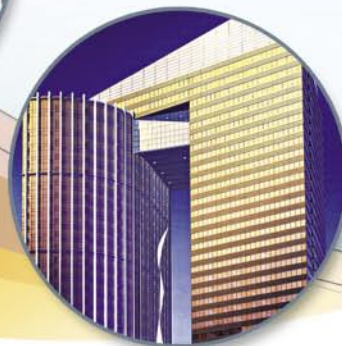


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Stock Code : 119



保利(香港)投資有限公司
Poly (Hong Kong) Investments Limited

ANNUAL REPORT 2005



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

WANG Jun (*Chairman*)
HE Ping (*Vice-Chairman*)
LI Shi Liang (*Managing Director*)
CHEN Hong Sheng
ZHANG Zhen Gao
XUE Ming
CHAN Tak Chi, William

Non-Executive Director

IP Chun Chung, Robert*

Independent Non-Executive Directors

YAO Kang, J.P.*
LAM Tak Shing*
CHOY Shu Kwan, Wilson*

* members of the Audit Committee

COMPANY SECRETARY

HO Kwok Pang, George

REGISTERED OFFICE

Room 2503, Admiralty Centre, Tower 1
18 Harcourt Road
Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking
Corporation Limited
BNP Paribas
CITIC Ka Wah Bank Limited
Bank of China, Beijing Branch

AUDITORS

Deloitte Touche Tohmatsu

INVESTOR RELATIONS CONSULTANT

Jovian Financial Communications Limited
Room 1405-12, Sun Hung Kai Centre
30 Harbour Road
Wanchai
Hong Kong

SHARE REGISTRARS AND TRANSFER OFFICE

Computershare Hong Kong
Investor Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong



NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Poly (Hong Kong) Investments Limited (the "Company") will be held at Aberdeen Room, Level 3, JW Marriott Hotel, Pacific Place, 88 Queensway, Hong Kong on Monday, 29th May, 2006 at 11:00 a.m. for the following purposes:

1. To receive and consider the audited financial statements and the reports of the directors and auditors for the year ended 31st December, 2005.
2. To declare a final dividend.
3. To elect directors and to authorise the board of directors to fix their remuneration.
4. To appoint auditors and to authorise the board of directors to fix their remuneration.
5. To consider as special business and, if thought fit, pass with or without amendments the following resolutions as Ordinary Resolutions:

(A) **"THAT:**

- (a) subject to paragraph (c) below, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) above shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of the share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the directors of the Company pursuant to the approval in paragraph (a) above, otherwise than pursuant to a Rights Issue (as hereinafter defined) or the exercise of any option under the Share Option Scheme of the Company, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution and the said approval shall be limited accordingly; and
- (d) for the purposes of this Resolution:

"Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;



NOTICE OF ANNUAL GENERAL MEETING

- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or by any applicable laws to be held; and
- (iii) the revocation or variation of this Resolution by an ordinary resolution of the shareholders of the Company in general meeting.

“Rights Issue” means an offer of shares open for a period fixed by the directors of the Company to holders of shares on the register on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognized regulatory body or any stock exchange in, any territory outside Hong Kong).”

(B) **“THAT:**

- (a) subject to paragraph (b) below, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to purchase its own shares of HK\$0.50 each (the “Shares”), subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of the Shares to be purchased by the Company pursuant to the approval in paragraph (a) above during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution and the said approval shall be limited accordingly; and
- (c) for the purposes of this Resolution:

“Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or by any applicable laws to be held; and
- (iii) the revocation or variation of this Resolution by an ordinary resolution of the shareholders of the Company in general meeting.”



NOTICE OF ANNUAL GENERAL MEETING

- (C) “**THAT** conditional upon the Resolutions numbered 5(A) and 5(B) respectively set out in the notice convening this meeting being passed, the general mandate granted to the directors of the Company to allot, issue and deal with additional shares pursuant to the Resolution numbered 5(A) be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of the share capital of the Company purchased by the Company under the authority granted pursuant to the Resolution numbered 5(B), provided that such amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution.”

By Order of the Board
HO Kwok Pang, George
Company Secretary

Hong Kong, 28th April, 2006

Notes:

- (1) A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company.
- (2) In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority, must be deposited at the office of the Company's share registrars, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.
- (3) A circular containing information concerning resolutions nos. 3 and 5 was sent to the shareholders together with 2005 Annual Report.



CHAIRMAN'S STATEMENT



Mr. WANG Jun
Chairman

The consolidated turnover and profit attributable to shareholders of the Group for the financial year 2005 was HK\$739,000,000 and HK\$165,000,000 respectively, representing an increase of 30% and 7.7% respectively from 2004. Earnings per share was HK\$18.39 cents, representing an increase of 6.7% from 2004. The Board recommended to declare a final dividend of HK\$3 cents per share. Annual dividend was HK\$5 cents per share.

It has been 12 years since the China Poly Group became our controlling shareholder, the Group has experienced market ups and downs, which saw the Group transformed from an integrated investment enterprise with investments covering co-generations, shipping, property, disc duplication production, TV stations and insurance to an property development enterprise with a clear business focus and with businesses primarily located in first tier cities of Beijing, Shanghai and Guangzhou. In the past year, the Group acquired numerous high quality property development projects, the returns and appreciation of which will be shown in the next 2-3 years. Accordingly, we have confidence in the development prospects of the Group; we also realize that we will encounter great challenges in the process of restructuring, but with the trust and support from the Poly Group and all Shareholders, we are confident that we will accomplish our mission and achieve great results for the Company's development and give reasonable returns to investors.

MATERIAL ACQUISITIONS AND REORGANIZATION

The Group has grasped the opportunities presented by the present development of the mainland property market and acquired the Poly Shanghai Group, the Tianhebei Hotel and high class apartment projects and Zhoutouzui project, etc. The Acquisitions added 750,000 sq. m. to the Group's land development reserve and 1,300,000 sq. m. gross floor area available for construction.



Mr. HE Ping
Vice-Chairman



CHAIRMAN'S STATEMENT

We believe that the acquisition of the Poly Shanghai Group will have an irreplaceable positive effect on the Group's future development which will be in the interest of the Shareholders. The Poly Group is managed by the State-owned Assets Supervision and Administration Commission of the State Council of the PRC. It has been positioned as one of the centralized enterprises with a focus on property development. After years of nurture by the Poly Group, the Poly Shanghai Group has laid down a firm foundation in the areas of property development professionals, management experience, and market relationship, etc. After the acquisition, the Group instantly gained all development capability of the Poly Shanghai Group, saving a lot of costs and time. The Group is the only overseas listed company with controlling shares held by the Poly Group, with its foot set on the international capital market; and the Poly Group holds huge amounts of land reserve. To facilitate the Group's development, the Poly Group may invest its land reserve and resources in the Group in the future. While maintaining a certain number of properties for rental and operation purposes, the Group will also put greater effort in the development of residential properties. When allocating its capital, in order to effectively utilize its capital, the Group can make a balance between investment properties with a large investment amount and long recovery period and properties for development with a relatively short recovery period, and the two types of properties can complement each other. The acquisition of the Poly Shanghai Group provided the Group with an opportunity to expand its business from the boundaries of first-tier cities such as Shanghai, Beijing and Guangzhou to second-tier cities along the Yangtze River in the PRC, thereby expanding its room for development.

STRATEGIC POSITIONING

The Group acquired the Poly Shanghai Group after the management considered the Group's strategic positioning for its long-term development, transforming from an integrated investment enterprise to an enterprise with a focus on property development. The Poly brand name is already well recognized in China. Poly Real Estate was among the top 5 property brand names in China in the assessment of the top 100 property brand names by the Development Research Centre of the State Council. The target market of the Group is the mid-range to luxury property market of China, its goal is to provide the market with high quality building products and services in order to satisfy consumers' demand for the increasing housing standard.

The Group will maintain its portfolio of landmark commercial buildings and international-grade hotels, and is committed to becoming a leading property development group in the China property industry.

In order to achieve the above, in addition to developing its operations in first-tier cities, the Group will also actively expand its business to second-tier cities along the Yangtze River including Suzhou, Chongqing, Wuhan, etc., with a primary focus on property development and secondary focus on investment properties. The Group will focus on development luxury residential properties, and investment properties will focus on landmark construction projects.

We believe that the Group's success will rely on a management that is clearly positioned for development, experienced and with an objective viewpoint, and a professional team that is professional and efficient. Their pragmatic decision-making, scrupulous actions and common goal, together with favourable state policies and social and economic development, will bring success to the Group and plentiful returns to investors.



CHAIRMAN'S STATEMENT

CORPORATE GOVERNANCE

The Group has strictly complied with all the code provisions and regulations of the Code on Corporate Governance Practices set out in Appendix 14 of the Listing rules in the accounting year ended 31 December 2005.

None of the Directors (excluding Executive and Non-executive Directors) have a specific term of appointment. The articles of association of the Group require that one-third of the Directors each year have to be re-elected.

Accordingly, the Group considers that it has adopted sufficient measures to ensure that the corporate governance level of the Group is no less exacting than the Code on Corporate Governance Practices.

COMPANY PROSPECTS

The acquisition of the Poly Shanghai Group has strengthened the Group's manpower in property development, shortened the time for accumulating experience, expanded its reserve of land available for development, and has also increased the importance place and support given to the Group by the Poly Group. The Group has become an important overseas property development platform for the Poly Group.

As the main development platform of the Poly Group, the Group will, in the premise of being in the investors' interest and conforming to the Group's development strategy, when appropriate, consider to continue acquiring high quality property assets, in order to increase the Group's development capability; the Group will also appropriately relocate resources placed on non-core businesses to the property development business.

The year 2005 was a turning point and also a new start for the group. The Board believes that the Group had entered into a brand new phase of development after acquiring the Poly Shanghai Group, thus gradually realizing its prospect of fast track development.

APPRECIATION

Employees are the important assets of the Group and the Group's success relies on the untiring effort of its employees. On behalf of the Board and the Shareholders, I would like to express my sincere gratitude to our employees who had worked hard in the past year.



MANAGEMENT DISCUSSION AND ANALYSIS

OVERALL OPERATING CONDITIONS

In 2005, the effect of property operations remained stable. As one of the Group's principal businesses, property operations bring stable annual operating and rental returns to the Group under increased management efforts. Turnover of that business segment amounted to HK\$250,000,000, with a profit contribution of HK\$135,000,000 and a total asset value of \$3,567,000,000.

In addition, other non-property projects recorded an Turnover of HK\$470,000,000, with a profit contribution of HK\$25,000,000 and a total asset value of HK\$2,030,430,000.

After a series of acquisitions made during the year, it is expected that the profit contribution from property projects will be significantly increased in 2006.

REVIEW OF PROPERTY INVESTMENT OPERATIONS

The Group currently has four main continued operating property investment projects, namely Poly Plaza, White Rose Hotel, Shanghai Stock Exchange Building and 25/F, Admiralty Centre:

Project	Owned by the Group	Floor Area	Category
Poly Plaza	75%	94,000 sq. m.	Office building, hotel and theatre
White Rose Hotel	100%	33,000 sq. m.	Hotel
Shanghai Stock Exchange Building	46%	100,000 sq. m.	Office building
25/F, Admiralty Centre Tower 1	100%	1,888 sq. m.	Office building

1. Poly Plaza

Subsequent to its being voted the "most preferred hotel by the Beijing citizens" in 2004, the Plaza signed the "Service Agreement of Accommodation and Reception" during the 2008 Olympic Games in 2005 to provide 250 guest rooms to the Olympic Committee from 26th July to 31st August, 2008 at a rate of \$US250-290 per room/day.

In 2005, the turnover of Poly Plaza amounted to RMB131,000,000; gross profit from operations increased from RMB58,800,000 in 2004 to RMB59,010,000.

The guest room occupancy rate of 2005 was 76.41%; the average revenue per room increased from \$444 per day last years to \$472 per day this year; the average revenue per room increased 6.2% from the same period last year.



MANAGEMENT DISCUSSION AND ANALYSIS

2. White Rose Hotel

In January 2005, the Group completed the acquisition of 100% equity interests in the White Rose Hotel. The revenue of the hotel amounted to RMB 64,800,000; gross profit from operations was RMB 20,000,000, representing an increase of 12% from 2004.

In 2005, the average occupancy rate of the White Rose Hotel was 78%, which ranked third in Wuhan in terms of occupancy rate; the average room rate was \$414, higher than the industry average and the average revenue per room increased from \$315 per day last year to \$323 per day this year, with the average revenue per room increased 2.5% from the same period last year.

3. Shanghai Stock Exchange Building

In the beginning of 2005, the Group completed the acquisition of 60% equity interests in Shanghai Puly Real Estate Development Company Limited. The Group currently holds 100% equity interests of Puly ("Puly"). The Group holds a total floor area of 46,000 sq. m. in the Shanghai Stock Exchange Building through Puly and six floors directly held by the Group, representing 46% of the gross area of the building.

In 2005, the rental income from the area held by the Group amounted to RMB 50,720,000, representing an increase of 7.4% from RMB 47,240,000 of 2004; profit from operations was RMB 42,520,000, representing an increase of 20% from 35,420,000 of 2004. The annual occupancy rate remained at 98% and the occupancy rate at the end of the year was 100%, with an average rental rate of 0.52USD/day/sq. m.

4. Admiralty Centre

The 25th floor of Admiralty Centre Tower 1 has a floor area of 20,318 sq. feet, of which 9,438 sq. feet is for self-use and 10,880 sq. feet is for rental purpose. In 2005, income from the rental elements amounted to HK\$2,500,000, representing an increase of 6.5% from 2004. Occupancy rate reached 100% at the end of 2005.

REVIEW OF THE PROPERTY DEVELOPMENT BUSINESS

The Group has two large-scale commercial property projects under construction in 2005:

1. The Guangzhou Westin Hotel and office building project

An increase in equity interests in the Guangzhou Westin Hotel and office building project was completed in February 2005 and new shareholders were successfully introduced. Upon reorganization, the Group has 51% equity interests in the hotel and office building restructuring project. The project has a gross floor area of 129,000 sq. m.

The superstructure wall was completed in the end of 2005 and glass walls, mechanical engineering facilities installation and internal decoration are underway. The hotel is expected to be completed and open for business in early 2007.



MANAGEMENT DISCUSSION AND ANALYSIS

2. Beijing Netcom Building

The Group holds 49% equity interests in this project and has disposed of the entire to China Network Communications Group Corporation ("Netcom").

The works of the projects went smoothly and the foundation works were basically completed by the end of 2005. The installation of glass walls is close to completion and the escalators have completed installation and tests and are ready for use. It is expected that all works can be completed by the first half of 2006 and be delivered to Netcom.

REVIEW OF NON-PROPERTY OPERATIONS

1. Cogenerations

The Group holds equity interests in 5 cogenerations in the Jiangsu Province. The cost of coal and charcoal is the main expense of the cogenerations. Coal price stood high in 2005, bringing undue pressure to the operating effectiveness of the cogenerations. The total profit of the 5 cogenerations amounted to RMB 49,250,000, of which RMB 32,460,000 was attributable to the Group's profit.

2. Other manufacturing operations

Polystar digidisc project: ("Polystar") in 2005, the turnover of Polystar remained at RMB 91,190,000.

The business in Oils & Grains and Port business project: turnover of 2005 was RMB 1.45 billion and loss attributable to the Group was RMB 25,000,000.

REVIEW OF ACQUISITION AND INVESTMENT ACTIVITIES

1. Acquisition of the entire equity interests of Poly Shanghai (later renamed "Poly Realty" for a consideration of RMB 585,000,000 (equivalent to HK\$560,000,000). The acquisition price was at a discount of 5.2% of the revalued value of Poly Realty. It is expected that the whole transaction can be completed by July 2006.

The principal assets of Poly Realty are investment properties located in Beijing, Shanghai, Suzhou, Wuhan and Chongqing, PRC and land held for development (including at the parcels of land at Shang Liang Ba Ku, Riviera office building, Lujiazui, Pudong, Shanghai and the parcels of land at White Rose phase 2, Hong Shan Plaza, Wuchang, Wuhan). Such investment properties and lands to be developed have a gross floor area of approximately 1,000,000 sq. m., of which 80% and 20% respectively are or are planned to be for residential and commercial use, and approximately 400,000 sq. m. are attributable to the interests of Poly Realty.

MANAGEMENT DISCUSSION AND ANALYSIS

An analysis of the geographical distribution of the actual and planned gross floor area of investment properties and lands to be developed are as follows:

Land	Total		Interests attributable to Poly Realty	
	Planned gross floor area (sq. m)	Percentage	Planned gross floor area (sq. m)	Percentage
Chongqing	729,691	74%	160,532	41%
Shanghai	60,804	6%	60,804	16%
Wuhan	99,092	10%	99,092	26%
Suzhou	72,859	7%	45,226	12%
Subtotal	962,446	97%	365,654	94%
Investment properties	Actual gross		Actual gross	
	floor area (sq. m)	Percentage	floor area (sq. m)	Percentage
Beijing	8,745	1%	4,460	1%
Shanghai	17,852	2%	17,852	5%
Wuhan	628	0%	628	0%
Subtotal	27,225	3%	22,940	6%
Total	989,671	100%	388,594	100%

2. Increased shareholding in the office building elements of Guangzhou Westin Hotel project

The increased in shareholding in the office building elements of Guangzhou Westin Hotel was completed in February 2005 and new shareholders were introduced. Upon reorganization, the Group owns 51% of the entire project.

3. Acquisition the North Tianhe project in Guangzhou

The project is situated between Tianhe North Road and Tiyu East Road, Tianhe, Guangzhou, with an area of 7,217 sq. m. and the area for construction is 84,150 sq. m. which is planned to be constructed into a serviced apartment complex and hotel. The total investment amount is expected to be \$1,200,000,000.

In July 2005, the Group successfully acquired the project and subsequently sold 49% of its equity interests to Skyfame Realty in November 2005 at profit of \$4,570,000. It is currently undergoing project planning and is expected to commence construction in 2006 and to be completed in 2008.



MANAGEMENT DISCUSSION AND ANALYSIS

4. Acquisition of luxury residential land in Zhoutouzui, Guangzhou

The project occupies an area of 103,000 sq. m. and is situated between Huandao Lu, Haizhu District, Guangzhou; it is planned to be built into a small, luxury integrated district with commercial, office and residential elements and can build at least 230,000 sq. m. of floor space. The Group indirectly holds 49% equity interests in the project company and is currently undergoing project planning. It is initially expected that total investment will amount to approximately \$2 billion.

5. Increased shareholding in cogenerations and acquisition of 51% equity interests in Jia Xing Co-generation

At the beginning of 2005, the Group exercised the share options under the Guarantee Agreement, is to acquire an additional equity interest of 1.1% Peixian Mine-Site Environment Cogen-Power Co., Ltd. and Dongtai Suzhong Environmental Protection Co-generation Company Limited, at a total consideration of HK\$1 respectively, leading the Group to become the 50.1% Controlling Shareholder in the above 2 cogeneration companies. In addition, the Group also entered into an agreement in October, 2005 to acquire 51% equity interests of a co-generation under construction in Jia Xing, Zhejiang at a consideration of US\$4,488,000 and the acquisition is expected to be completed in the first half of 2006.

FINANCIAL REVIEW

Liquidity and Capital Structure

As at 31st December, 2005, the shareholders' funds of the Group amounted to HK\$2,776,000,000 (2004: HK\$2,518,000,000 (restated)), while the net asset value per share was HK\$3.10 (2004: HK\$2.81 (restated)). As at 31st December, 2005, the Group's gearing ratio (on the basis of the amount of total liabilities divided by the amount of total assets) was 38.1% (2004: 30.9%).

As at 31st December, 2005, the Group had an outstanding bank loans of HK\$1,199,592,000. In terms of maturity, the outstanding bank loans can be divided into HK\$624,317,000 (52%) to be repaid within one year, HK\$406,952,000 (34%) to be repaid after one year but within two years, HK\$168,323,000 (14%) to be repaid after two years but within five years. In terms of currency denomination, the outstanding bank loans can be divided into HK\$506,654,000 (42%) in Renminbi and HK\$692,938,000 (58%) in Hong Kong dollars.

42% of the bank borrowings of the Group are subject to fixed interest rates and the remaining 58% are subject to floating interest rates. Therefore, under circumstances of interest rates uncertainty or fluctuations or otherwise as appropriate, the Group will consider the use of hedging instruments (including interest rates swaps), in order to manage interest rate risks.

As at 31st December, 2005, the Group had a net current liabilities of HK\$236,696,000 total bank balances of HK\$296,155,000 (2004: net current assets of HK\$211,761,000 and HK\$471,879,000 respectively).



MANAGEMENT DISCUSSION AND ANALYSIS

The monetary assets and liabilities and business transactions of the Group are mainly carried and conducted in Hong Kong dollars, Renminbi and US dollars. The Group maintains a prudent strategy in its foreign exchange risk management, where foreign exchange risks are minimized via balancing the monetary assets versus monetary liabilities, and foreign exchange revenue versus foreign exchange expenditures. Besides as the Hong Kong dollar is pegged to the US dollar, and the exchange rate between Hong Kong dollar and Renminbi also fluctuates slightly, the Group believes that its exposure to foreign exchange risks is not material.

Pledge of Assets

As at 31st December, 2005, bank deposits of the Group amounted to HK\$21,749,000 (2004: HK\$25,178,000), certain of the Group's investment properties and land reserve of approximately HK\$773,742,000 (2004: approximately HK\$1,015,618,000), other plant and equipment with an aggregate net book value of approximately HK\$638,819,000 (2004: HK\$683,901,000) and shares in certain subsidiaries and an associate were pledged to secure credit facilities granted to the Group.

Contingent Liabilities

As at 31st December, 2005, the Group 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\$80,000,000 (2004: HK\$60,000,000).

As at 31st December, 2004, the Group had given guarantees of approximately HK\$14,300,000 to a bank in respect of credit facilities granted to prospective purchasers of properties developed by a jointly controlled entity of the Group.

STAFF

As at 31st December, 2005, the Group employed about 2,000 staff with remuneration for the year amounted to HK\$84,212,000. The Group provides its staff with various benefits including year-ended double-pay, discretionary bonus, contributory provident fund, share options and medical insurance. Staff training is also provided as and when required.

PROSPECTS

The management of the Group is still confident in the economic development of the PRC and the prospects of the Group's PRC projects. The Group will continually adopt an active but prudent operating strategy, strengthen its corporate governance, reduce the operating costs in order to further develop its principal business of property operations, optimize the business structure, enhance effectiveness and maximize the return to shareholders.



CORPORATE GOVERNANCE REPORT

This corporate governance report ("CG Report") presents the corporate governance matters during the period covering the financial period ended 31 December 2005 and up to the date of the Annual Report to which this CG Report is inscribed ("CG Period") required to be disclosed under the Rules Governing the Listing of the Securities of The Stock Exchange of Hong Kong Limited ("Listing Rules").

ADOPTION OF CORPORATE GOVERNANCE PRINCIPLES

On 6th October, 2005 ("Adoption Date"), the Board adopted a set of corporate governance principles ("Principles") which aligns with the requirements set out in the Code on Corporate Governance Practices ("CG Code") (Appendix 14 of the Listing Rules) and the Model Code for Securities Transactions by Directors of Listed Issuers ("Securities Code") (Appendix 10 of the Listing Rules). During the CG Period, the Principles had been duly complied with except for the deviations occurred before the Adoption Date are summarised as follows:

CG Code

Deviation

- | | |
|--|---|
| A.2.1 Division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing | <ul style="list-style-type: none"> Before the Adoption Date, the roles of Chairman and Chief Executive Officer were assumed by different persons so as to maintain a balance of power and authority. However, the division of responsibilities between the Chairman and Chief Executive Officer are not clearly set out in writing. As at the Adoption Date, the division of responsibilities between the Chairman and Chief Executive Officer are clearly set out in writing. |
| A.4.1 Non-executive directors should be appointed for a specific term, subject to re-election | <ul style="list-style-type: none"> Before the Adoption Date, all the Non-Executive Directors ("NED(s)") and Independent Non-executive Directors ("INED(s)") were not appointed for a specific term but were subject to retirement by rotation at the annual general meeting in accordance with the Company's Articles of Association. With effect from the Adoption Date, the term of office for each then NED and INEDs had been fixed for three years commencing from the Adoption Date until the earlier of the expiry date of their term of office or their retirement by rotation at annual general meeting of the Company, at which they being eligible can offer themselves for re-election. |



CORPORATE GOVERNANCE REPORT

- | | |
|--|---|
| <p>A.5.4 Establish written guidelines on no less exacting terms than the Securities Code for relevant employees in respect of their dealings in the securities of listed company</p> | <ul style="list-style-type: none"> • Before the Adoption Date, the Securities Code was applicable to the directors of the Company only. • With effect from the Adoption Date, the Securities Code was also applied to the relevant employees (as determined from time to time by the managing director of the Company) for their dealings in securities of the Company. |
| <p>A.6.1 Agenda and the board papers should be despatched at least 3 days before the meeting</p> | <ul style="list-style-type: none"> • Before the Adoption Date, the Audit Committee papers and the Board papers might not have been sent at least 3 days before the Audit Committee meetings and the Board meetings for approving the financial results. • Since the Adoption Date, the terms in relation to the despatch of the Audit Committee papers and the Board papers under the Principles had not been violated. |
| <p>B.1.1 A remuneration committee should be set up with majority members to be INEDs</p> | <ul style="list-style-type: none"> • Before the Adoption Date, the Company had not set up a Remuneration Committee. • Since the Adoption Date, the Company has maintained a Remuneration Committee with specific written terms of reference comprising 3 INEDs and 2 Executive Directors ("ED(s)). |



CORPORATE GOVERNANCE REPORT

SECURITIES CODE

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Securities Code on 16th April, 2004. Having made specific enquiry, all of the Directors have complied with the Company's code of conduct during the CG Period.

BOARD OF DIRECTORS

During the CG Period, the Board had held 4 physical meetings of the full Board of Directors. Out of the 4 full Board meetings, 2 of them were held to discuss and/or approve the annual and interim results of the Group, 1 meeting for considering the corporate governance matters of the Company while the remaining 1 meeting for discussing the progress of a very substantial acquisition and connected transaction of the Company which arose during the CG Period.

During the CG Period, the composition of the Board, and the respective attendances of the Directors at the above Directors' meetings are presented as follows:

Director	Board capacity	Attendance
		Full Board meetings
Mr. Wang Jun	ED & Chairman	4/4
Mr. He Ping	ED & Vice-Chairman	4/4
Mr. Li Shi Liang	ED & Managing Director	4/4
Mr. Chen Hong Sheng	ED	4/4
Mr. Chan Tak Chi, William	ED	4/4
Mr. Ip Chun Chung, Robert	NED	3/4
Mr. Yao Kang, J.P.	INED	4/4
Mr. Lam Tak Shing	INED	3/4
Mr. Choy Shu Kwan	INED	4/4

The Company has received from each of the independent non-executive directors a written confirmation of his independence pursuant to the requirements of the Listing Rules and considered that all of the independent non-executive directors are independent in accordance with the independence guidelines set out in the Listing Rules.

During the CG Period, none of the Directors above has or maintained any financial, business, family or other material/relevant relationship with any of the other Directors.

The appointment of the directorship were subject to, as to EDs, retirement, rotation and re-election at least once every 3 financial years and, as to NEDs, their specific term of office or their retirement by rotation at annual general meeting of the Company, at which they being eligible can offer themselves for re-election.



CORPORATE GOVERNANCE REPORT

The Board of Directors of the Company takes responsibility for all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, financial information, appointment of directors and other significant financial and operational matters. The day-to-day management, administration and operation of the Company are delegated to the Managing Director and the senior management. Approval has to be obtained from the Board prior to any significant transactions entered into by the officers.

REMUNERATION COMMITTEE

Since the Adoption Date, the Company had maintained a Remuneration Committee. The role and function of the Remuneration Committee includes:

- formulate remuneration policy;
- recommendation to the Board on the remuneration policy for the Directors;
- review of, approval of and recommendation for (if any) the remuneration package of each Director including benefits in kind, pension right, performance bonus payment and compensation payable;
- review and approval of the compensation payment to any Director upon his/her cessation of directorship in or employment with the Company; and
- engagement of external professional advisors to assist and/or advise the Remuneration Committee on its duties when necessary and reasonable.

Terms of reference of the Remuneration Committee had been compiled since the establishment of the Remuneration Committee and were endorsed and adopted by the Board of Directors of the Company.

During the CG Period, the Remuneration Committee did not hold any committee meeting.

The composition of the Remuneration Committee is as follows:

Member	Board capacity
Mr. Yao Kang, J.P.	INED
Mr. Lam Tak Shing	INED
Mr. Choy Shu Kwan	INED
Mr. He Ping	Vice-Chairman of the Board
Mr. Li Shi Liang	Managing Director

The chairman of the Remuneration Committee since its establishment has been Mr. Yao Kang, J.P..



CORPORATE GOVERNANCE REPORT

The summary of the work performed by the Remuneration Committee for the financial period under review included:

- endorsement to the remuneration policy for the Directors;
- review and approval of the remuneration package of each Director including benefits in kind, pension right, bonus payment and compensation payable.

DIRECTORS' EMOLUMENTS

The remuneration paid to and/or entitled by each of the Directors for the financial period under review is set out in note 11 to the financial statements in the Annual Report.

The share options granted to and/or entitled by the Directors during the financial period under review are set out in the section headed "Directors' Interests in Securities" in the Directors' Report of the Annual Report.

NOMINATION OF DIRECTORS

The Board shall be composed of members with mixed skills and experience with appropriate weights necessary to accomplish the Group's business development, strategies, operation, challenges and opportunities. Each member of the Board shall possess, be recognised for and be able to exhibit high and professional standard of a set of core criteria of competence.

Since the Adoption Date, the Company had adopted a nomination policy for the criteria, procedures, and process of the appointment and removal of Directors.

Under the nomination policy, the board of EDs has been delegated the full power to the administration of the nomination policy and the appointment and the termination of Directors, where the full Board remains to have the full and overriding power and absolute right thereover.

During the CG Period, the EDs did not hold any meeting for the appointment or resignation of director.



CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

Throughout the CG Period, the Company had maintained an Audit Committee. The major role and function of the Audit Committee includes:

- monitoring the integrity of the financial statements of the Group;
- providing independent review and supervision of the effectiveness of the internal control of the Group;
- review of the adequacy of the external audits;
- review on the compliance issues with the Listing Rules and other compliance requirements;
- providing independent views on connected transactions and transactions involving materially conflicted interest;
- considering and reviewing the appointment of the Auditors and the audit fee.

Terms of reference of the Audit Committee had been compiled since the establishment of the Audit Committee and revised by the Board of Directors of the Company on the Adoption Date.

During the CG Period, the Audit Committee had held 4 physical meetings for discussing and/or approving the final / interim results of the Group and for reviewing the internal audit of projects of the Group.

The composition of the Audit Committee, and the respective attendances of the committee members are presented as follows:

Member	Board capacity	Attendance
Mr. Yao Kang, J.P.	INED	4/4
Mr. Lam Tak Shing	INED	3/4
Mr. Choy Shu Kwan	INED	4/4
Mr. Ip Chun Chung, Robert	NED	3/4

The chairman of the Audit Committee is Mr. Yao Kang, J.P..

The report of the work performed by the Audit Committee for the financial period under review is set out in the section headed "Audit Committee Report" of this Annual Report.



CORPORATE GOVERNANCE REPORT

AUDITORS' REMUNERATION

The analysis of the Auditors' remuneration for the financial period under review is presented as follows:

	Fee amount <i>HK\$</i>
Audit services	1,856,000
Non-audit services	
– Acted as reporting accountant for the very substantial acquisition of Poly Shanghai	2,238,500
	<hr/>
Total	4,094,500
	<hr/>

The non-audit services arose from the requirement of accounting performance required under the Listing Rules for the corporate transaction of the Group which took place during the financial period under review.

ACKNOWLEDGEMENT OF RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledged their responsibilities for preparing the accounts of the Group. In preparing the accounts for the financial period under review, the Directors have:

- based on a going concern basis;
- selected suitable accounting policies and applied them consistently;
- made judgments and estimates that were prudent, fair and reasonable.

REVIEW OF INTERNAL CONTROL

During the financial period under review, the Directors had arranged to conduct a review over the effectiveness of the internal control system of the Group including functions of financial, operation, compliance and risk management. The review showed a satisfactory control system. The review had been reported to the Audit Committee. The Directors had also, where necessary, initiated necessary improvement and reinforcement to the internal control system.

On behalf of the Board

Li Shi Liang
Managing Director

Hong Kong, 20th April, 2006



CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE REPORT

The Audit Committee of the Company was established on 19th March, 1999. Its composition shall be a minimum of 3 members of NEDs with a majority being INEDs. For the financial period under review, the Audit Committee comprised all the ND and INEDs of the Company at all times.

For the financial period under review, the Audit Committee had performed the following duties:

- reviewed and commented on the audited full year financial statements and the unaudited interim financial results of the Group of the financial period under review before submission to the Board for adoption and publication;
- endorsed the policy on the engagement of external auditors for non-audit services;
- met with the Auditors to discuss the financial matters of the Group that arose during the course of the audit process, and reviewed the findings, recommendations and representations of the Auditors;
- reviewed and approved of the remuneration and the terms of engagement of the Auditors for both audit service and non-audit services for the financial period under review;
- reviewed the internal audit reports and the Company's statement on internal control.

After the due and careful consideration of the reports from the management of the Group and the Auditors, the Audit Committee was of the view that no suspected irregularities, internal control deficiencies, or breach of regulations had been found, and concluded that the system of internal controls was adequate and effective.

Based on the reviews and discussions performed by the Audit Committee, the Audit Committee had:

- recommended to the Board for the approval of the audited financial statements of the financial period under review together with the Auditors' Report there attached, before the announcement of the annual results;
- recommended to the Board for the approval of the unaudited financial statements of the financial period under review before the announcement of the interim results; and
- recommended to the Board for the proposal for the re-appointment of Deloitte Touche Tohmatsu as the Auditors of the Company for the ensuing year in the forthcoming annual general meeting of the Company.

Audit Committee Members:

YAO Kang, J.P. (*chairman of the Audit Committee*)

LAM Tak Shing

CHOY Shu Kwan

IP Chun Chung, Robert

Hong Kong, 20th April, 2006



DIRECTORS' PROFILE

EXECUTIVE DIRECTORS

WANG Jun, aged 65, has joined the Board since February 1993 and is the Chairman of the Company. He graduated from Harbin Engineering Institute in The People's Republic of China (the "PRC"). Mr. Wang is the Chairman of China International Trust and Investment Corporation ("CITIC") and China International Trust and Investment Corporation Hong Kong (Holdings) Limited. He is also the Chairman of CITIC 21CN Company Limited.

HE Ping, aged 60, has joined the Board since February 1993 and is the Vice-Chairman of the Company. He graduated from Harbin Engineering Institute in the PRC and had previously worked for the Embassy of the PRC to the United States of America. Mr. He is currently a Vice-Chairman and the President of China Poly Group Corporation ("China Poly"). He is also a director of Ringo Trading Limited ("Ringo"), a controlling shareholder of the Company.

LI Shi Liang, aged 60, has joined the Board since December 1999 and is the Managing Director of the Company. Mr. Li is a senior economist. Immediately prior to joining the Company, he had worked for Bank of China for 34 years. During that period, Mr. Li was the Manager of Bank of China, New York Branch for 5 years and had been the Deputy General Manager of Bank of China, Guangdong Province Branch since 1992. Mr. Li is a director of Ringo. He is also currently a director of Yu Ming Investments Limited.

CHEN Hong Sheng, aged 56, has joined the Board since January 2004. He graduated from Beijing Aviation Institute in the PRC. Mr. Chen has been a director of China Poly since 1993. He is also the Deputy General Manager of China Poly and Chairman of Poly Technologies, Inc., a wholly-owned subsidiary of China Poly. He is very experienced in management and trading. He is also a director of Ringo.

ZHANG Zhen Gao, aged 43, graduated from the Institute of Economics of Wuhan University in the PRC and holds a doctor's degree in Economics. He is a senior economist with over 19 years' extensive experience in investment and management. Mr. Zhang had been the Deputy Managing Director of the Company and Poly Investments Holdings Limited for the period from November 1995 to December 1999. He is the Financial Controller of China Poly and a director of Ringo, Poly Southern Corporation and Poly Culture and Art Limited.

XUE Ming, aged 44, holds a master's degree in Economics from Renmin University of China in the PRC. He is a senior economist with over 25 years' experience in management. He had worked with China Poly as a senior officer for the period from 1992 to 2002 and was the Deputy General Manager of Poly Shanghai Group Limited ("Poly Shanghai") (a wholly owned subsidiary of China Poly and to be renamed as Poly Realty Limited) for the period from 2003 to 2005. Mr. Xue is the General Director of Poly Shanghai.

William CHAN Tak Chi, aged 57, has joined the Board since March 2003. He holds a Bachelor of Business Administration from Asia International Open University, Macau. He is the Deputy General Manager and a director of CITIC United Asia Investments Ltd., a wholly-owned subsidiary of CITIC. Mr. Chan has over 15 years' experience in investment management.



DIRECTORS' PROFILE

NON-EXECUTIVE DIRECTOR

Robert IP Chun Chung, aged 49, has joined the Board since January 2001 and is a member of the Audit Committee of the Company. Mr. Ip is a practising solicitor.

INDEPENDENT NON-EXECUTIVE DIRECTORS

YAO Kang, J.P., aged 81, has joined the Board since March 1999 and is the Chairman of the Audit Committee of the Company. Mr. Yao was a director of John Swire & Sons (Hong Kong) Limited and Cathy Pacific Airways Limited. He was also Chairman of Paofoong Insurance Co., (HK) Ltd. and Taikoo Royal Insurance Co., Ltd.

LAM Tak Shing, aged 45, has joined the Board since January 2001 and is a member of the Audit Committee of the Company. Mr. Lam holds a Bachelor's Degree and a Master's Degree in Business Administration. Mr. Lam has over 25 years' experience in accounting and finance field with wide exposure in different nature of business. Mr. Lam is an independent non-executive director of SMI Corporation Limited and Datronix Holdings Limited.

Wilson CHOY Shu Kwan, aged 51, holds a Master degree in Business Administration and has over 27 years' extensive experience in financial business and investment management. Mr. Choy is the managing director of CITIC Capital Markets Limited. He is also an independent non-executive director of Shenyang Public Utility Holdings Company Limited and Skyfame Realty (Holdings) Limited.



DIRECTORS' REPORT

The directors present their annual report and the audited financial statements of Poly (Hong Kong) Investments Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31st December, 2005.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 56 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2005 are set out in the consolidated income statement on page 32 of the annual report.

An interim dividend of HK\$0.02 per share, amounting to HK\$17,900,000, was paid to the shareholders during the year. The directors recommend a final dividend of HK\$0.03 per share to the shareholders on the register of members on 23rd June, 2006.

SHARE CAPITAL

During the year, the Company repurchased certain of its own shares through The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and these shares were subsequently cancelled by the Company, details of which are set out in note 38 to the financial statements. The directors considered that, as the Company's shares were trading at a discount to the net asset value per share, the repurchases would increase the net asset value per share of the Company.

Details of movements in the share capital of the Company are set out in note 38 to the financial statements.

INVESTMENT PROPERTIES

At 31st December, 2005, the investment properties of the Group were revalued by an independent firm of professional surveyor and property valuer on an open market value basis at HK\$1,357,774,000.

Details of these and other movements in the investment properties of the Group for the year are set out in note 18 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group are set out in note 19 to the financial statements.



DIRECTORS' REPORT

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Wang Jun (*Chairman*)

He Ping (*Vice-Chairman*)

Li Shi Liang (*Managing Director*)

Chan Tak Chi, William

Chen Hong Sheng

Zhang Zhen Gao

(appointed on 20th April, 2006)

Xue Ming

(appointed on 20th April, 2006)

Non-executive director:

Ip Chun Chung, Robert

Independent non-executive directors:

Yao Kang, J.P.

Choy Shu Kwan, Wilson

Lam Tak Shing

In accordance with Article 116 of the Company's Articles of Association, Messers. Wang Jun, He Ping and Chan Tak Chi, William will retire and being eligible, offer themselves for re-election.

The term of office of each of the non-executive director and independent non-executive directors is 3 years from 6th October, 2005, subject to retirement by rotation as required by the Company's Articles of Association.

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

The Company has received an annual written confirmation from each of the independent non-executive directors concerning their independence and considered that the independent non-executive directors to be independent in accordance with the independence guidelines set out in the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules").



DIRECTORS' REPORT

DIRECTORS' INTERESTS IN SECURITIES

At 31st December, 2005, the interest of the directors of the Company in the underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Long positions

Share options of the Company

Name of director	Capacity	Number of options held	Number of underlying shares
Wang Jun	Beneficial owner	24,400,000	24,400,000
He Ping	Beneficial owner	24,400,000	24,400,000
Li Shi Liang	Beneficial owner	13,000,000	13,000,000
Chen Hong Sheng	Beneficial owner	8,000,000	8,000,000
Chan Tak Chi, William	Beneficial owner	300,000	300,000
Ip Chun Chung, Robert	Beneficial owner	300,000	300,000
Yao Kang, J.P.	Beneficial owner	500,000	500,000
Lam Tak Shing	Beneficial owner	300,000	300,000
Choy Shu Kwan, Wilson	Beneficial owner	300,000	300,000
		<hr/> 71,500,000	<hr/> 71,500,000

Save as disclosed above, none of the directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31st December, 2005.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 39 to the financial statements.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the section of "Directors' interests in Securities" above, at no time during the year was the Company or any of its holding companies, fellow subsidiaries or subsidiaries, a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.



DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO shows that, at 31st December, 2005, the following shareholders had notified the Company of their interests and short positions in the issued share capital of the Company.

Long positions

Ordinary shares of HK\$0.5 each of the Company

Name of shareholder	Number of shares		Total number of shares	Percentage of the issued share capital of the Company
	Beneficial owner	Held by controlled corporation(s)		
Musical Insight Holdings Limited	44,658,800	–	44,658,800	4.99%
Wincall Holding Limited	55,428,000	–	55,428,000	6.20%
Congratulations Company Ltd.	169,845,000	–	169,845,000	18.99%
Source Holdings Limited	228,398,760	100,086,800	328,485,560	36.72%
		(Note 1)		
Ting Shing Holdings Limited	–	498,330,560	498,330,560	55.70%
		(Note 2)		
Ringo Trading Limited	44,283,476	498,330,560	542,614,036	60.66%
		(Note 3)		
China Poly Group Corporation	–	542,614,036	542,614,036	60.66%
		(Note 4)		
Chee Ying Cheung	80,952,000	–	80,952,000	9.05%

Note:

1. Source Holdings Limited is deemed by the SFO to be interested in 328,485,560 shares of the Company as a result of its direct holding of the shares and indirect holdings of the shares through its wholly-owned subsidiaries, Musical Insight Holdings Limited and Wincall Holding Limited.
2. Ting Shing Holdings Limited is deemed by the SFO to be interested in 498,330,560 shares as a result of its indirect holding of the shares through its subsidiaries, representing Source Holdings Limited and Congratulations Company Ltd.
3. Ringo Trading Limited is deemed by the SFO to be interested in 542,614,036 shares as a result of its direct holding of the shares and indirect holding of the shares through its wholly-owned subsidiary, Ting Shing Holdings Limited.
4. China Poly Group Corporation owns 100% of Ringo Trading Limited and is accordingly deemed by the SFO to be interested in the shares directly and indirectly owned by Ringo Trading Limited.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31st December, 2005.



DIRECTORS' REPORT

CONNECTED TRANSACTIONS

Details of the discloseable connected transactions for the year are set out in note 53 to the financial statements. In the opinion of the directors who do not have any interest in these transactions, the transactions were carried out on normal commercial terms and in the ordinary and usual course of business of the Group.

The independent non-executive directors of the Company had reviewed the connected transaction in respect of property rental income as set out in note 53(I)(A) to the financial statements and in their opinion:

1. the on-going Connected Transactions were entered into in the ordinary and usual course of business of the Company;
2. the on-going Connected Transactions were conducted on normal commercial terms;
3. the on-gong Connected Transactions were entered into in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

DIRECTORS' INTERESTS IN CONTRACTS

There were no contracts of significance to which the Company or any of its holding companies, fellow subsidiaries or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisting at the end of the year or at any time during the year.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, both the aggregate sales attributable to the Group's five largest customers and the aggregate purchases attributable to the Group's five largest suppliers were less than 30% of the Group's sales and purchases respectively.

CORPORATE GOVERNANCE

In the opinion of the directors, the Company has complied throughout the year ended 31st December, 2005 with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange.

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in the Model Code (Appendix 10 to the Listing Rules). Having made specific enquiry of all directors, all directors confirmed they have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by directors adopted by the Company.



DIRECTORS' REPORT

EMOLUMENT POLICY

The Group remunerates its employees based on their performance, experience and prevailing market rate. Other employee benefits including insurance and medical cover and share options are also provided.

The determination of emoluments of the directors of the Company has taken into consideration their expertise and job specifications.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2005.

POST BALANCE SHEET EVENT

Details of a significant post balance sheet event are set out in note 55 to the financial statements.

AUDITORS

A resolution will be submitted at the forthcoming annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Li Shi Liang

MANAGING DIRECTOR

Hong Kong, 20th April, 2006



AUDITORS' REPORT

Deloitte.
德勤

德勤 • 關黃陳方會計師行
香港中環干諾道中111號
永安中心26樓

Deloitte Touche Tohmatsu
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

TO THE SHAREHOLDERS OF POLY (HONG KONG) INVESTMENTS LIMITED

保利(香港)投資有限公司

(incorporated in Hong Kong with limited liability)

We have audited the financial statements of Poly (Hong Kong) Investments Limited (the "Company") and its subsidiaries (the "Group") from pages 32 to 122 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 141 of the Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st December, 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
20th April, 2006



CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2005

	Notes	2005 HK\$'000	2004 HK\$'000 (Restated)
Continuing operations			
Turnover	8	714,092	417,609
Cost of sales		(464,357)	(229,758)
Gross profit		249,735	187,851
Amortisation of deferred licensing income		15,385	14,954
Other income	9	69,737	12,849
Administrative expenses		(193,340)	(175,136)
Reversal of revaluation deficit previously charged as an expense		–	23,752
Increase in fair value of investment properties		113,722	–
Finance costs	10	(58,589)	(14,681)
Gain on partial disposal of interest in subsidiaries		11,117	–
Allowances for short-term loans receivables		(31,937)	–
Amortisation of goodwill arising on acquisition of associates		–	(12,714)
Share of results of associates		(30,503)	4,062
Allowance for loans to jointly controlled entities		–	(2,615)
Loss on disposal of an associate		–	(13,811)
Surplus arising on revaluation of hotel properties		–	4,148
Increase in fair value of investments held-for-trading		12,186	–
Impairment loss recognised in respect of goodwill		(6,474)	–
Impairment loss on available-for-sale investments		(15,000)	–
Impairment loss on investments in securities		–	(3,790)
Unrealised holding gain on other investments		–	300
Profit before taxation	13	136,039	25,169
Taxation	14	(29,884)	(8,654)
Profit for the year from continuing operations		106,155	16,515
Discontinued operation			
Profit for the year from discontinued operations	15	75,771	156,618
Profit for the year		181,926	173,133
Attributable to:			
Equity holders of the parent		164,601	152,849
Minority interests		17,325	20,284
		181,926	173,133
Dividends	16	44,772	71,614
Earnings (loss) per share	17		
From continuing and discontinued operations			
– basic		18.39 cents	17.24 cents
– diluted		18.22 cents	17.00 cents
From continuing operations			
– basic		9.92 cents	(0.43) cents
– diluted		9.83 cents	N/A



CONSOLIDATED BALANCE SHEET

At 31st December, 2005

	Notes	2005 HK\$'000	2004 HK\$'000 (Restated)
Non-Current Assets			
Investment properties	18	1,357,774	720,964
Property, plant and equipment	19	1,981,041	1,015,991
Prepaid lease payments – non-current portion	20	976,010	284,118
Goodwill	21	–	6,474
Other intangible asset	22	65,012	–
Interests in associates	24	244,297	467,380
Interest in a jointly controlled entity	25	–	–
Investment in a property development project	26	–	210,000
Investments in securities	27	–	76,461
Deposit paid for a hotel project	28	–	63,428
Deposits paid on acquisition of subsidiaries and associates	29	133,658	167,489
		4,757,792	3,012,305
Current Assets			
Stores		–	444
Inventories	30	43,390	18,650
Trade and other receivables	31	147,464	252,861
Prepaid lease payments – current portion	20	24,525	6,938
Short-term loan receivables	32	262,791	21,500
Available-for-sale investments	33	1,144	–
Investments held-for-trading	33	64,169	–
Investments in securities	27	–	17,850
Pledged bank deposits	34	21,749	25,178
Bank balances, deposits and cash		274,406	446,701
		839,638	790,122
Assets classified as held for sale	15(b)	–	135,958
		839,638	926,080
Current Liabilities			
Trade and other payables	35	374,460	318,868
Property rental deposits		4,840	4,702
Amounts due to minority shareholders of subsidiaries	36	66,955	106,262
Taxation		5,762	3,044
Bank borrowings – due within one year	37	624,317	279,061
		1,076,334	711,937
Liabilities associated with assets classified as held for sale	15(b)	–	2,382
		1,076,334	714,319
Net Current (Liabilities) Assets			
		(236,696)	211,761
		4,521,096	3,224,066



CONSOLIDATED BALANCE SHEET

At 31st December, 2005

	Notes	2005 HK\$'000	2004 HK\$'000 (Restated)
Capital and Reserves			
Share capital	38	447,295	447,699
Reserves		2,329,202	2,070,420
Equity attributable to equity holders of the parent		2,776,497	2,518,119
Minority interests		688,258	204,159
Total Equity		3,464,755	2,722,278
Non-Current Liabilities			
Bank borrowings – due after one year	37	575,275	211,192
Other borrowings	41	30,290	30,290
Loan from a fellow subsidiary	43	80,518	168,224
Loans from minority shareholders of subsidiaries	44	159,341	–
Deferred licencing income	45	30,770	44,858
Deferred tax liabilities	47	180,147	47,224
		1,056,341	501,788
		4,521,096	3,224,066

The financial statements on pages 32 to 122 were approved and authorised for issue by the Board of Directors on 20th April, 2006 and are signed on its behalf by:

He Ping
Vice-Chairman

Li Shi Liang
Managing Director



BALANCE SHEET

At 31st December, 2005

	Notes	2005 HK\$'000	2004 HK\$'000
Non-Current Assets			
Interest in subsidiaries	23	160,056	2,730,896
Investment in an associate	24	77,060	77,060
		237,116	2,807,956
Current Assets			
Other receivables		224	308
Amounts due from subsidiaries	42	2,981,006	–
Investments held-for-trading	33	3,000	–
Investments in securities	27	–	2,850
Bank balances, deposits and cash		37,265	79,442
		3,021,495	82,600
Current Liabilities			
Other payables		13,534	9,470
Amounts due to subsidiaries	42	559,166	–
Bank borrowings – due within one year	37	246,000	45,000
		818,700	54,470
Net Current Assets		2,202,795	28,130
		2,439,911	2,836,086
Capital and Reserves			
Share capital	38	447,295	447,699
Reserves	40	1,668,326	1,658,382
		2,115,621	2,106,081
Non-Current Liabilities			
Bank borrowings – due after one year	37	294,000	160,000
Other borrowings	41	30,290	30,290
Amounts due to subsidiaries	42	–	539,715
		324,290	730,005
		2,439,911	2,836,086

He Ping
Vice-Chairman

Li Shi Liang
Managing Director



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2005

	Share capital HK\$'000 (note 38)	Share premium HK\$'000	Share option reserve HK\$'000	Investment properties revaluation reserve HK\$'000	Hotel properties revaluation reserve HK\$'000	Translation reserve HK\$'000	Capital redemption reserve HK\$'000	Goodwill reserve HK\$'000	PRC statutory reserves HK\$'000	Other capital reserve HK\$'000	Accumulated profits HK\$'000	Attributable to equity holders of the parent HK\$'000	Minority interests HK\$'000	Total HK\$'000
THE GROUP														
At 1st January, 2004														
– as originally stated	403,801	1,458,263	–	31,659	–	(535)	15,906	(58,892)	5,270	164,137	309,411	2,329,020	202,531	2,531,551
Effect of changes in accounting policies	–	–	–	–	31,176	–	–	–	–	–	(76,754)	(45,578)	(15,192)	(60,770)
At 1st January, 2004 – as restated of hotel properties	403,801	1,458,263	–	31,659	31,176	(535)	15,906	(58,892)	5,270	164,137	232,657	2,283,442	187,339	2,470,781
Share of translation of reserve of overseas operations	–	–	–	–	–	(50)	–	–	–	–	–	(50)	–	(50)
Surplus arising on revaluation	–	–	–	–	13,728	–	–	–	–	–	–	13,728	4,576	18,304
Deferred tax liability arising on revaluation of hotel properties	–	–	–	–	(4,530)	–	–	–	–	–	–	(4,530)	(1,510)	(6,040)
Share of reserve of an associate attributable to the Group	–	–	–	1,206	–	–	–	–	–	–	–	1,206	–	1,206
Net income recognised directly in equity	–	–	–	1,206	9,198	(50)	–	–	–	–	–	10,354	3,066	13,420
Profit for the year	–	–	–	–	–	–	–	–	–	–	152,849	152,849	20,284	173,133
Total recognised income and expense for the year	–	–	–	1,206	9,198	(50)	–	–	–	–	152,849	163,203	23,350	186,553
Issue of shares	50,000	–	–	–	–	–	–	–	–	–	–	50,000	–	50,000
Exercise of share options	1,330	–	–	–	–	–	–	–	–	–	–	1,330	–	1,330
Premium arising on issue of shares	–	116,638	–	–	–	–	–	–	–	–	–	116,638	–	116,638
Share issue expenses	–	(3,229)	–	–	–	–	–	–	–	–	–	(3,229)	–	(3,229)
Shares repurchased and cancelled:														
– Repurchase of ordinary shares	(7,432)	–	–	–	–	–	–	–	–	–	–	(7,432)	–	(7,432)
– Premium on shares repurchased	–	–	–	–	–	–	–	–	–	–	(14,219)	(14,219)	–	(14,219)
– Transfer	–	–	–	–	–	–	7,432	–	–	–	(7,432)	–	–	–
Acquired on acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	3,546	3,546
Transfer	–	–	–	–	–	–	–	–	884	–	(884)	–	–	–
Dividends paid to minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	(10,076)	(10,076)
Dividends paid (note 16)	–	–	–	–	–	–	–	–	–	–	(71,614)	(71,614)	–	(71,614)
At 31st December, 2004 and 1st January, 2005 – as restated	447,699	1,571,672	–	32,865	40,374	(585)	23,338	(58,892)	6,154	164,137	291,357	2,518,119	204,159	2,722,278
Effect of changes in accounting policies	–	–	–	(32,865)	–	–	–	58,892	–	62,678	(45,485)	43,220	–	43,220
At 1st January, 2005 – as restated	447,699	1,571,672	–	–	40,374	(585)	23,338	–	6,154	226,815	245,872	2,561,339	204,159	2,765,498

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2005

	Share capital HK\$'000 (note 38)	Share premium HK\$'000	Share option reserve HK\$'000	Investment properties revaluation reserve HK\$'000	Hotel properties revaluation reserve HK\$'000	Translation reserve HK\$'000	Capital redemption reserve HK\$'000	Goodwill reserve HK\$'000	PRC statutory reserves HK\$'000	Other capital reserve HK\$'000	Accumulated profits HK\$'000	Attributable to equity holders of the parent HK\$'000	Minority interests HK\$'000	Total HK\$'000
Exchange differences arising on translation of foreign operations	-	-	-	-	-	29,609	-	-	-	-	-	29,609	11,399	41,008
Surplus arising on revaluation	-	-	-	-	9,190	-	-	-	-	-	-	9,190	2,483	11,673
Deferred tax liability arising on revaluation of hotel properties	-	-	-	-	(3,033)	-	-	-	-	-	-	(3,033)	(819)	(3,852)
Net income recognised directly in equity	-	-	-	-	6,157	29,609	-	-	-	-	-	35,766	13,063	48,829
Profit for the year	-	-	-	-	-	-	-	-	-	-	164,601	164,601	17,325	181,926
Total recognised income and expense for the year	-	-	-	-	6,157	29,609	-	-	-	-	164,601	200,367	30,388	230,755
Recognition of equity-settled share-based payment expense	-	-	7,757	-	-	-	-	-	-	-	-	7,757	-	7,757
Exercise of share options	175	-	-	-	-	-	-	-	-	-	-	175	-	175
Premium arising on issue of shares	-	83	-	-	-	-	-	-	-	-	-	83	-	83
Share issue expenses	-	(15)	-	-	-	-	-	-	-	-	-	(15)	-	(15)
Shares repurchased and cancelled:														
- Repurchase of ordinary shares	(579)	-	-	-	-	-	-	-	-	-	-	(579)	-	(579)
- Premium on shares repurchased	-	-	-	-	-	-	-	-	-	-	(826)	(826)	-	(826)
- Transfer	-	-	-	-	-	-	579	-	-	-	(579)	-	-	-
Transfer	-	-	-	-	-	-	-	-	478	-	(478)	-	-	-
Dividends paid to minority shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(13,671)	(13,671)
Dividends paid (note 16)	-	-	-	-	-	-	-	-	-	-	(44,772)	(44,772)	-	(44,772)
Deemed contributions from minority shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	169,977	169,977
Capital contribution by minority shareholders	-	-	-	-	-	-	-	-	-	-	-	-	166,753	166,753
Deemed capital contribution on acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	52,968	-	52,968	-	52,968
Acquired on acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	130,652	130,652
At 31st December, 2005	447,295	1,571,740	7,757	-	46,531	29,024	23,917	-	6,632	279,783	363,818	2,776,497	688,258	3,464,755

Included in other capital reserve as at 31st December, 2005 is deemed capital contribution arising on acquisition of subsidiaries of HK\$216,519,000 (2004: HK\$163,551,000), and deemed capital contribution arising from interest-free loans provided by holding company amounted to HK\$62,678,000.

The People's Republic of China ("PRC") statutory reserves are reserves required by the relevant PRC laws applicable to the Group's PRC subsidiaries and associates.



CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2005

	2005 HK\$'000	2004 HK\$'000 (Restated)
OPERATING ACTIVITIES		
Profit before taxation	211,810	181,787
Adjustments for:		
Finance costs	58,635	14,681
Loss on disposal of an associate	–	13,811
Gain on disposal of discontinued operations	(59,503)	(54,637)
Amortisation of goodwill arising on acquisition of associates	–	12,714
Share of results of associates	30,503	(4,062)
Allowance for loans to jointly controlled entities	–	2,615
Depreciation of property, plant and equipment	97,381	90,665
Amortisation of prepaid lease payments	8,804	2,864
Amortisation of deferred licensing income	(15,385)	(14,954)
Increase in fair value of investments held-for-trading	(12,186)	–
Impairment loss on available-for-sale investments	15,000	–
Impairment loss on investments in securities	–	3,790
(Gain) loss on disposal of investment properties	(15,633)	326
Gain on disposal of property, plant and equipment	(165)	(61)
Increase in fair value of investment properties/reversal of revaluation deficit previously charged as an expense	(113,722)	(23,752)
Surplus arising on revaluation of hotel properties	–	(4,148)
Amortisation of goodwill	–	341
Unrealised holding gain on other investments	–	(300)
Impairment loss recognised in respect of goodwill	6,474	–
Gain on partial disposal of interests in subsidiaries	(11,117)	–
Allowances for short-term loans receivables	31,937	–
Equity-settled share-based payment expense	7,757	–
Discount on acquisition of subsidiaries	(2,880)	–
Imputed interest income	(9,071)	–
Operating cash flows before movements in working capital	228,639	221,680
Decrease in stores	444	524
Increase in inventories	(9,574)	(6,920)
Decrease in properties held for resale	–	15,600
Decrease (increase) in trade and other receivables	159,587	(77,422)
(Increase) decrease in short-term loans receivable	(40,852)	18,701
(Increase) decrease in investments held-for-trading	(5,276)	32,845
(Decrease) increase in trade and other payables	(142,182)	74,878
Increase in property rental deposits	138	689
Net cash generated from operations	190,924	280,575
PRC income tax paid	(14,399)	(6,065)
Interest paid	(49,077)	(14,681)
NET CASH FROM OPERATING ACTIVITIES	127,448	259,829



CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2005

	Notes	2005 HK\$'000	2004 HK\$'000 (Restated)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(430,524)	(199,315)
Purchase of subsidiaries (net of cash and cash equivalents acquired)	46	(388,891)	4,297
Additions in prepaid lease payments		(357,152)	(2,864)
Deposits paid on acquisition of subsidiaries and associates		(104,998)	(167,489)
Proceeds from disposal of property, plant and equipment		195,859	194,576
Capital contributions from minority shareholders		83,861	—
Proceeds from disposal of investment properties		51,436	902
Purchase of associates		28,037	—
Proceeds from partial disposal of interests in subsidiaries		7,371	—
Decrease (increase) in bank deposits held for investment purpose		6,452	(4,131)
Dividend received from an associate		5,300	13,943
Decrease (increase) in pledged bank deposits		3,429	(13,230)
Deposit paid for a hotel project		—	(33,428)
Capital contributions to associates		—	(73,340)
Investment in a property development project		—	(12,729)
Proceeds from disposal of an associate		—	15,036
Repayment from jointly controlled entities		—	1,044
NET CASH USED IN INVESTING ACTIVITIES		(899,820)	(276,728)
FINANCING ACTIVITIES			
Borrowings raised		908,942	276,893
Advance from minority shareholders of subsidiaries		335,272	85,706
Proceeds from issue of shares		258	167,968
Repayment of borrowings		(573,359)	(207,818)
Dividend paid		(44,772)	(71,614)
Dividend paid to a minority shareholder of a subsidiary		(13,671)	(10,076)
Repurchase of shares		(1,405)	(21,651)
Share issue expenses		(15)	(3,229)
NET CASH FROM FINANCING ACTIVITIES		611,250	216,179
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(161,122)	199,280
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		440,249	240,969
EFFECT OF FOREIGN EXCHANGE RATE CHANGE		(4,721)	—
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		274,406	440,249
ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS			
Bank balances, deposits and cash		274,406	446,701
Less: Bank deposits held for investment purpose		—	(6,452)
		274,406	440,249



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.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 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.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 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.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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)



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

	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-INT 2	HKAS 17	HK(SIC)- INT 21	HK\$'000		HKFRS 3	HKAS 39 (note i)	HKAS 39 (note ii)	HK\$'000 (note iii)	HK\$'000 HKAS 40	
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	-	-	-	284,118	-	284,118	-	-	-	-	-	-	284,118
(non-current portion)	467,380	-	-	-	-	467,380	-	3,444	-	22,367	-	-	493,191
Interest in associates	-	-	-	-	-	-	-	-	-	-	-	-	-
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	-	-	-	6,938	-	6,938	-	-	-	-	-	-	6,938
(current portion)	-	-	-	-	-	-	-	-	-	46,916	-	-	46,916
Investments held-for-trading	-	-	-	-	-	-	-	-	-	-	-	-	-
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	HK\$'000	HK\$'000	HK\$'000		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
		HKAS 1	HK-INT 2	HKAS 17	HK(SIC)- INT 21	HKFRS 3		HKAS 39 (note i)	HKAS 39 (note ii)	HKAS 39 (note iii)	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)	(55,448)	291,357	-	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)	3,444	674,000	62,678	8,558	(31,460)	-	717,220	-
Minority interests	221,505	(221,505)	-	-	-	-	-	-	-	-	-	-	-



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)

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 HK\$'000	Adjustment HK\$'000 HKAS 1	Adjustment HK\$'000 HK-INT 2	Adjustment HK\$'000 HKAS17	Adjustment HK\$'000 HK(SIC) -INT 21	As restated HK\$'000
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.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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 to 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.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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 HK\$'000	2004 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 (<i>note 15</i>)	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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

11. DIRECTORS' EMOLUMENTS

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

2005	Other emoluments					Total emoluments
	Fees	Salaries and other benefits	Bonuses	Equity-settled share-based payment expense	Retirement benefit scheme contributions	
	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	Other emoluments					Total emoluments
	Fees	Salaries and other benefits	Bonuses	Equity-settled share-based payment expense	Retirement benefit scheme contributions	
	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.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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 <i>HK\$'000</i>
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 HK\$'000	2004 HK\$'000 (Restated)	2005 HK\$'000	2004 HK\$'000 (Restated)	2005 HK\$'000	2004 HK\$'000 (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 HK\$'000	2004 HK\$'000 (Restated)	2005 HK\$'000	2004 HK\$'000 (Restated)	2005 HK\$'000	2004 HK\$'000 (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.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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 HK\$'000	2004 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 HK\$'000	2004 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



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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
	<hr/>
Total assets classified as held for sale	135,958
Liabilities	
Other payables	2,382
	<hr/>
Net assets of disposal group	<hr/> 133,576

(c) Cash flow statement

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

	2005 HK\$'000	2004 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 HK\$'000	2004 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
	<hr/> 44,772	<hr/> 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.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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
Number of shares:	2005	2004
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



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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)
	<hr/>
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)
	<hr/>

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 HK\$'000	2004 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
	<hr/>	<hr/>
	1,357,774	720,964

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

19. PROPERTY, PLANT AND EQUIPMENT

	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
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%



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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

	THE GROUP	
	2005 HK\$'000	2004 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 HK\$'000	2004 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



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

21. GOODWILL

	THE GROUP <i>HK\$'000</i>
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)
	<hr/>
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)
	<hr/>
At 31st December, 2005	–
IMPAIRMENT	
Impairment loss recognised during the year and balance at 31st December, 2005	6,474
	<hr/>
CARRYING VALUE	
At 31st December, 2005	–
	<hr/>
At 31st December, 2004	6,474
	<hr/>

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 HK\$'000	2004 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 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 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



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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)
	<hr/>
At 31st December, 2004 and 1st January, 2005	620
Elimination of accumulated amortisation upon the application of HKFRS 3	(26)
	<hr/>
At 31st December, 2005	594
	<hr/>
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)
	<hr/>
At 31st December, 2004 and 1st January, 2005	26
Elimination of accumulated amortisation upon the application of HKFRS 3	(26)
	<hr/>
At 31st December, 2005	—
	<hr/>
IMPAIRMENT	
Impairment loss recognised for the year ended 31st December, 2005 and balance at 31st December, 2005	594
	<hr/>
CARRYING AMOUNT	
At 31st December, 2005	—
	<hr/>
At 31st December, 2004	594
	<hr/>

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
	<hr/>
At 31st December, 2004 and 1st January, 2005	3,444
Derecognised upon the application of HKFRS 3	(3,444)
	<hr/>
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)
	<hr/>	<hr/>
Net assets	549,767	1,007,798
	<hr/>	<hr/>
Group's share of net assets of associates	244,297	466,786
	<hr/>	<hr/>
Turnover	1,660,766	457,156
	<hr/>	<hr/>
(Loss) profit for the year	(83,045)	66,297
	<hr/>	<hr/>
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		Principal activities
		directly	indirectly	
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 HK\$'000	2004 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)
	–	–



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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 HK\$'000	2004 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 HK\$'000	2004 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.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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 <i>HK\$'000</i>	Other investments <i>HK\$'000</i>	Total <i>HK\$'000</i>
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 HK\$'000	2004 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 HK\$'000	2004 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.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

32. SHORT-TERM LOAN RECEIVABLES

	THE GROUP	
	2005 HK\$'000	2004 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 HK\$'000	2004 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.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

35. TRADE AND OTHER PAYABLES

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

	THE GROUP	
	2005 HK\$'000	2004 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 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 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 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 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



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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		Aggregate consideration paid HK\$'000
		Highest HK\$	Lowest HK\$	
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
	<u>1,159,000</u>			<u>1,405</u>

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.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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%.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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

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

Year ended 31st December, 2005	Date of grant	Exercise price per share HK\$	Granted during the year and outstanding at 31.12.2005
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
			<hr/>
			35,500,000
Category 2: Employees	14.7.2005	1.270	<hr/> 8,450,000
			<hr/>
Total all categories			<hr/> 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:

Closing share price at date of grant
Exercise price
Expected volatility *(Note a)*
Expected life *(Note b)*
Risk-free rate *(Note c)*
Expected dividend yield *(Note d)*

2005

HK\$1.270
HK\$1.270
27%
3 years
3.462%
4%



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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

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

Notes:

- 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.
- 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.
- The risk-free rate was based on the yield of Exchange Fund Notes.
- 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 HK\$'000	2004 HK\$'000
Unamortised deferred licensing income brought forward	44,858	59,812
Exchange adjustment	1,297	–
Less: Licensing income recognised during the year	(15,385)	(14,954)
Unamortised deferred licensing income carried forward	30,770	44,858

The licensing 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 HK\$'000	Hubei White Rose HK\$'000	Peixian Power HK\$'000	Dongtai Power HK\$'000	Yaubond HK\$'000	Acquirees' carrying amount and fair value 2005 HK\$'000 (note)	2004 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



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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 <i>HK\$'000</i>
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	<u>2,574</u>
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	<u>(2,859)</u>
At 31st December, 2005	<u>180,147</u>

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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 HK\$'000	2004 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 HK\$'000	2004 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.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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 HK\$'000	2004 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	—
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.



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)*

- (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

Connected persons	Nature of transactions/balances	THE GROUP	
		2005 HK\$'000	2004 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.



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)*

(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

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

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



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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 HK\$'000	2004 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.
- (viii) 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.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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		Total
	Supply of electricity and gas	Property investment and management	Manufacturing and media	Financial services	Hotel and restaurant operations	Eliminations	Sub-total	Shipping	
	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						Total
	Supply of electricity and gas HK\$'000	Property investment and management HK\$'000	Manufac- turing and media HK\$'000	Financial services HK\$'000	Hotel and restaurant operations HK\$'000	Discontinued operations Shipping 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



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 <i>HK\$'000</i>	The PRC other than Hong Kong <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
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 <i>HK\$'000</i>	The PRC other than Hong Kong <i>HK\$'000</i>	Total <i>HK\$'000</i>
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		Total
	Property Supply of and gas HK\$'000	investment and management HK\$'000	Manufac- turing and media HK\$'000	Financial services HK\$'000	Hotel and restaurant operations HK\$'000	Eliminations HK\$'000	Sub-total HK\$'000	Shipping 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						Total
	Supply of electricity and gas HK\$'000	Property investment and management HK\$'000	Manufac- turing and media HK\$'000	Financial services HK\$'000	Hotel and restaurant operations HK\$'000	Discontinued operations Shipping 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 <i>HK\$'000</i>	The PRC other than Hong Kong <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
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 <i>HK\$'000</i>	The PRC other than Hong Kong <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
ASSETS				
Carrying amount of segment assets	762,818	3,039,016	136,551	3,938,385
Capital expenditure	55	199,260	–	199,315



FINANCIAL SUMMARY

	Year ended 31st December,				
	2001	2002	2003	2004	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Restated)	(Restated)	(Restated)	(Restated)	
RESULTS					
CONTINUING OPERATIONS					
Turnover	341,976	441,051	473,590	417,609	714,092
(Loss) profit before taxation	(16,777)	(126,669)	76,133	25,169	136,039
Taxation	(1,919)	(5,682)	(5,626)	(8,654)	(29,884)
(Loss) profit for the year from continuing operations	(18,696)	(132,351)	70,507	16,515	106,155
DISCONTINUED OPERATION					
Profit for the year from discontinued operations	–	–	–	156,618	75,771
(Loss) profit for the year	(18,696)	(132,351)	70,507	173,133	181,926
Attributable to:					
Equity holders of the parent	(27,348)	(141,517)	58,724	152,849	164,601
Minority interests	8,652	9,166	11,783	20,284	17,325
(Loss) profit for the year	(18,696)	(132,351)	70,507	173,133	181,926
As at 31st December,					
	2001	2002	2003	2004	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Restated)	(Restated)	(Restated)	(Restated)	
ASSETS AND LIABILITIES					
Total assets	3,328,460	3,437,340	3,426,119	3,938,385	5,597,430
Total liabilities	(929,859)	(1,017,491)	(973,599)	(1,216,107)	(2,132,675)
	2,398,601	2,419,849	2,452,520	2,722,278	3,464,755
Equity attributable to equity holders of the parent	2,160,986	2,177,655	2,265,182	2,518,119	2,776,497
Minority interests	237,615	242,194	187,338	204,159	688,258
	2,398,601	2,419,849	2,452,520	2,722,278	3,464,755



SUMMARY OF PROPERTIES HELD FOR INVESTMENT PURPOSES

At 31st December, 2005

Details of the Group's properties held for investment purposes at 31st December, 2005 are as follows:

Location	Term of lease	Type of use	Group's interest
<i>INVESTMENT PROPERTIES:</i>			
25th Floor Admiralty Centre Tower I 18 Harcourt Road Hong Kong 1,211/227,600th shares of and in Inland Lot No. 8423	Long lease	Commercial	100%
25 Apartments of Legend Garden Villas 89 Capital Airport Road, Beijing The People's Republic of China	Held under a land use right for a term expiring on 31st December, 2042	Residential	100%
Portions of Basements 1, 2 and 3, Portions of 1st Floor, N02, N03 & N04, 11th Floor, North Tower, N02, N03 & N04, 12th Floor, North Tower, N07, 19th Floor, North Tower, S01, S02, S03, S04, S07, S08 & S09, 20th Floor, South Tower, N02, N03, N06, N07, N08, N09, 20th Floor, North Tower, Whole of 21st, 22nd & 23rd Floors, South Tower and North Tower, Whole of 27th Floor, South Tower and North Tower, 14th, 15th, 17th and 18th Floors, South Tower, and the whole of 24th and 25th Floors, South Tower and North Tower, Shanghai Stock Exchange Building, Pudong Road South, Lujiazui, Pudong, Shanghai, The People's Republic of China	Held under a land use right for a term expiring on 14th November, 2043	Commercial	100%