2004: HK$4,986,000) represents contributions payable to the schemes by the Group during the year.

53. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES

During the year, the Group had significant transactions and balances with related companies, some of which are also deemed to be connected persons pursuant to the Listing Rules. The significant transactions with these companies during the year, and significant balances with them at the balance sheet date, are as follows:

(I) Connected Persons

(A) Transactions and balances with China Poly Group

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
Transactions:		
Property rental income *(note i)*	**25,559**	28,127
Manager remuneration paid *(note ii)*	**13,869**	13,604
Property leasing commission and management fees paid *(note iii)*	**1,981**	1,981
Proposed acquisition of subsidiaries and assumption of shareholders' loans *(note iv)*	**–**	387,746
Disposal of investment properties *(note v)*	**46,294**	–
Proposed acquisition of subsidiaries *(note vi)*	**562,500**	–

	2005	2004
	HK$'000	*HK$'000*
Balances:		
Trade and other receivables *(note vii)*	**13,157**	11,142
Trade and other payables *(note vii)*	**38,745**	34,551
Long-term loan payable *(note viii)*	**80,518**	168,224

Notes:

(i) Of this rental income, an amount of HK$16,904,000 (2004: HK$21,917,000) is related to tenancy agreement which were previously approved by independent shareholders of the Company in extraordinary general meetings; and an amount of HK$8,655,000 (2004: HK$6,210,000) is related to tenancy agreements which were disclosed in the Company's press announcements in 2005.

The rentals were charged in accordance with the relevant tenancy agreements and the prevailing rent is equivalent or approximated to the market rentals as certified by an independent firm of professional property valuers at the time of these agreements were entered into.

53. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES *(continued)*

(I) Connected Persons *(continued)*

(A) Transactions and balances with China Poly Group *(continued)*

(ii) The manager remuneration was calculated as a percentage of the gross profit before tax of a subsidiary of the Company managed by China Poly Group.

(iii) The property leasing commission and management fees were calculated with reference to the rental income of certain of the Group's properties managed by China Poly Group.

(iv) On 11th August, 2004, the Group entered into a conditional agreement with China Poly Group to acquire the remaining 60% equity interest in Shanghai Puly Real Estate at a consideration of RMB258,000,000 (equivalent to approximately HK$242,254,000).

Also on 11th August, 2004, the Group entered into another conditional agreement with China Poly Group to acquire the entire interest in Hubei White Rose at a consideration of RMB55,000,000 (equivalent to approximately HK$51,643,000) and the assumption of shareholders' loans lent by China Poly Group to Hubei White Rose of RMB99,949,000 (equivalent to approximately HK$93,849,000). The acquisitions were completed in January 2005. Details of these acquisitions are set out in a circular of the Company dated 29th October, 2004 and note 46.

(v) On 8th July, 2005, the Group entered into a sale and purchase agreement with Poly Shanghai Group Company Limited ("Poly Shanghai") to dispose of the entire 26th Floor of the North Tower of Shanghai Stock Exchange Building to Poly Shanghai at a consideration of RMB48,156,000 (equivalent to approximately HK$46,294,000). Details of the disposal are set out in a circular of the Company dated 29th October, 2004.

(vi) On 21st October, 2005, the Group entered into a conditional agreement with China Poly Group to acquire the entire interest in Poly Shanghai at a consideration of RMB585,000,000 (equivalent to approximately HK$562,500,000). Further details of the acquisition are set out in a circular of the Company dated 30th November, 2005. The acquisition was approved by shareholders in an extraordinary general meeting held on 30th December, 2005 but were not yet completed as at 31st December, 2005.

(vii) The balances are unsecured, interest-free and repayable on demand.

(viii) Details of the terms are set out in note 43.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

53. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES *(continued)*

(I) Connected Persons *(continued)*

(A) Transactions and balances with China Poly Group (continued)

In addition, on 26th January, 2000, the Group and China Poly Group entered into an agreement (the "2000 Supplemental Agreement") supplemental to the management agreement dated 11th June, 1997 (the "Management Agreement") between the same parties. Pursuant to the Supplemental Agreement, the profit guarantee for the operation of Poly Plaza provided by China Poly Group under the Management Agreement would be suspended for the two years ended 31st December, 2001, but would be extended to cover the two years following its expiry on 31st December, 2007 such that it will end on 31st December, 2009, based on the mechanism provided in the Management Agreement. The 2000 Supplemental Agreement was approved by shareholders in an extraordinary general meeting on 17th March, 2000.

Furthermore, on 31st December, 2002, the Group and China Poly Group entered into an agreement (the "2002 Supplemental Agreement") supplemental to the Management Agreement and the 2000 Supplemental Agreement (hereafter collectively "Agreements") between the same parties. Pursuant to the 2002 Supplemental Agreement, the profit guarantee for the operation of Poly Plaza provided by China Poly Group under the Agreements would be suspended for the year ended 31st December, 2003, but would be extended to cover the next year following its expiry on 31st December, 2009 such that it will end on 31st December, 2010, based on the mechanism provided in the Agreements. The 2002 Supplement Agreement was approved by shareholders in an extraordinary general meeting on 30th December, 2002.

As at 31st December, 2005, China Poly Group had given a guarantee to a bank in respect of credit facilities utilised by the Group of HK$30,938,000 (2004: HK$30,938,000) which was counter-guaranteed by a subsidiary of the Company of HK$20,419,000 (2004: HK$20,419,000).

(B) Proportional financing to a jointly controlled entity

The Group has made unsecured, interest-free advances to Tianjin Winson in proportion to its equity interest in Tianjin Winson. The balance of advances (before impairment loss recognised of HK$15.3 million in prior periods) at 31st December, 2005 amounted to approximately HK$15.3 million (2004: HK$16 million).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

53. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES *(continued)*

(I) Connected Persons *(continued)*

(C) Transactions and balances with minority shareholders of non-wholly owned subsidiaries

		THE GROUP	
Connected persons	**Nature of transactions/balances**	**2005**	2004
		HK$'000	*HK$'000*
Suzhou Power and its affiliates *(note i)*	Trade and other payables by the Group *(note ii)*	**64,030**	49,147
	Shareholder's loan *(note ii)*	**66,955**	–
	Acquisition of associates *(note iii)*	**–**	71,000
	Acquisition of additional interests in associates *(note iv)*	**–**	–
	Proposed acquisition of a subsidiary *(note v)*	**35,649**	–
Minority shareholders of Poly Tianyu (Guangzhou) Limited	Shareholder's loan *(note vi)*	**–**	106,262
Minority shareholders of Yue Tian Development Limited and their affiliates	Partial disposal of a subsidiary and shareholders loans *(note vii)*	**164,819**	–
	Shareholder's loan *(note viii)*	**159,341**	–

Notes:

(i) Suzhou Power Investment Company ("Suzhou Power") is a 49% shareholder of Taicang Poly Xiexin Thermal Power Co., Ltd. (formerly known as Taicang Xinhaikang Xiexin Thermal Power Co., Ltd.) ("Taicang Poly"), one of the Company's non-wholly owned subsidiaries.

Mr. Zhu Gong Shan ("Mr. Zhu") is a substantial shareholder of Suzhou Power holding 98% of the registered capital of Suzhou Power and 80% of the registered capital of GCH and he is also a former director and an ultimate substantial shareholder of Taicang Poly, a 51% owned subsidiary of the Company. Mr. Zhu and his associates including GCH and Suzhou Power are therefore connected persons of the Company and accordingly, the aforesaid transactions and guarantees are deemed to be connected transactions for the Company which require approval from the shareholders of the Company.

(ii) The balance is unsecured, non-interest bearing and repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

53. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES *(continued)*

(I) Connected Persons *(continued)*

(C) Transactions and balances with minority shareholders of non-wholly owned subsidiaries

Notes: (Continued)

(iii) On 15th January, 2004, the Group entered into an agreement with Suzhou Power to acquire 36.75% of the registered capital of Xuzhou Power for a total consideration of HK$45,540,000.

Also, on 15th January, 2004, the Group entered into another agreement with Suzhou Power to acquire 29.4% of the registered capital of Funing Power for a total consideration of HK$25,460,000.

The acquisitions of Xuzhou Power and Funing Power were guaranteed by GCH.

Further details of the above transactions are set out in a circular of the Company dated 6th February, 2004.

(iv) On 1st January, 2005, the Group exercised its option to acquire from GCH a 1.1% equity interest in Peixian Power at a consideration of HK$1 in accordance with an agreement dated 29th November, 2002 and a supplementary agreement dated 3rd January, 2005.

Also on 1st January, 2005, the Group exercised its option to acquire from GCH a 1.1% equity interest in Dongtai Power at a consideration of HK$1 in accordance with an agreement dated 29th November, 2002 and a supplementary agreement dated 3rd January, 2005.

Following the above acquisitions, Peixian Power and Dongtai Power have become subsidiaries of the Company on 1st January, 2005.

(v) On 18th October, 2005, the Group entered into agreements with companies beneficially owned by Mr. Zhu to acquire 51% of the registered capital of Jia Xing Golden Concord Environmental Protection Cogeneration Power Co., Ltd. for a total consideration of US$4,488,000 (equivalent to approximately HK$35,649,000). Further details of the acquisition are set out in a circular of the Company dated 14th November, 2005. The acquisition was not yet completed as at the balance sheet date.

(vi) The loan was unsecured, non-interest bearing and fully settled during the year.

(vii) On 5th October, 2005, the Group disposed 49% interest in a subsidiary together with a shareholder's loan to a company controlled by a minority shareholder of Yue Tian Development Limited for an aggregate consideration of approximately HK$164.8 million.

(viii) Details of terms are set out in note 44. The loans are stated at their amortised cost.

In addition, Suzhou Power and its affiliates provided coal sourcing services to the Group at no charge during the year.

Furthermore, on 5th October, 2005, the Group entered into a deed of appointment with the minority shareholder of Yaubond Limited in relation to the project management of a property development project in Guangzhou, the PRC for a basic project management fee of RMB30 million, subject to adjustment. Details of the deed of appointment are set out in a circular of the Company dated 16th November, 2005.

53. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES *(continued)*

(I) Connected Persons *(continued)*

(D) Transactions between non-wholly owned subsidiaries

At 31st December, 2005, Taicang Poly had given guarantees to certain banks in respect of credit facilities granted to Dongtai Power and the amount utilised was approximately HK$45 million (2004: HK$74.4 million).

In addition, at 31st December, 2005, Dongtai Power had also given guarantees to certain banks in respect of credit facilities granted to Taicang Poly and the amount utilised was approximately HK$18 million.

(II) Related party, other than Connected Persons

		THE GROUP	
Related party	**Nature of transactions/balances**	**2005**	2004
		HK$'000	*HK$'000*
Winterthur	Interest expense *(note)*	**1,817**	1,817
	Other loan *(note)*	**30,290**	30,290

Note: Details of terms are set out in note 41.

54. MATERIAL TRANSACTIONS AND BALANCES WITH OTHER STATE-CONTROLLED ENTERPRISES

Part of the Group's operations is carried out in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("state-controlled entities"). In addition, the Group itself is part of a larger group of companies under China Poly which is controlled by the PRC government. Apart from the transactions with China Poly, other connected persons and related parties disclosed in note 53, the Group also conducts business with other state-controlled entities. The directors consider those state-controlled entities are independent third parties so far as the Group's business transactions with them are concerned.

In establishing its pricing strategies and approval process for transactions with other state-controlled entities, the Group does not differentiate whether the counter-party is a state-controlled entity or not.

Material transactions/balances with other state-controlled entities are as follows:

	2005	2004
	HK$'000	*HK$'000*
Transactions		
Trade sales	**289,589**	119,593
Balances		
Amounts due from other state-controlled entities	**39,679**	15,920

In view of the nature of the Group's hotel operating business, the directors are of the opinion that, except as disclosed above, it is impracticable to ascertain the identity of the counterparties and accordingly whether the transactions were with other state-controlled entities.

In addition, the Group has entered into various transactions, including deposits placements, borrowings and other general banking facilities, with certain banks and financial institutions which are state-controlled entities in its ordinary course of business. In view of the nature of those banking transactions, the directors are of the opinion that separate disclosure would not be meaningful.

Except as disclosed above, the directors are of the opinion that transactions with other state-controlled entities are not significant to the Group's operations.

55. POST BALANCE SHEET EVENT

In March 2006, the Company entered into a term loan agreement with a bank for a loan facility of HK$250,000,000.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

56. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries, all of which are wholly-owned and held indirectly by the Company except otherwise indicated, at 31st December, 2005 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Nominal value of issued and fully paid share capital/ registered capital	Principal activity
Bassington Investments Limited	Hong Kong	HK$2	Property investment
California Hero Property Limited	British Virgin Islands	US$1	Investment holding
CMIC Finance Limited #	Hong Kong	HK$2	Financial services
CMIC Management Services Limited #	Hong Kong	HK$100	Management services
CMIC-NCHK Energy Holdings Limited	British Virgin Islands	US$100	Investment holding
CMIC Trading Limited #	Hong Kong	HK$2	General trading
Dongtai Power *(note iii)*	PRC	US$4,008,000	Provision of electricity and gas
Elite Land Investment Limited	British Virgin Islands	US$1	Investment holding
Fainland Limited	Hong Kong	HK$2	Property investment
First Great Investments Limited	Hong Kong	HK$2	Investment holding
Geldy Limited	Hong Kong	HK$10,000	Property holding
Grandful International Limited	Hong Kong	HK$2	Investment holding
Guangzhou Cheng Jian Tian Yu Real Estate Development Company Limited ("CJTY") *(note iv)*	PRC	US$22,500,000	Property development
Guangzhou Huan Cheng Real Estate Development Company Limited ("HC") *(note v)*	PRC	RMB10,000,000	Property development
High Wealth International Limited	Hong Kong	HK$2	Property investment
Honorlink Investments Limited	Hong Kong	HK$2	Property investment

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

56. PRINCIPAL SUBSIDIARIES *(continued)*

Name of subsidiary	Place of incorporation/ establishment	Nominal value of issued and fully paid share capital/ registered capital	Principal activity
Hubei White Rose *(note vi)*	PRC	RMB9,600,000	Hotel operations
Johnsbury Limited #	British Virgin Islands	US$9,600,000	Investment holding
Overseas Mariner Investment Company Limited #	Bermuda	US$12,000	Investment holding
PPL *(note vii)*	PRC	US$10,000,000	Investment, management and operation of a hotel complex
Peixian Power *(note viii)*	PRC	US$3,920,000	Provision of electricity and gas
Polystar Digidisc Co., Ltd. ("Polystar") *(note ix)*	PRC	RMB9,000,000	Manufacturing and wholesaling of compact discs, video compact discs and digital video discs
Prime Brilliant Limited	Hong Kong	HK$2	Property investment
Prime Harvest Investment Limited	British Virgin Islands	US$1	Investment holding
Propwood Limited	Hong Kong	HK$2	Property investment
Red Empire Limited	British Virgin Islands	US$1	Investment holding
Regal Step Investments Limited	Hong Kong	HK$2	Property investment
Saneble Limited	Hong Kong	HK$2	Property investment
Shanghai Puly Real Estate Development Co. , Ltd. *(note x)*	PRC	US$24,000,000	Property investment
Sky Fortune Development Overseas Corp. #	British Virgin Islands	US$1	Investment holding
Smart Best Investments Limited	Hong Kong	HK$1	Investment holding
Starry Joy Properties Investment Ltd.	British Virgin Islands	US$1	Investment holding
Taicang Poly *(note xi)*	PRC	RMB84,150,000	Provision of electricity and gas
Topower Assets Limited #	British Virgin Islands	US$1	Securities investment
Upperace Developments Ltd. #	British Virgin Islands	US$1	Securities investment
Volgala International Ltd.	British Virgin Islands	US$1	Securities investment
Yaubond	British Virgin Islands	US$100	Investment holding
Year Award Investment Limited	British Virgin Islands	US$1	Investment holding

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

56. PRINCIPAL SUBSIDIARIES *(continued)*

(i) Subsidiaries with a "#" are directly held.

(ii) All subsidiaries are wholly-owned subsidiaries unless stated otherwise.

(iii) Dongtai Power is 50.1% indirectly held by the Company and is a sino-foreign joint venture company established in the PRC for a term of 50 years commencing 15th May, 2001.

(iv) CJTY is 51% indirectly held by the Company and it is a sino-foreign joint venture company established in the PRC for a term of 16 years commencing 26th September, 2002.

(v) HC is 51% indirectly held by the Company and it is a wholly foreign owned enterprise established in PRC for a term of 15 years commencing 30th June, 2005.

(vi) Hubei White Rose is a wholly foreign owned enterprise.

(vii) PPL is 75% indirectly held by the Company and it is a sino-foreign joint venture company established in the PRC for a renewal term of 50 years commencing 9th July, 2003.

(viiii) Peixian Power is 50.1% indirectly by the Company and is a sino-foreign joint venture company established in the PRC for a term of 50 years commencing 16th August, 2000.

(ix) Polystar is 66% indirectly held by the Company and is a sino-foreign joint venture company established in the PRC for a term of 20 years commencing 18th December, 2000.

(x) Shanghai Puly Real Estate Development Co., Limited is a wholly foreign owned enterprise.

(xi) Taicang Poly is 51% indirectly held by the Company and is a sino-foreign joint venture company established in the PRC for a term of 17 years commencing 17th March, 1999.

The above table only lists those subsidiaries of the Company which, in the opinion of the directors, principally affected the results, assets or liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

All the above subsidiaries are principally operating in their place of incorporation/establishment except otherwise stated.

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

57. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group's operations are organised into five operating divisions namely supply of electricity and gas, property investment and management, manufacturing and media, financial services and hotel and restaurant operations. These divisions are the basis on which the Group reports its primary segment information.

In November 2004, the shipping business was discontinued.

Segment information about these business in presented below:

For the year ended 31st December, 2005

	Continuing operations							Discontinued operations	
	Supply of electricity and gas	Property investment and management	Manufac–turing and media	Financial services	Hotel and restaurant operations	Eliminations	Sub-total	Shipping	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
By principal activity									
REVENUE									
External revenue	365,124	110,450	87,335	18,286	132,897	–	714,092	25,304	739,396
Inter-segment revenue*	–	7,460	–	6,151	–	(13,611)	–	–	–
Total revenue	365,124	117,910	87,335	24,437	132,897	(13,611)	714,092	25,304	739,396
SEGMENT RESULT	62,526	52,923	(8,138)	16,147	25,404	–	148,862	16,314	165,176
Net unallocated expenses							(10,159)	–	(10,159)
Finance costs							(58,589)	(46)	(58,635)
Increase in fair value of investment properties	–	113,722	–	–	–	–	113,722	–	113,722
Gain on partial disposal of interest in subsidiaries	–	11,117	–	–	–	–	11,117	–	11,117
Allowances for short-term loans receivables	–	–	–	(31,937)	–	–	(31,937)	–	(31,937)
Impairment loss recognised in respect of goodwill	–	(6,474)	–	–	–	–	(6,474)	–	(6,474)
Share of results of associates	6,677	–	(38,174)	994	–	–	(30,503)	–	(30,503)
Profit before taxation							136,039	16,268	152,307
Taxation							(29,884)	–	(29,884)
Gain on disposal of discontinued operation, net of tax							–	59,503	59,503
Profit for the year							106,155	75,771	181,926

* Inter-segment revenue were charged at terms determined and agreed between group companies.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

57. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

ASSETS AND LIABILITIES

AT 31ST DECEMBER, 2005

	Continuing operations						
	Supply of electricity and gas	Property investment and management	Manufac-turing and media	Financial services	Hotel and restaurant operations	Discontinued operations Shipping	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS							
Segment assets	979,862	2,051,334	165,574	640,209	1,516,154	–	5,353,133
Interest in associates	73,858	–	96,346	74,093	–	–	244,297
Total assets	1,053,720	2,051,334	261,920	714,302	1,516,154	–	5,597,430
LIABILITIES							
Segment liabilities	(231,549)	(154,226)	(48,722)	(11,770)	(299,783)	(1,122)	(747,172)
Unallocated corporate liabilities							(1,385,503)
Total liabilities							(2,132,675)
OTHER INFORMATION							
Capital expenditure	462,969	546,914	78,563	–	463,903	–	1,552,349
Depreciation and amortisation	38,314	5,883	16,234	–	43,286	2,468	106,185
Amortisation of deferred licensing income	–	–	–	–	15,385	–	15,385
Impairment loss on available-for-sale investments	–	–	–	15,000	–	–	15,000
Impairment loss recognised in respect of goodwill	–	6,474	–	–	–	–	6,474

57. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

An analysis of the Group's turnover by geographical location of its customers is presented below:

	Hong Kong	**The PRC other than Hong Kong**	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE	16,118	697,974	25,304	739,396

Revenue from the Group's discontinuing shipping operations of HK$25,304,000 (2004: HK$149,581,000) was derived principally from Others.

The following is an analysis of the carrying amount of segment assets, and capital expenditure analysed by the geographical area in which the assets are located.

	Hong Kong	**The PRC other than Hong Kong**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
ASSETS			
Carrying amount of segment assets	440,722	5,156,708	5,597,430
Capital expenditure	490	1,551,859	1,552,349

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

57. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

For the year ended 31st December, 2004 (Restated)

	Continuing operations							Discontinued operations	
	Supply of electricity and gas	Property investment and management	Manufacturing and media	Financial services	Hotel and restaurant operations	Eliminations	Sub-total	Shipping	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
By principal activity									
REVENUE									
External revenue	151,738	83,643	74,592	38,876	68,760	–	417,609	149,581	567,190
Inter-segment revenue*	–	6,900	–	4,848	–	(11,748)	–	–	–
Total revenue	151,738	90,543	74,592	43,724	68,760	(11,748)	417,609	149,581	567,190
SEGMENT RESULT	25,505	54,963	(3,387)	12,920	18,084	–	108,085	104,285	212,370
Net unallocated expense							(43,157)	–	(43,157)
Finance costs							(14,681)	(2,304)	(16,985)
Amortisation of goodwill arising on acquisition of associates	(433)	–	(12,281)	–	–		(12,714)	–	(12,714)
Share of results of associates	6,922	3,317	(6,274)	97	–		4,062	–	4,062
Allowance for loans to jointly controlled entities	–	(2,615)	–	–	–		(2,615)	–	(2,615)
Loss on disposal of an associate	–	–	(13,811)	–	–		(13,811)	–	(13,811)
Profit before taxation							25,169	101,981	127,150
Taxation							(8,654)	–	(8,654)
Gain on disposal of discontinued operations, net of tax							–	54,637	54,637
Profit for the year							16,515	156,618	173,133

* Inter-segment revenue were charged at terms determined and agreed between group companies.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

57. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

ASSETS AND LIABILITIES AT 31ST DECEMBER, 2004 (Restated)

	Continuing operations					Discontinued operations	
	Supply of electricity and gas	Property investment and management	Manufac-turing and media	Financial services	Hotel and restaurant operations	Shipping	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS							
Segment assets	409,974	1,438,516	201,093	624,725	660,739	135,958	3,471,005
Interest in associates	197,333	195,609	1,338	73,100	–	–	467,380
Total assets	607,307	1,634,125	202,431	697,825	660,739	135,958	3,938,385
LIABILITIES							
Segment liabilities	(166,749)	(110,971)	(59,477)	(2,713)	(28,518)	(2,382)	(370,810)
Unallocated corporate liabilities							(845,297)
Total liabilities							(1,216,107)
OTHER INFORMATION							
Capital expenditure	62,012	117,039	20,264	–	–	–	199,315
Depreciation and amortisation	25,744	19,466	14,488	–	16,829	17,343	93,870
Amortisation of deferred licensing income	–	14,954	–	–	–	–	14,954
Impairment loss on investments in securities	–	–	1,084	2,706	–	–	3,790

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

57. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

An analysis of the Group's turnover by geographical location of its customers is presented below:

	Hong Kong	The PRC other than Hong Kong	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE	25,417	392,192	149,581	567,190

Revenue from the Group's discontinuing shipping operations of HK$25,304,000 (2004: HK$149,581,000) was derived principally from Others.

The following is an analysis of the carrying amount of segment assets, and capital expenditure analysed by the geographical area in which the assets are located.

	Hong Kong	The PRC other than Hong Kong	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS				
Carrying amount of segment assets	762,818	3,039,016	136,551	3,938,385
Capital expenditure	55	199,260	–	199,315