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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other independent professional advisers.

**If you have sold or transferred** all your shares in Y. T. Realty Group Limited, you should at once hand this circular together with the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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**Y. T. REALTY GROUP LIMITED**  
**渝太地產集團有限公司\***

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 75)**

**POSSIBLE VERY SUBSTANTIAL ACQUISITION  
ACQUISITION OF SHARES OF THE CROSS-HARBOUR (HOLDINGS) LIMITED  
UPON EXERCISE OF OPTION AND IMPLEMENTATION OF CONDITIONAL  
MANDATORY GENERAL OFFER  
AS A RESULT OF SUCH ACQUISITION OF SHARES**

**Financial adviser to Y. T. Realty Group Limited  
and Honway Holdings Limited**



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A letter from the board of directors of Y. T. Realty Group Limited is set out on pages 4 to 14 of this circular.

A notice convening the special general meeting of Y. T. Realty Group Limited to be held at Rooms 3301-3307, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong on Thursday, 18 May 2006 at 9:00 a.m. is set out on pages 193 and 194 of this circular. A form of proxy for use at the meeting is enclosed. Whether or not you intend to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the principal place of business of Y. T. Realty Group Limited at Rooms 3301-3307, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

\* For identification purposes only

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following expressions have the following meanings:*

“Announcement”	the announcement dated 10 April 2006 issued jointly by the Company and CHH
“Board”	the board of Directors
“CHH”	The Cross-Harbour (Holdings) Limited, a company incorporated in Hong Kong with limited liability and listed on the Main Board of the Stock Exchange
“CHH Group”	CHH and its subsidiaries
“CHH Shares”	shares of HK\$1.00 each in the issued share capital of CHH
“Code”	The Code on Takeovers and Mergers
“Company”	Y. T. Realty Group Limited, a company incorporated in Bermuda with limited liability and listed on the Main Board of the Stock Exchange
“Composite Document”	the composite document combining the offer document and the offeree board circular in relation to the Offer to be jointly issued by the Offeror and CHH as the offeree in accordance with the Code and including the forms of acceptance
“Directors”	the directors of the Company
“Employee Option Scheme”	the employee share option scheme adopted by CHH on 8 May 2001 and terminated on 29 April 2005 in relation to the grant of options for the benefit of, inter alia, employees of the CHH Group
“Enlarged Group”	the Company and its subsidiaries as enlarged immediately after completion of the acquisition of CHH Shares by Honway upon exercise of the Option and the implementation of the Offer (on the assumption that the Offer becomes or is declared unconditional as to acceptance in accordance with the Code)
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Honway” or the “Offeror”	Honway Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of the Company

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## DEFINITIONS

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“Independent CHH Shareholders”	shareholders of CHH other than Honway and persons acting in concert with Honway
“Latest Practicable Date”	26 April 2006, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan”	an interest free loan in the amount of HK\$20,000,000 advanced by Honway to CHH on 24 June 2003 pursuant to the Share Option Agreement
“Offer”	a conditional mandatory general offer in cash to be made by Tai Fook Securities Company Limited on behalf of Honway for all CHH Shares (including the outstanding share options under the Employee Option Scheme) other than those already owned by Honway or parties acting in concert with it pursuant to the Code
“Offer Price”	HK\$4.083 per CHH Share
“Option”	the option granted by CHH to Honway to subscribe for up to a total of 60,000,000 CHH Shares at the respective exercise price per CHH Share of HK\$3.4 during the year ended 24 June 2004, HK\$3.7 during the year ended 24 June 2005 and HK\$4.0 during the year ending 24 June 2006, pursuant to the Share Option Agreement as disclosed in the announcement of CHH on 12 May 2003 and the circular dated 2 June 2003 to shareholders of CHH
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be held at Rooms 3301-3007, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong on Thursday, 18 May 2006 at 9:00 a.m., a notice of which is set out on pages 193 and 194 of this circular, or any adjournment thereof
“Share Option Agreement”	the share option agreement entered into between Honway and CHH on 9 May 2003 pursuant to which Honway was granted the Option
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Shareholder(s)”	shareholder(s) of the Company

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## DEFINITIONS

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“Tai Fook”	Tai Fook Capital Limited, the financial adviser to the Company and Honway and a corporation licensed to carry on type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong)
“Yugang”	Yugang International Limited, a company incorporated in Bermuda with limited liability and listed on the Main Board of the Stock Exchange
“Y. T. Shares”	shares of HK\$0.10 each in the issued share capital of the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

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## LETTER FROM THE BOARD

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# Y. T. REALTY GROUP LIMITED 渝太地產集團有限公司\*

*(Incorporated in the Bermuda with limited liability)*

**(Stock Code: 75)**

### **Directors:**

#### *Executive Directors:*

Cheung Chung Kiu (*Chairman*)

Wong Chi Keung (*Managing Director*)

Yuen Wing Shing

Tung Wai Lan, Iris

#### *Non-Executive Director:*

Lee Ka Sze, Carmelo

#### *Independent non-executive Directors:*

Wong Wai Kwong, David

Wong Yat Fai

Ng Kwok Fu

### **Registered Office:**

Clarendon House

Church Street

Hamilton HM 11

Bermuda

### **Principal Place of Business:**

Rooms 3301-07, China Resources Building

26 Harbour Road

Wanchai

Hong Kong

29 April 2006

*To the Shareholders*

Dear Sir or Madam,

**POSSIBLE VERY SUBSTANTIAL ACQUISITION  
ACQUISITION OF SHARES OF THE CROSS-HARBOUR (HOLDINGS) LIMITED  
UPON EXERCISE OF OPTION AND IMPLEMENTATION OF CONDITIONAL  
MANDATORY GENERAL OFFER  
AS A RESULT OF SUCH ACQUISITION OF SHARES**

### **INTRODUCTION**

On 10 April 2006, the Company and CHH announced that the Company had decided to proceed to obtain approval by the Shareholders in respect of the possible acquisition of CHH Shares by Honway upon exercise of the Option and the implementation of the Offer, which constitutes a very substantial acquisition of the Company pursuant to Rule 14.49 of the Listing Rules.

The purpose of this circular is to provide you (i) further information regarding the exercise of the Option and the implementation of the Offer; (ii) the notice convening the SGM to consider and, if thought fit, to approve the exercise of the Option and the implementation of the Offer; (iii) certain financial information on the Group, the CHH Group and the Enlarged Group; and (iv) other information required under the Listing Rules.

\* *For identification purposes only*

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## LETTER FROM THE BOARD

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### POSSIBLE EXERCISE OF OPTION

As at the Latest Practicable Date, the Option remains exercisable in respect of 52,647,059 CHH Shares at the prevailing exercise price of HK\$4.00 per CHH Share until 24 June 2006, after which the Option will lapse; and the Loan advanced by Honway to CHH in the amount of HK\$20,000,000 remains outstanding and is repayable on 24 June 2006. Pursuant to the Share Option Agreement, instead of making a cash payment to CHH in respect of the exercise moneys payable on the exercise of the Option by Honway, Honway is entitled, at its sole option, to waive all or any part of the Loan owing by CHH to Honway as at the relevant date of exercise of the Option in satisfaction in full or in part of the exercise moneys otherwise payable by Honway in cash. The Share Option Agreement and the transactions contemplated thereunder constituted a connected transaction for CHH and were duly approved by independent shareholders of CHH on 23 June 2003. In the event the Option is exercised in full, an aggregate exercise price of approximately HK\$210.6 million will be payable by Honway with HK\$20 million to be satisfied by waiver of the Loan and the remaining to be funded by the Company's internal resources and/or bank borrowings.

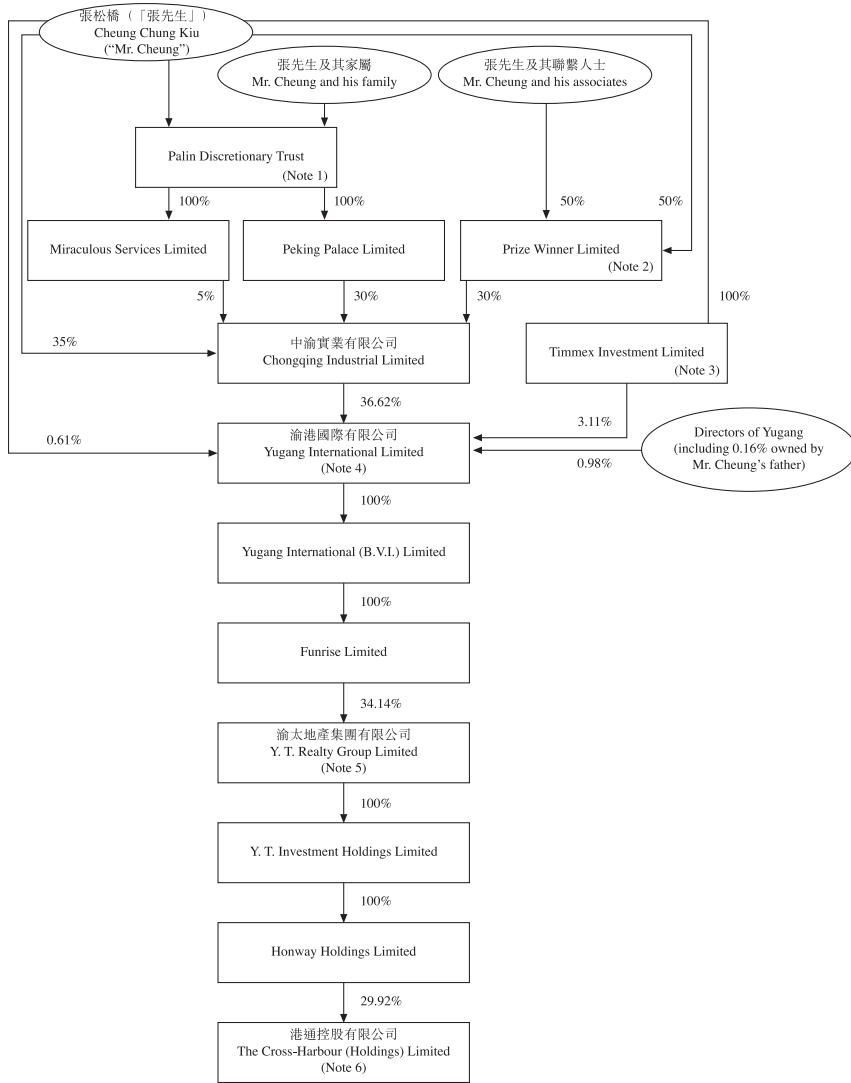
Apart from the Option, there are no options, warrants or convertible securities in respect of the CHH Shares held by Honway or parties acting in concert with it or outstanding derivatives in respect of the CHH Shares entered into by Honway or parties acting in concert with it.

In the event the Option is exercised in full, Honway's shareholdings in CHH will be increased from approximately 29.92% of the entire issued share capital of CHH before such exercise to approximately 40.36% of the enlarged entire issued share capital of CHH upon such exercise, thus obliging Honway to make the Offer under Rule 26.1 of the Code.

# LETTER FROM THE BOARD

## SHAREHOLDING STRUCTURE OF CHH

(I) As at the Latest Practicable Date, the shareholding structure of CHH is as follows:-



*Notes:*

- (1) Peking Palace Limited and Miraculous Services Limited are beneficially owned by Palin Discretionary Trust, a family discretionary trust, the objects of which include Mr. Cheung and his family.
- (2) Prize Winner Limited is beneficially owned by Mr. Cheung and his associates.
- (3) A convertible note is held by Timmex Investment Limited, a company 100% controlled by Mr. Cheung. Pursuant to the terms of the convertible note, the number of underlying shares that may be converted under the convertible note is 605,792,682 shares in Yugang, representing 6.49% of the issued share capital of Yugang as enlarged by such conversion, if any.



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## LETTER FROM THE BOARD

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- (4) Yugang is listed on the Stock Exchange. As at the Latest Practicable Date, it has approximately 58.68% of the issued share capital held by public shareholders, and, save as disclosed in the above chart, it has no other substantial shareholder as defined under the Listing Rules.
- (5) The Company is listed on the Stock Exchange. As at the Latest Practicable Date, it has approximately 40.60% of the issued share capital held by public shareholders, and, save as disclosed in the above chart, it has two other substantial shareholders as defined under the Listing Rules, being Deutsche Bank Aktiengesellschaft and PMA Capital Management Limited, holding approximately 14.26% and 11.00% respectively of the issued share capital of the Company.
- (6) CHH is listed on the Stock Exchange. As at the Latest Practicable Date, it has approximately 70.08% of the issued share capital held by public shareholders, and, save as disclosed in the above chart, it has no other substantial shareholder as defined under the Listing Rules.
- (II) The shareholding structure of CHH as at the Latest Practicable Date and upon full exercise of the Option (assuming no movement in the issued share capital of CHH) is as follows:-

	No. of CHH Shares (%) held	
	as at the Latest Practicable Date	upon full exercise of the Option
Honway	90,022,373 CHH Shares (29.92%)	142,669,432 CHH Shares (40.36%)
Independent CHH Shareholders	<u>210,818,774 CHH Shares (70.08%)</u>	<u>210,818,774 CHH Shares (59.64%)</u>
Total:	<u>300,841,147 CHH Shares (100.00%)</u>	<u>353,488,206 CHH Shares (100.00%)</u>

### REASONS FOR AND BENEFITS TO THE COMPANY TO EXERCISE THE OPTION

The prevailing market price of CHH Shares has been hovering from HK\$5.85 per CHH Share to HK\$6.90 per CHH Share for the past 3 months up to and including the Latest Practicable Date. The exercise price for the Option is HK\$4.00 per CHH Share. The Directors believe that exercise of the Option will be in the interests of the Shareholders as a whole. In addition, taking into consideration the closing price of HK\$6.75 and HK\$6.65 per CHH Share on 7 April 2006 (being the trading day immediately prior to the publication of the Announcement) and on the Latest Practicable Date respectively, and the net asset value per CHH Share of HK\$7.04 by reference to the audited consolidated financial statements of CHH as at 31 December 2005, the Directors believe that the exercise price of HK\$4.00 per CHH Share (representing a discount of 40.74% and 39.85% respectively to such closing prices and a discount of 43.18% to such net asset value) is fair and reasonable.

### POSSIBLE OFFER

In the event the Option is exercised in full, the resulting increase in Honway's shareholdings in CHH as described above will oblige Honway to make the Offer under Rule 26.1 of the Code.

The Offer will not be implemented unless and until the following pre-conditions are satisfied:-

- (i) approval from the Shareholders at the SGM for the exercise of the Option and the implementation of the Offer being obtained; and

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## LETTER FROM THE BOARD

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- (ii) the Option being exercised to such an extent that Honway's shareholdings in CHH will be increased to 30% or more of the issued share capital of CHH as enlarged by such exercise and thus obliging Honway to make the Offer pursuant to Rule 26.1 of the Code.

**Honway has confirmed to CHH that it will definitely exercise the Option in full within 5 days of the fulfilment of pre-condition (i) above.**

In this regard, Funrise Limited (a wholly-owned subsidiary of Yugang International (B.V.I.) Limited which is, in turn, a wholly-owned subsidiary of Yugang) being interested in 273,000,000 Y. T. Shares (representing approximately 34.14% of the issued share capital of the Company), has confirmed to the Company that it will procure exercise of all voting rights attached to such Y. T. Shares controlled by Funrise Limited to vote in favour of the resolution to approve the exercise of the Option by Honway and the implementation of the Offer at the SGM.

### TERMS OF THE OFFER

The Offer will be made on the following basis:-

For each CHH Share . . . . . HK\$4.083 in cash

The Offer Price is equivalent to the sum of HK\$0.083 per CHH Share paid by Honway for purchasing the Option and the prevailing exercise price of HK\$4.00 per CHH Share under the Option.

CHH Shares to be acquired upon implementation of the Offer will be free from all liens, charges and encumbrances and together with all rights attaching to them as at the Latest Practicable Date, including the right to receive all dividends and distributions declared, paid or made on or after the Latest Practicable Date other than the right to receive the final dividend declared for the financial year ended 31 December 2005.

Holders of outstanding share options granted under the Employee Option Scheme will be offered to receive a "see-through" price in cash of HK\$1.591 per CHH Share (being the Offer Price minus the prevailing exercise price of HK\$2.492 per CHH Share under the Employee Option Scheme) for surrendering and cancelling their rights under such options.

Sellers' ad valorem stamp duty at a rate of 0.1% of the consideration arising on acceptances of the Offer will be payable by the Independent CHH Shareholders who accept the Offer and will be deducted from the consideration payable to the accepting Independent CHH Shareholders on acceptance of the Offer. Honway will arrange payment of the sellers' ad valorem stamp duty on behalf of the accepting Independent CHH Shareholders and will pay the buyer's ad valorem stamp duty in respect of CHH Shares accepted under the Offer. No stamp duty is payable in connection with acceptance of offer to receive "see-through" price for surrendering and cancelling rights under share options granted under Employee Option Scheme.

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## LETTER FROM THE BOARD

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### CONDITION OF THE OFFER

The Offer, if implemented, will be conditional upon Honway having received acceptances of the Offer (and such acceptances not, where permitted, having been withdrawn) by 4:00 p.m. on the date which is 21 days after the despatch of the Composite Document (or such later time(s) and/or date(s) as Honway may decide, subject to the Code) which, together with the CHH Shares already owned or acquired by Honway and parties acting in concert with it before or during the Offer period, will result in Honway and parties acting in concert with it holding more than 50% of the voting rights of CHH. If Honway does not receive valid acceptances of the Offer by such time and date which, together with the CHH Shares already owned or acquired by Honway and parties acting in concert with it before or during the Offer period, will result in Honway and parties acting in concert with it holding more than 50% of the voting rights of CHH, the Offer cannot become unconditional and will lapse unless it is revised or extended by Honway in accordance with the Code. The Offer, if implemented, will not be subject to any other conditions apart from the condition set out in this paragraph.

Ms. Ng Shuk Ling, Jenny, sister of Mr. Ng Kwok Fu who is a Director, is presumed to be a party acting in concert with Honway under the Code. On 25 January 2006, Ms. Ng Shuk Ling, Jenny sold 10,000 CHH Shares at the price of HK\$6.00 per CHH Share. As at the Latest Practicable Date, save for interests of Honway in the CHH Shares as disclosed above, none of Honway or any parties acting in concert with it owned or controlled any CHH Shares. Furthermore, save for the dealing as disclosed above, none of Honway or any parties acting in concert with it had dealt for value in any CHH Shares during the period commencing from 13 September 2005 to the Latest Practicable Date.

### POSSIBLE AGGREGATE CONSIDERATION TO BE PAID BY HONWAY

Based on the Offer Price and on the basis that the Offer becomes or is declared unconditional, the Offer would value such CHH Shares owned by Independent CHH Shareholders at approximately HK\$860.8 million.

Under the Employee Option Scheme, the share options in respect of 19,200,000 CHH Shares are outstanding and exercisable until 7 May 2011. Based on the “see-through” price of HK\$1.591 per CHH Share (being the Offer Price minus the prevailing exercise price of HK\$2.492 per CHH Share under the Employee Option Scheme) to be offered to the optionholders, an aggregate sum of approximately HK\$30.5 million will be payable if the offer for possible cancellation of all outstanding share options under the Employee Option Scheme are fully accepted by all such optionholders. In the event all outstanding share options under the Employee Option Scheme are exercised before close of the Offer, the Offer shall be extended to all CHH Shares to be issued upon exercise of such share options and the Offer would value those CHH Shares to be issued at approximately HK\$78.4 million.

The aggregate consideration payable by Honway to meet full acceptance of the possible Offer and full payment of the “see-through” price for possible cancellation of all outstanding share options under the Employee Option Scheme will be approximately HK\$891.3 million. The aggregate consideration payable by Honway to meet full acceptance of the possible Offer (assuming all the outstanding share options under the Employee Option Scheme are exercised in full) will be approximately HK\$939.2 million. The funding requirement will be met by the Company’s internal resources and/or bank borrowings.

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## LETTER FROM THE BOARD

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Tai Fook, the financial adviser appointed by the Company and Honway, is satisfied that if the Option shall have been exercised in due course, sufficient resources are available to Honway to satisfy full exercise of the Option and full acceptance of the possible Offer (assuming all the outstanding share options under the Employee Option Scheme are exercised in full).

### **POSSIBILITY OF CHH BECOMING A SUBSIDIARY OF THE COMPANY**

At present, CHH is an associated company of the Company. In the event that the Offer, if implemented, becomes or is declared unconditional upon Honway having received acceptances in respect of voting rights which, together with voting rights acquired or agreed to be acquired before or during the Offer, resulting in Honway and persons acting in concert with it holding more than 50% of the voting rights of CHH, CHH will become a subsidiary of the Company and CHH's financial results will be consolidated into the accounts of the Company.

### **FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP**

The Company is cautiously optimistic about the economic development of Hong Kong in the coming year. Robust economic activities in 2005 helped to boost confidence and revive the property market but it also gave rise to higher inflationary rate and escalating costs of standard of living. Amongst which the business occupancy cost recorded the most notable upswing last year and there is no sign of easing off in view of the strong demand, predominantly from the financial sector.

Rising interest rate has already shown sign of dampening the retail sales but it is widely predicted that interest rate will reach its peak in the second half of 2006 which will help revive the property market, residential in particular.

It is also worth noting that the Government's Budget put heavy emphasis on fiscal prudence to contain public expenditure to below 20% of the gross domestic product of Hong Kong. Nevertheless, there will still be an average of HK\$29 billion to be spent on infrastructure projects each year in the coming few years. This will further improve the unemployment situation which in turn will drive the economy forward.

On the tourist front, it is foreshadowed that tourist arrival will reach another height this year. Coupled with the opening of the Hong Kong Shenzhen Corridor later this year and the implementation of the Closer Economic Partnership Arrangement Phase 3, the Mainland China will undoubtedly form a solid integral part of Hong Kong's economic fundamentals. With the anticipated continual revaluation of Renminbi, visitors from the Mainland will easily be lured to spend more in Hong Kong. On the whole, we anticipate that Hong Kong will enter into a steady stage of growth in the coming year, though it may be predicted to have some market fluctuation due to external volatility factors.

Since the close of the financial year of 2005, the general market sentiment has been positive as the inflow of foreign funds has continued and consumer confidence continued to improve. The Group will benefit from the increase in rental rates due to the prime locations of the Group's major investment properties. Renovation and refurbishment programs have begun as planned for our properties to enhance the investment value and further strengthen the market niche of properties. As projected, the interest rates has continued to increase since the end of 2005, however it is expected that interest rate may reach its peak in the second half of the year. The Group is still cautiously optimistic about the economic development of Hong Kong for the rest of 2006.

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## LETTER FROM THE BOARD

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The Board is positive on the outlook of the Enlarged Group after the exercise of the Option and the possible Offer. Since the acquisition of CHH, which became an associated company of the Company in March 2001, CHH has been able to produce steady and healthy growth in net profit contribution to the Group. The Board is optimistic that CHH will continue to provide strong stable and recurring revenue and profit contributions to the Enlarged Group, and to improve the asset base of the Enlarged Group substantially.

Barring any unforeseen circumstances, the Board expects the Enlarged Group's operating performance to further improve in the coming financial year than the year of 2005.

The Enlarged Group will continue to regard Hong Kong as a major base for its long-term investment. It will continue to strive to enhance and preserve the value of the Enlarged Group's assets by implementing necessary renovation and improvement programmes in the Enlarged Group's buildings, in addition to strategically re-positioning the Enlarged Group's properties in a timely fashion to tap the market demand. The Enlarged Group will maintain property investment, operation of driving training centres, operation and management of tunnels as its core business and will also actively explore opportunities both locally and in the Mainland China to further broaden its asset base. In search of these opportunities, its focus will not be confined to property assets but other quality investments with stable recurrent return as well. The Enlarged Group holds the view that suitable diversity of business may not only spread the investment risks but can yield stable return while sustaining its business growth under volatile market climate.

### **FINANCIAL EFFECTS OF THE POSSIBLE EXERCISE OF OPTION AND POSSIBLE OFFER**

Shareholders are drawn to the attention that the following information pertaining to the unaudited pro forma financial information on the Enlarged Group is extracted from Appendix IV to this circular headed "Unaudited pro forma financial information on the Enlarged Group", which is prepared in accordance with Rule 4.29 of the Listing Rules. The unaudited pro forma consolidated financial information on the Enlarged Group is based on the audited financial statements of the Group and the CHH Group for the year ended 31 December 2005. Shareholders' attention is also drawn to the notes to the unaudited pro forma financial information on the Enlarged Group as set out in Appendix IV.

The unaudited pro forma financial information on the Enlarged Group is prepared to provide information about how the possible exercise of the Option and the possible Offer might have affected the relevant financial information of the Enlarged Group as at 31 December 2005 and for the year ended 31 December 2005. As it is for illustrative purpose only and because of its nature, it may not give a true picture of the results and financial position of the Enlarged Group for any future financial periods or date.

#### **Financial effects on the Group**

##### *Assets and liabilities*

As at 31 December 2005, the audited consolidated net asset value of the Group amounted to approximately HK\$2,336.4 million representing approximately HK\$2.92 per share (based on 799,557,415 Y. T. Shares in issue at that date). Based on the unaudited pro forma financial information on the Enlarged Group as set out in Appendix IV to this circular, the unaudited pro forma adjusted

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## LETTER FROM THE BOARD

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combined total assets of the Enlarged Group will be approximately HK\$4,775.2 million and the unaudited pro forma adjusted combined total liabilities will be approximately HK\$1,522.3 million, and the unaudited pro forma adjusted combined net asset value attributable to equity shareholders of the Company will be approximately HK\$2,615.6 million, representing approximately HK\$3.27 per share, based on 799,557,415 Y. T. Shares as at 31 December 2005.

### *Earnings*

For the year of 2005, the audited consolidated profit of the Group amounted to approximately HK\$250.7 million, representing approximately HK31.4 cents basic earnings per share, based on 799,202,347 weighted average number of Y. T. Shares for 2005. Based on the unaudited pro forma adjusted income statement of the Enlarged Group as set out in Appendix IV to this circular, the profit attributable to the equity shareholders of the Company will be approximately HK\$286.5 million, representing approximately HK35.8 cents basic earnings per share, based on 799,202,347 weighted average number of Y. T. Shares for the year ended 31 December 2005.

### INFORMATION ABOUT CHH

CHH is listed on the Stock Exchange and the CHH Group is principally engaged in investment holdings, the operation of driver training centres and, through its associated companies, in the operations of the Western Harbour Tunnel and an electronic toll collection system.

The following table shows the audited consolidated accounts of CHH for the two financial years ended 31 December 2005:

	<b>financial year ended 31 December 2005</b>	<b>financial year ended 31 December 2004 (restated)</b>
	<i>HK\$</i>	<i>HK\$</i>
Net profits (before taxation and before minority interest)	194,825,000	167,579,000
Net profits per CHH Share (before taxation and before minority interest)	0.67	0.66
Net profits (after taxation and before minority interest)	180,462,000	155,786,000
Net profits per CHH Share (after taxation and before minority interest)	0.62	0.61
Net asset attributable to shareholders of CHH	2,117,478,000	1,957,506,000
Net asset attributable to shareholders of CHH per CHH Share	7.04	7.00

### INFORMATION ABOUT THE COMPANY

The Company is listed on the Stock Exchange and the Group is engaged in investment holding, property investment and property trading. The Company is an associated company of Yugang. As mentioned above, CHH is currently an associated company of the Company.

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## LETTER FROM THE BOARD

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### LISTING RULES IMPLICATIONS ON THE COMPANY

Assuming the Option is exercised (Honway has already confirmed it will be exercised in full within 5 days of fulfilment of pre-condition (i) as set out in the paragraph headed “Possible Offer” above) obliging Honway to make the Offer under Rule 26.1 of the Code, the possible acquisition of CHH Shares by Honway upon exercise of the Option and the implementation of the Offer (on the assumption that the Offer becomes or is declared unconditional as to acceptance in accordance with the Code), constitutes a very substantial acquisition of the Company and is subject to the approval by the Shareholders at the SGM pursuant to Rule 14.49 of the Listing Rules. As far as the Directors are aware, as at the Latest Practicable Date, no Shareholder is required to abstain from voting on the resolution to approve the exercise of the Option and the implementation of the Offer at the SGM.

### FUTURE INTENTION OF THE COMPANY AND HONWAY

The Company and Honway do not intend to make any material changes to the principal activities or management of the CHH Group.

### CONTINUATION OF LISTING OF CHH

It is the intention of the Company and Honway that the listing of the CHH Shares on the Stock Exchange should be maintained. Honway has undertaken to the Stock Exchange that appropriate steps will be taken by Honway as soon as practicable following the closing of the Offer to ensure that not less than 25% of the CHH Shares will be held in public hands.

The Stock Exchange has indicated that, in the event less than 25% of the CHH Shares are held in public hands following the closing of the Offer, or if the Stock Exchange believes that a false market exists or may exist in the trading of CHH Shares or there are insufficient CHH Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend trading in the CHH Shares.

The Stock Exchange has also indicated that it will closely monitor all future acquisitions or disposals of assets by CHH. If CHH remains listed on the Stock Exchange, any future acquisitions or disposals of assets by the CHH Group will be subject to the provisions of the Listing Rules. Pursuant to the Listing Rules, the Stock Exchange has discretion to require CHH to issue a circular to its shareholders when any acquisition or disposal of assets by the CHH Group is proposed, irrespective of the size of such acquisition and disposal of assets by the CHH Group, particularly where such proposed acquisition and disposal of assets by the CHH Group represents a departure from the principal activities of the CHH Group. The Stock Exchange has the power pursuant to the Listing Rules to aggregate a series of acquisitions and disposals of assets by the CHH Group and any such acquisitions and disposals of assets may result in CHH being treated as a new listing applicant for listing and subject to the requirements for new listing application as set out in the Listing Rules.

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## LETTER FROM THE BOARD

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### SGM

Set out on pages 193 and 194 of this circular is a notice convening the SGM which will be held at Rooms 3301-3307, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong on Thursday, 18 May 2006 at 9:00 a.m. at which an ordinary resolution will be proposed to the Shareholders to consider and, if thought fit, to approve the exercise of the Option and the implementation of the Offer. To the best knowledge of the Directors, as at the Latest Practicable Date, no Shareholder is required to abstain from voting on the ordinary resolution to approve the exercise of the Option and the implementation of the Offer at the SGM. As mentioned above, Funrise Limited, being interested in 273,000,000 Y. T. Shares (representing approximately 34.14% of the issued share capital of the Company), has confirmed to the Company that it will procure exercise of all voting rights attached to such Y. T. Shares controlled by Funrise Limited to vote in favour of such ordinary resolution.

The form of proxy for use by the Shareholders at the SGM is enclosed with this circular. Whether or not you intend to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same, together with any power of attorney or other authority (if any) under which it is signed must be delivered to the Company's principal place of business in Hong Kong at Rooms 3301-3307, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong as soon as possible, and in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of a form of proxy shall not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

An announcement will be made by the Company following the conclusion of the SGM to inform Shareholders of its results.

### RECOMMENDATION

The Directors consider that the exercise of the Option and the implementation of the Offer is fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Directors therefore recommend the Shareholders to vote in favour of the ordinary resolution to approve the exercise of the Option and the implementation of the Offer at the SGM.

### ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices of this circular.

The Shareholders and potential investors in the Company should note that the exercise of the Option and the implementation of the Offer are subject to the approval of the Shareholders and may or may not materialise and therefore should exercise caution when dealing in the Y. T. Shares.

Your faithfully,  
For and on behalf of the board  
**Y. T. Realty Group Limited**  
**Wong Chi Keung**  
*Managing Director*



## I. SUMMARY OF AUDITED FINANCIAL STATEMENTS

Set out below is a summary of the audited consolidated results and assets and liabilities of the Group for each of the three years ended 31 December 2005 as extracted from the published annual reports of the Company for the three years ended 31 December 2005.

## CONSOLIDATED INCOME STATEMENT

	For the year ended 31 December		
	2005 HK\$'000	2004 HK\$'000 (Restated)	2003 HK\$'000 (Restated)
<b>REVENUE</b>	93,942	89,843	105,640
Direct outgoings	(5,754)	(5,660)	(5,389)
Cost of properties sold	—	(4,462)	(10,659)
	<u>88,188</u>	<u>79,721</u>	<u>89,592</u>
Other income and gains (net of direct outgoings)	4,148	7,912	8,643
Administrative expenses	(26,658)	(17,309)	(15,225)
Other operating expenses	(3,547)	(35,978)	(17,827)
Finance costs	(25,498)	(13,002)	(23,052)
Changes in fair value of investment properties	179,249	70,261	(26,656)
Gain on disposal of partial interest in an associate	1,977	—	—
Fair value loss of an unlisted share option granted by an associate	(10,529)	—	—
Fair value gain of an unlisted convertible note granted by an associate	36,050	—	—
Reversal of write-down/(write-down) of properties held for sale	28	70	(106)
(Impairment loss)/write-back of impairment loss on other investments	(233)	(669)	853
Write-back of provision for impairment loss on property held for development	—	—	9,562
Share of results of associates	47,068	38,823	24,110
Amortisation of goodwill on acquisition of an associate	—	(12,707)	(13,236)
<b>PROFIT BEFORE TAX</b>	<u>290,243</u>	<u>117,122</u>	<u>36,658</u>
Tax	<u>(39,555)</u>	<u>(22,721)</u>	<u>(8,111)</u>
<b>PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>	<u><u>250,688</u></u>	<u><u>94,401</u></u>	<u><u>28,547</u></u>
PROPOSED FINAL DIVIDEND	<u><u>19,989</u></u>	<u><u>15,991</u></u>	<u><u>11,957</u></u>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY</b>			
Basic earnings per share	<u>HK31.4 cents</u>	<u>HK11.8 cents</u>	<u>HK3.6 cents</u>
Diluted earnings per share	<u>HK31.4 cents</u>	<u>N/A</u>	<u>N/A</u>
<b>DIVIDEND PER SHARE</b>	<u><u>HK2.5 cents</u></u>	<u><u>HK2.0 cents</u></u>	<u><u>HK1.5 cents</u></u>

## CONSOLIDATED BALANCE SHEET

	<b>As at 31 December</b>		
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> <i>(Restated)</i>	2003 <i>HK\$'000</i> <i>(Restated)</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	1,870	983	1,424
Investment properties	1,927,840	1,747,770	1,767,370
Interests in associates	860,382	812,554	797,673
Other investments	1,235	1,468	1,913
Deferred tax assets	415	23,706	35,365
Property held for development	—	—	63,434
Total non-current assets	<u>2,791,742</u>	<u>2,586,481</u>	<u>2,667,179</u>
<b>CURRENT ASSETS</b>			
Properties held for sale	1,988	1,960	6,300
Trade debtors	1,416	1,111	9,293
Other debtors, deposits and prepayments	52,508	14,185	52,725
Unlisted share option granted by an associate	92,132	—	—
Non-interest-bearing loan to an associate	20,000	—	—
Tax recoverable	859	—	—
Cash and bank balances	49,344	51,956	40,146
Total current assets	<u>218,247</u>	<u>69,212</u>	<u>108,464</u>
<b>CURRENT LIABILITIES</b>			
Trade creditors	1,276	919	1,359
Other payables and accrued expenses	55,732	53,620	53,472
Bank loans, secured	172,000	196,500	356,000
Tax payable	—	1,798	1,437
Total current liabilities	<u>229,008</u>	<u>252,837</u>	<u>412,268</u>
<b>NET CURRENT LIABILITIES</b>	<u>(10,761)</u>	<u>(183,625)</u>	<u>(303,804)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<u>2,780,981</u>	<u>2,402,856</u>	<u>2,363,375</u>
<b>NON-CURRENT LIABILITIES</b>			
Bank loans, secured	368,500	399,000	483,000
Deferred tax liabilities	76,122	63,876	58,543
Total non-current liabilities	<u>444,622</u>	<u>462,876</u>	<u>541,543</u>
Net assets	<u>2,336,359</u>	<u>1,939,980</u>	<u>1,821,832</u>
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the Company</b>			
Issued share capital	79,956	79,716	79,716
Reserves	2,236,414	1,844,273	1,730,159
Proposed final dividend	19,989	15,991	11,957
Total equity	<u>2,336,359</u>	<u>1,939,980</u>	<u>1,821,832</u>

## II. FINANCIAL STATEMENTS FOR THE GROUP FOR THE TWO YEARS ENDED 31 DECEMBER 2005

Set out below is the audited consolidated financial statements of the Group for the year ended 31 December 2005 together with the relevant notes thereto as extracted from the annual report of the Company for the year ended 31 December 2005.

### CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2005

	<i>Notes</i>	<b>2005</b> <i>HK\$'000</i>	2004 <i>HK\$'000</i> <i>(Restated)</i>
<b>REVENUE</b>	5	93,942	89,843
Direct outgoings		(5,754)	(5,660)
Cost of properties sold		—	(4,462)
		<u>88,188</u>	<u>79,721</u>
Other income and gains (net of direct outgoings)	5	4,148	7,912
Administrative expenses		(26,658)	(17,309)
Other operating expenses		(3,547)	(35,978)
Finance costs	6	(25,498)	(13,002)
Changes in fair value of investment properties		179,249	70,261
Gain on disposal of partial interest in an associate		1,977	—
Fair value loss of an unlisted share option granted by an associate	22	(10,529)	—
Fair value gain of an unlisted convertible note granted by an associate		36,050	—
Reversal of write-down of properties held for sale		28	70
Impairment loss on other investments		(233)	(669)
Share of results of associates		47,068	38,823
Amortisation of goodwill on acquisition of an associate		—	(12,707)
		<u>290,243</u>	<u>117,122</u>
<b>PROFIT BEFORE TAX</b>	7	290,243	117,122
Tax	10	(39,555)	(22,721)
		<u>(39,555)</u>	<u>(22,721)</u>
<b>PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>	11	<u>250,688</u>	<u>94,401</u>
PROPOSED FINAL DIVIDEND	12	<u>19,989</u>	<u>15,991</u>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY</b>			
Basic earnings per share	13	HK31.4 cents	HK11.8 cents
Diluted earnings per share	13	<u>HK31.4 cents</u>	<u>N/A</u>
<b>DIVIDEND PER SHARE</b>		<u>HK2.5 cents</u>	<u>HK2.0 cents</u>

## CONSOLIDATED BALANCE SHEET

As at 31 December 2005

	<i>Notes</i>	<b>2005</b> <i>HK\$'000</i>	2004 <i>HK\$'000</i> <i>(Restated)</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	<i>14</i>	1,870	983
Investment properties	<i>15</i>	1,927,840	1,747,770
Interests in associates	<i>18</i>	860,382	812,554
Other investments	<i>19</i>	1,235	1,468
Deferred tax assets	<i>25</i>	415	23,706
Total non-current assets		<u>2,791,742</u>	<u>2,586,481</u>
<b>CURRENT ASSETS</b>			
Properties held for sale	<i>20</i>	1,988	1,960
Trade debtors	<i>21</i>	1,416	1,111
Other debtors, deposits and prepayments		52,508	14,185
Unlisted share option granted by an associate	<i>22</i>	92,132	—
Non-interest-bearing loan to an associate	<i>22</i>	20,000	—
Tax recoverable		859	—
Cash and bank balances		49,344	51,956
Total current assets		<u>218,247</u>	<u>69,212</u>
<b>CURRENT LIABILITIES</b>			
Trade creditors	<i>23</i>	1,276	919
Other payables and accrued expenses		55,732	53,620
Bank loans, secured	<i>24</i>	172,000	196,500
Tax payable		—	1,798
Total current liabilities		<u>229,008</u>	<u>252,837</u>
<b>NET CURRENT LIABILITIES</b>		<u>(10,761)</u>	<u>(183,625)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>2,780,981</u>	<u>2,402,856</u>
<b>NON-CURRENT LIABILITIES</b>			
Bank loans, secured	<i>24</i>	368,500	399,000
Deferred tax liabilities	<i>25</i>	76,122	63,876
Total non-current liabilities		<u>444,622</u>	<u>462,876</u>
Net assets		<u>2,336,359</u>	<u>1,939,980</u>
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the Company</b>			
Issued share capital	<i>26</i>	79,956	79,716
Reserves		2,236,414	1,844,273
Proposed final dividend	<i>12</i>	19,989	15,991
Total equity		<u>2,336,359</u>	<u>1,939,980</u>

**BALANCE SHEET***As at 31 December 2005*

	<i>Notes</i>	<b>2005</b> <i>HK\$'000</i>	2004 <i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Interests in subsidiaries	17	1,747,571	1,545,276
<b>CURRENT ASSETS</b>			
Other receivables		224	79
Tax recoverable		—	5
Cash and bank balances		115	123
Total current assets		<u>339</u>	<u>207</u>
<b>CURRENT LIABILITIES</b>			
Other payables		419	567
Tax payable		4	—
Total current liabilities		<u>423</u>	<u>567</u>
<b>NET CURRENT LIABILITIES</b>		<u>(84)</u>	<u>(360)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>1,747,487</u>	<u>1,544,916</u>
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the Company</b>			
Issued share capital	26	79,956	79,716
Reserves	27	1,647,542	1,449,209
Proposed final dividend	12	19,989	15,991
Total equity		<u>1,747,487</u>	<u>1,544,916</u>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2005

		Attributable to equity holders of the Company										
		Issued share capital	Share premium account	Capital redemption reserve	Capital reserve	Investment property revaluation reserve	Contributed surplus	Investment revaluation reserve of associates	Other reserves	Retained profits	Proposed final dividend	Total
Notes		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2004:												
		79,716	94,535	1,350	1,800	—	1,321,935	8,620	—	315,296	11,957	1,835,209
	2.4	—	—	—	—	—	—	—	—	(13,377)	—	(13,377)
		79,716	94,535	1,350	1,800	—	1,321,935	8,620	—	301,919	11,957	1,821,832
Share of changes in fair value of available-for-sale securities of associates												
		—	—	—	—	—	—	31,166	—	—	—	31,166
Changes in fair value of investment properties												
		—	—	—	—	4,175	—	—	—	—	—	4,175
Share of impairment loss of available-for-sale securities of associates recognised in the income statement												
		—	—	—	—	—	—	363	—	—	—	363
Total income and expense for the year recognised directly in equity												
		—	—	—	—	4,175	—	31,529	—	—	—	35,704
Profit for the year (as restated)												
		—	—	—	—	—	—	—	—	94,401	—	94,401
Total income and expense for the year												
		—	—	—	—	4,175	—	31,529	—	94,401	—	130,105
2003 final dividend declared												
		—	—	—	—	—	—	—	—	—	(11,957)	(11,957)
Proposed 2004 final dividend												
	12	—	—	—	—	—	—	—	—	(15,991)	15,991	—
At 31 December 2004												
		79,716	94,535	1,350	1,800	4,175	1,321,935	40,149	—	380,329	15,991	1,939,980

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the year ended 31 December 2005

		Attributable to equity holders of the Company										
		Issued share capital	Share premium account	Capital redemption reserve	Investment property Capital reserve	Investment revaluation reserve	Contributed surplus	Investment revaluation reserve of associates	Other reserves	Retained profits	Proposed final dividend	Total
Notes		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2005:												
		79,716	94,535	1,350	1,800	4,175	1,321,935	40,149	—	402,191	15,991	1,961,842
	2.4	—	—	—	—	—	—	—	—	(21,862)	—	(21,862)
	2.4	—	—	—	—	(4,175)	—	—	(4,962)	161,750	—	152,613
		<u>79,716</u>	<u>94,535</u>	<u>1,350</u>	<u>1,800</u>	<u>—</u>	<u>1,321,935</u>	<u>40,149</u>	<u>(4,962)</u>	<u>542,079</u>	<u>15,991</u>	<u>2,092,593</u>
Share of changes in fair value of available-for-sale securities of associates												
		—	—	—	—	—	—	4,021	—	—	—	4,021
Share of loss on disposal of available-for-sale securities of an associate												
		—	—	—	—	—	—	(5,924)	—	—	—	(5,924)
Share of changes in fair value of financial instruments of an associate												
		—	—	—	—	—	—	—	9,529	—	—	9,529
Total income and expense for the year recognised directly in equity												
		—	—	—	—	—	—	(1,903)	9,529	—	—	7,626
Profit for the year												
		<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>250,688</u>	<u>—</u>	<u>250,688</u>
Total income and expense for the year												
		—	—	—	—	—	—	(1,903)	9,529	250,688	—	258,314
Employee share options exercised												
	26	240	1,203	—	—	—	—	—	—	—	—	1,443
2004 final dividend declared												
	12	—	—	—	—	—	—	—	—	—	(15,991)	(15,991)
Proposed 2005 final dividend												
	12	—	—	—	—	—	—	—	—	(19,989)	19,989	—
At 31 December 2005												
		<u>79,956</u>	<u>95,738</u>	<u>1,350</u>	<u>1,800</u>	<u>—</u>	<u>1,321,935</u>	<u>38,246</u>	<u>4,567</u>	<u>772,778</u>	<u>19,989</u>	<u>2,336,359</u>

## CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2005

	<i>Notes</i>	<b>2005</b> <i>HK\$'000</i>	2004 <i>HK\$'000</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net cash inflow generated from operations	29(a)	21,387	109,866
Interest paid		(24,009)	(13,029)
Hong Kong profits tax paid		(7,032)	(5,752)
Hong Kong profits tax refunded		357	393
<b>Net cash (outflow)/inflow from operating activities</b>		<u>(9,297)</u>	<u>91,478</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest received		3,783	3,608
Capital return from other investments		—	516
Dividends received from an associate		23,842	14,910
Additions to investment properties		(821)	(1,895)
Purchases of items of property, plant and equipment		(1,457)	(43)
Proceeds from disposal of an item of property, plant and equipment		320	—
Proceeds from disposal of partial interest in an associate		50,566	—
Payment for development expenditure for a property held for development		—	(16)
Proceeds from disposal of an investment property		—	96,000
Additions to other investments		—	(740)
Disposal of a subsidiary	29(b)	—	63,449
<b>Net cash inflow from investing activities</b>		<u>76,233</u>	<u>175,789</u>
<b>Net cash inflow before financing activities</b>		<u>66,936</u>	<u>267,267</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of shares	26	1,443	—
New bank loans		234,363	—
Repayment of bank loans		(289,363)	(243,500)
Dividend paid		(15,991)	(11,957)
<b>Net cash outflow from financing activities</b>		<u>(69,548)</u>	<u>(255,457)</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		(2,612)	11,810
<b>Cash and cash equivalents as at 1 January</b>		51,956	40,146
<b>CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER</b>		<u>49,344</u>	<u>51,956</u>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances		5,816	48,304
Non-pledged time deposit with original maturity of less than three months when acquired		43,528	3,652
		<u>49,344</u>	<u>51,956</u>



**NOTES TO FINANCIAL STATEMENTS***As at 31 December 2005***1 CORPORATE INFORMATION**

Y. T. Realty Group Limited is a limited liability company incorporated in Bermuda. The principal place of business of the Company is located at Rooms 3301-07, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong.

During the year, the Group was involved in the following principal activities:

- (a) Property trading and investments;
- (b) Provision of property management and related services; and
- (c) Investment holding.

**2.1 BASIS OF PREPARATION**

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which also include Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, a convertible note and an unlisted share option granted by an associate, which have been measured at fair values. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

**Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2005. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

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

HKAS 1	Presentation of Financial Statements
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs

HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations
HK(SIC)-Int 21	Income Taxes — Recovery of Revalued Non-depreciable Assets
HK-Int 4	Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKASs 7, 8, 10, 12, 14, 16, 17, 18, 19, 21, 23, 27, 28, 33, 37, 38, HKFRS 2 and 5, and HK-Int 4 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 1 has affected some disclosures which include specifying disclosures as our key sources of estimation uncertainty at the balance sheet. In addition, in prior periods, the Group's share of tax attributable to associates was presented as a component of the Group's total tax charge/(credit) in the consolidated income statement. Upon the adoption of HKAS 1, the Group's share of the post-acquisition results of associates is presented net of the Group's share of tax attributable to associates.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

The impact of adopting the other HKFRSs is summarised as follows:

(a) **HKAS 32 and HKAS 39 - Financial Instruments**

(i) Share option

In prior years, the Group classified its unlisted share option granted by an associate as interests in associates which was held for non-trading purposes and was stated at cost less any impairment losses.

Upon the adoption of HKASs 32 and 39, the unlisted share option granted by an associate is designated as an investment at fair value through profit or loss and is initially recognised at fair value on the date a derivative contract is entered into and is subsequently remeasured at its fair value unless it is designated as hedge. Changes in fair value are recognised immediately in the income statement. Assets in this category are classified as current assets if they are either held through profit or loss or are expected to be realised within 12 months of the balance sheet date.

The fair value of the unlisted share option is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; a discounted cash flow analysis and option pricing models.

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

(ii) Convertible note

In prior years, the Group classified its convertible note granted by an associate as interests in associates which was held for non-trading purposes and was stated at cost less any impairment losses.

Upon the adoption of HKAS 39, the Group designated the convertible note as accounted for at fair value through profit or loss. Convertible note receivable should be initially recognised at fair value on the date the contract was entered into and is subsequently remeasured at its fair value unless it is designated as hedge. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of the convertible note are recognised in the income statement.

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

(iii) Cash flow hedges

In prior years, derivative financial instruments entered into by an associate to hedge the interest rate risk of a recognised asset or liability or the foreign currency risk of a committed future transaction were recognised on an accruals basis with reference to the timing of recognition of the hedged transaction.

Upon the adoption of HKAS 39, all derivative financial instruments entered into by an associate are stated at fair values. Changes in the fair value of derivatives held as hedging instruments in a cash flow hedge are recognised in equity to the extent that the hedge is effective and until the hedged transaction occurs. Any other changes in fair value of the derivatives are recognised in the income statement.

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

(b) **HKAS 40 - Investment Property**

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

Upon the adoption of HKAS 40, gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise. In accordance with the transitional provisions HKAS 40, the Group adopted the new accounting policy prospectively and the opening balance of retained profits has been adjusted at 1 January 2005 with the corresponding entry to investment property revaluation reserve. In addition, comparative amounts have not been restated. The effects of the above changes are summarised in note 2.4 to the financial statements.

(c) **HKFRS 3 - Business Combinations and HKAS 36 - Impairment of Assets**

Goodwill arising on acquisitions of associates on or after 1 January 2001 was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment. Negative goodwill was included in the interests in associates and was recognised in the income statement on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets.

The adoption of HKFRS 3 and HKAS 36 has resulted in the Group ceasing annual goodwill amortisation and commencing testing for impairment at the cash-generating unit level annually (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired).

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

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 January 2005 the carrying amounts of accumulated amortisation with a corresponding entry to the cost of goodwill and to derecognise at 1 January 2005 the carrying amounts of negative goodwill relating to an associate against retained profits. Goodwill previously eliminated against capital reserve remains eliminated against the capital reserve and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

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

(d) **HK(SIC)-Int 21 - Income Taxes - Recovery of Revalued Non-depreciable Assets**

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

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

The effects of the above changes are summarised in note 2.4 to the financial statements. The changes have been adopted retrospectively from the earliest period presented and comparative amounts have been restated.

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

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

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

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

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

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

The HKAS 19 Amendment, HKAS 39 Amendment regarding cash flow hedge accounting of forecast intragroup transactions, HKFRSs 1 and 6 Amendments, HKFRS 6, HK(IFRIC)-Int 5 and HK(IFRIC)-Int 6 do not apply to the activities of the Group. HK(IFRIC)-Int 6 shall be applied for annual periods beginning on or after 1 December 2005.

The Group has already commenced an assessment of the impact of the new and revised HKFRSs but not yet in a position to state whether these new and revised HKFRSs would have a significant impact on the Group's financial statements in the period of initial application.

## 2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

## (a) Effect on the consolidated balance sheet

At 1 January 2005	Effect of adopting						Total
	HKASs 32 and 39*	HKASs 32 and 39*	HKASs 32 and 39* In respect of share of first time recognition of fair value of financial instruments of associates	HKAS 40*	HKFRS 3*	HK(SIC)- Int 21# Deferred tax on changes in fair value of investment properties	
Effect of new policies (Increase/(decrease))	Change in classification of financial instruments	In respect of first time recognition of fair value of financial instruments	Changes in fair value of investment properties	Derecognition of negative goodwill			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<u>Assets</u>							
Interests in associates	(20,000)	(4,387)	(6,876)	—	25,092	—	(6,171)
Deferred tax assets	—	—	—	—	—	23,706	23,706
Unlisted share option granted by an associate	—	102,661	—	—	—	—	102,661
Unlisted convertible note granted by an associate	—	36,123	—	—	—	—	36,123
Non-interest-bearing loan to an associate	20,000	—	—	—	—	—	20,000
							<u>176,319</u>
<u>Liabilities/equity</u>							
Deferred tax liabilities	—	—	—	—	—	45,568	45,568
Investment property revaluation reserve	—	—	—	(4,175)	—	—	(4,175)
Other reserves	—	—	(4,962)	—	—	—	(4,962)
Retained profits	—	134,397	(1,914)	4,175	25,092	(21,862)	<u>139,888</u>
							<u>176,319</u>

\* Adjustment taken effect prospectively from 1 January 2005

# Adjustments/presentation taken effect retrospectively

## (a) Effect on the consolidated balance sheet (continued)

At 31 December 2005	Effect of adopting						HK(SIC)- Int 21	Total
	HKASs 32 and 39	HKASs 32 and 39	HKASs 32 and 39	HKAS 40	HKFRS 3	HK(SIC)- Int 21		
Effect of new policies (Increase/(decrease))	Change in classification of financial instruments	In respect of changes in fair value and derecognition of financial instruments	In respect of share of changes in fair value of financial instruments of associates	Changes in fair value of investment properties	Goodwill and negative goodwill	Deferred tax on changes in fair value of investment properties	HK\$'000	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
<u>Assets</u>								
Interests in associates	(20,000)	67,786	4,567	—	38,290	—	90,643	
Deferred tax assets	—	—	—	—	—	415	415	
Unlisted share option granted by an associate	—	92,132	—	—	—	—	92,132	
Non-interest-bearing loan to an associate	20,000	—	—	—	—	—	<u>20,000</u>	
							<u>203,190</u>	
<u>Liabilities/equity</u>								
Deferred tax liabilities	—	—	—	—	—	41,561	41,561	
Investment property revaluation reserve	—	—	—	(183,424)	—	—	(183,424)	
Other reserves	—	—	4,567	—	—	—	4,567	
Retained profits	—	159,918	—	183,424	38,290	(41,146)	<u>340,486</u>	
							<u>203,190</u>	

## (b) Effect on the balances of equity at 1 January 2004 and at 1 January 2005

	Effect of adopting					Total HK\$'000
	HKASs 32 and 39	HKASs 32 and 39 In respect of share of first time recognition of fair value of financial instruments of associates	HKAS 40	HKFRS 3	HK(SIC)- Int 21 Deferred tax on changes in fair value of investment properties	
Effect of new policies (Increase/(decrease))	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
1 January 2004						
Retained profits	—	—	—	—	(13,377)	(13,377)
						(13,377)
1 January 2005						
Investment property revaluation reserve	—	—	(4,175)	—	—	(4,175)
Other reserves	—	(4,962)	—	—	—	(4,962)
Retained profits	134,397	(1,914)	4,175	25,092	(21,862)	139,888
						130,751



## (c) Effect on the consolidated income statement for the years ended 31 December 2004 and 2005

	Effect of adopting					Total HK\$'000
	HKASs 32 and 39 In respect of changes in fair value and derecognition of financial instruments	HKASs 32 and 39 In respect of share of changes in fair value of financial instruments of associates	HKAS 40 Changes in fair value of investment properties	HKFRS 3 Discontinuation of amortisation of goodwill and negative goodwill	HK(SIC)-Int 21 Deferred tax on changes in fair value of investment properties	
Effect of new policies	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<u>Year ended 31 December 2004</u>						
Increase in tax	—	—	—	—	(8,485)	(8,485)
Total decrease in profit	—	—	—	—	(8,485)	(8,485)
Decrease in basic earnings per share	—	—	—	—	HK(1.1) cents	HK(1.1) cents
<u>Year ended 31 December 2005</u>						
Changes in fair value of investment properties	—	—	179,249	—	—	179,249
Loss arising from changes in fair value of an unlisted share option granted by an associate	(10,529)	—	—	—	—	(10,529)
Gain arising from changes in fair value of an unlisted convertible note granted by an associate	36,050	—	—	—	—	36,050
Share of changes in fair value of financial instruments of associates	—	1,914	—	—	—	1,914
Derecognition of amortisation of goodwill and negative goodwill on acquisition of an associate	—	—	—	13,198	—	13,198
Increase in tax	—	—	—	—	(19,284)	(19,284)
Total increase/ (decrease) in profit	25,521	1,914	179,249	13,198	(19,284)	200,598
Increase/(decrease) in basic earnings per share	HK3.2 cents	HK0.2 cents	HK22.4 cents	HK1.7 cents	HK(2.4) cents	HK25.1 cents

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Subsidiaries

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

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

### (b) Associates

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

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill or negative goodwill arising from the acquisition of associates is included as part of the Group's interests in associates.

Upon the adoption of HKFRS 3, negative goodwill was derecognised at 1 January 2005 with corresponding adjustment to the retained profits.

### (c) Goodwill

Goodwill arising on the acquisition of an associate represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets, liabilities and contingent liabilities as at the date of acquisition.

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

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

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

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

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

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

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

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

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

*Goodwill previously eliminated against the consolidated reserves*

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

(d) **Impairment of assets**

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

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

(e) **Related parties**

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

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

- (ii) the party is an associate;
- (iii) the party is a jointly-controlled entity;
- (iv) the party is a member of the key management personnel of the Group or its parent;
- (v) the party is a close member of the family of any individual referred to in (i) or (iv);
- (vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or
- (vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

(f) **Property, plant and equipment and depreciation**

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

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

Leasehold improvements	20%
Office equipment, furniture and fixtures	15%
Computer software	20%
Motor vehicles	20%
Computer equipment	33%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

(g) **Investment properties**

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for property which would otherwise meet the definition of an investment property) held to earn rental income

and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value. Investment properties are valued by external independent valuer at least annually to determine the fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

(h) **Properties held for sale**

Properties held for sale are stated at the lower of cost and net realisable value. Cost includes the cost of land, all development expenditure and other direct costs attributable to such properties. Net realisable value is determined by reference to prevailing market prices on an individual property basis.

(i) **Operating leases**

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

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

*Applicable to the year ended 31 December 2004:*

Investments which are held for non-trading purposes are stated at fair value at the balance sheet date. Changes in the fair value of individual securities are credited or debited to the non-trading investment revaluation reserve until the security is sold, or is determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the investment revaluation reserve, are dealt with in the income statement.

Individual investments are reviewed regularly to determine whether they are impaired. When an investment is considered to be impaired, any relevant loss recorded in the revaluation reserve is taken to the income statement.

Transfers from the investment revaluation reserve to the income statement as a result of impairment are written back in the income statement when the circumstances and events leading to the impairment cease to exist.

*Applicable to the year ended 31 December 2005:*

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

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

#### Financial assets at fair value through profit or loss

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

#### Loans and receivables

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

#### Available-for-sale financial assets

Available-for-sale financial assets of the Group’s associate are those non-derivative financial assets in listed and unlisted equity securities that are designated as available-for-sale or are not classified in any of the other three categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement of the associate.

The Group only shares the profit or loss arising from the fair value changes of the associate’s non-derivative financial assets in the Group’s equity or income statement.

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

#### Fair value

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

**(k) Impairment of financial assets (applicable to the year ended 31 December 2005)**

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

*Assets carried at amortised cost*

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

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

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

*Assets carried at cost*

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

*Available-for-sale financial assets*

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

**(l) Derecognition of financial assets (applicable to the year ended 31 December 2005)**

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

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

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

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

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

(m) **Interest-bearing loans and borrowings**

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

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

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

(n) **Borrowing costs**

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

All other borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

(o) **Convertible notes**

The component of convertible notes issued by an associate that exhibits characteristics of a liability is recognised as a liability in the associate's balance sheet, net of transaction costs. On issuance of convertible notes, the fair value of the liability component is determined using a market rate for an equivalent non-convertible note; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years.

Transaction costs are apportioned between the liability and equity components of the convertible notes based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.



The Group only shares the equity components of the convertible note issued by the associate in the Group's equity.

(p) **Derecognition of financial liabilities (applicable to the year ended 31 December 2005)**

A financial liability of the Group's associate is derecognised when the obligation under the liability is discharged or cancelled or expires.

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

(q) **Hedging (applicable to the year ended 31 December 2005)**

Financial instruments entered into by an associate is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of any gain or loss on the remeasurement of the derivative financial instrument to fair value is recognised directly in equity. The ineffective portion of any gain or loss is recognised immediately in the income statement of its associate.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gain or loss is removed from equity and recognised in the income statement of its associate in the same period or periods during which the asset acquired or liability assumed affects profit or loss (such as when interest income or expense is recognised).

For cash flow hedges, other than those covered by the preceding two policy statements, the associated gain or loss is removed from equity and recognised in the income statement of its associate in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss in equity is recognised immediately in the income statement.

The Group only shares the profit or loss arising from the fair value changes arising from the associate's derivative financial instruments in the Group's equity or income statement.

(r) **Cash and cash equivalents**

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

For the purpose of the balance sheet, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

(s) **Provisions**

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

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

(t) **Income tax**

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

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

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

Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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

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

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

(u) **Revenue recognition**

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

- (i) Sale of properties and property interest, on the execution of legally binding contracts of sale;
- (ii) rental income from properties, in the period in which the properties are let and on the straight-line basis over the lease terms;
- (iii) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;
- (iv) dividend income, when the shareholders' right to receive payment has been established; and
- (v) property management revenue, when the services are rendered.

(v) **Employee benefits**

*Share-based payment transactions*

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. In valuing equity-settled transactions, no account is taken of any performance conditions, other conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

*Pensions scheme*

The Group contributes to a defined contribution Mandatory Provident Fund retirement benefits scheme (the “MPF Scheme”) under the Mandatory Provident Fund Scheme Ordinance, for all of its employees. The Group’s contributions under the scheme are charged to the income statement as incurred. The amount of the Group’s contributions is based on specified percentages of the basic salaries of employees. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group’s employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully in accordance with the rules of the MPF Scheme.

*Paid leave carried forward*

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

**(w) Dividends**

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

**(x) Foreign currencies**

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

**3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATE**

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

**Financial Instruments**

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments. The carrying amount of the unlisted share option granted by an associate at 31 December 2005 was HK\$92,132,000.

**Impairment of goodwill**

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2005 was HK\$227,172,000 (2004: HK\$198,968,000). More details are given in note 16.

**Investment property**

The fair values of the Group's investment properties are determined by independent valuer on an open market for existing use basis. In making the judgement, consideration has been given to assumptions that are mainly based on market conditions existing at the balance sheet date and appropriate capitalisation rates. Relevant estimates are regularly compared to actual market data.

**4 SEGMENT INFORMATION**

Segment information is presented by way of two segment formats: (a) on a primary segment reporting basis, by business segment; and (b) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (a) Property investment;
- (b) Property trading;
- (c) Property management and related services; and
- (d) Operation of driver training centres and tunnel operation and management.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

## (a) Business segments

The following table presents revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2005 and 2004.

**Group  
2005**

	<b>Property investment</b>	<b>Property trading</b>	<b>Property management and related services</b>	<b>Operation of driver training centres and tunnel operation and management</b>	<b>Consolidated</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Segment revenue</b>	82,902	—	11,040	—	93,942
<b>Segment results</b>	240,912	(3,083)	4,015	—	241,844
Unallocated income/(expense), net					(233)
Loss on deemed disposal of partial interest in an associate				(436)	(436)
Finance costs					(25,498)
Gain on disposal of partial interest in an associate				1,977	1,977
Fair value loss of an unlisted share option granted by an associate				(10,529)	(10,529)
Fair value gain of an unlisted convertible note granted by an associate				36,050	36,050
Share of results of associates				47,068	47,068
Profit before tax					290,243
Tax					(39,555)
Profit for the year					250,688
<b>Assets and liabilities</b>					
Segment assets	2,026,969	7,015	982	—	2,034,966
Interests in associates	—	—	—	860,382	860,382
Unlisted share option granted by an associate	—	—	—	92,132	92,132
Non-interest-bearing loan to an associate	—	—	—	20,000	20,000
Unallocated assets					2,509
Total assets					3,009,989
Segment liabilities	575,799	7,864	13,845	—	597,508
Unallocated liabilities					76,122
Total liabilities					673,630
<b>Other segment information:</b>					
Capital expenditure	821	—	1,457	—	2,278
Depreciation	—	—	493	—	493
Changes in fair value of investment properties	179,249	—	—	—	179,249
Reversal of write-down of properties held for sale	—	28	—	—	28
Impairment loss on other investments	—	—	—	—	233

Group  
2004

	Property investment <i>HK\$'000</i> <i>(Restated)</i>	Property trading <i>HK\$'000</i>	Property management and related services <i>HK\$'000</i>	Operation of driver training centres and tunnel operation and management <i>HK\$'000</i> <i>(Restated)</i>	Consolidated <i>HK\$'000</i> <i>(Restated)</i>
<b>Segment revenue</b>	<u>77,957</u>	<u>4,080</u>	<u>7,806</u>	—	<u>89,843</u>
<b>Segment results</b>	<u>135,939</u>	<u>(8,701)</u>	<u>4,994</u>	—	<u>132,232</u>
Unallocated income/(expense), net					(370)
Loss on deemed disposal of partial interest in an associate				(27,854)	(27,854)
Finance costs					(13,002)
Share of results of associates				38,823	38,823
Amortisation of goodwill on acquisition of an associate				(12,707)	(12,707)
Profit before tax					117,122
Tax					(22,721)
Profit for the year					<u>94,401</u>
<b>Assets and liabilities</b>					
Segment assets	1,797,080	10,096	9,220	—	1,816,396
Interests in associates	—	—	—	812,554	812,554
Unallocated assets					<u>26,743</u>
Total assets					<u>2,655,693</u>
Segment liabilities	631,837	7,871	12,129	—	651,837
Unallocated liabilities					<u>63,876</u>
Total liabilities					<u>715,713</u>
<b>Other segment information:</b>					
Capital expenditure	1,924	16	14	—	1,954
Depreciation	—	—	484	—	484
Changes in fair value of investment properties	70,261	—	—	—	70,261
Reversal of write-down of properties held for sale	—	70	—	—	70
Impairment loss on other investments	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>669</u>

## (b) Geographical segments

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments. There are no sales between the geographical segments.

**Group****2005**

	<b>Hong Kong</b> <i>HK\$'000</i>	<b>Mainland China</b> <i>HK\$'000</i>	<b>Consolidated</b> <i>HK\$'000</i>
Segment revenue	<u>93,942</u>	<u>—</u>	<u>93,942</u>
Other segment information:			
Segment assets	3,004,937	5,052	3,009,989
Capital expenditure	<u>2,278</u>	<u>—</u>	<u>2,278</u>

2004

	<b>Hong Kong</b> <i>HK\$'000</i>	<b>Mainland China</b> <i>HK\$'000</i>	<b>Consolidated</b> <i>HK\$'000</i>
Segment revenue	<u>89,843</u>	<u>—</u>	<u>89,843</u>
Other segment information:			
Segment assets	2,647,519	8,174	2,655,693
Capital expenditure	<u>1,925</u>	<u>29</u>	<u>1,954</u>



## 5 REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the aggregate of gross rental income received and receivable from investment properties, the proceeds from sales of properties and property interests, and income from property management and related services.

An analysis of revenue, other income and gains is as follows:

	<b>2005</b>	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Revenue</b>		
Rental income from investment properties	82,902	77,957
Sale of properties and property interests	—	4,080
Income from property management and related services	<u>11,040</u>	<u>7,806</u>
	<u>93,942</u>	<u>89,843</u>
<b>Other income and gains</b>		
Bank interest income	835	65
Interest income on convertible notes granted by an associate	1,138	2,812
Interest income on a loan receivable from a third party	252	299
Rental income net of outgoings on properties held for sale	(5)	18
Reinstatement compensation	643	—
Forfeiture of deposit	—	581
Gain on disposal of an investment property	—	69
Gain on disposal of a subsidiary ( <i>note 29(b)</i> )	—	11
Others	<u>1,285</u>	<u>4,057</u>
	<u>4,148</u>	<u>7,912</u>

## 6 FINANCE COSTS

	<b>Group</b>	
	<b>2005</b>	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank loans, overdrafts and other loans:		
Wholly repayable within five years	7,554	4,020
Not wholly repayable within five years	16,822	8,373
Loan arrangement fees	<u>1,122</u>	<u>609</u>
	<u>25,498</u>	<u>13,002</u>

## 7 PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting) the following:

	2005 HK\$'000	2004 HK\$'000
Depreciation	493	484
Gain on disposal of an item of property, plant and equipment	(243)	—
Loss on deemed disposal of partial interest in an associate #	436	27,854
Provision for doubtful debts	3,111	8,124
Minimum lease payments under operating leases:		
Land and buildings	880	797
Auditors' remuneration	820	610
Staff costs (including executive directors' remuneration (note 8)):		
Wages and salaries	7,456	6,644
Discretionary bonuses	9,652	3,819
Pension scheme contributions *	291	308
	<u>17,399</u>	<u>10,771</u>
Gross rental income	(82,952)	(78,091)
Less: Outgoings	<u>1,515</u>	<u>4,442</u>
Net rental income	<u>(81,437)</u>	<u>(73,649)</u>
Foreign exchange differences, net	<u>460</u>	<u>(5)</u>

# Loss on deemed disposal of partial interest in an associate is included in "other operating expenses" on the face of the consolidated income statement.

\* At 31 December 2005, there were no forfeited contributions available to the Group to reduce its contributions to the pension scheme in future years (2004: Nil).

## 8 DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	<b>Group</b>	
	<b>2005</b>	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees	1,000	700
Other emoluments:		
Basic salaries, housing allowances, other allowances and benefits in kind	2,070	1,940
Discretionary bonuses	8,500	2,750
Pension scheme contributions	98	93
	<u>11,668</u>	<u>5,483</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

(a) **Independent non-executive directors**

The fees paid to the independent non-executive directors during the year were as follows:

	<b>Group</b>	
	<b>2005</b>	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Mr. Wong Wai Kwong, David	400	300
Mr. Wong Yat Fai	100	—
Mr. Ng Kwok Fu	100	—
	<u>600</u>	<u>300</u>

There were no other emoluments payable to the independent non-executive directors during the year (2004: Nil).

## (b) Executive directors and a non-executive director

	Fees <i>HK\$'000</i>	Basic salaries, housing allowance, other allowances and benefits in kind <i>HK\$'000</i>	Discretionary bonuses <i>HK\$'000</i>	Pension scheme contributions <i>HK\$'000</i>	Total remuneration <i>HK\$'000</i>
<b>Group</b>					
<b>2005</b>					
Executive directors:					
Mr. Cheung Chung Kiu	—	—	6,500	1	6,501
Mr. Wong Chi Keung	—	2,070	1,400	96	3,566
Mr. Yuen Wing Shing	—	—	600	1	601
Ms. Tung Wai Lan, Iris	—	—	—	—	—
	—	2,070	8,500	98	10,668
Non-executive director:					
Mr. Lee Ka Sze, Carmelo	400	—	—	—	400
	<u>400</u>	<u>2,070</u>	<u>8,500</u>	<u>98</u>	<u>11,068</u>
<b>2004</b>					
Executive directors:					
Mr. Cheung Chung Kiu	—	—	750	1	751
Mr. Wong Chi Keung	—	1,940	1,200	90	3,230
Mr. Yuen Wing Shing	—	—	600	1	601
Ms. Tung Wai Lan, Iris	—	—	200	1	201
	—	1,940	2,750	93	4,783
Non-executive director:					
Mr. Lee Ka Sze, Carmelo	400	—	—	—	400
	<u>400</u>	<u>1,940</u>	<u>2,750</u>	<u>93</u>	<u>5,183</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

## 9 FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2004: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2004: three) non-director, highest paid employees are as follows:

	Group	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Basic salaries, bonuses, housing allowances, other allowances and benefits in kind	2,435	2,097
Discretionary bonuses	320	335
Pension scheme contributions	96	97
	<u>2,851</u>	<u>2,529</u>

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

	Number of employees	
	2005	2004
HK\$500,001 to HK\$1,000,000	2	2
HK\$1,000,001 to HK\$1,500,000	1	1
	<u>3</u>	<u>3</u>

## 10 TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the year.

	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i> (Restated)
Group:		
Current - Hong Kong	4,048	5,752
Overprovision in prior years	(30)	(23)
	<u>4,018</u>	<u>5,729</u>
Deferred (note 25)	35,537	16,992
	<u>39,555</u>	<u>22,721</u>
Total tax charge for the year	<u>39,555</u>	<u>22,721</u>

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries and associates are domiciled to the tax expense at the effective tax rates is as follows:

**Group**

	<b>2005</b>	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Restated)</i>
Profit before tax	<u>290,243</u>	<u>117,122</u>
Tax at the statutory tax rate of 17.5% (2004: 17.5%)	50,793	20,496
Overprovision of tax in prior years	(30)	(23)
Unrecognised temporary difference	(133)	(220)
Adjustment on deferred tax resulting from the surplus on revaluation of investment properties	—	731
Profit and loss attributable to associates	(8,237)	(6,794)
Income not subject to tax	(6,763)	(279)
Expenses not deductible for tax	2,688	8,876
Tax losses not recognised	1,231	—
Others	<u>6</u>	<u>(66)</u>
Tax charge at the Group's effective rate	<u>39,555</u>	<u>22,721</u>

The share of tax attributable to associates amounting to HK\$10,845,000 (2004: HK\$9,016,000) is included in "share of results of associates" on the face of the consolidated income statement.

**11 PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY**

The profit for the year attributable to equity holders of the Company for the year ended 31 December 2005 dealt with in the financial statements of the Company was net profit of HK\$217,119,000 (2004: HK\$58,000) (note 27).

**12 PROPOSED FINAL DIVIDEND**

	<b>2005</b>	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Proposed final — HK2.5 cents (2004: HK2.0 cents) per ordinary share	<u>19,989</u>	<u>15,991</u>

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

## 13 EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company, and weighted average number of ordinary shares in issue during the year.

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the ordinary shares in issue during the year, as used in the basic earnings per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

A diluted earnings per share amount for the year ended 31 December 2004 has not been disclosed, as the share options outstanding during that year had an anti-dilutive effect on the basic earnings per share for that year.

The calculations of basic and diluted earnings per share are based on:

	<b>2005</b>	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Restated)</i>
<u>Earnings</u>		
Profit for the year attributable to ordinary equity holders of the Company	<u>250,688</u>	<u>94,401</u>
	<b>Number of shares</b>	
	<b>2005</b>	2004
<u>Shares</u>		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	799,202,347	797,157,415
Effect of dilution — weighted average number of ordinary shares:		
Share options	<u>148,944</u>	<u>—</u>
	<u>799,351,291</u>	<u>797,157,415</u>

## 14 PROPERTY, PLANT AND EQUIPMENT

## Group

	Leasehold improvements <i>HK\$'000</i>	Office equipment, and furniture fixtures <i>HK\$'000</i>	Computer software <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Computer equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>31 December 2005</b>						
At 31 December 2004 and at 1 January 2005:						
Cost	743	287	453	923	367	2,773
Accumulated depreciation	<u>(323)</u>	<u>(82)</u>	<u>(358)</u>	<u>(676)</u>	<u>(351)</u>	<u>(1,790)</u>
Net carrying amount	<u>420</u>	<u>205</u>	<u>95</u>	<u>247</u>	<u>16</u>	<u>983</u>
At 1 January 2005, net of accumulated depreciation						
	420	205	95	247	16	983
Additions	—	28	—	1,333	96	1,457
Disposal/write-off	—	—	—	(923)	(204)	(1,127)
Depreciation provided during the year	(148)	(43)	(91)	(192)	(19)	(493)
Write-back of depreciation	<u>—</u>	<u>—</u>	<u>—</u>	<u>846</u>	<u>204</u>	<u>1,050</u>
At 31 December 2005, net of accumulated depreciation						
	<u>272</u>	<u>190</u>	<u>4</u>	<u>1,311</u>	<u>93</u>	<u>1,870</u>
At 31 December 2005:						
Cost	743	315	453	1,333	259	3,103
Accumulated depreciation	<u>(471)</u>	<u>(125)</u>	<u>(449)</u>	<u>(22)</u>	<u>(166)</u>	<u>(1,233)</u>
Net carrying amount	<u>272</u>	<u>190</u>	<u>4</u>	<u>1,311</u>	<u>93</u>	<u>1,870</u>



	Leasehold improvements <i>HK\$'000</i>	Office equipment, furniture and fixtures <i>HK\$'000</i>	Computer software <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Computer equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
31 December 2004						
At 31 December 2003 and at 1 January 2004:						
Cost	743	252	453	923	359	2,730
Accumulated depreciation	<u>(174)</u>	<u>(42)</u>	<u>(268)</u>	<u>(492)</u>	<u>(330)</u>	<u>(1,306)</u>
Net carrying amount	<u>569</u>	<u>210</u>	<u>185</u>	<u>431</u>	<u>29</u>	<u>1,424</u>
At 1 January 2004, net of accumulated depreciation						
Additions	—	35	—	—	8	43
Depreciation provided during the year	<u>(149)</u>	<u>(40)</u>	<u>(90)</u>	<u>(184)</u>	<u>(21)</u>	<u>(484)</u>
At 31 December 2004, net of accumulated depreciation	<u>420</u>	<u>205</u>	<u>95</u>	<u>247</u>	<u>16</u>	<u>983</u>
At 31 December 2004:						
Cost	743	287	453	923	367	2,773
Accumulated depreciation	<u>(323)</u>	<u>(82)</u>	<u>(358)</u>	<u>(676)</u>	<u>(351)</u>	<u>(1,790)</u>
Net carrying amount	<u>420</u>	<u>205</u>	<u>95</u>	<u>247</u>	<u>16</u>	<u>983</u>

## 15 INVESTMENT PROPERTIES

	<b>Group</b>	
	<b>2005</b>	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Carrying amount at 1 January	1,747,770	1,767,370
Additions	821	1,895
Disposals	—	(95,931)
Fair value adjustment		
- recognised in the income statement	179,249	70,261
- recognised in equity	<u>—</u>	<u>4,175</u>
Carrying amount at 31 December	<u>1,927,840</u>	<u>1,747,770</u>

The Group's investment properties included above are held under the following lease terms:

	Hong Kong <i>HK\$'000</i>	Mainland China <i>HK\$'000</i>	Total <i>HK\$'000</i>
Long term leases	971,650	—	971,650
Medium term leases	<u>951,190</u>	<u>5,000</u>	<u>956,190</u>
	<u>1,922,840</u>	<u>5,000</u>	<u>1,927,840</u>

The revaluation of the above investment properties was carried out by Savills (Hong Kong) Limited, an independent firm of professional qualified valuers, on an open market, existing use basis as at 31 December 2005.

Certain of the Group's investment properties were pledged to banks to secure banking facilities granted to the Group (note 24).

## 16 GOODWILL/NEGATIVE GOODWILL

The movement of goodwill/negative goodwill capitalised in the interests in associates is shown as follows:

### Group

	<i>Notes</i>	<b>Goodwill</b> <i>HK\$'000</i>	<b>Negative goodwill</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>31 December 2005</b>				
At 1 January 2005:				
Cost as previously reported		246,384	(27,111)	219,273
Effect of adopting HKFRS 3	2.2(c)	<u>(47,416)</u>	<u>27,111</u>	<u>(20,305)</u>
Cost as restated		<u>198,968</u>	<u>—</u>	<u>198,968</u>
Accumulated amortisation and write-off as previously reported		(47,416)	2,019	(45,397)
Effect of adopting HKFRS 3	2.2(c)	<u>47,416</u>	<u>(2,019)</u>	<u>45,397</u>
Accumulated amortisation and write-off as restated		<u>—</u>	<u>—</u>	<u>—</u>
Net carrying amount		<u>198,968</u>	<u>—</u>	<u>198,968</u>
Cost at 1 January 2005, net of accumulated amortisation and write-off		198,968	—	198,968
Acquisition of additional interest in an associate		<u>28,204</u>	<u>—</u>	<u>28,204</u>
Cost and carrying amount at 31 December 2005		<u>227,172</u>	<u>—</u>	<u>227,172</u>

	Goodwill <i>HK\$'000</i>	Negative goodwill <i>HK\$'000</i>	Total <i>HK\$'000</i>
31 December 2004			
At 1 January 2004:			
Cost	264,987	(10,312)	254,675
Accumulated amortisation and write-off	<u>(37,435)</u>	<u>946</u>	<u>(36,489)</u>
Net carrying amount	<u>227,552</u>	<u>(9,366)</u>	<u>218,186</u>
Cost at 1 January 2004, net of accumulated amortisation and write-off	227,552	(9,366)	218,186
Negative goodwill on subscription of new shares	—	(16,799)	(16,799)
Write-off due to deemed disposal during the year	(18,603)	—	(18,603)
Amortisation (provided)/recognised as income during the year	(13,780)	1,073	(12,707)
Write-back of amortisation due to deemed disposal during the year	<u>3,799</u>	<u>—</u>	<u>3,799</u>
At 31 December 2004	<u>198,968</u>	<u>(25,092)</u>	<u>173,876</u>
At 31 December 2004:			
Cost	246,384	(27,111)	219,273
Accumulated amortisation and write-off	<u>(47,416)</u>	<u>2,019</u>	<u>(45,397)</u>
Net carrying amount	<u>198,968</u>	<u>(25,092)</u>	<u>173,876</u>

#### Impairment testing of goodwill

During 2005 there was no impairment of goodwill (2004: Nil). Impairment testing in respect of the carrying value of the goodwill on acquisition of the cash-generating unit is performed at least annually by comparing the recoverable amount of a major cash-generating unit of the associated company which has been determined based on a value-in-use calculation. That calculation uses cash flow estimates based on cash flow projection by management over a fixed investment period of such cash-generating unit. The discount rate applied to cash flow projection is approximately 6% (2004: 6%). The discount rate is consistent with cost of funding of the Group or is reasonable investment return rate for investment with stable returns.

## 17 INTERESTS IN SUBSIDIARIES

	<b>Company</b>	
	<b>2005</b>	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	1,465,569	1,465,569
Due from subsidiaries	<u>1,194,601</u>	<u>1,209,473</u>
	2,660,170	2,675,042
Less: Provision for impairment	<u>(912,599)</u>	<u>(1,129,766)</u>
	<u><u>1,747,571</u></u>	<u><u>1,545,276</u></u>

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The carrying values of the amount due from subsidiaries approximate to their fair values.

Details of the principal subsidiaries of the Company are set out in note 35.

## 18 INTERESTS IN ASSOCIATES

	<i>Notes</i>	<b>Group</b>	
		<b>2005</b>	2004
		<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net assets		633,210	535,070
Goodwill on acquisition less amortisation and write-off	<i>16</i>	227,172	198,968
Negative Goodwill	<i>16</i>	—	(25,092)
Convertible note	<i>33(a)(iii)</i>	—	80,457
Share option	<i>22</i>	—	3,151
Loan to an associate	<i>22</i>	<u>—</u>	<u>20,000</u>
		<u><u>860,382</u></u>	<u><u>812,554</u></u>
Market value of listed equity securities		<u><u>517,629</u></u>	<u><u>431,617</u></u>

Particulars of the associate are as follows:

Name	Particulars of issued shares held	Place of incorporation and operations	Percentage of attributable equity to the Group	
			2005	2004
The Cross-Harbour (Holdings) Limited	Ordinary shares of HK\$1 each	Hong Kong	29.92%	27.31%

The above associate was not audited by Ernst & Young Hong Kong.

CHH is an investment holding company, incorporated and listed in Hong Kong, with its subsidiaries engaged in the operation of driver training centres and the business of tunnel operation and management in Hong Kong. These associates have been accounted for using the equity method in these financial statements.

Extracts of the consolidated operating results and consolidated financial position of the associate, CHH, are as follows:

	2005	2004
	HK\$'000	HK\$'000
Operating results for the year:		
Turnover	<u>249,672</u>	<u>254,038</u>
Net profit attributable to shareholders	<u>161,992</u>	<u>134,979</u>
Financial position at 31 December:		
Non-current assets	1,819,768	1,768,431
Current assets	500,219	460,923
Current liabilities	(144,768)	(203,259)
Non-current liabilities	(2,390)	(21,380)
Minority interests	<u>(55,351)</u>	<u>(47,209)</u>
Net asset value	<u>2,117,478</u>	<u>1,957,506</u>

## 19 OTHER INVESTMENTS

	Group	
	2005	2004
	HK\$'000	HK\$'000
Unlisted investments	<u>1,235</u>	<u>1,468</u>

## 20 PROPERTIES HELD FOR SALE

	Group	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong:		
At cost	1,988	—
At net realisable value	<u>—</u>	<u>1,960</u>
	<u>1,988</u>	<u>1,960</u>

## 21 TRADE DEBTORS

An aged analysis of the trade debtors at the balance sheet date is as follows:

	Group	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 - 30 days	412	486
31 - 60 days	934	559
Over 60 days	<u>70</u>	<u>66</u>
	<u>1,416</u>	<u>1,111</u>

The balance of the trade debtors is primarily rental receivables from tenants which are normally due on the first day of each month. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk.

## 22 UNLISTED SHARE OPTION GRANTED BY AN ASSOCIATE AND NON-INTEREST-BEARING LOAN TO AN ASSOCIATE

On 9 May 2003, Honway, a wholly owned subsidiary of the Company, entered into a Share Option Agreement (the "Agreement") with CHH, an associate of the Company, pursuant to which Honway is entitled to subscribe for 60 million new shares of CHH. In consideration for Honway's payment to CHH the sum of HK\$50 million (HK\$5 million being the amount for purchasing the option, HK\$25 million being the non-refundable deposit and HK\$20 million being a 3 year non-interest-bearing loan advanced by Honway to CHH), CHH has agreed to grant the option to Honway to subscribe for new shares in CHH. The option is exercisable from 24 June 2003 for a period of three years, at exercise price of HK\$3.4 per share in the first year, HK\$3.7 per share in the second year and HK\$4.0 per share in the third year, subject to adjustment.

On 18 June 2004, the HK\$25 million non-refundable deposit was applied to subscribe for 7,352,941 ordinary shares of CHH. As at 31 December 2004 and 31 December 2005, there remained a total of 52,647,059 new shares exercisable under the Agreement, which represents 17.5% of CHH's shares before the dilution effect of the shares issuable under the share option.

In prior years, the Group classified its payment for purchasing the share option, the non-refundable deposit and the non-interest-bearing loan of CHH as interests in associates, and was stated at cost less any impairment losses.

With the implementation of HKASs 32 and 39 in the current year, the share option is classified as an unlisted share option granted by an associate and the non-interest-bearing loan is classified as loan to an associate. Both the share option and the non-interest-bearing loan are classified as current assets as they are expected to be realised/repaid within 12 months from the balance sheet date since they would mature on 24 June 2006.

As the share option of CHH is not listed and there is no active market for the share option, fair value is determined using valuation model techniques. As at 31 December 2005 and 1 January 2005, the fair value of the share option was estimated to be HK\$1.75 and HK\$1.95 per share option, respectively. As a result, the fair value of the share option was stated at HK\$92,132,000 on 31 December 2005. The unrealised fair value losses of the option amounted HK\$10,529,000 and the first time recognition of fair value of HK\$98,274,000 were recorded in the current year's income statement and in the retained profits as an opening adjustment, respectively.

	<b>Group</b>	
	<b>Share option</b>	<b>3 year non-interest- bearing loan</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fair value at 1 January 2005		
Opening adjustment upon first time recognition of fair value of financial instruments	102,661	20,000
Loss arising from change in fair value of an unlisted share option granted by an associate during the year	<u>(10,529)</u>	<u>—</u>
Fair value at 31 December 2005	<u>92,132</u>	<u>20,000</u>

## 23 TRADE CREDITORS

An aged analysis of the trade creditors at the balance sheet date is as follows:

	<b>Group</b>	
	<b>2005</b>	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 - 30 days	978	919
31 - 60 days	<u>298</u>	<u>—</u>
	<u>1,276</u>	<u>919</u>

The trade creditors are normally non-interest-bearing within the 30-day periods.

## 24 BANK LOANS, SECURED

	<b>Group</b>	
	<b>2005</b>	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Analysed into:		
Bank loans repayable:		
Within one year	172,000	196,500
In the second year	39,000	38,000
In the third to fifth years, inclusive	149,500	157,800
After the fifth year	<u>180,000</u>	<u>203,200</u>
	540,500	595,500
Amount classified under current liabilities	<u>(172,000)</u>	<u>(196,500)</u>
	368,500	<u>399,000</u>
Amount classified under non-current liabilities	<u>368,500</u>	<u>399,000</u>

The bank loans are variable interest rate loans with interest rates based on the HIBOR plus predetermined spread %. The effective interest rates for 2005 and 2004 were 4.09% and 1.86%, respectively.

The bank loans are denominated in Hong Kong dollar and secured by:

- (a) Mortgages on certain investment properties with an aggregate carrying value of HK\$1,920,000,000 (2004: HK\$1,740,000,000) and the assignment of rental income from certain of the properties. In addition, the Company has pledged all the issued shares of certain subsidiaries and subordinated its loans to certain subsidiaries in favour of the lenders of the above bank loans; and
- (b) corporate guarantees issued by the Company.

The carrying amounts of the Group's borrowings approximate to their fair values.



## 25 DEFERRED TAX

The movements in deferred tax liabilities and assets, arising from accelerated tax depreciation and revaluation of investment properties are as follows:

**Group**

	<b>Deferred tax liabilities</b>	<b>Deferred tax assets</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2005		
As previously reported	18,308	—
Opening adjustment:		
HK(SIC)-Int 21 Deferred tax on revaluation of investment properties	<u>45,568</u>	<u>(23,706)</u>
As restated	63,876	(23,706)
Deferred tax charged to the income statement during the year ( <i>note 10</i> )	<u>12,246</u>	<u>23,291</u>
At 31 December 2005	<u><u>76,122</u></u>	<u><u>(415)</u></u>
At 1 January 2004		
As previously reported	9,801	—
Opening adjustment:		
HK(SIC)-Int 21 Deferred tax on revaluation of investment properties	<u>48,742</u>	<u>(35,365)</u>
As restated	58,543	(35,365)
Deferred tax charged to the income statement during the year ( <i>note 10</i> )	<u>5,333</u>	<u>11,659</u>
At 31 December 2004 (restated)	<u><u>63,876</u></u>	<u><u>(23,706)</u></u>

The Group has tax losses arising in Hong Kong of HK\$25,691,610 (2004: HK\$18,658,953) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these tax losses as they have arisen in subsidiaries that have been loss-making for some time.

## 26 SHARE CAPITAL

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Authorised:		
1,500,000,000 ordinary shares of HK\$0.1 each	<u>150,000</u>	<u>150,000</u>
Issued and fully paid:		
799,557,415 (2004: 797,157,415) ordinary shares of HK\$0.1 each	<u>79,956</u>	<u>79,716</u>

Movement in the Company's issued ordinary share capital is as follows:

	Number of shares in issue	Issued share capital <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2005	797,157,415	79,716	94,535	174,251
Employee share options being exercised	<u>2,400,000</u>	<u>240</u>	<u>1,203</u>	<u>1,443</u>
At 31 December 2005	<u>799,557,415</u>	<u>79,956</u>	<u>95,738</u>	<u>175,694</u>

During the year, the subscription right attaching to 2,300,000 and 100,000 share options were exercised at the subscription price of HK\$0.5860 and HK\$0.9488, respectively, resulting in the issue of a total of 2,400,000 shares for a total cash consideration of HK\$1,443,000.

**Share options**

The Company had, prior to 1 September 2001, adopted a scheme which then expired on 21 December 2003 (the “Old Scheme”). Pursuant to the Old Scheme, options had been granted to eligible participants to subscribe for shares in the Company, each for a consideration of HK\$10, and a total of 2,400,000 shares represent options which remained outstanding at the beginning of the year. All of the options then outstanding were exercised in full on 24 February 2005. Accordingly, no option under the Old Scheme remained outstanding at the year end.

At the special general meeting held on 29 April 2005, the Company adopted a share option scheme (the “New Scheme”). Employees (including directors) of the Group are eligible participants under the New Scheme. A total of 79,955,741 shares will be available for issue under the New Scheme, which represents 10% of the Company’s issued shares. The maximum number of shares issuable under share options to each eligible participant in the New Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. The shares must be taken up under an option not later than 10 years from the date of grant of option. The New Scheme will remain effective until 28 April 2015. No option has been granted under the New Scheme during the year.

The movement of the share options under the Old Scheme is set out as follows:

Name or category of participant	Number of share options			Price of Company’s shares	
	At 1 January 2005	Exercised during the year	At 31 December 2005	Exercise price of share options HK\$	At exercise date of options HK\$
<b>Director</b>					
Wong Chi Keung	2,000,000	(2,000,000)	—	0.5860	1.15
<b>Other employees</b>					
In aggregate	100,000	(100,000)	—	0.9488	1.15
	<u>300,000</u>	<u>(300,000)</u>	<u>—</u>	0.5860	1.15
	<u>400,000</u>	<u>(400,000)</u>	<u>—</u>		
	<u>2,400,000</u>	<u>(2,400,000)</u>	<u>—</u>		

## 27 RESERVES

**Group**

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity.

The Group's contributed surplus originally represented the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganisation prior to the listing of the Company's shares, over the nominal value of the Company's shares issued in exchange therefor.

**Company**

	<i>Notes</i>	<b>Share premium account</b>	<b>Contributed surplus</b>	<b>Capital redemption reserve</b>	<b>Retained profits</b>	<b>Total</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2004		94,535	1,317,168	1,350	52,089	1,465,142
Profit for the year		—	—	—	58	58
Proposed 2004 final dividend	<i>12</i>	—	—	—	(15,991)	(15,991)
At 31 December 2004 and At 1 January 2005		94,535	1,317,168	1,350	36,156	1,449,209
Issue of shares		1,203	—	—	—	1,203
Profit for the year		—	—	—	217,119	217,119
Proposed 2005 final dividend	<i>12</i>	—	—	—	(19,989)	(19,989)
At 31 December 2005		<u>95,738</u>	<u>1,317,168</u>	<u>1,350</u>	<u>233,286</u>	<u>1,647,542</u>

The contributed surplus of the Company originally represented the excess of the fair values of the shares of the subsidiaries acquired over the nominal value of the Company's shares issued for their acquisition at the time of the reorganisation in the preparation for the listing of the Company's shares in the prior year. Under the Companies Act (1981) of Bermuda (as amended), the contributed surplus may be distributed to shareholders under certain circumstances.

## 28 ACQUISITION OF ADDITIONAL INTERESTS IN AN ASSOCIATE

On 23 April 2002, Honway entered into an agreement with CHH, an associate of Honway, to subscribe for a HK\$117 million convertible note of CHH (the "Note") with 3.5% interest per annum. According to the agreement, Honway had a right to convert the whole or part of the principal amount of the Note into CHH's shares within a 3-year period from the date of issue of the Note to the maturity date on 11 June 2005. The conversion prices were agreed to be HK\$3.5 per share in the first year, HK\$3.7 per share in the second year and HK\$3.9 per share in the third year, subject to adjustment.

On 27 May 2005, HK\$80.5 million of Note has been converted into 20,630,015 CHH's shares at a conversion price of HK\$3.9.

The above transaction which took place in 2005 increased the Group's shareholding in CHH from approximately 24.76% to 29.92% after the conversion. Goodwill arising on the transaction amounted to HK\$28,204,000 was included in the carrying amount of interest in associates rather than as a separately identified asset on the consolidated balance sheet.

## 29 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

## (a) Reconciliation of profit before tax to net cash inflow generated from operations

	<i>Notes</i>	<b>2005</b> <i>HK\$'000</i>	2004 <i>HK\$'000</i> <i>(Restated)</i>
Profit before tax		290,243	117,122
Adjustments for:			
Share of results of associates		(47,068)	(38,823)
Interest income	5	(2,225)	(3,176)
Changes in fair value of investment properties		(179,249)	(70,261)
Impairment loss on other investments		233	669
Gain on disposal of partial interests in an associate		(1,977)	—
Fair value loss of an unlisted share option granted by an associate		10,529	—
Fair value gain of an unlisted convertible note granted by an associate		(36,050)	—
Loss on deemed disposal of partial interest in an associate	7	436	27,854
Gain on disposal of a subsidiary	5	—	(11)
Gain on disposal of an investment property	5	—	(69)
Amortisation of goodwill on acquisition of an associate		—	12,707
Depreciation	7	493	484
Gain on disposal of an item of property, plant and equipment	7	(243)	—
Interest on bank loans, overdrafts and other loans	6	<u>24,376</u>	<u>12,393</u>
Operating profit before working capital changes		59,498	58,889
(Increase)/decrease in trade debtors, other debtors, deposits and prepayments		(40,185)	46,290
Increase in trade creditors and other payables		2,102	347
(Increase)/decrease in properties held for sale		<u>(28)</u>	<u>4,340</u>
Net cash inflow generated from operations		<u><u>21,387</u></u>	<u><u>109,866</u></u>

## (b) Disposal of a subsidiary

	Group	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net assets disposed of:		
Property held for development	—	63,450
Other payables	—	(12)
	<u>—</u>	<u>(12)</u>
	—	63,438
Gain on disposal of a subsidiary ( <i>note 5</i> )	—	11
	<u>—</u>	<u>11</u>
	<u>—</u>	<u>63,449</u>
Satisfied by:		
Cash, net of expenses	—	63,449
	<u>—</u>	<u>63,449</u>

No cash and cash equivalents in the subsidiary was being disposed of.

The results of the subsidiary disposed of in the year ended 31 December 2004 had no significant impact on the Group's consolidated revenue or profit after tax for that year.

## 30 OPERATING LEASE ARRANGEMENTS

## (a) As lessor

The Group leases its investment properties (note 15) under operating lease arrangements, with leases negotiated for terms of generally ranging from two to five years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At the balance sheet date, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	70,031	71,076
In the second to fifth years, inclusive	111,030	131,013
After the fifth year	—	6,000
	<u>181,061</u>	<u>208,089</u>

## (b) As lessee

The Group leases its office properties under operating lease arrangements. The leases for the office properties are negotiated for terms of approximately three years.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>Group</b>	
	<b>2005</b>	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	996	465
In the second to fifth years, inclusive	<u>1,577</u>	<u>—</u>
	<u><u>2,573</u></u>	<u><u>465</u></u>

### 31 COMMITMENTS

In addition to the operating lease commitments detailed in note 30(b) above, the Group had the following capital commitments in respect of investment properties as follows:

	<b>Group</b>	
	<b>2005</b>	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted, but not provided for	167	29
Authorised, but not contracted for	<u>16,606</u>	<u>1,667</u>
	<u><u>16,773</u></u>	<u><u>1,696</u></u>

### 32 CONTINGENT LIABILITIES

(a) At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2005</b>	2004	<b>2005</b>	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Guarantees given to banks in connection with facilities granted to subsidiaries	<u>—</u>	<u>—</u>	<u>1,300,900</u>	<u>935,900</u>

The Company has executed guarantees totaling HK\$1,300,900,000 (2004: HK\$935,900,000), with respect to banking facilities made available to its subsidiaries, of which HK\$540,500,000 were utilised as at 31 December 2005 (2004: HK\$595,500,000).

(b) A subsidiary, which has been under voluntary liquidation since September 2004, has claimed against the contractor of a property development project, and deducted from payments to the contractor, approximately HK\$11 million for the delay in completion and defects of the constructions works. In addition, there is a dispute of approximately HK\$1.7 million regarding the final contract amount. The contractor has denied the claim and has counter-claimed the subsidiary for HK\$22.3 million, including liquidated damages, the above-mentioned disputed contract sum and

loss and expense. The case is pending arbitration. The liquidation of the subsidiary and its pending affairs has been handled by the appointed professional liquidators. A settlement agreement regarding the claims and the counter-claims between the contractor and the subsidiary is being finalised, which to the understanding of the Group, will not result in any material financial gain or loss to the Group.

### 33 RELATED PARTY TRANSACTIONS

- (a) Significant related party transactions, which were carried out in the normal course of the Group's business, are as follows:

	<i>Notes</i>	<b>2005</b>	2004
		<i>HK\$'000</i>	<i>HK\$'000</i>
Rental charges paid to a related company	<i>(i)</i>	981	959
Administrative staff costs paid to a shareholder	<i>(ii)</i>	611	611
Interest income on a convertible note granted by an associate	<i>(iii)</i>	<u>1,138</u>	<u>2,811</u>

*Notes:*

- (i) A subsidiary of the Company, Y. T. Group Management Limited ("YTGML"), entered into a sub-lease agreement with Chongqing Industrial Limited, a controlling shareholder of Yugang, a substantial shareholder of the Company, to lease office space. The rental charges were based on the floor area occupied by the Group and the market rental rate. The current sub-lease agreement commenced on 1 August 2005 and will expire on 31 July 2008.
- (ii) YTGML entered into an agreement with Yugang to share the cost of common administrative staff at a monthly charge which is determined based on the actual cost of the staff from time to time.
- (iii) On 11 June 2002, Honway invested HK\$117 million to purchase a convertible note (the "Note") granted by an associate, CHH, which bore interest at a rate of 3.5% per annum with a maturity date of 11 June 2005. The Note carried a right of conversion into new ordinary shares of the associate at exercise prices of HK\$3.5, HK\$3.7 and HK\$3.9 per share during the years ending 11 June 2003, 11 June 2004 and 11 June 2005, respectively. The Note was fully converted prior to 11 June 2005. Further details related to the Note is disclosed in note 28.

- (b) Compensation of key management personnel of the Group:

	<b>2005</b>	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Short term employee benefits	12,620	6,438
Post-employment benefits	<u>166</u>	<u>162</u>
Total compensation paid to key management personnel	<u>12,786</u>	<u>6,600</u>

Further details of directors' emoluments are included in note 8 to the financial statements.



**34 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group's principal financial instruments mainly comprise of bank loans, cash and short term deposits. The main purpose of these financial instruments is to provide funding for the Group's operations. At balance sheet date, the Group has an unlisted share option granted by an associate. The Group has various other financial assets and liabilities such as trade debtors and trade creditors, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. These risks are limited the Group's financial management policies and practices as summarised below.

**Interest rate risk**

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate. The Group monitors the movement of interest rates on an ongoing basis and evaluates the exposure and the costs of available hedging for its debt obligations.

**Credit risk**

The Group's credit risks are primarily attributable to trade and other debtors. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other debtors, credit evaluations are performed on all customers requiring credit over a certain amount. Trade debtors are mainly rental related and are normally due on the first day of each month and the Group obtains rental deposits from its tenants.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. Except for the financial guarantee given by the Company as disclosed in note 32, the Group does not provide any other guarantees which would expose the Group to credit risk.

**Liquidity risk**

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of the Group's available cash and its available banking facilities.

## 35 PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries at the balance sheet date are as follows:

Name of company	Place of incorporation	Nominal value of issued and fully paid share capital	Percentage of equity attributable to the Company		Principal activities and place of operations
			2005	2004	
Apex Rich Group Limited	British Virgin Islands	1 ordinary share of US\$1	100%	N/A	Investment holding in Hong Kong
Best View Limited	British Virgin Islands	1 ordinary share of US\$1	100%	100%	Property holding in Hong Kong
Benefit Plus Company Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	100%	Property investment in Hong Kong
E-Tech Services Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	100%	Property technical consultant services in Hong Kong
Harson Investment Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	100%	Property investment in Hong Kong
Honway Holdings Limited	British Virgin Islands	1 ordinary share of US\$1	100%	100%	Investment holding in Hong Kong
Mainland Sun Ltd.	British Virgin Islands	1 ordinary share of US\$1	100%	100%	Property investment in Mainland China
Score Goal Investment Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	100%	Property investment in Hong Kong
Score Target Investment Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	100%	Property trading in Hong Kong
Winwide Excel Limited	British Virgin Islands	1 ordinary share of US\$1	100%	100%	Investment holding in Hong Kong

Name of company	Place of incorporation	Nominal value of issued and fully paid share capital	Percentage of equity attributable to the Company		Principal activities and place of operations
			2005	2004	
Y. T. (China) Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	100%	Investment holding in Mainland China
Y. T. Finance Limited	Hong Kong	6,000 ordinary shares of HK\$500 each	100%	100%	Finance vehicle in Hong Kong
Y. T. Group Management Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	100%	Provision of business management services in Hong Kong
Y. T. Investment Holdings Limited	British Virgin Islands	50,100 ordinary shares of US\$1 each	100%	100%	Investment holding in Asia
Y. T. Investment Management Limited	British Virgin Islands	1 ordinary share of US\$1	100%	100%	Securities investment in Mainland China
Y. T. Properties International Limited	British Virgin Islands	201 ordinary shares of US\$1 each	100%	100%	Investment holding in Hong Kong
Y. T. Property Services Limited	Hong Kong	100 ordinary shares of HK\$1 each	100%	100%	Property management in Hong Kong

The above table includes the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length. With the exception of Y. T. Investment Holdings Limited, all the above companies are indirect subsidiaries of the Company.

### 36 COMPARATIVE AMOUNTS

As further explained in notes 2.2 and 2.4 to the financial statements, due to the adoption of new HKFRSs during the current year, the accounting treatments and presentations of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year and opening balance adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

### 37 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 7 April 2006.

**I. MANAGEMENT DISCUSSION AND ANALYSIS OF PERFORMANCE OF THE GROUP****For the year ended 31 December 2003****RESULTS**

The consolidated profit after taxation of the Group for the year was HK\$28.5 million (as restated) and the earnings per share amounted to HK3.6 cents (as restated), as compared to net profit of HK\$19.2 million (as restated) and the earnings per share of HK2.4 cents (as restated) for the year ended 31 December 2002. The net profit after taxation for 2003 represents a 48.4% increase from 2002.

**NET ASSET VALUE**

The consolidated net asset value per share of the Group as at 31 December 2003 was HK\$2.29 (as restated) based on the 797,157,415 share in issue, as compared to HK\$2.23 (as restated) per share and 797,157,415 share in issue as at 31 December 2002.

**BUSINESS REVIEW**

The Group's net profit attributable to shareholders for the year was HK\$28.5 million (as restated) as compared to a net profit of HK\$19.2 million (as restated) in 2002. Turnover for the year was HK\$105.6 million as compared to HK\$153.4 million reported in 2002. The decrease in turnover was mainly attributed to reduced property sales and decrease in rental income in 2003.

Excluding the effect of a net loss of HK\$17.2 million (2002: loss of HK\$43.4 million) from revaluation of the Group's portfolio of properties, the profit attributable to shareholders which included the share of results of associates for 2003 was HK\$45.7 million (as restated) as compared to HK\$62.6 million (as restated) in 2002, a decrease of HK\$16.9 million.

*Property business*

The Group's major investment properties include:

Century Square  
Prestige Tower  
2/F New Mandarin Plaza

Gross rental income for the year amounted to HK\$87.8 million which represents a decrease of about 20.7% when compared with last year's income of HK\$110.7 million. The decrease was the result of the overall decline in rental value of the properties and loss of rental income due to disposal of certain non-core properties.

The economy of Hong Kong experienced an exciting year in 2003. The outbreak of Severe Acute Respiratory Syndrome ("SARS") in mid-March 2003 pushed the local economy and market confidence to the bottom. Property market particularly the commercial leasing sector which the Group mainly operates almost came to a complete halt during the second quarter of 2003.

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## APPENDIX II ADDITIONAL FINANCIAL INFORMATION ON THE GROUP

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Following the World Health Organisation's decision to remove Hong Kong from the list of SARS affected areas in June 2003, the economy gradually recovered after a series of contingent policies introduced by both the central as well as the local governments. The market accelerated its pace of recovery towards the third quarter of 2003 after witnessing the successful implementation of the contingent policies, in particular the Closer Economic Partnership Arrangement and the relaxation of travel restriction for individual travelers from the Mainland.

Currently all major economic indicators such as the stock market, property transactions, retail sales turnover, unemployment rate etc. reflect strongly the optimism of the prospect of Hong Kong entering into a full market recovery.

Leveraging on this improved market sentiment, the Group has successfully concluded a number of leasing deals which comprise of some key retail premises, all with satisfactory rental upward adjustments. Moreover, the Group's effort in bringing-in quality tenants to improve the image and value of property continue to make good progress. Benetton, the leading fashion group opened its first flag-ship store at Prestige Tower in last August. illy coffee which was originated in Italy some seventy years ago and is now widely known throughout the world recently opened its first coffee bar concept in Hong Kong. Again, Prestige Tower was chosen to launch their debut.

Overall, despite the volatility of the market in 2003, the Group has been able to maintain a stable result which is primarily ascribed to our effort in reducing vacancy rate in our buildings. Currently, the occupancy rate of our commercial portfolio stands firmly around 93-94%. Favourable locations of buildings, proactive leasing approach, and dedicated management services are, amongst other things, the main contributors to such stable leasing results.

In December 2003, the Group received an attractive offer for the sale of the site at Anderson Road, which had been earmarked for re-development. To avoid investment risk associated with construction period and re-development, the Group had accepted the offer. The transaction was subsequently completed in February 2004.

### COMMENTS ON SEGMENTAL INFORMATION

The principal activities of the Group, including the Company's subsidiaries and an associated company, are property investment, property trading, property management and related services, operation of driver training centers, tunnel operation and management.

### MATERIAL ACQUISITIONS AND DISPOSALS

On 9 May 2003, Honway, the Company's wholly-owned subsidiary entered into a Share Option Agreement with CHH to acquire the Option to subscribe further shares of CHH and the terms and details of the Option were announced by CHH on the same date. Upon approved by shareholders of CHH on 23 June 2003, the Option was granted to the Honway on 24 June 2003.

### FINANCING AND LIQUIDITY

Financial expenses for the year ended 31 December 2003 amounted to HK\$23.1 million (2002: HK\$31.8 million), a decrease of HK\$8.7 million. The decrease is mainly due to the continuation of low interest rate environment in Hong Kong.

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## APPENDIX II ADDITIONAL FINANCIAL INFORMATION ON THE GROUP

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The bank loans are secured by mortgages on certain investment properties with an aggregate carrying value of HK\$1,760 million (2002: HK\$1,785 million) and the assignment of rental income from these properties.

The following is the maturing profile of the Group's bank borrowings as of 31 December 2003:

Within one year	42.4%
In the second year	5.0%
In the third to fifth year	25.6%
After the fifth year	<u>27.0%</u>
Total	<u>100.0%</u>

The gearing ratio, which is calculated as the ratio of the net bank borrowings to shareholders' funds, was 43.9% (as restated) (2002: 45.6% (as restated)). Revolving loans with outstanding balance of HK\$320 million will be renewable within the next financial year. Term loan instalments repayable within one year is HK\$36 million which will be serviced by the Group's rental income and proceeds from sales of properties. Since the Group's borrowings are denominated in Hong Kong dollars and its sources of income are primarily denominated in Hong Kong dollars, there is basically no exposure to foreign exchange rate fluctuations.

At the end of 2003, the Group's cash and cash equivalents was HK\$40.1 million. With its cash and available banking facilities, the Group has sufficient resources to meet foreseeable funding needs for its working capital and capital expenditure.

### CONTINGENT LIABILITIES

- (a) As at 31 December 2003, the Company has executed guarantees totaling HK\$1,019,400,000 (2002: HK\$1,053,400,000) with respect to banking facilities made available to its subsidiaries, of which HK\$839,000,000 (2002: HK\$843,000,000) were utilised as at 31 December 2003.
- (b) A subsidiary has claimed against the contractor of a property development project, and deducted from payments to the contractor, approximately HK\$11 million for the delay in completion and defects of the construction works. In addition, there is a dispute of approximately HK\$1.7 million regarding the final contract amount. The contractor has denied the claim and is counter-claiming the subsidiary for HK\$22.3 million, including liquidated damages, the above-mentioned disputed contract sum and loss and expense. The case is pending arbitration. As at 31 December 2003, provisions of HK\$7.1 million (2002: HK\$7.4 million) have been made for the expected legal costs on this dispute, which the directors consider to be adequate, taking into account expert professional advice received. Utilisation of provision of HK\$0.3 million was incurred for legal cost during the year.
- (c) A subsidiary executed guarantees to secure a banking facility made available to an investee company and certain property buyers of the investee company in respect of mortgage loans. In

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## APPENDIX II ADDITIONAL FINANCIAL INFORMATION ON THE GROUP

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2002, the entire investment in the investee company was disposed of by the subsidiary. The purchaser of the disposed share of the investee company would provide indemnity to the subsidiary in respect of guarantees given by the subsidiary for and on behalf of the investee company after 31 December 1999. The total outstanding estimated amount of guarantees given by the subsidiary prior to 31 December 1999 is approximately HK\$7.8 million as at 31 December 2003 (2002: HK\$9.8 million).

### STAFF

At 31 December 2003, the Group employed a total of 30 staff. Total staff cost for the year amounted to HK\$9.8 million. Staff remuneration is reviewed by the Group from time to time. In addition to salaries, the Group provides staff benefits including medical insurance, life insurance, provident fund and discretionary vocational tuition/training subsidies. Share options and bonuses are also available to employees of the Group at the discretion of the directors and depending upon the financial performance of the Group.

### For the year ended 31 December 2004

### RESULTS

The consolidated profit after tax of the Group for the year was HK\$94.4 million (as restated) and the earnings per share amounted to HK11.8 cents (as restated), as compared to net profit of HK\$28.5 million (as restated) and the earnings per share of HK3.6 cents (as restated) for the year ended 31 December 2003. The net profit after tax for 2004 represents a 230.7% increase from 2003.

### NET ASSET VALUE

The consolidated net asset value per share of the Group as at 31 December 2004 was HK\$2.43 (as restated) based on the 797,157,415 share in issue, as compared to HK\$2.29 (as restated) per share and 797,157,415 shares in issue as at 31 December 2003.

### BUSINESS REVIEW

The Group's net profit attributable to shareholders for the year was HK\$94.4 million (as restated) as compared to a net profit of HK\$28.5 million (as restated) in 2003. Turnover for the year was HK\$89.8 million as compared to HK\$105.6 million reported in 2003. The decrease in turnover was mainly attributed to reduced turnover of properties held for sale and decrease in rental income resulting from the disposal of an investment property in a commercial complex which ownerships are under strata-titles.

Revaluation of the Group's portfolio of properties resulted in a surplus of HK\$74.5 million, of which HK\$70.3 million was written back as profit for the year (2003: net loss of HK\$17.2 million).

*Property business*

The Group's major investment properties include:

Century Square  
Prestige Tower

Gross rental income for the year amounted to HK\$78 million which represents a decrease of about 11.2% when compared with last year's income of HK\$87.8 million. The decrease in rental income in 2004 was mainly due to the disposal of certain investment property and a resultant effect of a major tenancy change in Prestige Tower during 2003.

The economy of Hong Kong continued to stride on its recovery path throughout the last financial year and therefore provided a suitable opportunity for the Group to conclude its remaining consolidation of assets. During the period under review, the Group had largely disposed of its non-core assets and the proceeds so raised were used mostly to improve the Group's gearing ratio which is currently at a very healthy level. We felt the need to adopt such a strategic move in order to strengthen the Group's financial position for possible future business acquisition and further expansion into the premium property market for the coming years.

During the year under review, virtually all the economic indicators pointed to a broad-base market rebound. The weak U.S. dollar has attracted fund inflows into Hong Kong, not only leading to lower interest rates but stimulating businesses and retail activities at the same time. The unemployment rate dropped to a three-year low of 6.5%. The most salient economic impetus was perhaps the record arrivals of tourists, predominantly from the Mainland China. This helped to boost the consumer confidence and therefore the retail property market in the prime commercial and tourist areas including Tsimshatsui and Central where the Group's major properties are located. Benefiting from the increased retail activities, the Group's retail portfolio recorded satisfactory upward adjustment of rental when concluding lease renewals during 2004.

Leveraging on the continuous improvement of retail sentiment and with the objective of maximising the potential of investment return, the Group during the last twelve months accelerated the pace in transforming its offices into commercial and retail usage. Currently, over 94% of the tenants in our major portfolio are of retail or commercial background. When implementing such strategic shift of tenants' profile, prudent and flexible approaches are always adopted to ensure a constant higher level of occupancy rate in buildings. As at the end of 2004, the overall occupancy rate of the Group's property stood at 96%.

**COMMENTS ON SEGMENTAL INFORMATION**

The principal activities of the Group, including the Company's subsidiaries and an associated company, are property investment, property trading, property management and related services, operation of driver training centers, tunnel operation and management.



## APPENDIX II ADDITIONAL FINANCIAL INFORMATION ON THE GROUP

### MATERIAL ACQUISITIONS AND DISPOSALS

There were no material acquisitions and disposals of subsidiaries and associated companies by the Group for the year ended 31 December 2004.

### FINANCING AND LIQUIDITY

Financial expenses for the year ended 31 December 2004 amounted to HK\$13 million (2003: HK\$23.1 million), a 43.6% decrease as compared to last year. The decrease in financial expenses was due to the overall lower interest rate environment in Hong Kong and the Group's effort to reduce bank loan balance in 2004. As at the end of 2004, the bank loan balance was HK\$595.5 million (2003: HK\$839 million).

The bank loans are secured by mortgages on certain investment properties with an aggregate carrying value of HK\$1,740 million (2003: HK\$1,760 million) and the assignment of rental income from these properties.

The following is the maturing profile of the Group's bank borrowings as of 31 December 2004:

Within one year	33.0%
In the second year	6.4%
In the third to fifth year	26.5%
After the fifth year	<u>34.1%</u>
Total	<u>100.0%</u>

The gearing ratio, which is calculated as the ratio of the net bank borrowings to shareholders' funds, was substantially reduced to 28% (as restated) (2003: 43.9% (as restated)). Revolving loans with outstanding balance of HK\$160 million will be renewable within the next financial year. Term loan instalments repayable within one year is HK\$36.5 million which will be serviced mainly by the Group's rental income. Since the Group's borrowings are denominated in Hong Kong dollars and its sources of income are primarily denominated in Hong Kong dollars, there is basically no exposure to foreign exchange rate fluctuations.

At the end of 2004, the Group's cash and cash equivalents was HK\$52 million. With its cash, available banking facilities and recurring rental income, the Group has sufficient resources to meet foreseeable funding needs for its working capital and capital expenditure.

### CONTINGENT LIABILITIES

- (a) As at 31 December 2004, the Company has executed guarantees totaling HK\$935,900,000 (2003: HK\$1,019,400,000) with respect to banking facilities made available to its subsidiaries, of which HK\$595,500,000 (2003: HK\$839,000,000) were utilised as at 31 December 2004.

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## APPENDIX II ADDITIONAL FINANCIAL INFORMATION ON THE GROUP

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- (b) A subsidiary executed guarantees to secure a banking facility made available to an investee company and certain property buyers of the investee company in respect of mortgage loans. In 2002, the entire investment in the investee company was disposed of by the subsidiary. The purchaser of the disposed shares of the investee company would indemnify the Group in respect of the guarantees after 31 December 1999. The Group's share of the outstanding guarantees arising prior to 2000 was estimated to be approximately HK\$5.6 million as at the end of 2004 (2003: HK\$7.8 million).
- (c) A subsidiary, which has been under voluntary liquidation since September 2004, has claimed against the contractor of a property development project, and deducted from payments to the contractor, approximately HK\$11 million for the delay in completion and defects of the construction works. In addition, there is a dispute of approximately HK\$1.7 million regarding the final contract amount. The contractor has denied the claim and has counter-claimed the subsidiary for HK\$22.3 million, including liquidated damages, the above-mentioned disputed contract sum and loss and expense. The case is pending arbitration. The liquidation of the subsidiary and its pending affairs have been handled by the appointed professional liquidators.

### STAFF

At 31 December 2004, the Group employed a total of 30 staff. Total staff cost for the year amounted to HK\$10.8 million. Staff remuneration is reviewed by the Group from time to time. In addition to salaries, the Group provides staff benefits including medical insurance, life insurance, provident fund and discretionary vocational tuition/training subsidies. Share options and bonuses are also available to employees of the Group at the discretion of the directors and depending upon the financial performance of the Group.

### For the year ended 31 December 2005

### RESULTS

The consolidated profit after tax for the year was HK\$250.7 million and the earnings per share amounted to HK31.4 cents, as compared to net profit of HK\$94.4 million (as restated) and the earnings per share of HK11.8 cents (as restated) for the year ended 31 December 2004. The net profit after tax for 2005 represents a 165.6% increase from 2004.

### NET ASSET VALUE

The consolidated net asset value per share of the Group as at 31 December 2005 was HK\$2.92 based on the 799,557,415 shares in issue, as compared to HK\$2.43 (as restated) per share and 797,157,415 shares in issue as at 31 December 2004.

### BUSINESS REVIEW

The Group's net profit attributable to shareholders for the year was HK\$250.7 million as compared to a net profit of HK\$94.4 million (as restated) in 2004, representing a 165.6% increase

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## APPENDIX II ADDITIONAL FINANCIAL INFORMATION ON THE GROUP

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from 2004. Revenue for the year was HK\$93.9 million as compared to HK\$89.8 million reported in 2004. Despite there was no revenue from sale of properties in 2005 as compared to HK\$4.1 million in 2004, the Group recorded an increase in the overall revenue due to increase in rental income and income from property management and related services.

Revaluation of the Group's portfolio of properties resulted in a surplus of HK\$179.2 million (2004: HK\$70.3 million). The revaluation surplus and the corresponding deferred tax arising from the revaluation of the Group's investment properties were reported in the income statement according to the latest accounting standards.

### *Property business*

The Group's major investment properties include:

Century Square  
Prestige Tower

Gross rental income for the year amounted to HK\$82.9 million which represents an increase of about 6.3% when compared with last year's income of HK\$78 million. The increase in rental income in 2005 was due to increase in rental rates of the Group's investment properties.

It is encouraging to note that the economy of Hong Kong recorded a healthy and sustainable growth in 2005. Majority of local business entities were able to enjoy satisfactory result in varying degrees in the last financial year, albeit the growth momentum slowed down in the last quarter of 2005. The Gross Domestic Product growth of over 7% was recorded last year and it is predicted that the trend will continue in 2006 but with a small downward adjustment in growth rate. The continuous influx of foreign funds was the main impetus for robust financial and stock market which in turn stimulated other businesses and industries. Record high tourist arrival that brought about strong economic activities coupled with continuous improvement in unemployment rate in the past twelve months to certain degree helped off-set the negative impact of rising interest rate.

The Group's properties which are all located in the prime commercial and shopping districts of Hong Kong recorded considerable rise in rental for most of the tenancy renewal and fresh letting cases. The Directors ascribe this encouraging performance to the management's vision in successfully transforming the Group's properties from offices to commercial and retail usage in previous years. Such shifting of tenancy profile captured timely and firmly the robust demand from retail sector which was strongly driven by large influx of tourists and renewed consumer confidence in the last twelve months.

The rising property market had inevitably created enormous pressure to tenants and as a result, high turnover of tenants in the market was witnessed in the last twelve months. Nonetheless, the mobility of tenants within the Group's properties is relatively low due to specialised usage and hence the impact of tenancy changes is negligible. During the period under review, the overall occupancy rate of the Group's properties stood at a satisfactory level of over 97%.

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## APPENDIX II ADDITIONAL FINANCIAL INFORMATION ON THE GROUP

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The Group will continue to explore ways to enhance and add value to its properties by instigating suitable renovation and refurbishment proposals at a timely fashion. In order to further strengthen the market niche for the Group's properties, a specialised marketing team had been assigned to undertake the ongoing strategic promotional and customer relationship building tasks.

### COMMENTS ON SEGMENTAL INFORMATION

The principal activities of the Group, including the Company's subsidiaries and an associated company, are property investment, property trading, property management and related services, operation of driver training centers, tunnel operation and management.

### MATERIAL ACQUISITIONS AND DISPOSALS

There were no material acquisitions and disposals of subsidiaries and associated companies by the Group for the year ended 31 December 2005.

### FINANCING AND LIQUIDITY

Financial expenses for the year ended 31 December 2005 amounted to HK\$25.5 million (2004: HK\$13 million), a 96.1% increase as compared to last year. The increase in financial expenses was primarily due to the hike in interest rates during the year under review despite the Group's effort to reduce the bank loan balance in 2005. As at the end of 2005, the bank loan balance was HK\$540.5 million (2004: HK\$595.5 million).

The bank loans are secured by mortgages on certain investment properties with an aggregate carrying value of HK\$1,920 million (2004: HK\$1,740 million) and the assignment of rental income from these properties.

The following is the maturing profile of the Group's bank borrowings as of 31 December 2005:

Within one year	31.8%
In the second year	7.2%
In the third to fifth years, inclusive	27.7%
After the fifth year	<u>33.3%</u>
Total	<u>100.0%</u>

The gearing ratio, which is calculated as the ratio of the net bank borrowings to shareholders' funds, was substantially reduced to 21% (2004: 28% (as restated)). Revolving loans with outstanding balance of HK\$140 million will be renewable within the next financial year. Term loan in instalment payments repayable within one year is HK\$32 million which will be serviced mainly by the Group's rental income. Since the Group's borrowings are denominated in Hong Kong dollars and its sources of income are primarily denominated in Hong Kong dollars, there is basically no exposure to foreign exchange rate fluctuations.

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## APPENDIX II ADDITIONAL FINANCIAL INFORMATION ON THE GROUP

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At the end of 2005, the Group's cash and cash equivalents was HK\$49.3 million. With its cash, available banking facilities and recurring rental income, the Group has sufficient resources to meet foreseeable funding needs for its working capital and capital expenditure.

### CONTINGENT LIABILITIES

- (a) The Company has executed guarantees totaling HK\$1,300,900,000 (2004: HK\$935,900,000), with respect to banking facilities made available to its subsidiaries, of which HK\$540,500,000 were utilised as at 31 December 2005 (2004: HK\$595,500,000).
  
- (b) A subsidiary, which has been under voluntary liquidation since September 2004, has claimed against the contractor of a property development project, and deducted from payments to the contractor, approximately HK\$11 million for the delay in completion and defects of the construction works. In addition, there is a dispute of approximately HK\$1.7 million regarding the final contract amount. The contractor has denied the claim and has counter-claimed the subsidiary for HK\$22.3 million, including liquidated damages, the above-mentioned disputed contract sum and loss and expense. The case is pending arbitration. The liquidation of the subsidiary and its pending affairs have been handled by the appointed professional liquidators. A settlement agreement regarding the claims and the counter-claims between the contractor and the subsidiary is being finalised, which to the understanding of the Group, will not result in any material financial gain or loss to the Group.

### STAFF

At 31 December 2005, the Group employed a total of 31 staff. Total staff cost for the year amounted to HK\$17.4 million. Staff remuneration is reviewed by the Group from time to time. In addition to salaries, the Group provides staff benefits including medical insurance, life insurance, provident fund and discretionary vocational tuition/training subsidies. Share options and bonuses are also available to employees of the Group at the discretion of the directors and depending upon the financial performance of the Group.

## I. SUMMARY OF AUDITED FINANCIAL STATEMENTS

Set out below is a summary of the audited consolidated results and assets and liabilities of the CHH Group for each of the three years ended 31 December 2005 as extracted from the published annual reports of CHH for the three years ended 31 December 2005.

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

	<b>For the year ended 31 December</b>		
	<b>2005</b>	2004	2003
	<i>restated</i>	<i>restated</i>	<i>restated</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	<b>249,672</b>	254,038	255,234
Other revenue	<b>10,691</b>	11,845	11,094
Other net income	<b>16,455</b>	6,124	(7,047)
Direct costs and operating expenses	<b>(101,618)</b>	(103,095)	(112,879)
Selling and marketing expenses	<b>(28,791)</b>	(24,523)	(27,586)
Administrative and corporate expenses	<b>(59,280)</b>	(61,235)	(61,524)
Operating profit before finance costs	<b>87,129</b>	83,154	57,292
Finance costs	<b>(3,669)</b>	(3,292)	(4,842)
Operating profit	<b>83,460</b>	79,862	52,450
Share of profits less losses of associates	<b>102,167</b>	78,069	54,090
Share of profits of a jointly controlled entity	<b>9,198</b>	9,648	8,704
Profit before taxation	<b>194,825</b>	167,579	115,244
Income tax	<b>(14,363)</b>	(11,793)	(11,731)
<b><i>Profit for the year</i></b>	<b><u>180,462</u></b>	<b><u>155,786</u></b>	<b><u>103,513</u></b>
<b><i>Attributable to:</i></b>			
Equity shareholders of CHH	<b>161,992</b>	134,979	87,235
Minority interests	<b>18,470</b>	20,807	16,278
Profit for the year	<b><u>180,462</u></b>	<b><u>155,786</u></b>	<b><u>103,513</u></b>
<b><i>Dividends payable to equity shareholders of CHH attributable to the year:</i></b>			
Interim dividends declared during the year	<b>54,152</b>	38,867	37,377
Final dividend proposed after the balance sheet date	<b>30,084</b>	27,970	12,528
	<b><u>84,236</u></b>	<b><u>66,837</u></b>	<b><u>49,905</u></b>
<b><i>Earnings per share</i></b>			
Basic	<b><u>HK\$0.55</u></b>	<b><u>HK\$0.53</u></b>	<b><u>HK\$0.37</u></b>
Diluted	<b><u>HK\$0.50</u></b>	<b><u>HK\$0.46</u></b>	<b><u>HK\$0.32</u></b>

## CONSOLIDATED BALANCE SHEET

	As at 31 December		
	2005	2004	2003
	HK\$'000	<i>restated</i> HK\$'000	<i>restated</i> HK\$'000
<b>Non-current assets</b>			
Fixed assets			
- Property, plant and equipment	91,617	74,199	43,811
- Interest in leasehold land held for own use under operating leases	30,264	30,993	31,723
	<u>121,881</u>	<u>105,192</u>	<u>75,534</u>
Interest in associates	1,267,145	1,190,188	1,149,151
Interest in a jointly controlled entity	17,966	13,768	9,120
Available-for-sale securities	412,376	458,283	330,615
Deferred tax assets	400	1,000	1,180
	<u>1,819,768</u>	<u>1,768,431</u>	<u>1,565,600</u>
<b>Current assets</b>			
Inventories	621	624	516
Trade and other receivables	13,721	18,033	58,707
Cash and cash equivalents	485,877	442,266	331,373
	<u>500,219</u>	<u>460,923</u>	<u>390,596</u>
<b>Current liabilities</b>			
Trade and other payables	58,444	60,401	72,546
Course fees received in advance	60,017	57,550	71,030
Convertible notes	—	82,457	—
Interest free loan	19,552	—	—
Taxation payable	6,499	2,738	3,250
Interim dividends payable	256	113	647
	<u>144,768</u>	<u>203,259</u>	<u>147,473</u>

	As at 31 December		
	2005	2004	2003
	<i>HK\$'000</i>	<i>restated HK\$'000</i>	<i>restated HK\$'000</i>
<b>Net current assets</b>	<b><u>355,451</u></b>	<u>257,664</u>	<u>243,123</u>
<b>Total assets less current liabilities</b>	<b><u>2,175,219</u></b>	<u>2,026,095</u>	<u>1,808,723</u>
<b>Non-current liabilities</b>			
Convertible notes	—	—	82,457
Interest free loan	—	20,000	20,000
Deferred tax liabilities	<u>2,390</u>	<u>1,380</u>	<u>2,800</u>
	<b><u>2,390</u></b>	<u>21,380</u>	<u>105,257</u>
<b>NET ASSETS</b>	<b><u>2,172,829</u></b>	<u>2,004,715</u>	<u>1,703,466</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	<b>300,841</b>	279,698	250,552
Reserves	<b><u>1,816,637</u></b>	<u>1,677,808</u>	<u>1,410,057</u>
Total equity attributable to equity shareholders of CHH	<b><u>2,117,478</u></b>	<u>1,957,506</u>	<u>1,660,609</u>
Minority interests	<b><u>55,351</u></b>	<u>47,209</u>	<u>42,857</u>
<b>TOTAL EQUITY</b>	<b><u>2,172,829</u></b>	<u>2,004,715</u>	<u>1,703,466</u>



## II. FINANCIAL STATEMENTS FOR THE CHH GROUP FOR THE TWO YEARS ENDED 31 DECEMBER 2005

Set out below is the audited consolidated financial statements of the CHH Group for the year ended 31 December 2005 together with the relevant notes thereto as extracted from annual report of CHH for the year ended 31 December 2005

### CONSOLIDATED PROFIT AND LOSS ACCOUNT

*For the year ended 31 December 2005*

	<i>Note</i>	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i> <i>restated</i>
Turnover	3	249,672	254,038
Other revenue	4	10,691	11,845
Other net income	4	16,455	6,124
Direct costs and operating expenses		(101,618)	(103,095)
Selling and marketing expenses		(28,791)	(24,523)
Administrative and corporate expenses		(59,280)	(61,235)
Operating profit before finance costs		87,129	83,154
Finance costs	5(a)	(3,669)	(3,292)
<b>Operating profit</b>	3	83,460	79,862
Share of profits less losses of associates		102,167	78,069
Share of profits of a jointly controlled entity		9,198	9,648
<b>Profit before taxation</b>	5	194,825	167,579
Income tax	6(a)	(14,363)	(11,793)
<b>Profit for the year</b>		<u>180,462</u>	<u>155,786</u>
<b>Attributable to:</b>			
Equity shareholders of CHH	9	161,992	134,979
Minority interests		18,470	20,807
<b>Profit for the year</b>		<u>180,462</u>	<u>155,786</u>
<b>Dividends payable to equity shareholders of CHH attributable to the year:</b>	10		
Interim dividends declared during the year		54,152	38,867
Final dividend proposed after the balance sheet date		30,084	27,970
		<u>84,236</u>	<u>66,837</u>
<b>Earnings per share</b>	11		
Basic		<u>HK\$0.55</u>	<u>HK\$0.53</u>
Diluted		<u>HK\$0.50</u>	<u>HK\$0.46</u>

## CONSOLIDATED BALANCE SHEET

As at 31 December 2005

		2005		2004	
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				<i>restated</i>	
<b>Non-current assets</b>					
Fixed assets	13(a)				
- Property, plant and equipment			91,617		74,199
- Interest in leasehold land held for own use under operating leases			<u>30,264</u>		<u>30,993</u>
			121,881		105,192
Interest in associates	15		1,267,145		1,190,188
Interest in a jointly controlled entity	16		17,966		13,768
Available-for-sale securities	17		412,376		458,283
Deferred tax assets	21(b)		<u>400</u>		<u>1,000</u>
			1,819,768		1,768,431
<b>Current assets</b>					
Inventories			621		624
Trade and other receivables	18		13,721		18,033
Cash and cash equivalents	19		<u>485,877</u>		<u>442,266</u>
			<u>500,219</u>		<u>460,923</u>
<b>Current liabilities</b>					
Trade and other payables	20		58,444		60,401
Course fees received in advance			60,017		57,550
Convertible notes	22		—		82,457
Interest free loan	23		19,552		—
Taxation payable	21(a)		6,499		2,738
Interim dividends payable			<u>256</u>		<u>113</u>
			<u>144,768</u>		<u>203,259</u>

		2005		2004	
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				<i>restated</i>	
<b>Net current assets</b>			<u>355,451</u>		<u>257,664</u>
<b>Total assets less current liabilities</b>			2,175,219		2,026,095
<b>Non-current liabilities</b>					
Interest free loan	23	—		20,000	
Deferred tax liabilities	21(b)	<u>2,390</u>		<u>1,380</u>	
			<u>2,390</u>		<u>21,380</u>
<b>NET ASSETS</b>			<u>2,172,829</u>		<u>2,004,715</u>
<b>CAPITAL AND RESERVES</b>					
Share capital	25		300,841		279,698
Reserves	26(a)		<u>1,816,637</u>		<u>1,677,808</u>
<b>Total equity attributable to equity shareholders of CHH</b>			2,117,478		1,957,506
<b>Minority interests</b>			<u>55,351</u>		<u>47,209</u>
<b>TOTAL EQUITY</b>			<u>2,172,829</u>		<u>2,004,715</u>

## CHH COMPANY BALANCE SHEET

As at 31 December 2005

	Note	2005		2004	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Non-current assets</b>					
Fixed assets	13(b)		120		217
Interest in subsidiaries	14		403,644		455,736
Interest in associates	15		<u>1,201,815</u>		<u>1,231,824</u>
			1,605,579		1,687,777
<b>Current assets</b>					
Trade and other receivables	18	600		384	
Cash and cash equivalents	19	<u>331,297</u>		<u>310,086</u>	
		331,897		310,470	
<b>Current liabilities</b>					
Trade and other payables	20	19,294		15,831	
Convertible notes	22	—		82,457	
Interest free loan	23	19,552		—	
Interim dividends payable		<u>256</u>		<u>113</u>	
		39,102		98,401	
<b>Net current assets</b>					
			<u>292,795</u>		<u>212,069</u>
<b>Total assets less current liabilities</b>					
			1,898,374		1,899,846
<b>Non-current liabilities</b>					
Interest free loan	23		<u>—</u>		<u>20,000</u>
<b>NET ASSETS</b>					
			<u>1,898,374</u>		<u>1,879,846</u>
<b>CAPITAL AND RESERVES</b>					
Share capital	25		300,841		279,698
Reserves	26(b)		<u>1,597,533</u>		<u>1,600,148</u>
<b>TOTAL EQUITY</b>					
			<u>1,898,374</u>		<u>1,879,846</u>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2005

	Attributable to equity shareholders of CHH											
	Note	Share capital	Share premium	Capital reserve	Investment revaluation reserve	Share option reserve	Other reserves	Hedging reserve	Retained profits	Total	Minority interests	Total equity
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2005												
- as previously reported		279,698	994,306	1,984	139,846	5,000	—	—	536,672	1,957,506	47,209	2,004,715
- opening balance adjustments in respect of HKAS 39 (note 2(e))		—	—	—	—	2,544	7,021	(27,734)	(7,008)	(25,177)	—	(25,177)
- as restated, after opening balance adjustments		279,698	994,306	1,984	139,846	7,544	7,021	(27,734)	529,664	1,932,329	47,209	1,979,538
Dividend approved in respect of previous financial year	10(b) & 26(a)	—	—	—	—	—	—	—	(28,021)	(28,021)	—	(28,021)
Cash flow hedge: effective portion of changes in fair value, net of deferred tax	26(a)	—	—	—	—	—	—	32,533	—	32,533	—	32,533
Available-for-sale securities:												
- changes in fair value	26(a)	—	—	—	12,321	—	—	—	—	12,321	(8)	12,313
- transfer to profit or loss on disposal	26(a)	—	—	—	(21,981)	—	—	—	—	(21,981)	—	(21,981)
Net profit for the year	26(a)	—	—	—	—	—	—	—	161,992	161,992	18,470	180,462
Minority interest's share of dividend		—	—	—	—	—	—	—	—	—	(10,320)	(10,320)
Dividends declared in respect of the current financial year	10(a) & 26(a)	—	—	—	—	—	—	—	(54,152)	(54,152)	—	(54,152)
Shares issued on conversion of convertible notes	25 & 26(a)	21,143	68,335	—	—	—	(7,021)	—	—	82,457	—	82,457
At 31 December 2005		<u>300,841</u>	<u>1,062,641</u>	<u>1,984</u>	<u>130,186</u>	<u>7,544</u>	<u>—</u>	<u>4,799</u>	<u>609,483</u>	<u>2,117,478</u>	<u>55,351</u>	<u>2,172,829</u>

	Attributable to equity shareholders of CHH										
	Note	Share capital	Share premium	Capital reserve	Investment revaluation reserve	Share option reserve	Retained profits	Total	Minority interests	Total equity	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2004		250,552	891,850	1,984	33,135	30,000	453,088	1,660,609	42,857	1,703,466	
Dividend approved in respect of the previous financial year	10(b) & 26(a)	607	1,894	—	—	—	(12,528)	(10,027)	—	(10,027)	
Changes in fair value of available-for-sale securities	26(a)	—	—	—	105,381	—	—	105,381	645	106,026	
Impairment loss realised	26(a)	—	—	—	1,330	—	—	1,330	—	1,330	
Net profit for the year	26(a)	—	—	—	—	—	134,979	134,979	20,807	155,786	
Minority interest's share of dividend		—	—	—	—	—	—	—	(17,100)	(17,100)	
Dividends declared in respect of the current financial year	10(a) & 26(a)	1,186	3,579	—	—	—	(38,867)	(34,102)	—	(34,102)	
Shares issued under private placement	25 & 26(a)	20,000	79,336	—	—	—	—	99,336	—	99,336	
Shares issued upon exercise of share options	25 & 26(a)	<u>7,353</u>	<u>17,647</u>	<u>—</u>	<u>—</u>	<u>(25,000)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	
At 31 December 2004		<u>279,698</u>	<u>994,306</u>	<u>1,984</u>	<u>139,846</u>	<u>5,000</u>	<u>536,672</u>	<u>1,957,506</u>	<u>47,209</u>	<u>2,004,715</u>	

## CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2005

	Note	2005		2004	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Operating activities</b>					
Profit before taxation		194,825		167,579	
Adjustments for:					
- Dividend income from listed investments		(10,779)		(9,415)	
- Amortisation of land lease premium		729		729	
- Depreciation		18,387		19,578	
- Finance costs		3,669		3,292	
- Interest income		(22,816)		(14,223)	
- Share of profits less losses of associates		(102,167)		(78,069)	
- Share of profits of a jointly controlled entity		(9,198)		(9,648)	
- Net gain on sale of fixed assets		(2,322)		(1,022)	
- Net gain on sale of listed investments		(14,133)		(1,360)	
- Realised gain on disposal of fixed assets to a jointly controlled entity in prior years		—		(5,072)	
- Provision for impairment in value of available-for-sale securities		—		1,330	
<b>Operating profit before changes in working capital</b>		56,195		73,699	
Decrease/(increase) in inventories		3		(108)	
Decrease/(increase) in trade and other receivables		4,885		(705)	
Decrease in trade and other payables		(4,621)		(7,073)	
Increase/(decrease) in course fees received in advance		2,467		(13,480)	
<b>Cash generated from operations</b>		58,929		52,333	
Tax paid					
- Hong Kong profits tax paid		(8,992)		(13,545)	
<b>Net cash from operating activities</b>			49,937		38,788

	<i>Note</i>	2005		2004	
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Investing activities</b>					
Payments for the purchase of fixed assets		(32,063)		(9,691)	
Proceeds from sale of fixed assets		2,864		1,357	
Payments for the purchase of listed investments		(3,788)		(25,298)	
Proceeds from sale of listed investments		54,302		5,278	
Dividends received from listed investments		10,637		9,153	
Dividend received from a jointly controlled entity		5,000		5,000	
Repayment of loan from an associate		40,700		48,100	
Interest received		<u>11,552</u>		<u>3,925</u>	
<b>Net cash from investing activities</b>			89,204		37,824
<b>Financing activities</b>					
Expenses paid in connection with share issues		—		(2,664)	
Proceeds from issuance of new shares		—		102,000	
Other borrowing costs		(404)		(406)	
Interest paid		(2,776)		(2,886)	
Dividends paid		(82,030)		(44,663)	
Dividends paid to minority shareholders		<u>(10,320)</u>		<u>(17,100)</u>	
<b>Net cash (used in)/from financing activities</b>			<u>(95,530)</u>		<u>34,281</u>
<b>Net increase in cash and cash equivalents</b>			43,611		110,893
<b>Cash and cash equivalents at 1 January</b>			<u>442,266</u>		<u>331,373</u>
<b>Cash and cash equivalents at 31 December</b>	19		<u>485,877</u>		<u>442,266</u>

Notes:

## 1 Significant accounting policies

### (a) *Statement of compliance*

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs for the current and prior accounting periods reflected in these financial statements is provided in note 2.

### (b) *Basis of preparation of the financial statements*

The consolidated financial statements for the year ended 31 December 2005 comprise CHH and its subsidiaries (together referred to as the “CHH Group”) and the CHH Group’s interest in associates and a jointly controlled entity.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the financial instruments classified as available-for-sale securities and derivative financial instruments (see note 1(f) and 1(g)) are stated at their value as explained in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### (c) *Subsidiaries and controlled enterprises*

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the CHH Group or CHH, directly or indirectly, holds more than half of the issued share capital, or controls more than half the voting power or controls the composition of the board of directors. Subsidiaries are considered to be controlled if CHH has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.



An investment in a controlled subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by CHH, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of CHH. Minority interests in the results of the CHH Group are presented on the face of the consolidated profit and loss account as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of CHH.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the CHH Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the CHH Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the CHH Group has been recovered.

In CHH's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(k)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale). The results of subsidiaries are accounted for by CHH on the basis of dividends declared or approved during CHH's financial year.

(d) *Associates and jointly controlled entities*

An associate is an entity in which the CHH Group or CHH has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the CHH Group or CHH and other parties, where the contractual arrangement establishes that the CHH Group or CHH and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the CHH Group's share of the associate's or the jointly controlled entity's net assets, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated profit and loss account includes the CHH Group's share of the post-acquisition, post-tax results of the associates and jointly controlled entities for the year, including any impairment loss on goodwill relating to the investment in associates and jointly controlled entities recognised for the year (see note 1(e) and 1(k)).

When the CHH Group's share of losses exceeds its interest in the associate or the jointly controlled entity, the CHH Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the CHH Group has incurred legal or constructive obligations or made payments on behalf of the associate or the jointly controlled entity. For this purpose, the CHH Group's interest in the associate or the jointly controlled entity is the carrying amount of the investment under the equity method together with the CHH Group's long-term interests that in substance form part of the CHH Group's net investment in the associate or the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the CHH Group and its associates and jointly controlled entities are eliminated to the extent of the CHH Group's interest in the associate or jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In CHH's balance sheet, its investments in associates and jointly controlled entities are stated at cost less impairment losses (see note 1(k)), unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The results of associates are accounted for by CHH on the basis of dividends declared or approved during CHH's financial year.

(e) *Goodwill*

Goodwill represents the excess of the cost of a business combination or an investment in an associate or a jointly controlled entity over the CHH Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 1(k)). In respect of associates or jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the interest in the associate or jointly controlled entity.

Any excess of the CHH Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate or a jointly controlled entity is recognised immediately in profit or loss.

On disposal of a cash generating unit, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(f) *Other investments in equity securities*

The CHH Group's and CHH's policies for investments in equity securities, other than investments in subsidiaries, associates and jointly controlled entity, are as follows:

Investments in securities held for trading are classified as current assets and are initially stated at fair value. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss.

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 1(k)).

Other investments in securities are classified as available-for-sale securities and are initially recognised at fair value plus transaction costs. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity, except for impairment losses (see note 1(k)) which are recognised directly in profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

Investments are recognised/derecognised on the date the CHH Group and/or CHH commits to purchase/sell the investments or they expire.

(g) *Derivative financial instruments*

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is charged immediately to profit or loss, except where the derivatives qualify for cash flow hedge accounting, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged (see note 1(h)).

(h) *Hedging*

*Cash flow hedges*

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of any gain or loss on remeasurement of the derivative financial instrument to fair value is recognised directly in equity. The ineffective portion of any gain or loss is recognised immediately in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gain or loss is removed from equity and recognised in profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss (such as when interest income or expense is recognised).

For cash flow hedges, other than those covered by the preceding two policy statements, the associated gain or loss is removed from equity and recognised in profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in profit or loss.

(i) *Property, plant and equipment*

The following items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(k)):

- buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease (see note 1(j)); and
- other items of plant and equipment.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(v)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

—	Buildings situated on leasehold land are depreciated over the shorter of their estimated useful lives, being 10 years after the date of completion, and the unexpired terms of the leases.	
—	Furniture, fixtures and equipment	3 - 10 years
—	Motor vehicles	3 - 5 years
—	Yacht	3 - 10 years
—	Leasehold improvements	Remaining term of the lease

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(j) ***Leased assets***

(i) *Classification of assets leased to the CHH Group*

Leases which do not transfer substantially all the risks and rewards of ownership to the CHH Group are classified as operating leases.

(ii) *Operating lease charges*

Where the CHH Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

(k) ***Impairment of assets***

(i) *Impairment of investments in equity securities and other receivables*

Investments in equity securities and other current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

- For unquoted equity securities and current receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated

future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for current receivables are reversed if in a subsequent period the amount of the impairment loss decreases. Impairment losses for equity securities are not reversed.

- For financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets).

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

- For available-for-sale securities, the cumulative loss that had been recognised directly in equity is removed from equity and is recognised in profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

(ii) *Impairment of other assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- pre-paid interests in leasehold land classified as being held under an operating lease;
- investments in subsidiaries, associates and joint ventures (except for those classified as held for sale (or included in a disposal group that is classified as held for sale)); and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax

discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(l) ***Inventories***

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of the completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(m) ***Trade and other receivables***

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 1(k)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 1(k)).

(n) *Convertible notes and loan*

Convertible notes and loan that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments. At initial recognition the liability component of the convertible notes and loan is calculated as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the other reserves until either the note or the loan is converted or redeemed.

If the note or the loan is converted, the other reserves, together with the carrying value of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note or the loan is redeemed, the capital reserve is released directly to retained profits.

(o) *Trade and other payables*

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(p) *Cash equivalents*

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the CHH Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(q) *Employee benefits*

(i) Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) The CHH Group also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined contribution retirement scheme. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of \$20,000. Contributions to the plan vest immediately.

(r) *Income tax*

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the CHH Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax provided is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, CHH or the CHH Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, CHH or the CHH Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.



(s) *Provisions and contingent liabilities*

Provisions are recognised for liabilities of uncertain timing or amount when the CHH Group or CHH has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(t) *Recognition of income*

Provided it is probable that the economic benefits will flow to the CHH Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

- (i) The principal source of income from motoring school operations is driving course fee income which is recognised in the profit and loss account upon the completion of the relevant training lessons.
- (ii) Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset.
- (iii) Interest income from bank deposits is accrued on a time apportioned basis based on the principal amounts outstanding and at the applicable interest rates.
- (iv) Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.
- (v) Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.
- (vi) Interest income from a loan to an associate or to an outsider is accrued on a time apportioned basis based on the principal amounts outstanding and at such rate as may be agreed from time to time among all the shareholders of the associate.

(u) *Translation of foreign currencies*

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

(v) ***Borrowing costs***

Borrowing costs are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(w) ***Related parties***

For the purposes of these financial statements, parties are considered to be related to the CHH Group if the CHH Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the CHH Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the CHH Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the CHH Group or of any entity that is a related party of the CHH Group.

(x) ***Segment reporting***

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the CHH Group's internal financial reporting system, the CHH Group has chosen business segment information as the reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

**2 Changes in accounting policies**

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2005.

The accounting policies of the CHH Group and CHH after the adoption of these new and revised HKFRSs have been summarised in note 1. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

The CHH Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 34).

**(a) *Restatement of prior periods and opening balances***

The following tables disclose the adjustments that have been made in accordance with the transitional provisions of the respective HKFRSs to each of the line items in the consolidated profit and loss account and balance sheet and CHH's balance sheet as previously reported for the year ended 31 December 2004. The effects of the changes in accounting policies on the balances at 1 January 2004 and 2005 are disclosed in note 26.

(i) *Effect on the consolidated financial statements*

Consolidated profit and loss for the year ended 31 December 2004

	<b>2004</b> <b>(as previously</b> <b>reported)</b> <i>HK\$'000</i>	<b>Effect of new</b> <b>policy (increase/</b> <b>(decrease)</b> <b>in profit</b> <b>for the year)</b> <b>HKAS 1</b> <b>(note 2(c))</b> <i>HK\$'000</i>	<b>2004</b> <b>(as restated)</b> <i>HK\$'000</i>
Turnover	254,038	—	254,038
Other revenue	11,845	—	11,845
Other net income	6,124	—	6,124
Direct costs and operating expenses	(103,095)	—	(103,095)
Selling and marketing expenses	(24,523)	—	(24,523)
Administrative and corporate expenses	(61,235)	—	(61,235)
Operating profit before finance costs	83,154	—	83,154
Finance costs	(3,292)	—	(3,292)
<b>Operating profit</b>	79,862	—	79,862
Share of profits less losses of associates	95,880	(17,811)	78,069
Share of profits of a jointly controlled entity	11,610	(1,962)	9,648
<b>Profit before taxation</b>	187,352	(19,773)	167,579
Income tax	(31,566)	19,773	(11,793)
Minority interest	155,786	—	155,786
	(20,807)	20,807	—
<b>Profit for the year</b>	<u>134,979</u>	<u>20,807</u>	<u>155,786</u>
<b>Attributable to:</b>			
Equity shareholders of CHH	134,979	—	134,979
Minority interests	—	20,807	20,807
<b>Profit for the year</b>	<u>134,979</u>	<u>20,807</u>	<u>155,786</u>
Dividends payable to equity shareholders of CHH attributable to the year	(66,837)	—	(66,837)
<b>Earnings per share</b>			
Basic	<u>HK\$0.53</u>	<u>—</u>	<u>HK\$0.53</u>
Diluted	<u>HK\$0.46</u>	<u>—</u>	<u>HK\$0.46</u>

Consolidated balance sheet at 31 December 2004

	Effect of new policy (increase/ (decrease) in net assets)				
	2004 (as previously reported) <i>HK\$'000</i>	HKAS 1 (note 2(c)) <i>HK\$'000</i>	HKAS 17 (note 2(d)) <i>HK\$'000</i>	Sub-total <i>HK\$'000</i>	
<b>Non-current assets</b>					
Fixed assets					
- Property, plant and equipment	105,192	—	(30,993)	(30,993)	74,199
- Interests in leasehold land held for own use under operating leases	—	—	30,993	30,993	30,993
Deferred tax assets	1,000	—	—	—	1,000
Other non-current assets	<u>1,662,239</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,662,239</u>
	1,768,431	—	—	—	1,768,431
<b>Current assets</b>	460,923	—	—	—	460,923
<b>Current liabilities</b>	<u>203,259</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>203,259</u>
<b>Net current assets</b>	<u>257,664</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>257,664</u>
<b>Total assets less current liabilities</b>	<u>2,026,095</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,026,095</u>
<b>Non-current liabilities</b>					
Deferred tax liabilities	1,380	—	—	—	1,380
Other non-current liabilities	<u>20,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>20,000</u>
	21,380	—	—	—	21,380
Minority interests	<u>47,209</u>	<u>47,209</u>	<u>—</u>	<u>47,209</u>	<u>—</u>
<b>NET ASSETS</b>	<u>1,957,506</u>	<u>47,209</u>	<u>—</u>	<u>47,209</u>	<u>2,004,715</u>

	Effect of new policy (increase/ (decrease) in net assets)				2004 (as restated) HK\$'000
	2004 (as previously reported) HK\$'000	HKAS 1 (note 2(c)) HK\$'000	HKAS 17 (note 2(d)) HK\$'000	Sub-total HK\$'000	
<b>CAPITAL AND RESERVES</b>					
<b>Attributable to equity shareholders of CHH</b>					
Share capital	279,698	—	—	—	279,698
Share premium	994,306	—	—	—	994,306
Capital reserve	1,984	—	—	—	1,984
Investment revaluation reserve	139,846	—	—	—	139,846
Share option reserve	5,000	—	—	—	5,000
Retained profits	<u>536,672</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>536,672</u>
	1,957,506	—	—	—	1,957,506
<b>Attributable to minority interests</b>	<u>—</u>	<u>47,209</u>	<u>—</u>	<u>47,209</u>	<u>47,209</u>
	<u>1,957,506</u>	<u>47,209</u>	<u>—</u>	<u>47,209</u>	<u>2,004,715</u>

(ii) *Effect on CHH's balance sheet*

There is no effect on CHH's balance sheet at 31 December 2004.

(b) *Estimated effect of changes in accounting policies on the current period*

The following tables provide estimates of the extent to which each of the line items in the consolidated profit and loss account and balance sheet and CHH's balance sheet for the year ended 31 December 2005 is higher or lower than it would have been had the previous policies still been applied in the year, where it is practicable to make such estimates.

(i) *Effect on the consolidated financial statements*

Estimated effect on the consolidated profit and loss account for the year ended 31 December 2005:

	<b>Estimated effect of new policy (increase/(decrease) in profit for the year)</b>		
	<b>HKAS 1</b>	<b>HKAS 32 &amp; 39</b>	<b>Total</b>
	<b>(note 2(c))</b> <i>HK\$'000</i>	<b>(note 2(e))</b> <i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	—	—	—
Other revenue	—	—	—
Other net income	—	—	—
Direct costs and operating expenses	—	—	—
Selling and marketing expenses	—	—	—
Administrative and corporate expenses	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>
Operating profit before finance costs	—	—	—
Finance costs	—	(2,109)	(2,109)
	<u>—</u>	<u>(2,109)</u>	<u>(2,109)</u>
<b>Operating profit</b>	—	(2,109)	(2,109)
Share of profits less losses of associates	(21,760)	—	(21,760)
Share of profits of a jointly controlled entity	(1,633)	—	(1,633)
	<u>(23,393)</u>	<u>(2,109)</u>	<u>(25,502)</u>
<b>Profit before taxation</b>	(23,393)	(2,109)	(25,502)
Income tax	23,393	—	23,393
	<u>—</u>	<u>(2,109)</u>	<u>(2,109)</u>
<b>Profit for the year</b>	<u>—</u>	<u>(2,109)</u>	<u>(2,109)</u>
<b>Attributable to:</b>			
Equity shareholders of CHH	—	(2,109)	(2,109)
Minority interests	—	—	—
	<u>—</u>	<u>(2,109)</u>	<u>(2,109)</u>
<b>Profit for the year</b>	<u>—</u>	<u>(2,109)</u>	<u>(2,109)</u>
Dividends payable to equity shareholders of CHH attributable to the year	—	—	—
<b>Earnings per share</b>			
Basic	<u>—</u>	<u>HK\$(0.01)</u>	<u>HK\$(0.01)</u>
Diluted	<u>—</u>	<u>HK\$(0.01)</u>	<u>HK\$(0.01)</u>

Estimated effect on the consolidated balance sheet at 31 December 2005:

	Estimated effect of new policy (increase/(decrease) in net assets)		Total HK\$'000
	HKAS 17 (note 2(d))	HKAS 32 & 39 (note 2(e))	
	HK\$'000	HK\$'000	
<b>Non-current assets</b>			
Fixed assets			
- Property, plant and equipment	(30,264)	—	(30,264)
- Interests in leasehold land held for own use under operating leases	30,264	—	30,264
Interest in associates	—	4,799	4,799
Interest in a jointly controlled entity	—	—	—
Available-for-sale securities	—	—	—
Deferred tax assets	—	—	—
	<u>—</u>	<u>4,799</u>	<u>4,799</u>
	-----	-----	-----
<b>Current assets</b>	—	—	—
<b>Current liabilities</b>			
Interest free loan	—	448	448
Other current liabilities	—	—	—
	<u>—</u>	<u>448</u>	<u>448</u>
	-----	-----	-----
<b>Net current assets</b>	—	448	448
	-----	-----	-----
<b>Total assets less current liabilities</b>	—	5,247	5,247
	-----	-----	-----
<b>Non-current liabilities</b>			
Deferred tax liabilities	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>
	-----	-----	-----
<b>NET ASSETS</b>	<u>—</u>	<u>5,247</u>	<u>5,247</u>
	=====	=====	=====



	Estimated effect of new policy (increase/(decrease) in net assets)		Total HK\$'000
	HKAS 17 (note 2(d))	HKAS 32 & 39 (note 2(e))	
	HK\$'000	HK\$'000	
<b>CAPITAL AND RESERVES</b>			
<b>Effect attributable to equity shareholders of CHH</b>			
Share capital	—	—	—
Share premium	—	7,021	7,021
Capital reserve	—	—	—
Investment revaluation reserve	—	—	—
Share option reserve	—	2,544	2,544
Hedging reserve	—	4,799	4,799
Other reserves	—	—	—
Retained profits	—	(9,117)	(9,117)
	—	5,247	5,247
<b>Effect attributable to minority interests</b>	—	—	—
	—	5,247	5,247

Estimated effect on net income recognised directly in consolidated equity for the year ended 31 December 2005:

	Effect of new policy (increase/(decrease) in equity)	Total HK\$'000
	HKAS 39 (note 2(e)) HK\$'000	
<b>For the year ended 31 December 2005</b>		
Attributable to equity shareholders of CHH	32,533	32,533
Minority interests	—	—
Total equity	32,533	32,533

(ii) *Effect on CHH's balance sheet*

Estimated effect on the balance sheet at 31 December 2005:

	Estimated effect of new policy (increase/(decrease) in net assets) HKAS 32 &39 (note 2(e)) HK\$'000	Total HK\$'000
<b>Non-current assets</b>	—	—
<b>Current assets</b>	—	—
<b>Current liabilities</b>		
Interest free loan	448	448
Other current liabilities	—	—
	448	448
<b>Net current assets</b>	448	448
<b>Total assets less current liabilities</b>	—	—
<b>Non-current liabilities</b>	—	—
<b>NET ASSETS</b>	448	448
<b>CAPITAL AND RESERVES</b>		
Share capital	—	—
Share premium	7,021	7,021
Share option reserve	2,544	2,544
Other reserves	—	—
Retained profits	(9,117)	(9,117)
	448	448

(c) *Changes in presentation (HKAS 1, Presentation of financial statements)*

(i) *Presentation of shares of associates' and jointly controlled entities' taxation (HKAS 1, Presentation of financial statements)*

In prior years, the CHH Group's share of taxation of associates and jointly controlled entities accounted for using the equity method was included as part of the CHH Group's income tax in the consolidated profit and loss account. With effect from 1 January 2005, in accordance with the implementation guidance in HKAS 1, the CHH Group has changed the presentation and includes the share of taxation of associates and jointly controlled entities accounted for using the equity method in the respective shares of profit or loss reported in the consolidated profit and loss account before arriving at the CHH Group's profit or loss before tax. These changes in presentation have been applied retrospectively with comparatives restated as shown in note 2(a).

(ii) *Minority interests (HKAS 1, Presentation of financial statements and HKAS 27, Consolidated and separate financial statements)*

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as deduction from net assets. Minority interests in the results of the CHH Group for the year were also separately presented in the profit and loss account as a deduction before arriving at the profit attributable to shareholders (the equity shareholders of CHH).

With effect from 1 January 2005, in order to comply with HKAS 1 and HKAS 27, the CHH Group has changed its accounting policy relating to presentation of minority interests. Under the new policy, minority interests are presented as part of equity, separately from interests attributable to the equity shareholders of CHH. Further details of the new policy are set out in note 1(c). These changes in presentation have been applied retrospectively with comparative restated as shown in note 2(a).

(d) *Changes in presentation of leasehold land and buildings held for own use (HKAS 17, Leases)*

In prior years, all interests in leasehold land held for own use were presented together with the buildings situated on that land and were stated at cost less accumulated depreciation and impairment losses.

With effect from 1 January 2005, in order to comply with HKAS 17, the CHH Group has reclassified certain leasehold interests in land held for own use as being held under an operating lease where the fair value of the interest in any buildings situated on the leasehold land could be measured separately from the fair value of the interest in the land at the time the lease was first entered into by the CHH Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later. Further details of the policy for leasehold land held for own use are set out in note 1(j).

The new presentation has been applied retrospectively by reclassifying leasehold land from leasehold land and buildings held for own use to interest in leasehold land held for own use under operating leases as shown in note 2(a).

(e) *Financial instruments (HKAS 32, Financial instruments: Disclosure and presentation and HKAS 39, Financial instruments: Recognition and measurement)*

With effect from 1 January 2005, in order to comply with HKAS 32 and HKAS 39, the CHH Group has changed its accounting policies relating to financial instruments to those as set out in notes 1(f) to (h), (k), (m) to (o). Further details of the changes are as follows:

(i) *Derivative financial instruments*

In prior years, derivative financial instruments entered into by an associate to hedge the interest rate risk of a recognised asset or liability or the foreign currency risk of a committed future transaction were recognised on an accruals basis with reference to the timing of recognition of the hedged transaction.

With effect from 1 January 2005, and in accordance with HKAS 32 and HKAS 39, all derivative financial instruments entered into by an associate are stated at fair value. Changes in the fair value of derivatives held as hedging instruments in a cash flow hedge are recognised in equity to the extent that the hedge is effective and until the hedged transaction occurs. Any other changes in fair value of the derivatives are recognised in profit or loss.

(ii) *Convertible notes and interest free loan*

In prior years, convertible notes issued and interest free loan which are convertible into shares were stated at amortised cost (including transaction costs).

With effect from 1 January 2005, and in accordance with HKAS 32 and HKAS 39, convertible notes issued and interest free loan which are convertible into shares are split into their liability and equity components at initial recognition. The liability component is subsequently carried at amortised cost. The equity component is recognised in the other reserves until the note is either converted (in which case it is transferred to share premium) or the note is redeemed (in which case it is released directly to retained profits). Further details of the new policies are set out in note 1(n).

(iii) *Description of transitional provisions and effect of adjustments*

The changes in accounting policies relating to accounting for derivatives and convertible notes and loan were adopted by way of opening balance adjustments to certain reserves as at 1 January 2005. Comparative amounts have not been restated as this is prohibited by the transitional arrangements in HKAS 39.

The adjustments for each financial statement line item effected for the years ended 31 December 2004 and 2005 are set out in notes 2(a) and (b).

(f) *Definition of related parties (HKAS 24, Related party disclosures)*

As a result of the adoption of HKAS 24, Related party disclosures, the definition of related parties as disclosed in note 1(w) has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members) and post-employment benefit plans which are for the benefit of employees of the CHH Group or of any entity that is a related party of the CHH Group. The clarification of the definition of related parties has not resulted in any material changes to the previously reported disclosures of related party transactions nor has it had any material effect on the disclosures made in the current period, as compared to those that would have been reported had SSAP 20, Related party disclosures, still been in effect.

## 3 Turnover and operating profit

The principal activity of CHH is investment holding and those of its subsidiaries are set out in note 14 to the financial statements. Given below is an analysis of the turnover and operating profit of the CHH Group:

	Turnover		Operating profit	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Principal activities</b>				
Motoring school operations	209,918	225,633	49,129	54,960
Investment and other activities	<u>39,754</u>	<u>28,405</u>	<u>34,331</u>	<u>24,902</u>
	<u>249,672</u>	<u>254,038</u>	<u>83,460</u>	<u>79,862</u>

## 4 Other revenue and other net income

	2005	2004
	HK\$'000	HK\$'000
<b>Other revenue</b>		
Interest income from loan to an associate	10,691	11,068
Interest income from loan to outsider	<u>—</u>	<u>777</u>
	<u>10,691</u>	<u>11,845</u>
<b>Other net income</b>		
Net gain on sale of listed investments	14,133	1,360
Net gain on sale of fixed assets	2,322	1,022
Provision for impairment in value of available-for-sale securities	—	(1,330)
Realised gain on disposal of fixed assets to a jointly controlled entity in prior years	<u>—</u>	<u>5,072</u>
	<u>16,455</u>	<u>6,124</u>

## 5 Profit before taxation

	2005 HK\$'000	2004 HK\$'000 <i>restated</i>
<b>Profit before taxation is arrived at after charging:</b>		
(a) Finance costs		
Interest on convertible notes	3,265	2,886
Other borrowing costs	404	406
	<u>3,669</u>	<u>3,292</u>
(b) Other items		
Amortisation of land lease premium	729	729
Depreciation	18,387	19,578
Auditors' remuneration		
- statutory audit services	798	756
- other services	145	133
Operating lease charges - land and buildings	12,821	13,775
Contributions to defined contribution retirement scheme	4,419	4,232
Salaries, wages and other benefits (excluding directors' emoluments)	110,180	110,335
Share of an associate's taxation	21,760	17,811
Share of a jointly controlled entity's taxation	1,633	1,962
Cost of inventories consumed	9,468	12,536
	<u>9,468</u>	<u>12,536</u>
<b>and after crediting:</b>		
Dividend income from listed investments	10,779	9,415
Interest income	22,816	14,223
	<u>22,816</u>	<u>14,223</u>

## 6 Income tax in the consolidated profit and loss account

(a) Taxation in the consolidated profit and loss account represents:

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i> <i>restated</i>
<b>Current tax - Hong Kong Profits Tax</b>		
Provision for the year	13,350	12,984
(Over)/under-provision in respect of prior years	<u>(597)</u>	<u>49</u>
	----- 12,753	----- 13,033
<b>Deferred tax</b>		
Origination and reversal of temporary differences	<u>1,610</u>	<u>(1,240)</u>
	<u>14,363</u>	<u>11,793</u>

(b) Reconciliation between tax expense and accounting profit at applicable tax rate:

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i> <i>restated</i>
Profit before tax	<u>194,825</u>	<u>167,579</u>
Notional tax on profit before tax calculated at 17.5%	34,094	29,326
Tax effect of non-deductible expenses	2,583	624
Tax effect on non-taxable revenue	(24,427)	(19,657)
Tax effect of current year's tax losses not recognised	2,710	1,451
(Over)/under-provision in prior years	<u>(597)</u>	<u>49</u>
Actual tax expense	<u>14,363</u>	<u>11,793</u>

## 7 Directors' remuneration

Directors' remuneration disclosed pursuant to section 161 and 161A of the Hong Kong Companies Ordinance is as follows:

	Directors' fees <i>HK\$'000</i>	Salaries, allowances and benefits in kind <i>HK\$'000</i>	Discretionary bonuses <i>HK\$'000</i>	Retirement scheme contributions <i>HK\$'000</i>	2005 Total <i>HK\$'000</i>
<b>Executive directors</b>					
Cheung Chung Kiu	—	—	4,500	1	4,501
Yeung Hin Chung, John	—	2,460	1,800	12	4,272
Yuen Wing Shing	—	—	600	1	601
Wong Chi Keung	—	—	—	—	—
Leung Wai Fai	—	—	700	1	701
Tung Wai Lan, Iris	—	—	—	—	—
<b>Non-executive director</b>					
Lee Ka Sze, Carmelo	400	—	—	—	400
<b>Independent non-executive directors</b>					
Wong Wai Kwong, David	400	—	—	—	400
Wong Yat Fai	200	—	—	—	200
Ng Kwok Fu	200	—	—	—	200
	<u>1,200</u>	<u>2,460</u>	<u>7,600</u>	<u>15</u>	<u>11,275</u>

	Directors' fees <i>HK\$'000</i>	Salaries, allowances and benefits in kind <i>HK\$'000</i>	Discretionary bonuses <i>HK\$'000</i>	Retirement scheme contributions <i>HK\$'000</i>	2004 Total <i>HK\$'000</i>
<b>Executive directors</b>					
Cheung Chung Kiu	—	—	750	1	751
Yeung Hin Chung, John	—	2,330	1,600	12	3,942
Yuen Wing Shing	—	—	600	1	601
Wong Chi Keung	—	—	—	—	—
Leung Wai Fai	—	—	500	1	501
Tung Wai Lan, Iris	—	—	200	1	201
<b>Non-executive director</b>					
Lee Ka Sze, Carmelo	400	—	—	—	400
<b>Independent non-executive directors</b>					
Wong Wai Kwong, David	400	—	—	—	400
Wong Yat Fai	100	—	—	—	100
Ng Kwok Fu	100	—	—	—	100
	<u>1,000</u>	<u>2,330</u>	<u>3,650</u>	<u>16</u>	<u>6,996</u>



**8 Individuals with highest emoluments**

Of the five individuals with the highest emoluments, two (2004: one) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other three (2004: four) individuals are as follows:

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Salaries and other emoluments	2,697	3,318
Discretionary bonuses and/or performance-related bonuses	537	560
Retirement scheme contributions	<u>90</u>	<u>115</u>
	<u><u>3,324</u></u>	<u><u>3,993</u></u>

The emoluments of the three (2004: four) individuals with the highest emoluments are within the following bands:

	<b>2005</b> <i>Number</i>	<b>2004</b> <i>Number</i>
<i>Bands (in HK\$)</i>		
Not more than \$1,000,000	1	2
\$1,000,001 - \$1,500,000	<u>2</u>	<u>2</u>
	<u><u>3</u></u>	<u><u>4</u></u>

**9 Profit attributable to equity shareholders of CHH**

The consolidated profit attributable to equity shareholders of CHH includes a loss of HK\$2,373,000 (2004: profit of HK\$16,801,000) which has been dealt with in the financial statements of CHH.

Reconciliation of the above amount to CHH's profit for the year:

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Amount of consolidated (loss)/profit attributable to equity shareholders dealt with in CHH's financial statements	(2,373)	16,801
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	<u>18,060</u>	<u>16,310</u>
CHH's profit for the year (note 26(b))	<u><u>15,687</u></u>	<u><u>33,111</u></u>

**10 Dividends**

- (a) Dividends payable to equity shareholders of CHH attributable to the year:

	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interim dividends declared of HK\$0.18 per share (2004: HK\$0.15 per share)	54,152	38,867
Final dividend proposed after the balance sheet date of HK\$0.10 per share (2004: HK\$0.10 per share)	<u>30,084</u>	<u>27,970</u>
	<u>84,236</u>	<u>66,837</u>

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

- (b) Dividends payable to equity shareholders of CHH attributable to the previous financial year, approved and paid during the year:

	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Final dividend in respect of the previous financial year, approved and paid during the year, of HK\$0.10 per share (2004: HK\$0.05 per share)	<u>28,021</u>	<u>12,528</u>

**11 Earnings per share**

- (a)
- Basic earnings per share*

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of CHH of HK\$161,992,000 (2004: HK\$134,979,000) and the weighted average of 292,431,000 ordinary shares (2004: 255,333,000) in issue during the year, calculated as follows:

*Weighted average number of ordinary shares*

	<b>2005</b>	<b>2004</b>
	<i>'000</i>	<i>'000</i>
Issued ordinary shares at 1 January	279,698	250,552
Effect of conversion of convertible notes	12,733	—
Effect of script dividend	—	768
Effect of share options exercised	—	3,958
Effect of shares issued under private placement	<u>—</u>	<u>55</u>
Weighted average number of ordinary shares at 31 December	<u>292,431</u>	<u>255,333</u>

(b) *Diluted earnings per share*

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of CHH of HK\$164,685,000 (2004: HK\$137,360,000) and the weighted average number of ordinary shares of 332,479,000 shares (2004: 298,965,000 shares), calculated as follows:

(i) *Profit attributable to ordinary equity shareholders of CHH (diluted):*

	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit attributable to ordinary equity shareholders	161,992	134,979
After tax effect of effective interest on liability component of convertible notes/loan	<u>2,693</u>	<u>2,381</u>
Profit attributable to ordinary equity shareholders (diluted)	<u><u>164,685</u></u>	<u><u>137,360</u></u>

(ii) *Weighted average number of ordinary shares (diluted)*

	<b>2005</b>	<b>2004</b>
	<i>'000</i>	<i>'000</i>
Weighted average number of ordinary shares at 1 January	292,431	255,333
Effect of deemed issue of shares of conversion of convertible notes/loan	28,303	35,800
Effect of deemed issue of shares under CHH's share option scheme for nil consideration	<u>11,745</u>	<u>7,832</u>
Weighted average number of ordinary shares (diluted) at 31 December	<u><u>332,479</u></u>	<u><u>298,965</u></u>

**12 Segment reporting**

Segment information is presented in respect of the CHH Group's business segments. Business segment information is chosen as the reporting format because this is considered by management to be more relevant to the CHH Group's internal financial reporting.

**Business segments**

The CHH Group comprises the following main business segments:

Motoring school operations  
 Tunnel operations  
 Electronic toll operations  
 Treasury

**Geographical segments**

No information has been disclosed in respect of the CHH Group's geographical segments as the CHH Group operates only one geographical segment which is Hong Kong.

	Motoring school operations		Tunnel operations		Electronic toll operations		Treasury		Unallocated		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i> <i>restated</i>	<i>HK\$'000</i>	<i>HK\$'000</i> <i>restated</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i> <i>restated</i>
Turnover	209,918	225,633	2,873	2,873	12,600	12,600	22,907	11,793	1,374	1,139	249,672	254,038
Other revenue	—	—	—	—	—	—	10,691	11,845	—	—	10,691	11,845
Total revenue	<u>209,918</u>	<u>225,633</u>	<u>2,873</u>	<u>2,873</u>	<u>12,600</u>	<u>12,600</u>	<u>33,598</u>	<u>23,638</u>	<u>1,374</u>	<u>1,139</u>	<u>260,363</u>	<u>265,883</u>
Segment result	49,129	54,960	2,873	2,873	12,664	17,610	52,935	31,583	(6,387)	(5,739)	111,214	101,287
Unallocated operating expenses											<u>(24,085)</u>	<u>(18,133)</u>
Operating profit before finance costs											87,129	83,154
Finance costs	—	—	—	—	—	—	(3,669)	(3,292)	—	—	<u>(3,669)</u>	<u>(3,292)</u>
Operating profit											83,460	79,862
Share of profits less losses of associates	—	—	102,167	78,069	—	—	—	—	—	—	102,167	78,069
Share of profits of a jointly controlled entity	—	—	—	—	9,198	9,648	—	—	—	—	<u>9,198</u>	<u>9,648</u>
Profit before taxation											194,825	167,579
Income tax	(8,616)	(9,278)	—	—	(2,191)	(2,168)	(3,556)	(347)	—	—	<u>(14,363)</u>	<u>(11,793)</u>
Profit for the year											<u>180,462</u>	<u>155,786</u>
Depreciation for the year	13,577	14,956	—	—	—	—	—	—	4,810	4,622	18,387	19,578
Amortisation of land lease premium	729	729	—	—	—	—	—	—	—	—	729	729
Provision for impairment in value of available-for-sale securities	—	—	—	—	—	—	—	1,330	—	—	—	1,330
Capital expenditure incurred during the year	23,961	7,124	—	—	—	—	—	—	12,386	43,176	36,347	50,300

	Motoring school operations		Tunnel operations		Electronic toll operations		Treasury		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	226,890	200,756	—	—	—	—	807,986	824,642	1,034,876	1,025,398
Interest in associates	—	—	1,267,145	1,190,188	—	—	—	—	1,267,145	1,190,188
Interest in a jointly controlled entity	—	—	—	—	17,966	13,768	—	—	17,966	13,768
Total assets	<u>226,890</u>	<u>200,756</u>	<u>1,267,145</u>	<u>1,190,188</u>	<u>17,966</u>	<u>13,768</u>	<u>807,986</u>	<u>824,642</u>	<u>2,319,987</u>	<u>2,229,354</u>
Segment liabilities	83,977	80,430	7,062	7,062	1,242	1,361	42,050	126,565	134,331	215,418
Unallocated liabilities									<u>12,827</u>	<u>9,221</u>
Total liabilities									<u>147,158</u>	<u>224,639</u>

## 13 Fixed assets

(a) *The CHH Group*

	Buildings held for own use carried at cost <i>HK\$'000</i>	Furniture, and fixtures equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Yacht <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Sub-total <i>HK\$'000</i>	Interest in leasehold land held for own use under operating leases <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Cost:</b>								
At 1 January 2004	89,182	22,824	89,686	—	857	202,549	38,286	240,835
Additions	44	3,021	6,626	40,609	—	50,300	—	50,300
Disposals	—	(123)	(8,917)	—	—	(9,040)	—	(9,040)
At 31 December 2004	89,226	25,722	87,395	40,609	857	243,809	38,286	282,095
At 1 January 2005	89,226	25,722	87,395	40,609	857	243,809	38,286	282,095
Additions	12,213	887	22,901	17	329	36,347	—	36,347
Disposals	(742)	(360)	(15,302)	—	—	(16,404)	—	(16,404)
At 31 December 2005	100,697	26,249	94,994	40,626	1,186	263,752	38,286	302,038
<b>Accumulated amortisation and depreciation:</b>								
At 1 January 2004	59,711	19,456	79,044	—	526	158,737	6,564	165,301
Charge for the year	7,250	1,857	6,431	3,709	331	19,578	729	20,307
Written back on disposals	—	(119)	(8,586)	—	—	(8,705)	—	(8,705)
At 31 December 2004	66,961	21,194	76,889	3,709	857	169,610	7,293	176,903
At 1 January 2005	66,961	21,194	76,889	3,709	857	169,610	7,293	176,903
Charge for the year	5,468	1,690	7,068	4,150	11	18,387	729	19,116
Written back on disposals	(742)	(344)	(14,776)	—	—	(15,862)	—	(15,862)
At 31 December 2005	71,687	22,540	69,181	7,859	868	172,135	8,022	180,157
<b>Net book value:</b>								
At 31 December 2005	29,010	3,709	25,813	32,767	318	91,617	30,264	121,881
At 31 December 2004	22,265	4,528	10,506	36,900	—	74,199	30,993	105,192

(i) The leasehold land of the CHH Group at 31 December 2005 is held in Hong Kong under a medium lease.

(ii) The CHH Group leases out a portion of buildings held for own use under operating leases. The leases typically run for an initial period of one to two years. None of the leases includes contingent rentals.

- (iii) The CHH Group's total future minimum lease receipts under non-cancellable operating leases are receivable as follows:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Within 1 year	30	81
After 1 year but within 5 years	<u>—</u>	<u>—</u>
	<u><u>30</u></u>	<u><u>81</u></u>

(b) *CHH*

	Furniture, fixtures and equipment <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Cost:</b>			
At 1 January 2004	592	857	1,449
Additions	<u>6</u>	<u>—</u>	<u>6</u>
At 31 December 2004	----- 598	----- 857	----- 1,455
At 1 January 2005	598	857	1,455
Additions	35	—	35
Disposals	<u>(54)</u>	<u>—</u>	<u>(54)</u>
At 31 December 2005	----- 579	----- 857	----- 1,436
<b>Accumulated depreciation:</b>			
At 1 January 2004	263	526	789
Charge for the year	<u>118</u>	<u>331</u>	<u>449</u>
At 31 December 2004	----- 381	----- 857	----- 1,238
At 1 January 2005	381	857	1,238
Charge for the year	117	—	117
Written back on disposals	<u>(39)</u>	<u>—</u>	<u>(39)</u>
At 31 December 2005	----- 459	----- 857	----- 1,316
<b>Net book value:</b>			
At 31 December 2005	<u><u>120</u></u>	<u><u>—</u></u>	<u><u>120</u></u>
At 31 December 2004	<u><u>217</u></u>	<u><u>—</u></u>	<u><u>217</u></u>

## 14 Interest in subsidiaries

	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares at cost	539,755	539,755
Amounts due from subsidiaries	<u>50,914</u>	<u>77,677</u>
	590,669	617,432
Amounts due to subsidiaries	<u>(187,025)</u>	<u>(161,696)</u>
	<u>403,644</u>	<u>455,736</u>

The amounts due to and from subsidiaries are non-current as these are not expected to be repayable within the next twelve months.

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the CHH Group. The class of shares held is ordinary unless otherwise stated.

All of these are controlled subsidiaries as defined under note 1(c) and have been consolidated into the CHH Group financial statements.

<u>Name of company</u>	<u>Country/ place of incorporation and operation</u>	<u>Particulars of issued and fully paid up share capital</u>	<u>Percentage of equity attributable to the CHH Group</u>		<u>Principal activities</u>
			<u>directly</u>	<u>indirectly</u>	
Beckworth International Limited	British Virgin Islands/ International	500 shares of US\$1 each	—	100%	Investment
Centre Court Profits Limited	British Virgin Islands/ International	500 shares of US\$1 each	—	100%	Investment
Clear Path Limited	British Virgin Islands/ International	500 shares of US\$1 each	—	100%	Investment
Cumberworth Investments Limited	British Virgin Islands/ International	500 shares of US\$1 each	—	70%	Investment
Deep Bowl Limited	British Virgin Islands/ International	1 share of US\$1	100%	—	Holding of a yacht
Gold Faith Investments Limited	British Virgin Islands/ International	1 share of US\$1	—	100%	Investment



Name of company	Country/ place of incorporation and operation	Particulars of issued and fully paid up share capital	Percentage of equity attributable to the CHH Group		Principal activities
			directly	indirectly	
HKSM Yuen Long Driving School Limited	Hong Kong	2 shares of HK\$10 each	—	70%	Operation of a driver training centre
Hong Kong Driving School Management Limited	Hong Kong	2 shares of HK\$10 each	—	70%	Provision of services for the management of the HKSM group
Join Harbour Limited	British Virgin Islands/ International	1 share of US\$1	—	100%	Holding of a property
Kempsford International Limited	British Virgin Islands/ International	500 shares of US\$1 each	—	100%	Investment
The Autopass Company Limited	Hong Kong	70,000 "A" shares of HK\$10 each 30,000 "B" shares of HK\$10 each	100%	—	Investment holding and provision of consultancy services
The Hong Kong School of Motoring (China) Limited	Hong Kong	2 shares of HK\$1 each	—	70%	Provision of PRC driving licence related business
The Hong Kong School of Motoring Limited	Hong Kong	2,000,000 shares of HK\$1 each	70%	—	Operation of driver training centres

## 15 Interest in associates

	CHH Group		CHH	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Unlisted shares, at cost	—	—	148,370	148,370
Share of net assets other than goodwill	213,700	106,734	—	—
Amount due from an associate	416	416	416	416
Amount due to an associate	(370)	(370)	(370)	(370)
Loan to and interest receivable from an associate	<u>1,053,399</u>	<u>1,083,408</u>	<u>1,053,399</u>	<u>1,083,408</u>
	<u>1,267,145</u>	<u>1,190,188</u>	<u>1,201,815</u>	<u>1,231,824</u>

The amounts due from/to associates are non-current as these are not repayable within the next twelve months.

- (a) The following list contains only the particulars of an associate, which is unlisted corporate entity and principally affected the results or assets of the CHH Group:

<u>Name of associate</u>	<u>Form of business structure</u>	<u>Place of incorporation and operation</u>	<u>Percentage of issued ordinary shares held directly by CHH</u>	<u>Principal activity</u>	<u>Financial year end</u>
Western Harbour Tunnel Company Limited (“WHTCL”)	Incorporated	Hong Kong	37%	Operation of the Western Harbour Crossing	31 July

- (b) The CHH Group’s interest in WHTCL is accounted for under the equity method based on the financial statements of WHTCL as at 31 December 2005.
- (c) WHTCL was granted a thirty year franchise to construct and operate the Western Harbour Crossing in accordance with the Western Harbour Crossing Ordinance enacted on 22 July 1993.
- (d) The loan to an associate (“the Loan”) bears interest at a rate of 1% per annum as determined by the shareholders of that associate. Interest earned by the CHH Group from WHTCL for the year ended 31 December 2005 amounted to HK\$10.7 million (2004: HK\$11.1 million). The Loan is repayable on demand as may from time to time be agreed among WHTCL’s shareholders, subject to certain financial parameters of a syndicated loan being fulfilled.
- (e) Summary financial information on associates:

	<u>Assets</u> <i>HK\$’000</i>	<u>Liabilities</u> <i>HK\$’000</i>	<u>Equity</u> <i>HK\$’000</i>	<u>Revenues</u> <i>HK\$’000</i>	<u>Profit/(loss)</u> <i>HK\$’000</i>
<b>2005</b>					
100 per cent	5,786,205	5,208,637	577,568	800,939	276,126
CHH Group’s effective interest	<u>2,140,896</u>	<u>1,927,196</u>	<u>213,700</u>	<u>296,347</u>	<u>102,167</u>
<b>2004</b>					
100 per cent	5,998,421	5,709,951	288,470	734,998	210,998
CHH Group’s effective interest	<u>2,219,416</u>	<u>2,112,682</u>	<u>106,734</u>	<u>271,949</u>	<u>78,069</u>

## 16 Interest in a jointly controlled entity

	CHH Group		CHH	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Share of net assets other than goodwill	<u>17,966</u>	<u>13,768</u>	<u>—</u>	<u>—</u>

(a) Details of the CHH Group's interest in the jointly controlled entity are as follows:

<u>Name of joint venture</u>	<u>Form of business structure</u>	<u>Place of incorporation and operation</u>	<u>Particulars of issued and paid up capital</u>	<u>Percentage of equity attributable to the CHH Group</u>	<u>Principal activity</u>	<u>Financial year end</u>
Autotoll Limited	Incorporated	Hong Kong	10,000 ordinary shares of HK\$1 each	35%	Operation of an electronic toll collection system	30 September

(b) The Autopass Company Limited and Electronic Toll Systems Limited formed the above equal equity joint venture to operate an electronic toll collection system in Hong Kong on 1 October 1998.

(c) Summary financial information on jointly controlled entity - CHH Group's effective interest:

	2005	2004
	HK\$'000	HK\$'000
Non-current assets	11,411	12,897
Current assets	61,873	54,223
Non-current liabilities	(1,358)	(1,362)
Current liabilities	<u>(59,350)</u>	<u>(56,121)</u>
Net assets	<u>12,576</u>	<u>9,637</u>
Income	35,386	32,047
Expenses	<u>(28,947)</u>	<u>(25,293)</u>
Profit for the year	<u>6,439</u>	<u>6,754</u>

## 17 Available-for-sale securities

	<b>CHH Group</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Listed in Hong Kong	360,997	396,457
Listed outside Hong Kong	<u>51,379</u>	<u>61,826</u>
	<u>412,376</u>	<u>458,283</u>
Market value of listed securities	<u>412,376</u>	<u>458,283</u>

Certain securities held by the subsidiaries are pledged to the banks for the banking facilities granted to CHH.

## 18 Trade and other receivables

Included in trade and other receivables are trade receivables with the following aging analysis as of the balance sheet date:

	<b>CHH Group</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Amounts receivable due:		
0-30 days	836	2,470
31-60 days	346	624
61-90 days	70	178
Over 90 days	<u>116</u>	<u>1,245</u>
	<u>1,368</u>	<u>4,517</u>

The CHH Group's credit policy is set out in note 27(a).

Trade and other receivables include deposits paid amounting to HK\$3,487,000 (2004: HK\$4,072,000) which are expected to be recovered after one year. Apart from the above, all of the balances are expected to be recovered within one year.

## 19 Cash and cash equivalents

	CHH Group		CHH	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Deposits with banks and other financial institutions	480,269	432,134	329,291	308,821
Cash at bank and in hand	5,608	10,132	2,006	1,265
	<u>485,877</u>	<u>442,266</u>	<u>331,297</u>	<u>310,086</u>

## 20 Trade and other payables

Included in trade and other payables are trade payables with the following aging analysis as of the balance sheet date:

	CHH Group	
	2005	2004
	HK\$'000	HK\$'000
Amounts payable within:		
0-30 days	1,476	1,855
31-60 days	250	281
61-90 days	311	160
Over 90 days	<u>771</u>	<u>578</u>
	<u>2,808</u>	<u>2,874</u>

In 2004, trade and other payables included a deposit received amounting to HK\$118,000 which was expected to be settled after one year. Except for this amount, all of the balances are expected to be settled within one year.

## 21 Income tax in the balance sheet

(a) Current taxation in the consolidated balance sheet represents:

	2005	2004
	HK\$'000	HK\$'000
Provision for Hong Kong Profits Tax for the year	13,350	12,984
Provisional Profits Tax paid	<u>(7,570)</u>	<u>(10,618)</u>
	5,780	2,366
Balance of Profits Tax provision relating to prior years	<u>719</u>	<u>372</u>
	<u>6,499</u>	<u>2,738</u>

## (b) Deferred tax assets and liabilities recognised:

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

Deferred tax arising from depreciation allowances in excess of related depreciation

	<b>CHH Group</b> <i>HK\$'000</i>
At 1 January 2004	1,620
Credited to profit or loss account	<u>(1,240)</u>
At 31 December 2004	<u>380</u>
At 1 January 2005	380
Charged to profit or loss account	<u>1,610</u>
At 31 December 2005	<u>1,990</u>

	<b>CHH Group</b>	
	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Deferred tax assets recognised in the balance sheet	(400)	(1,000)
Deferred tax liabilities recognised in the balance sheet	<u>2,390</u>	<u>1,380</u>
	<u>1,990</u>	<u>380</u>

## (c) Deferred tax assets not recognised:

In accordance with the accounting policy set out in note 1(r), the CHH Group has not recognised deferred tax assets in respect of cumulative tax losses of HK\$6,332,000 (2004: HK\$3,622,000) as it is not probable that future taxable profits will be available against which the unused tax losses can be utilised. The tax losses do not expire under current tax legislation.

**22 Convertible notes**

On 8 May 2002, CHH issued convertible notes (the “CN I”) amounting to HK\$133,000,000 with a maturity date of 8 May 2005 which bear interest at the rate of 3.5% per annum. The CN I confer rights to be converted into new ordinary shares of CHH at a conversion price of HK\$3.50 per share during the period from 8 May 2002 to 8 May 2003, HK\$3.70 per share during the period from 9 May 2003 to 8 May 2004 and HK\$3.90 per share during the period from 9 May 2004 to 8 May 2005 (subject to adjustment).

On 17 May 2002, 28 April 2003, 29 April 2003, 2 May 2003, 7 May 2003, 22 April 2005, 25 April 2005 and 3 May 2005, HK\$35 million, HK\$35 million, HK\$28 million, HK\$24 million, HK\$9 million, HK\$1.3 million, HK\$0.5 million and HK\$0.2 million CN I were converted into 10,000,000, 10,000,000, 8,000,000, 6,857,142, 2,571,428, 333,333, 128,205 and 51,282 ordinary shares respectively. As at 31 December 2005, all outstanding CN I have been converted.

On 11 June 2002, CHH issued further convertible notes (the “CN II”) of \$117,000,000 with a maturity date of 11 June 2005 which bear interest at the rate of 3.5% per annum. The CN II confer rights to be converted into new ordinary shares of CHH at a conversion price of HK\$3.50 per share during the period from 11 June 2002 to 11 June 2003, HK\$3.70 per share during the period from 12 June 2003 to 11 June 2004 and HK\$3.90 per share during the period from 12 June 2004 to 11 June 2005 (subject to adjustment).

On 28 April 2003, 29 April 2003, 2 May 2003, 7 May 2003 and 27 May 2005, HK\$13.3 million, HK\$10.7 million, HK\$9.1 million, HK\$3.4 million and HK\$80.5 million CN II were converted into 3,800,000, 3,057,142, 2,604,857, 978,840 and 20,630,015 ordinary shares respectively. As at 31 December 2005, all outstanding CN II have been converted.

**23 Share option**

On 9 May 2003, CHH entered into a share option agreement with Honway Holdings Limited (“Honway”) in relation to the subscription by Honway, a substantial shareholder of CHH, for a maximum of 60,000,000 new shares. In consideration for Honway paying to CHH the sum of HK\$50 million (HK\$5 million being the amount for purchasing the option and HK\$25 million being a non-refundable deposit payable in advance for exercise of the option and HK\$20 million being a 3-year interest-free term loan advanced by Honway to CHH), CHH has agreed to grant the option to Honway to subscribe for new shares in CHH. The option is exercisable from 24 June 2003 for a period of three years, at an option price of HK\$3.4 per share in the first year, HK\$3.7 per share in the second year and HK\$4.0 per share in the third year, subject to adjustment.

On 18 June 2004, the HK\$25 million non-refundable deposit was converted into 7,352,941 ordinary shares. As at 31 December 2005, there remained a maximum of 52,647,059 new shares exercisable under the share option agreement.

The effective interest rate of the interest free term loan at 31 December 2005 was 4.64%.

## 24 Equity settled share-based transactions

CHH has a share option scheme which was adopted on 8 May 2001 whereby the directors of CHH are authorised, at their discretion, to invite employees of the CHH Group, including directors of any Company in the CHH Group, to take up options to subscribe for shares of CHH. The options vest from the date of grant and are exercisable within the exercise period from 30 August 2001 to 7 May 2011. Each option gives the holder the right to subscribe for one ordinary share in CHH.

- (a) The terms and conditions of the grants that existed during the years are as follows, whereby all options are settled by physical delivery of shares:

	Exercise period	Number
Option granted to employees:		
- on 30 August 2001	30 August 2001 to 7 May 2011	<u>19,200,000</u>

- (b) The number and weighted average exercise price of share options are as follows:

	2005		2004	
	Weighted average exercise price	Number of options '000	Weighted average exercise price	Number of options '000
Outstanding at the beginning and end of the year	<u>HK\$2.492</u>	<u>19,200</u>	<u>HK\$2.492</u>	<u>19,200</u>

## 25 Share capital

	2005		2004	
	No. of shares '000	Amount HK\$'000	No. of shares '000	Amount HK\$'000
<b>Authorised:</b>				
Ordinary shares of \$1 each	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>
<b>Issued and fully paid:</b>				
At 1 January	279,698	279,698	250,552	250,552
Shares issued in lieu of cash dividends	—	—	1,793	1,793
Shares issued on exercise of share options	—	—	7,353	7,353
Shares issued under private placement	—	—	20,000	20,000
Shares issued on conversion of convertible notes	<u>21,143</u>	<u>21,143</u>	—	—
At 31 December	<u>300,841</u>	<u>300,841</u>	<u>279,698</u>	<u>279,698</u>



- (a) The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of CHH. All ordinary shares rank equally with regard to CHH's residual assets.
- (b) On 22 April 2005, 25 April 2005, 3 May 2005 and 27 May 2005, HK\$1.3 million, HK\$0.5 million, HK\$0.2 million and HK\$80.5 million convertible notes were converted into 333,333, 128,205, 51,282 and 20,630,015 ordinary shares respectively at a value of HK\$3.9 per share. An amount of HK\$68.3 million was credited to the share premium account upon the conversion of the notes and issue of new shares. All shares issued during the year rank pari passu with the existing issued shares of CHH in all respects.
- (c) Terms of unexpired and unexercised share options at balance sheet date

Exercise period	Exercise price	2005	2004
		Number	Number
30 August 2001 to 7 May 2011	<u>HK\$2.492</u>	<u>19,200,000</u>	<u>19,200,000</u>

Each option entitles the holder to subscribe for one ordinary share in CHH. Further details of these options are set out in note 24 to the financial statements.

## 26 Reserves

### (a) CHH Group

	Share premium	Capital reserve	Investment revaluation reserve	Share option reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2004	891,850	1,984	33,135	30,000	453,088	1,410,057
Dividend approved in respect of the previous financial year (note 10(b))	1,894	—	—	—	(12,528)	(10,634)
Changes in fair value of available-for-sale securities	—	—	105,381	—	—	105,381
Impairment loss realised	—	—	1,330	—	—	1,330
Net profit for the year	—	—	—	—	134,979	134,979
Dividends declared in respect of the current financial year (note 10(a))	3,579	—	—	—	(38,867)	(35,288)
Share premium on issue of shares	79,336	—	—	—	—	79,336
Exercise of share options (note 23)	<u>17,647</u>	<u>—</u>	<u>—</u>	<u>(25,000)</u>	<u>—</u>	<u>(7,353)</u>
At 31 December 2004	<u>994,306</u>	<u>1,984</u>	<u>139,846</u>	<u>5,000</u>	<u>536,672</u>	<u>1,677,808</u>

	Share premium	Capital reserve	Investment revaluation reserve	Share option reserve	Other reserves	Hedging reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2005								
- as previously reported	994,306	1,984	139,846	5,000	—	—	536,672	1,677,808
- opening balance adjustments in respect of HKAS 39 (note 2(e))	—	—	—	2,544	7,021	(27,734)	(7,008)	(25,177)
- as restated, after opening balance adjustments	994,306	1,984	139,846	7,544	7,021	(27,734)	529,664	1,652,631
Dividend approved in respect of the previous financial year (note 10(b))	—	—	—	—	—	—	(28,021)	(28,021)
Cash flow hedge: effective portion of changes in fair value, net of deferred tax	—	—	—	—	—	32,533	—	32,533
Available-for-sale securities:								
- changes in fair value	—	—	12,321	—	—	—	—	12,321
- transfer to profit or loss on disposal	—	—	(21,981)	—	—	—	—	(21,981)
Net profit for the year	—	—	—	—	—	—	161,992	161,992
Dividends declared in respect of the current financial year (note 10(a))	—	—	—	—	—	—	(54,152)	(54,152)
Shares issued on conversion of convertible notes	68,335	—	—	—	(7,021)	—	—	61,314
At 31 December 2005	<u>1,062,641</u>	<u>1,984</u>	<u>130,186</u>	<u>7,544</u>	<u>—</u>	<u>4,799</u>	<u>609,483</u>	<u>1,816,637</u>

(b) *CHH*

	Share premium <i>HK\$'000</i>	Share option reserve <i>HK\$'000</i>	Other reserves <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2004	891,850	30,000	—	619,126	1,540,976
Dividend approved in respect of the previous financial year (note 10(b))	1,894	—	—	(12,528)	(10,634)
Net profit for the year	—	—	—	33,111	33,111
Dividends declared in respect of the current financial year (note 10(a))	3,579	—	—	(38,867)	(35,288)
Share premium on issue of shares	79,336	—	—	—	79,336
Exercise of share options (note 23)	17,647	(25,000)	—	—	(7,353)
At 31 December 2004	<u>994,306</u>	<u>5,000</u>	<u>—</u>	<u>600,842</u>	<u>1,600,148</u>
At 1 January 2005					
- as previously reported	994,306	5,000	—	600,842	1,600,148
- opening balance adjustments in respect of HKAS 39 (note 2(e))	—	2,544	7,021	(7,008)	2,557
- as restated, after opening balance adjustments	994,306	7,544	7,021	593,834	1,602,705
Dividend approved in respect of the previous financial year (note 10(b))	—	—	—	(28,021)	(28,021)
Net profit for the year	—	—	—	15,687	15,687
Dividends declared in respect of the current financial year (note 10(a))	—	—	—	(54,152)	(54,152)
Shares issued on conversion of convertible notes	68,335	—	(7,021)	—	61,314
At 31 December 2005	<u>1,062,641</u>	<u>7,544</u>	<u>—</u>	<u>527,348</u>	<u>1,597,533</u>

The application of the share premium account is governed by Section 48B of the Hong Kong Companies Ordinance. The capital reserve, investment revaluation reserve and other reserves have been set up and will be dealt with in accordance with the accounting policies adopted for goodwill arising on subsidiaries, associates and jointly controlled entities, the revaluation of available-for-sale securities and the value of the unexercised equity component of convertible notes issued in notes 1(e), (f) and (n).

The share option reserve which represents amounts received in advance of the exercise of share options will be utilised and transferred to the share capital account and the share premium account once the options are exercised. Should the options not be exercised such amount will be transferred to the capital contribution reserve upon expiry of the options. Such reserve will be distributable at the discretion of the directors.

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used by the associate in cash flow hedges pending subsequent recognition of the hedged cash flow.

At 31 December 2005, the aggregate amount of reserves available for distribution to shareholders of CHH was HK\$527,348,000 (2004: HK\$600,842,000). After the balance sheet date the directors proposed a final dividend of HK\$0.10 per share (2004: HK\$0.10 per share), amounting to HK\$30,084,000 (2004: HK\$27,970,000). This dividend has not been recognised as a liability at the balance sheet date.

## 27 Financial instruments

Exposure to credit and liquidity arises in the normal course of the CHH Group's business. These risks are limited by the CHH Group's financial management policies and practices described below.

### (a) *Credit risk*

The CHH Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount. These receivables are due within one month from the date of billing while further credit may be granted to individual customer when appropriate. Normally, the CHH Group does not obtain collateral from customers.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. Except for the financial guarantee given by the CHH Group as disclosed in note 31, the CHH Group does not provide any other guarantees which would expose the CHH Group to credit risk.

### (b) *Liquidity risk*

Individual operating entities within the CHH Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by CHH's board when the borrowings exceed certain predetermined levels of authority. The CHH Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

### (c) *Fair values*

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2005.

### (d) *Estimation of fair values*

#### (i) *Securities*

Fair value is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

(ii) *Convertible notes or loans*

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

**28 Capital commitments**

Capital commitments outstanding at 31 December 2005 not provided for in the financial statements were as follows:

	CHH Group		CHH	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contracted for	<u>2,131</u>	<u>11,304</u>	<u>—</u>	<u>—</u>
Authorised but not contracted for	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

**29 Operating lease commitments**

At 31 December 2005, the total future minimum lease payments under non-cancellable operating leases in respect of properties are payable as follows:

	CHH Group		CHH	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within 1 year	5,642	4,859	—	—
After 1 year but within 5 years	<u>4,043</u>	<u>621</u>	<u>—</u>	<u>—</u>
	<u>9,685</u>	<u>5,480</u>	<u>—</u>	<u>—</u>

Significant leasing arrangement in respect of land held under operating leases is described in note 13.

Apart from this lease, the CHH Group is the lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of three months to five years, with an option to renew the leases upon expiry when all terms are renegotiated. Contingent rentals are charged as expense in the year which they are incurred.

The CHH Group has a tenancy agreement with a third party in respect of a sales office, which will expire on 31 March 2006. The rental payable each year is determined, according to the terms of the agreement, based on the higher of the base rent and 3.5% of the monthly gross receipt of the sales office.

**30 Material related party transactions**

During the year, the CHH Group was involved in the following material related party transactions, none of which is regarded as a “connected transaction” as defined under the Listing Rules except for (c).

- (a) The CHH Group extended a loan to and received interest from an associate, Western Harbour Tunnel Company Limited (“WHTCL”). The balance of the loan and interest receivable at 31 December 2005 was HK\$1,053.4 million (2004: HK\$1,083.4 million).

The CHH Group received interest income and management fee income from WHTCL of HK\$10.7 million (2004: HK\$11.1 million) and HK\$2.5 million (2004: HK\$2.5 million) respectively.

- (b) The CHH Group received consultancy fees from a jointly controlled entity of HK\$12.6 million (2004: HK\$12.6 million).
- (c) The interest expenses in respect of the convertible notes issued to Honway, a substantial shareholder of CHH for the year ended 31 December 2005 totalled HK\$2.3 million (2004: HK\$2.8 million).

In addition to the transactions and balances disclosed above, the CHH Group entered into the following material related party transactions.

**Key management personnel remuneration**

Remuneration for key management personnel, including amounts paid to CHH’s directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Short-term employee benefits	12,580	8,219
Post-employment benefits	<u>54</u>	<u>55</u>

Total remuneration is included in “Salaries, wages and other benefits” (see note 5(b)).

**31 Contingent liabilities**

At 31 December 2005, the CHH Group had the following contingent liabilities:

- (a) *In respect of CHH*

CHH has given two letters of undertaking in relation to the bank facilities of the CHH Group to two banks for general banking facilities totalling HK\$150 million (2004: HK\$150 million) granted to CHH. The banking facilities granted are also secured by a negative pledge of certain listed investments held by the CHH Group. At 31 December 2005, these facilities were not utilised by CHH.

(b) *In respect of The Hong Kong School of Motoring Limited (“HKSM”)*

There is an arrangement between HKSM and its banker whereby the bank provides guarantees in favour of third parties. Under this arrangement, HKSM has a charge over a time deposit with that bank amounting to not less than HK\$1.8 million (2004: HK\$1.7 million).

(c) *In respect of Hong Kong Tunnels and Highways Management Company Limited (“HKTHMCL”)*

The CHH Group has given a guarantee to the extent of HK\$18.9 million (2004: HK\$18.9 million) to a bank in return for it providing a guarantee in favour of the Government of the HKSAR on behalf of HKTHMCL to secure the performance of an agreement in relation to the operation and management of the Cross-Harbour Tunnel and the operation and maintenance of the tunnel equipment by HKTHMCL.

(d) *In respect of Western Harbour Tunnel Company Limited (“WHTCL”)*

A joint and several guarantee given by CHH and the other shareholders of WHTCL, namely, High Fortune Group Limited (as well as by its ultimate shareholder, China Merchants Holdings (International) Company Limited) and Adwood Company Limited (as well as by its ultimate shareholders, CITIC Pacific Limited and Kerry Properties Limited) to the Government of the HKSAR for its advance to WHTCL by way of share capital injection and/or subordinated debt of an amount equal to any excess of the total costs over the budgeted cost of HK\$7,534 million, incurred by WHTCL in connection with the construction, financing, administration and maintenance of the Western Harbour Tunnel (“WHT”) up to the date WHT opened for use by the public (the “operating date”) and with the replacement or repair of any of the works after the operating date but prior to the issuance of the maintenance certificate in relation to WHT. The maintenance certificate had not been issued at 31 December 2005.

### 32 Post balance sheet event

After the balance sheet date the directors proposed a final dividend, further details of which are disclosed in note 10.

### 33 Comparative figures

Certain comparative figures have been adjusted or reclassified as a result of the changes in accounting policies. Further details are disclosed in note 2.

**34 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting year ended 31 December 2005**

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the accounting period ended 31 December 2005 and which have not been adopted in these financial statements:

		<b>Effective for accounting periods beginning on or after</b>
HKFRS 6	Exploration for and evaluation of mineral resources	1 January 2006
HK(IFRIC) 4	Determining whether an arrangement contains a lease	1 January 2006
HK(IFRIC) 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds	1 January 2006
HK(IFRIC) 6	Liabilities arising from participating in a specific market - Waste electrical and electronic equipment	1 December 2005
Amendments to HKAS 19	Employee benefits - Actuarial Gains and Losses, Group Plans and Disclosures	1 January 2006
Amendments to HKAS 39	Financial instruments: Recognition and measurement: - Cash flow hedge accounting of forecast intragroup transactions - The fair value option - Financial guarantee contracts	   1 January 2006  1 January 2006 1 January 2006
Amendments, as a consequence of the Hong Kong Companies (Amendment) Ordinance 2005, to:		
- HKAS 1	Presentation of financial statements	1 January 2006
- HKAS 27	Consolidated and separate financial statements	1 January 2006
- HKFRS 3	Business combinations	1 January 2006
HKFRS 7	Financial instruments: disclosures	1 January 2007
Amendment to HKAS 1	Presentation of financial statements: capital disclosures	1 January 2007

In addition, the Hong Kong Companies (Amendment) Ordinance 2005 came into effect on 1 December 2005 and would be first applicable to the CHH Group's financial statements for the period beginning 1 January 2006.

The CHH Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of these is unlikely to have a significant impact on the CHH Group's results of operations and financial position.



### III. MANAGEMENT DISCUSSION AND ANALYSIS OF PERFORMANCE OF THE CHH GROUP

**For the year ended 31 December 2003**

#### **Commentary on Annual Results**

#### **Review of 2003 Results**

The CHH Group reported a profit attributable to shareholders of HK\$87.2 million for the year ended 31 December 2003, compared with HK\$61.8 million (restated) in 2002. Earnings per share were HK\$0.37 compared to HK\$0.31 (restated) for the previous year.

The CHH Group's turnover for the year was HK\$255.2 million, a decrease of HK\$16.1 million or 5.9% as compared to HK\$271.3 million recorded in 2002.

The Hong Kong School of Motoring Limited ("HKSM") recorded a reduction in turnover of 4.7% to HK\$228.5 million because of the decrease in tuition fees resulting from a lower demand for driving lessons and a reduction in the lesson income unit rate, which was partly offset by the increase in income from motorcycle lessons. However, the continuing efforts of management in controlling costs were reflected in the improved gross profit margin and operating profit.

The CHH Group's share of profits less losses of associates, primarily contributed by the operation of the Western Harbour Tunnel ("WHT"), has slightly decreased by 3.6% to HK\$54.1 million (restated) as compared to HK\$56.1 million (restated) in 2002. The daily throughput of the WHT reduced by 7% to approximately 37,300 vehicle journeys throughout 2003. However, this unfavourable variance was mitigated by the latest toll increase effective in February 2003 and as a result, only a 4.3% reduction in toll revenue was recorded. In addition, Western Harbour Tunnel Company Limited ("WHTCL") recorded a substantial decline in other revenue such as wayleave income for the provision of communication network services to mobile phone network operators and advertising income. The operating expenses of WHTCL increased by almost 9% as a result of increased insurance premiums. The aggregate result of the above, however, has fully offset the substantial reduction in interest expenses due to prevailing lower interest rates. The CHH Group's share of taxation of associates was primarily the utilisation of deferred tax assets by WHTCL. With effect from 1 January 2003, in order to comply with HKAS 12 "Income taxes", WHTCL has recognised deferred tax assets in respect of the future benefit of tax losses, as the management of WHTCL considers it probable that future taxable profits will be available against which the tax losses can be utilised. As a result, WHTCL recorded a taxation charge for the year.

The CHH Group's share of net profit from a jointly controlled entity, Autotoll Limited ("Autotoll"), was HK\$8.7 million (restated) for the year against HK\$7.5 million (restated) recorded in the previous year, representing an increase of 16.0% as a result of moderate growth in the number of subscribers and cost rationalisation which offset the decrease in project income.

The CHH Group's financial costs for the year amounted to HK\$4.8 million and were primarily due to the issues of convertible notes in the previous year at an interest rate of 3.5% per annum.

Revaluation deficits arising on certain investment securities, totalling HK\$6.7 million, as compared to HK\$39.4 million in 2002, were transferred from the investment revaluation reserve to the consolidated profit and loss account as a result of impairment in value of certain securities at 31 December 2003.

**Investments**

At 31 December 2003, the CHH Group owned a portfolio of blue-chip securities with an aggregate market value of HK\$315.6 million. Dividend income received therefrom in 2003 amounted to HK\$7.4 million.

On 14 January 2003, a wholly-owned subsidiary of the CHH Group acquired unlisted convertible notes issued by a company listed on the Main Board of the Stock Exchange in a total amount of HK\$15 million.

There were no material acquisitions and disposals of subsidiaries and associated companies by the CHH Group for the year ended 31 December 2003.

**Liquidity and Financial Resources**

At 31 December 2003, the CHH Group had bank balances and deposits in the amount of HK\$331.4 million. Banking facilities available are sufficient to meet the foreseeable funding needs for working capital and capital expenditure. These facilities were not utilised by the CHH Group during the year.

At 31 December 2003, the CHH Group had outstanding convertible notes of HK\$82.5 million which are unsecured, bear interest at 3.5% per annum payable annually in arrears and are due for redemption in 2005. Since the CHH Group's sources of income and borrowings are denominated in Hong Kong dollars, the CHH Group is not exposed to foreign exchange rate fluctuations. The gearing ratio, defined as long-term debts to shareholders' funds, was 6.2% as at 31 December 2003 (31 December 2002 - 15.9% (restated)).

**Comments on Segmental Information**

The principal activity of CHH is investment holding. The principal activities of CHH's subsidiaries, associated companies and a jointly controlled entity are the operation of motoring schools, tunnels and an electronic toll collection system, and investment.

**Contingent Liabilities**

At 31 December 2003, the CHH Group had the following contingent liabilities:

(a) *In respect of WHTCL*

A joint and several guarantee given by CHH and the other shareholders of WHTCL, namely, High Fortune Group Limited (as well as by its ultimate shareholder, China Merchants Holdings (International) Company, Limited) and Adwood Company Limited (as well as by its ultimate shareholders, CITIC Pacific Limited and Kerry Properties Limited) to the Government of the HKSAR to advance to WHTCL by way of share capital injection and/or subordinated debt an amount equal to any excess of the total costs over the budgeted cost of HK\$7,534 million, incurred by WHTCL in connection with the construction, financing, administration and maintenance of WHT up to the date WHT opened for use by the public (the “operating date”) and with the replacement or repair of any of the works after the operating date but prior to the issuance of the maintenance certificate in relation to WHT. The maintenance certificate had not been issued at 31 December 2003.

(b) *In respect of Hong Kong Tunnels and Highways Management Company Limited (“HKTHMCL”)*

The CHH Group has given a guarantee to the extent of HK\$18.9 million (2002: HK\$30.0 million) to a bank in return for it providing a guarantee in favour of the Government of the HKSAR on behalf of HKTHMCL to secure the performance of an agreement in relation to the operation and management of the Cross-Harbour Tunnel and the operation and maintenance of the tunnel equipment by HKTHMCL.

(c) *In respect of HKSM*

There is an arrangement between HKSM and its banker where the bank provides guarantees in favour of third parties. Under this arrangement, HKSM has a charge over a time deposit with that bank amounting to not less than HK\$1.7 million (2002: HK\$4.1 million). HK\$2.4 million of the total at 31 December 2002 was released in January 2003.

(d) *In respect of CHH*

CHH has given two letters of undertaking in relation to the bank facilities of the CHH Group to two banks for general facilities totalling HK\$150 million (2002: HK\$200 million) granted to CHH. The banking facilities granted are also secured by a negative pledge of certain listed investments held by the CHH Group. At 31 December 2003, these facilities were not utilised by CHH.

## Employees

The CHH Group has 709 employees. Employees are remunerated according to the job nature and market trends, with a built-in merit component incorporated in the annual increment to reward and motivate individual performance. Apart from provident fund schemes and medical insurance, discretionary bonuses and employee share options are awarded to employees of the CHH Group at the discretion of the directors, depending upon the financial performance of the CHH Group. Total staff costs for the year amounted to HK\$121.3 million. CHH also operates a share option scheme.

## Business Review and Outlook

*The Autopass Company Limited (“Autopass”) - 70% owned*

*Autotoll - effectively 35% owned*

Autotoll, being 50% owned by Autopass, provides electronic toll clearing (“ETC”) facilities in Hong Kong covering eleven different toll roads and tunnels. There are forty-seven auto-toll lanes in operation at present. During the past year, the net growth in the number of subscribers has plateaued due to the poor economic situation in general. In view of this, aggressive marketing strategies such as development of a corporate sales channel, joint promotion with other consumer outlets in lining up extra benefits for Autotoll users and tunnel toll rebates were employed to stimulate sales. However, in the long run, the scope of services, as well as the operation capability, has to be extended in order to improve market penetration. A membership program has been designed and will be implemented in the near future to provide subscribers with more value-added services such as fuel purchases, car park fee payments. Apart from improving customer service, the enhancement of the toll collection system is on the verge of completion to cope with the radical changes in the operating environment.

*HKSM - 70% owned*

Despite the difficult economic environment, severe market competitions and the outbreak of SARS in the first half of 2003, HKSM has been able to maintain a stable performance with improved operating margin. Though the demand for driving lessons has contracted as compared with previous years, income from motorcycle training courses, however, has slightly increased. Due to the continuation of various cost-saving measures and quality improvement programs, the cost structure of HKSM has become more flexible and productivity has been enhanced.

In view of the intensified competition among driving school operators and private instructors after the re-issuance of private instructor licences by the Transport Department in 2003, HKSM will continuously review its operating costs so as to increase flexibility in coping with varying business level. Moreover, to be well-prepared for the resilience of the driving school market driven by the robust domestic demand and the accelerating economic integration between Hong Kong and Mainland China, for example, the Mainland China reciprocal driving licences scheme, HKSM will continue to strive to maintain its market leading position through better market segmentation, product innovation, brand building and customer relation programs.

*WHTCL - 37% owned*

Due to the prolonged global economic downturn since its opening in 1997 and intense competition from other tunnel operators, the traffic volume of WHT fell short of that projected. Despite notable progress in its daily throughput and market share during the past few years, the throughput of the WHT in 2003 was seriously affected by the outbreak of SARS and the resultant reduction in total cross harbour traffic. However, those adverse impacts on WHTCL's performance were mitigated by the persistently low interest rates and the latest increase in toll effective from 16 February 2003 for certain categories of vehicles.

Due to its strategic location at the West Kowloon Reclamation, the WHT is expected to benefit from the shift of population and business activities to the west in the near future. However, under the Government's long-term rail development plans for the coming ten years, the increase in supply of rail transport will no doubt create negative impacts on the demand for vehicular traffic and this might in turn impact on the cross harbour tunnels. The opening of the West Rail in late 2003 is furthermore expected to compete against the franchised bus routes linking the northwestern New Territories and the urban areas. The impact of this on the total cross harbour traffic, in particular to the WHT, is anticipated to be negative although it is not yet fully reflected in the WHT throughput of 2003.

In respect of value enhancement to the shareholders, WHTCL will continue to formulate more effective marketing strategies and promotion programs to encourage higher utilisation and, at the same time, to apply stringent cost controls for better allocation of resources. On the other hand, the toll revenue of the WHT in the coming year is expected to improve in light of the gradual recovery of total cross harbour traffic.

*HKTHMCL - 37% owned*

HKTHMCL, an associate undertaking the management contract for the Hunghom Cross-Harbour Tunnel, maintained stable income during the year under review. The two-year contract will expire on 31 August 2004 and is due for extension.

**For the year ended 31 December 2004****Commentary on Annual Results****Review of 2004 Results**

The CHH Group reported a profit attributable to shareholders of HK\$135.0 million for the year ended 31 December 2004, an increase of 54.7% compared with HK\$87.2 million in 2003. Earnings per share were HK\$0.53 compared to HK\$0.37 for the previous year. The improvement in 2004 results was mainly attributable to the increase in profit contribution from both motoring school operations and tunnel operations, which were adversely affected by the SARS crisis in 2003.

The CHH Group's turnover for the year was HK\$254.0 million, slightly decreased by HK\$1.2 million or 0.5% as compared to HK\$255.2 million recorded in 2003.

HKSM recorded a reduction in turnover of 1.3% to HK\$225.6 million as a result of a decrease in income from motorcycle lessons, which was, however, largely offset by an increase in tuition fees income due to increase in the lesson income unit rate. Moreover, the continuing efforts in controlling costs were reflected in the improved operating profit.

The CHH Group's share of profits less losses of associates, primarily contributed by the operation of WHT, has increased by 44.3% to HK\$78.1 million (restated) as compared to HK\$54.1 million (restated) in 2003. Improvement in the performance of WHTCL was attributable to an increase in toll revenue and a substantial reduction in interest expenses due to prevailing lower interest rates. The daily throughput of the WHT rebounded by 5% to approximately 39,200 vehicle journeys throughout 2004. As an aggregate result of improved throughput and toll increase effective in July 2004, an increase of 11.7% in toll revenue was recorded. The CHH Group's share of taxation of associates was primarily the utilisation of deferred tax assets by WHTCL. With effect from 1 January 2003, in order to comply with HKAS 12 "Income taxes", WHTCL has recognised deferred tax assets in respect of the future benefit of tax losses, as the management of WHTCL considers it probable that future taxable profits will be available against which the tax losses can be utilised. As a result, WHTCL recorded a taxation charge for the year.

The CHH Group's share of net profit from a jointly controlled entity, Autotoll, was HK\$9.6 million (restated) for the year against HK\$8.7 million (restated) recorded in the previous year, representing an increase of 10.8% as a result of moderate growth in the number of subscribers and cost rationalization which offset the decrease in project income.

The CHH Group's financial costs for the year amounted to HK\$3.3 million and were primarily due to the issues of convertible notes in 2002 at an interest rate of 3.5% per annum.

Revaluation deficits arising on certain investment securities, totalling HK\$1.3 million, as compared to HK\$6.7 million in 2003, were transferred from the investment revaluation reserve to the consolidated profit and loss account as a result of impairment in value of certain securities at 31 December 2004.

### **Investments**

At 31 December 2004, the CHH Group maintained a portfolio of investments, primarily in blue-chip securities, with an aggregate market value of HK\$458.3 million. Dividend income received therefrom in 2004 amounted to HK\$9.4 million.

There were no material acquisitions and disposals of subsidiaries and associated companies by the CHH Group for the year ended 31 December 2004.

### **Liquidity and Financial Resources**

At 31 December 2004, the CHH Group had bank balances and deposits in the amount of HK\$442.3 million. Banking facilities available are sufficient to meet the foreseeable funding needs for working capital and capital expenditure. These facilities were not utilised by the CHH Group during the year.

At 31 December 2004, the CHH Group had outstanding convertible notes of HK\$82.5 million which are unsecured, bear interest at 3.5% per annum payable annually in arrears and are due for redemption in 2005. Since the CHH Group's sources of income and borrowings are denominated in Hong Kong dollars, the CHH Group is not exposed to foreign exchange rate fluctuations. The gearing ratio, defined as long-term debts to shareholders' funds, was 1.0% as at 31 December 2004 (31 December 2003 - 6.2%).

### Comments on Segmental Information

The principal activity of CHH is investment holding. The principal activities of CHH's subsidiaries, associated companies and a jointly controlled entity are the operation of motoring schools, tunnels and an electronic toll collection system, and investment.

### Contingent Liabilities

At 31 December 2004, the CHH Group had the following contingent liabilities:

(a) *In respect of CHH*

CHH has given two letters of undertaking in relation to the bank facilities of the CHH Group to two banks for general facilities totalling HK\$150 million (2003: HK\$150 million) granted to CHH. The banking facilities granted are also secured by a negative pledge of certain listed investments held by the CHH Group. At 31 December 2004, these facilities were not utilised by CHH.

(b) *In respect of HKSM*

There is an arrangement between HKSM and its banker where the bank provides guarantees in favour of third parties. Under this arrangement, HKSM has a charge over a time deposit with that bank amounting to not less than HK\$1.7 million (2003: HK\$1.7 million).

(c) *In respect of HKTHMCL*

The CHH Group has given a guarantee to the extent of HK\$18.9 million (2003: HK\$18.9 million) to a bank in return for it providing a guarantee in favour of the Government of the HKSAR on behalf of HKTHMCL to secure the performance of an agreement in relation to the operation and management of the Cross-Harbour Tunnel and the operation and maintenance of the tunnel equipment by HKTHMCL.

(d) *In respect of WHTCL*

A joint and several guarantee given by CHH and the other shareholders of WHTCL, namely, High Fortune Group Limited (as well as by its ultimate shareholder, China Merchants Holdings (International) Company, Limited) and Adwood Company Limited (as well as by its ultimate shareholders, CITIC Pacific Limited and Kerry Properties Limited) to the Government of the HKSAR to advance to WHTCL by way of share capital injection and/or subordinated debt an amount equal to any excess of the total costs over the budgeted cost of HK\$7,534 million, incurred by WHTCL in connection with the construction, financing, administration and

maintenance of WHT up to the date WHT opened for use by the public (the “operating date”) and with the replacement or repair of any of the works after the operating date but prior to the issuance of the maintenance certificate in relation to WHT. The maintenance certificate had not been issued at 31 December 2004.

## Employees

The CHH Group has 672 employees. Employees are remunerated according to the job nature and market trends, with a built-in merit component incorporated in the annual increment to reward and motivate individual performance. Apart from provident fund schemes and medical insurance, discretionary bonuses and employee share options are awarded to employees of the CHH Group at the discretion of the directors, depending upon the financial performance of the CHH Group. Total staff costs for the year amounted to HK\$114.6 million. CHH also operates a share option scheme.

## Business Review and Outlook

*Autopass - 70% owned*

*Autotoll - effectively 35% owned*

Autotoll, being 50% owned by Autopass, provides ETC facilities in Hong Kong covering ten different toll roads and tunnels. There are forty-eight auto-toll lanes in operation at present. With the support of revived business sentiment and adoption of aggressive marketing strategies by providing more value-added services, the net growth in the number of subscribers during the past year has slightly improved, though at a slow pace. In view of the increasing competition from other electronic payment systems and the growing demand for Intelligent Transport System activities in the territory as well as in the Mainland China, Autotoll is preparing to transform from “a single product provider in a single territory” to “a technology service provider in multi-territories” in the long run — a new attempt to extend its scope of services to transport and logistic management and at the same time, to outreach to other mainland markets outside Hong Kong. In order to achieve this long-term goal, resources are allocated to enhance the operation capability and to explore the market potential for the application of new technology. The Global Positioning System (“GPS”), aimed at providing fleet management service to corporate customers, was well received after its pilot launch in July last year.

*HKSM - 70% owned*

In the face of a challenging business environment, the demand for driving lessons has slightly decreased as compared with the year before. However, HKSM has again recorded a pleasing result with improved operating margin in the past year as a result of a two-pronged approach — extensive sales strategy and flexible cost structure. Moreover, the new driving courses relating to the Mainland reciprocal driving licences scheme were also well received since its launching in May last year.



Despite the rebound of the economy, the growing market penetration of the non-designated driving school operators and private instructors, coupled with their cutthroat pricing strategies, have severely threatened the competitiveness of HKSM in the past years. To outrun others in a market of stiff competition, and at the same time to maintain its edge and brand image in the driving school business, HKSM will continue to strive for higher productivity and staff competence through a series of quality enhancement programs as well as cost control measures.

*WHTCL - 37% owned*

Due to the resilient performance of the total cross harbour traffic, the throughput of WHT though still fell short of that projected since its opening, has rebounded to the level before the outbreak of SARS. As a measure to increase revenue, WHTCL has implemented its third toll increase with effect from 4 July 2004. Although WHTCL toll charges has increased twice for certain vehicle categories in two consecutive years, most of the vehicle categories are still charged substantially lower than the gazetted toll level. As a result of improved toll revenue and reduction in interest expenses, the performance of WHTCL in the past year was encouraging.

In 2005, we anticipate a steady return from the franchise, fuelled by the surging tourist arrivals from the Mainland and the opening of the Disney theme park. The WHT is expected to benefit from its strategic location at the West Kowloon reclamation area that provides direct and convenient link between the Chek Lap Kok Airport and the Hong Kong Island. In the long term, the rapid residential development of the West Kowloon Reclamation, despite the recent contentious outcome of the cultural hub project, the economic expansion in the Pan-Pearl River Delta Region and the proposed construction of Hong Kong, Macau & Zhuhai Bridge will no doubt create additional demand for vehicular traffic as well as cross harbour services, yet the threat of the Government's long-term rail development plans for the coming ten years will continue to haunt the prospect of fuller utilisation of the tunnel.

*HKTHMCL - 37% owned*

HKTHMCL, an associate undertaking the management contract for the Hunghom Cross-Harbour Tunnel, maintained stable income during the year under review. The two-year contract expired on 31 August 2004 and was extended for a further period of 24 months to 31 August 2006.

**For the year ended 31 December 2005**

**Commentary on Annual Results**

**Review of 2005 Results**

The CHH Group reported a profit attributable to shareholders of HK\$162.0 million for the year ended 31 December 2005, an increase of 20.0% compared with HK\$135.0 million in 2004. Earnings per share were HK\$0.55 compared to HK\$0.53 for the previous year. The improvement in 2005 results was mainly attributable to the increase in profit contribution from tunnel operations.

The CHH Group's turnover for the year was HK\$249.7 million, slightly decreased by HK\$4.3million or 1.7% as compared to HK\$254.0 million recorded in 2004.

HKSM recorded a reduction in turnover of 7.0% to HK\$209.9 million because of the decrease in tuition fees income resulting from lower demand for both driving and motorcycle lessons, despite an increase in the lesson income unit rate. As a result, the operating profit decreased by 10.6% as compared with the previous year.

The CHH Group's share of net profits less losses of associates, primarily contributed by the operations of WHT, has increased by 30.9% to HK\$102.2 million as compared to HK\$78.1 million in 2004. Improvement in the performance of WHTCL was attributable to an increase of 8.0% in toll revenue, an aggregate result of improved throughput and toll increase effective in July 2004. The daily throughput of the WHT increased by 5% to approximately 41,200 vehicle journeys throughout 2005. The CHH Group's share of taxation of associates was primarily the utilisation of deferred tax assets by WHTCL. With effect from 1 January 2003, in order to comply with HKAS 12 "Income taxes", WHTCL has recognised deferred tax assets in respect of the future benefit of tax losses, as the management of WHTCL considers it probable that future taxable profits will be available against which the tax losses can be utilised. As a result, WHTCL recorded a taxation charge for the year.

The CHH Group's share of net profit from a jointly controlled entity, Autotoll, was HK\$9.2 million for the year against HK\$9.6 million recorded in the previous year, representing a decrease of 4.7% as a result of increase in operating expenses.

Out of the CHH Group's financial costs for the year of HK\$3.7 million, HK\$1.2 million was the interest expense on the issues of convertible notes at an interest rate of 3.5% per annum. The balances were primarily the adjustments that have been made in accordance with the new accounting policy under HKAS 39 with effect from 1 January 2005. Convertible notes issued in 2002 (at an interest rate of 3.5% per annum) and the 3-year interest-free loan advanced by Honway (a substantial shareholder of CHH) in relation to a share option agreement entered in May 2003, are split into their liability and equity components at initial recognition by recognising the liability components at their fair values and attributing to the equity components the difference between the proceeds from the issue and the fair value of the liability components. The liability components are subsequently carried at amortised cost over the periods using an effective interest method and changes in fair values are charged to the profit and loss account.

### Investments

At 31 December 2005, the CHH Group maintained a portfolio of investments, primarily in blue-chip securities, with an aggregate market value of HK\$412.4 million. Dividend income received therefrom in 2005 amounted to HK\$10.8 million.

There were no material acquisitions and disposals of subsidiaries and associated companies by the CHH Group for the year ended 31 December 2005.

### Liquidity and Financial Resources

At 31 December 2005, the CHH Group had bank balances and deposits in the amount of HK\$485.9 million. Banking facilities available are sufficient to meet the foreseeable funding needs for working capital and capital expenditure. These facilities were not utilised by the CHH Group during the year.

Since the CHH Group's sources of income and borrowings are denominated in Hong Kong dollars, the CHH Group is not exposed to foreign exchange rate fluctuations. The CHH Group did not have long-term debts outstanding as at 31 December 2005 (gearing ratio as at 31 December 2004 - 1.0%).

### Comments on Segmental Information

The principal activity of CHH is investment holding. The principal activities of CHH's subsidiaries, associated companies and a jointly controlled entity are the operation of motoring schools, tunnels and an electronic toll collection system, and investment.

### Contingent Liabilities

At 31 December 2005, the CHH Group had the following contingent liabilities:

(a) *In respect of CHH*

CHH has given two letters of undertaking in relation to the bank facilities of the CHH Group to two banks for general banking facilities totalling HK\$150 million (2004: HK\$150 million) granted to CHH. The banking facilities granted are also secured by a negative pledge of certain listed investments held by the CHH Group. At 31 December 2005, these facilities were not utilised by CHH.

(b) *In respect of HKSM*

There is an arrangement between HKSM and its banker whereby the bank provides guarantees in favour of third parties. Under this arrangement, HKSM has a charge over a time deposit with that bank amounting to not less than HK\$1.8 million (2004: HK\$1.7 million).

(c) *In respect of HKTHMCL*

The CHH Group has given a guarantee to the extent of HK\$18.9 million (2004: HK\$18.9 million) to a bank in return for it providing a guarantee in favour of the Government of the HKSAR on behalf of HKTHMCL to secure the performance of an agreement in relation to the operation and management of the Cross-Harbour Tunnel and the operation and maintenance of the tunnel equipment by HKTHMCL.

(d) *In respect of WHTCL*

A joint and several guarantee given by CHH and the other shareholders of WHTCL, namely, High Fortune Group Limited (as well as by its ultimate shareholder, China Merchants Holdings (International) Company Limited) and Adwood Company Limited (as well as by its ultimate shareholders, CITIC Pacific Limited and Kerry Properties Limited) to the Government of the HKSAR for its advance to WHTCL by way of share capital injection and/or subordinated debt of an amount equal to any excess of the total costs over the budgeted cost of HK\$7,534 million, incurred by WHTCL in connection with the construction, financing, administration and maintenance of WHT up to the date WHT opened for use by the public (the “operating date”) and with the replacement or repair of any of the works after the operating date but prior to the issuance of the maintenance certificate in relation to WHT. The maintenance certificate had not been issued at 31 December 2005.

### **Employees**

The CHH Group has 659 employees. Employees are remunerated according to the job nature and market trends, with a built-in merit component incorporated in the annual increment to reward and motivate individual performance. Apart from provident fund schemes and medical insurance, discretionary bonuses and employee share options are awarded to employees of the CHH Group at the discretion of the directors, depending upon the financial performance of the CHH Group. Total staff costs for the year amounted to HK\$114.6 million. CHH also operates a share option scheme.

### **Business Review and Outlook**

*Autopass - 70% owned*

*Autotoll - effectively 35% owned*

Autotoll, 50% owned by Autopass, provides ETC facilities in Hong Kong covering ten different toll roads and tunnels. There are forty-eight auto-toll lanes in operation at present. The number of subscribers has reached a plateau since 2003. In order to boost tag subscription and maintain customer loyalty, a membership program, the “Autotoll Club”, will be launched in 2006. Members of the Autotoll Club will enjoy fuel and other merchant discounts. In view of increasing competition from other electronic payment systems and the need to maintain its leadership in the market, Autotoll is poised to launch the AutoPark system in the second half of 2006. Subscribers can use their Autotoll tags for car-park access control and parking fee payment at designated carparks.

After a prolonged product development and trials, the GPS service was officially launched in March 2005. At present, Autotoll is the leading GPS service provider for cross border tracking in the territory. The system covers both the territory and Guangdong province and is not only well received by many large corporations in logistics and transportation industries, but has also won the “Outstanding Award” in the 1st Hong Kong Wireless Technology Excellence Award organised by the Hong Kong Wireless Technology Industry Association and the Hong Kong Productivity Council in 2005.

***HKSM - 70% owned***

HKSM recorded a decrease in the demand for driving lessons and also a further deteriorated demand in motorcycle training courses in the year under review. The dampening effect of low throughput on the overall performance of the school in the past year was however mitigated by the higher lesson income unit rate. The continuous shrinking of the market, as evidenced by the continual fall in the number of new learner driver licenses, is believed to have been the aggregate result of aging of the population, changes in the mode of consumers' spending and improved public transport system.

Though the outlook on the driving training industry does not appear to be optimistic in the coming year, HKSM will continue to deploy more efforts to defend its market share, to increase its competitive edges and to enhance its brand image and ultimately to enhance profitability. Business strategies such as proactive post-enrolment sales, flexible cost structure, further penetration into different niche markets will be employed. The newly launched product, "One-to-One Plan", is not only well received but also conducive to brand rejuvenation as a result of increased customer satisfaction. In order to enhance long-term profitability and to diversify risk, HKSM will attempt to outreach to other markets outside Hong Kong.

***WHTCL - 37% owned***

The performance of the WHTCL in 2005 was encouraging. Toll revenue was improved and the throughput of WHT has increased significantly during the second half of the year despite an overall reduction in the total cross-harbour traffic as compared with that of the previous year. In December, the WHT recorded a market share at new high of over 19% and a historical high single daily throughput of almost 55,000 vehicle journeys since year 2000. It is the aggregate result of diversion of traffic caused by toll increase at the Eastern Harbour Tunnel effective May 1, higher visitor flows after the opening of the much awaited Disneyland in September and bullish market sentiments. The midnight empty taxi and goods vehicle promotions were very well received, and the programs were repeatedly extended generating incremental traffic and revenue for the WHT. As a caring company, WHTCL sponsored the Sixth Ministerial Conference (MC6) of the World Trade Organization (WTO) held in December by offering a toll sponsorship from 13th to 18th. The negative impact on the revenue of WHTCL was only minimal.

In the coming year, WHTCL will continue to look to maximisation of revenue as the key task for CHH. The management will continue to identify more business opportunities such as joint promotions with business partners, construction of new outdoor advertising sites, etc, to generate additional revenue. In the near future, we expect the WHT to benefit from additional traffic induced by the opening of the Hong Kong's largest exhibition and events complex — AsiaWorld-Expo, as well as the completion of Deep Bay link, a dual 3-lane carriageway, which will provide a strategic link between the additional vehicular boundary crossing, the Hong Kong - Shenzhen Western Corridor, and Yuen Long Highway, in early 2006.

***HKTHMCL - 37% owned***

HKTHMCL, an associate undertaking the management contract for the Hunghom Cross-Harbour Tunnel, maintained stable income during the year under review. The two-year contract expired on 31 August 2004 and was extended for a further period of 24 months to 31 August 2006.

**A.    LETTER FROM THE REPORTING ACCOUNTANTS OF THE COMPANY**

The following is the text of a report received from the auditors and reporting accountants of the Group, Ernst & Young, Certified Public Accountants, Hong Kong, for the inclusion of this circular.



29 April 2006

The Directors  
Y. T. Realty Group Limited

Dear Sirs,

We report on the unaudited pro forma financial information of Y. T. Realty Group Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out in Appendix IV (the “Unaudited Pro forma Financial Information”) to the circular of the Company dated 29 April 2006 in connection with the possible very substantial acquisition upon exercise of an option and implementation of a possible conditional mandatory general offer relating to the acquisition of the issued shares of The Cross-Harbour (Holdings) Limited (“CHH”). The Unaudited Pro forma Financial Information, which has been prepared by the directors of the Company (the “Directors”), for illustrative purposes only, to provide information about how the possible acquisition of CHH and its subsidiaries (collectively refer to as “CHH Group”) and the possible placement of 25% of CHH’s shares to the public to comply with the 25% minimum public float requirement per Rule 8.08 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“the Listing Rules”) (the “Proposed Acquisition and Placement”), resulting in the formation of an enlarged group (the “Enlarged Group”), might have affected the financial information presented.

**Responsibilities**

It is the responsibility solely of the Directors to prepare the Unaudited Pro forma Financial Information in accordance with Paragraph 29 of Chapter 4 of the Listing Rules.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Unaudited Pro forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

**Basis of opinion**

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountant’s Reports on Pro forma Financial Information in Investment Circulars” issued by Hong Kong Institute of Certified Public Accountants. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro forma Financial Information with the Directors.

Our work does not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants, and accordingly, we do not express any such assurance on the Unaudited Pro forma Financial Information.

The Unaudited Pro forma Financial Information is for illustrative purposes only, based on the assumptions of the Directors as set out in Appendix IV to the Circular, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group as at 31 December 2005 or at any future date; and
- the results and cash flows of the Group for the year ended 31 December 2005 or any future period.

**Opinion**

In our opinion:

- (a) the Unaudited Pro forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro forma Financial Information as disclosed pursuant to Paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,  
**Ernst & Young**  
*Certified Public Accountants*  
Hong Kong

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## APPENDIX IV                      UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE ENLARGED GROUP

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The following Unaudited Pro forma Financial Information of the Enlarged Group has been prepared to illustrate the effect of the Proposed Acquisition and Placement.

The Group proposed to exercise in full of the Option at an exercise price of HK\$4.00 per share. As at the Latest Practicable Date, 52,647,059 CHH's shares are exercisable. In the event the Option is exercised in full, the Group's shareholdings in CHH will increase from approximately 29.92% to 40.36%. Thus, the Group is obliged to make the Offer under Rule 26.1 of the Code.

As a result of the exercise in full of the Option, the Company will be required to implement the Offer under the Code to acquire the entire issued share capital of CHH owned by Independent CHH Shareholders at an offer price of HK\$4.083 per share which is equivalent to the sum of HK\$0.083 per CHH Share paid by the Group for purchasing the Option and the exercising price of HK\$4.00 per CHH Share under the Option.

As part of the Offer, holders of outstanding share options granted under Employee Option Scheme of CHH will be offered to receive a "see-through" price of HK\$1.591 for each CHH Share option held (being Offer price minus exercise price of the employee option) for cancellation of their rights under such options.

The above proposed exercise of the Option and implementation of a possible conditional general offer will be settled by cash consideration and waiver of the Loan, as a result, additional HK\$1,081.9 million bank loan will be obtained.

The unaudited pro forma balance sheet of the Enlarged Group is prepared based on the audited consolidated balance sheet of the Group as at 31 December 2005 extracted from the financial information of the Group as set out in Appendix I to this circular and audited consolidated balance sheet of CHH Group as at 31 December 2005 extracted from the financial information of CHH Group as set out in Appendix III to this circular as if the Proposed Acquisition and Placement has been completed on 31 December 2005.

The unaudited pro forma income statement and cash flow statement of the Enlarged Group are prepared based on audited consolidated income statement and consolidated cash flow statement of the Group for the year ended 31 December 2005 extracted from financial information of the Group as set out in Appendix I to this circular and audited consolidated income statement and consolidated cash flow statement of CHH Group for the year ended 31 December 2005 extracted from the financial information of CHH Group as set out in Appendix III to this circular as if the Proposed Acquisition and Placement has been completed on 1 January 2005.

The Unaudited Pro forma Financial Information is prepared to provide information on the Enlarged Group as a result of the completion of the Proposed Acquisition and Placement. It is prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of the financial results and financial position of the Enlarged Group as on the completion of the Proposed Acquisition and Placement and at any future date.



**APPENDIX IV                      UNAUDITED PRO FORMA FINANCIAL INFORMATION  
ON THE ENLARGED GROUP**

**B.    UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT OF THE  
ENLARGED GROUP**

	<b>For the year ended 31 December 2005</b>				
		<b>CHH</b>	<b>Pro forma</b>		<b>Pro forma</b>
	<b>Group</b>	<b>Group</b>	<b>(Note 4)</b>	<b>(Note 5)</b>	<b>balance</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>REVENUE</b>	93,942	249,672			343,614
Direct outgoings	(5,754)	(101,618)			(107,372)
Selling and marketing expenses	<u>—</u>	<u>(28,791)</u>			<u>(28,791)</u>
	88,188	119,263			207,451
Other income and gains (net of direct outgoings)	4,148	27,146			31,294
Administrative expenses	(26,658)	(59,280)			(85,938)
Other operating expenses	(3,547)	—			(3,547)
Finance costs	(25,498)	(3,669)	(38,659)		(67,826)
Changes in fair value of investment properties	179,249	—			179,249
Gain on disposal of partial interest in an associate	1,977	—			1,977
Fair value loss of an unlisted share option granted by an associate	(10,529)	—			(10,529)
Fair value gain of an unlisted convertible note granted by an associate	36,050	—			36,050
Reversal of write-down of properties held for sale	28	—			28
Impairment loss on other investments	(233)	—			(233)
Share of results of associates	47,068	102,167		(47,068)	102,167
Share of profits of a jointly controlled entity	<u>—</u>	<u>9,198</u>			<u>9,198</u>
<b>PROFIT BEFORE TAX</b>	290,243	194,825			399,341
Tax	<u>(39,555)</u>	<u>(14,363)</u>			<u>(53,918)</u>
<b>PROFIT FOR THE YEAR</b>	<u>250,688</u>	<u>180,462</u>			<u>345,423</u>
Attributable to:					
Equity holders of the parent	250,688	161,992	(38,659)	(87,566)	286,455
Minority interests	<u>—</u>	<u>18,470</u>		40,498	<u>58,968</u>
	<u>250,688</u>	<u>180,462</u>			<u>345,423</u>

**APPENDIX IV                      UNAUDITED PRO FORMA FINANCIAL INFORMATION  
ON THE ENLARGED GROUP**

**C.    UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET OF THE ENLARGED GROUP**

	As at 31 December 2005					
	Group	CHH Group	Pro forma adjustments			Pro forma balance
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Note 1)	(Note 2)	(Note 3)	
<b>NON-CURRENT ASSETS</b>						
Goodwill	—	—		227,172		227,172
Property, plant and equipment	1,870	91,617				93,487
Interest in leasehold land held for own use under operating lease	—	30,264				30,264
Investment properties	1,927,840	—				1,927,840
Interests in associates	860,382	1,267,145	306,226	(1,166,608)		1,267,145
Interest in a jointly-controlled entity	—	17,966				17,966
Other investments	1,235	—				1,235
Available-for-sale securities	—	412,376				412,376
Deferred tax assets	415	400				815
<b>Total non-current assets</b>	<u>2,791,742</u>	<u>1,819,768</u>				<u>3,978,300</u>
<b>CURRENT ASSETS</b>						
Properties held for sale	1,988	—				1,988
Inventories	—	621				621
Trade debtors	1,416	1,368				2,784
Other debtors, deposits and prepayments	52,508	12,353				64,861
Unlisted share option granted by an associate	92,132	—	(92,132)			—
Non-interest-bearing loan to an associate	20,000	—	(20,000)			—
Tax recoverable	859	—				859
Cash and bank balances	49,344	485,877	190,588			725,809
<b>Total current assets</b>	<u>218,247</u>	<u>500,219</u>				<u>796,922</u>

**APPENDIX IV                      UNAUDITED PRO FORMA FINANCIAL INFORMATION  
ON THE ENLARGED GROUP**

	As at 31 December 2005					
	Group	CHH Group	Pro forma adjustments			Pro forma balance
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Note 1)	(Note 2)	(Note 3)	
<b>CURRENT LIABILITIES</b>						
Trade creditors	1,276	2,808				4,084
Other payables and accrued expenses	55,732	115,909				171,641
Interest free loan	—	19,552	(19,552)			—
Bank loans, secured	172,000	—	190,588	891,320	(360,823)	893,085
Tax payable	—	6,499				6,499
	<u>229,008</u>	<u>144,768</u>				<u>1,075,309</u>
<b>Total current liabilities</b>						
	<u>229,008</u>	<u>144,768</u>				<u>1,075,309</u>
<b>NET CURRENT ASSETS/(LIABILITIES)</b>						
	<u>(10,761)</u>	<u>355,451</u>				<u>(278,387)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>						
	<u>2,780,981</u>	<u>2,175,219</u>				<u>3,699,913</u>
<b>NON-CURRENT LIABILITIES</b>						
Bank loans, secured	368,500	—				368,500
Deferred tax liabilities	76,122	2,390				78,512
	<u>444,622</u>	<u>2,390</u>				<u>447,012</u>
<b>Total non-current liabilities</b>						
	<u>444,622</u>	<u>2,390</u>				<u>447,012</u>
<b>Net assets</b>	<u>2,336,359</u>	<u>2,172,829</u>				<u>3,252,901</u>
<b>EQUITY</b>						
<b>Equity attributable to equity holders of the parent</b>						
Issued share capital	79,956	300,841	52,647	(353,488)		79,956
Reserves	2,236,414	1,786,553	160,999	(1,447,184)	(221,082)	2,515,700
Proposed final dividend	19,989	30,084		(30,084)		19,989
	<u>2,336,359</u>	<u>2,117,478</u>				<u>2,615,645</u>
<b>Minority interests</b>	<u>—</u>	<u>55,351</u>			581,905	<u>637,256</u>
<b>Total equity</b>	<u>2,336,359</u>	<u>2,172,829</u>				<u>3,252,901</u>

**APPENDIX IV      UNAUDITED PRO FORMA FINANCIAL INFORMATION  
ON THE ENLARGED GROUP**

**D.    UNAUDITED PRO FORMA CONSOLIDATED CASH FLOW STATEMENT OF THE  
ENLARGED GROUP**

	<b>For the year ended 31 December 2005</b>			
		<b>CHH</b>	<b>adjustment</b>	<b>Pro forma</b>
	<b>Group</b>	<b>Group</b>	<i>(Note 4)</i>	<b>balance</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net cash inflow generated from operations	21,387	58,929		80,316
Interest paid	(24,009)	—	(38,659)	(62,668)
Hong Kong profits tax paid	(7,032)	(8,992)		(16,024)
Hong Kong profits tax refunded	<u>357</u>	<u>—</u>		<u>357</u>
 Net cash inflow/(outflow) from operating activities	 <u>(9,297)</u>	 <u>49,937</u>		 <u>1,981</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest received	3,783	11,552		15,335
Dividends received from listed investments	—	10,637		10,637
Dividends received from a jointly controlled entity	—	5,000		5,000
Repayment of loan from an associate	—	40,700		40,700
Proceeds from disposals of listed investments	—	54,302		54,302
Dividends received from an associate	23,842	—		23,842
Additions to investment properties	(821)	—		(821)
Additions to investment in CHH	—	—	(1,081,908)	(1,081,908)
Purchases of items of property, plant and equipment	(1,457)	(32,063)		(33,520)
Purchases of listed investments	—	(3,788)		(3,788)
Proceeds from disposal of an item of property, plant and equipment	320	2,864		3,184
Proceeds from disposal of partial interest in an associate	<u>50,566</u>	<u>—</u>	360,823	<u>411,389</u>
 Net cash inflow/(outflow) from investing activities	 <u>76,233</u>	 <u>89,204</u>		 <u>(555,648)</u>
 Net cash inflow/(outflow) before financing activities	 <u>66,936</u>	 <u>139,141</u>		 <u>(553,667)</u>

**APPENDIX IV      UNAUDITED PRO FORMA FINANCIAL INFORMATION  
ON THE ENLARGED GROUP**

	<b>For the year ended 31 December 2005</b>		
		<b>Pro forma</b>	
	<b>Group</b>	<b>CHH adjustment</b>	<b>Pro forma</b>
	<i>HK\$'000</i>	<i>Group</i>	<i>(Note 4)</i>
		<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>HK\$'000</i>	<b>balance</b>
			<i>HK\$'000</i>
<b>CASH FLOWS FROM FINANCING</b>			
<b>ACTIVITIES</b>			
Proceeds from issue of shares	1,443	—	190,588
New bank loans	234,363	—	1,081,908
Repayment of bank loans	(289,363)	—	(360,823)
Other borrowing costs	—	(404)	(404)
Interest paid	—	(2,776)	(2,776)
Dividends paid	(15,991)	(82,030)	(98,021)
Dividends paid to minority shareholders	—	(10,320)	(10,320)
	<u>          </u>	<u>          </u>	<u>          </u>
Net cash inflow/(outflow) from financing activities	<u>(69,548)</u>	<u>(95,530)</u>	<u>746,595</u>
Net increase/(decrease) in cash and cash equivalents	(2,612)	43,611	192,928
Cash and cash equivalents as at 1 January 2005	<u>51,956</u>	<u>442,266</u>	<u>494,222</u>
<b>CASH AND CASH EQUIVALENTS</b>			
<b>AS AT 31 DECEMBER 2005</b>	<u>49,344</u>	<u>485,877</u>	<u>687,150</u>

**E. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE ENLARGED GROUP**

1. The adjustment reflects the Group's exercise in full of the Option, which is convertible into 52,647,059 shares of CHH at HK\$4.00 each, by a consideration of HK\$210.6 million. The consideration will be satisfied in full by the waiver of the non-interest-bearing loan to CHH of HK\$20.0 million, to set off the interest free loan of CHH Group of HK\$19.6 million and interest expense of HK\$0.4 million to be calculated by the effective interest method, and the remaining HK\$190.6 million by an additional bank loan to be acquired by the Group. The cash consideration will be paid by the Group to CHH on completion of the transaction. As a result, both the cash and bank balance and the bank loan balance of the Enlarged Group will be increased by HK\$190.6 million.

In the event that the Option is exercised in full, the Group's shareholding percentage in CHH will be increased from 29.92% to 40.36%. CHH will issue 52,647,059 new shares to the Group, accordingly the share premium will be increased by HK\$157.9 million.

Under Hong Kong Accounting Standard 28, the Group will apply equity method to account for the acquisition of additional interest in CHH. Negative goodwill arising on the exercise of the Option represents the deficit of the cost of the acquisition over the Group's share of the fair value of the identifiable assets, liabilities and contingent liabilities of CHH Group as at the date of acquisition. For the purpose of preparing the unaudited pro forma balance sheet of the Enlarged Group, the fair value of the Option as at 31 December 2005 is applied in the calculation of the estimated negative goodwill. Since the fair value of the Option granted by CHH at completion may be substantially different from their fair value used in the calculation of the estimated goodwill, the final results of the possible exercise of the Option will be different.

2. The possible exercise of the Option will oblige the Group to make Offer to the public to acquire shares outstanding in public under Rule 26.1 of the Code, at HK\$4.083 per share. The consideration will be satisfied in full by cash. An additional bank loan of HK\$891.3 million will be obtained by the Group to satisfy the cash consideration, HK\$860.8 million will be used for the acquisition of 210,818,774 shares outstanding in public during the Offer period and HK\$30.5 million will be paid to employees of CHH to renounce the employee share option rights to acquire CHH Shares at HK\$2.492 each.

In the event the Offer is fully accepted by the Independent CHH Shareholders, the Group will hold 100% shareholding interest in the CHH Group. According to Hong Kong Financial Reporting Standard 3, CHH Group is treated as subsidiaries of the Group. The adjustment reflects the acquisition cost and negative goodwill arising from the Offer.

Negative goodwill arising from the offer is measured as the deficit of the cost of acquisition over the Group's share of the fair value of the identifiable assets, liabilities and contingent liabilities of CHH Group as at the date of acquisition. For the purpose of preparing the

unaudited pro forma balance sheet of the Enlarged Group, the fair value of CHH Group's identifiable assets, liabilities and contingent liabilities as at 31 December 2005, which is assumed to be the same as its book value, is used for the calculation of the estimated negative goodwill.

Since the fair value of CHH Group's identifiable assets, liabilities and contingent liabilities at completion date may be substantially different from their fair value used in the preparation of the Unaudited Pro forma Financial Information, the final amounts of the fair values of the assets and liabilities of CHH Group and intangible assets (including goodwill) will be different from those amounts applied in the calculation of the estimated negative goodwill.

3. Subsequent to the Offer to the public to acquire all shares outstanding in public, 25% of CHH's shares will have to be placed to the public at HK\$4.083 per share in order to comply with the minimum of 25% public float requirement per Rule 8.08 of the Listing Rules. For the purpose of preparing the unaudited pro forma balance sheet of the Enlarged Group, the placing price is assumed to be the same as the Offer Price of HK\$4.083 per CHH Share. As a result, cash proceed of HK\$360.8 million will be received from the placees for the placement of 88,372,052 shares (being 25% of CHH's shares), with a disposal loss of HK\$221.1 million and an increase in minority interest of HK\$581.9 million. The proceed of HK\$360.8 million will be used for repayment of bank loan to minimise the interest expense. In the event that the 25% of the CHH Shares have not been placed to the public, CHH will become a 100% subsidiary of the Group. As a result, the combined pro forma adjusted net asset value of the Enlarged Group will be approximately HK\$2,892.1 million and the net profit attributable to the equity holders of the Company will become HK\$326.9 million. The bank loan balance of the Enlarged Group will be HK\$1,622.4 million instead of HK\$1,261.6 million.
4. The adjustment reflects additional finance cost of HK\$38.7 million resulting from the new bank loan of HK\$1,081.9 million to be obtained to finance the possible exercising of the Option and the possible Offer, less the proposed cash receipt of HK\$360.8 million from the placement of 25% of CHH's shares to the placees.
5. The adjustment reflects the cancellation of share of results of CHH Group as associates. In the event of successful general offer and placement of the 25% equity interest in CHH, the Group will hold 75% of CHH's issued share capital and, therefore, CHH Group will be treated as subsidiaries of the Group and CHH Group's result will be consolidated to that of the Group.

**(A) WORKING CAPITAL**

The Directors are of the opinion that, taking into account the internal resources and the existing banking facilities currently available to the Enlarged Group, the Enlarged Group will have sufficient working capital to satisfy its present requirements for the period ending 12 months from the date of this circular in the absence of unforeseen material circumstances.

**(B) STATEMENT OF INDEBTEDNESS**

As at the close of business on 31 March 2006, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group had outstanding borrowings of approximately HK\$510.5 million, comprising HK\$390.5 million of term loans and HK\$120 million of revolving loans.

At 31 March 2006, the Enlarged Group had the following contingent liabilities:

- (a) The Company had aggregate contingent liabilities of HK\$1,750.9 million, in relation to banking facilities granted to subsidiaries within the Enlarged Group.
- (b) A subsidiary of the Company, which has been under voluntary liquidation since September 2004, has claimed against the contractor of a property development project, and deducted from payments to the contractor, of approximately HK\$11 million for the delay in completion and defects of the constructions works. In addition, there is a dispute of approximately HK\$1.7 million regarding the final contract amount. The contractor has denied the claim and has counter-claimed the subsidiary for HK\$22.3 million, including liquidated damages, the above-mentioned dispute contract sum and loss and expense. The case is pending arbitration. The liquidation of the subsidiary and its pending affairs has been handled by the appointed professional liquidators. A settlement agreement regarding the claims and the counter-claims between the contractor and the subsidiary is being finalised, which to the understanding of the Group, will not result in any material financial gain or loss to the Group.
- (c) There is an arrangement between a subsidiary of CHH and its banker whereby the bank provides guarantees in favour of third parties. Under this arrangement, the subsidiary has a charge over a time deposit with that bank amounting to not less than HK\$1.8 million.
- (d) The CHH Group has given a guarantee to the extent of HK\$18.9 million to a bank in return for its providing a guarantee in favour of the Government of the HKSAR on behalf of its associate, Hong Kong Tunnels and Highways Management Company Limited (“HKTHMCL”) to secure the performance of an agreement in relation to the operation and management of the Cross-Harbour Tunnel and the operation and maintenance of the tunnel equipment by HKTHMCL.
- (e) A joint and several guarantee given by CHH and the other shareholders for its associate, Western Harbour Tunnel Company Limited (“WHTCL”), namely, High Fortune Group Limited (as well as by its ultimate shareholder, China Merchant Holdings (International)



Company Limited) and Adwood Company Limited (as well as by its ultimate shareholders, CITIC Pacific Limited and Kerry Properties Limited) to the Government of the HKSAR for its advance to WHTCL by way of share capital injection and/or subordinated debt of an amount equal to any excess of the total costs over the budgeted cost of HK\$7,534 million, incurred by WHTCL in connection with the construction, financing, administration and maintenance of the Western Harbour Tunnel (“WHT”) up to the date WHT opened for use by the public (the “operating date”) and with the replacement or repair of any of the works after the operating date but prior to the issuance of the maintenance certificate in relation with WHT. The maintenance certificate had not been issued as at 31 March 2006.

Save as aforesaid and apart from intra-group liabilities and normal trade payables in the ordinary course of business, the Enlarged Group did not have any debt securities issued and outstanding, and authorised or otherwise created but unissued, outstanding term loans, mortgages and charges, bank overdrafts and liabilities under acceptances or acceptance credits or hire purchase commitments or other borrowings or indebtedness in the nature of borrowing, or any guarantees or other contingent liabilities as at the close of business on 31 March 2006.

For the purpose of the above indebtedness statement, foreign currency amounts have been translated in Hong Kong dollars at the applicable exchange rates prevailing at the close of business on 31 March 2006.

The Directors have confirmed there has been no material change in the indebtedness or contingent liabilities of the Enlarged Group since 31 March 2006.



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29 April 2006

Dear Sirs,

**Re: Valuation of Various Properties of Y. T. Realty Group Limited**

In accordance with your instructions to value the properties in which Y. T. Realty Group (the “Company”) and its subsidiaries (hereinafter together referred to as the “Group”) have interests in Hong Kong and the People’s Republic of China (the “PRC”), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the property interests as at 31 March 2006 (the “date of valuation”).

Our valuations are our opinion of the Market Values of the properties concerned which we would define as intended to mean “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.”

In valuing the property interests, we have complied with relevant provisions in the Companies Ordinance; the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited; and the HKIS Valuation Standards on Properties (First Edition 2005) published by The Hong Kong Institute of Surveyors effective from 1 January 2005.

Unless otherwise stated, our valuations have been made on the assumption that the owner sell the properties in the open market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement which could serve to affect the values of the properties.

We have valued the properties in their existing state with reference to sales evidence as available on the market and subject to the existing tenancies for tenanted portion of the properties and vacant possession for vacant or owner-occupied portion of the properties.

We have relied on information provided by the Group, particularly on such matters as planning approvals, statutory notices, easements, tenure, lettings and site and floor areas and unless otherwise stated, all other relevant matters.

We have caused searches to be made at the Land Registry, but have not given any legal advice in respect of title. Further, we have not searched the original documents to verify the correctness of any information or to verify whether any amendments have been made which do not appear on the copies handed to us. All documents have been used as reference only and all dimensions, measurements and areas are approximate.

We have been, in some instances, provided by the Group with extracts of the title documents relating to the properties in the PRC and have caused searches to be made at the Hong Kong Land Registries in respect of Hong Kong properties. Where possible, we have searched the original documents to verify the existing titles to the property interests in the PRC and any material encumbrances that might be attached to the properties or any lease amendments which may not appear on the copies handed to us. We have relied considerably on the advice given by the Company's PRC legal adviser — Grandall Legal Group (Shenzhen), concerning the validity of the Group's titles to the property interests.

We have inspected the properties externally. However, no structural survey has been made nor were any tests carried out on any of the services. We have not inspected the woodwork or other covered, unexposed or inaccessible parts of the premises, nor has any geotechnical site investigation been conducted. We are, therefore, not able to report that the property is or is not free from rot, infestation or other structural or non-structural defects. Unless otherwise stated in the report, no on-site or on-building measurement has been made.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions, and outgoing of an onerous nature which could affect their values.

We enclose herewith our Summary of Values and valuation certificates.

Yours faithfully,  
For and on behalf of  
**Savills Valuation and Professional Services Limited**  
**Charles C K Chan**  
MSc FRICS FHKIS MCIArb RPS(GP)  
*Managing Director*

## SUMMARY OF VALUES

<b>No. Property</b>	<b>Market Value as at 31 March 2006 (HK\$)</b>
1. Prestige Tower, Nos. 23 and 25 Nathan Road, Tsimshatsui, Kowloon	\$1,007,000,000
2. Century Square, Nos. 1 — 13 D'Aguilar Street, Central, Hong Kong	\$1,003,000,000
3. 2nd Floor, Eurasia Building, No. 6 (formerly No. 2) Stanley Street, Central, Hong Kong.	\$ 1,650,000
4. Flat A on 2nd Floor including Flat Roof, Manley House, Nos. 86 — 98 Canton Road, Tsim Sha Tsui, Kowloon	\$ 1,190,000
5. Car Parking Space No. A4 on 1st Floor, Car Parking Spaces Nos. C2, C4, C5, C6, C7 on 3rd Floor and Car Parking Space No. D4 on 4th Floor, Village Garden, No. 17 Village Road, Happy Valley, Hong Kong	\$ 2,100,000
6. Unit No. 9 on Level 16, Unit No. 11 on Level 26 and Unit No. 11 on Level 31, in the apartment tower, Di Wang Commercial Centre, Shun Hing Square, No. 333 Shennan East Road, Luohu District, Shenzhen, Guangdong Province, the PRC	\$ 4,850,000
	<hr/>
<b>Total:</b>	<b><u>\$2,019,790,000</u></b>

## VALUATION CERTIFICATE

No.	The Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 March 2006
1.	Prestige Tower, Nos. 23 and 25 Nathan Road, Tsimshatsui, Kowloon  Kowloon Inland Lot No. 7528	<p>The property comprises a 12-storey plus a basement and a penthouse commercial building completed in 1963.</p> <p>Basement to 4th Floor are designed for commercial / retail uses whilst the upper floors are for office use.</p> <p>The total gross floor area of the property is approximately 113,484 sq.ft. (10,542.92 sq.m.).</p> <p>Kowloon Inland Lot No. 7528 is held under Conditions of Re-grant No. 6117 for a term of 150 years commencing on 24 June 1889.</p>	<p>The property, except for office spaces of approximately 14,652 sq.ft. that are vacant, is subject to various tenancies with the last expiry date on 31 March 2010. The total monthly rental is HK\$3,976,302.</p> <p>In addition, except 9 out of the 22 signage spaces that are vacant, the remaining signage spaces are subject to various monthly licences at a total licence fee of HK\$21,856.</p>	HK\$1,007,000,000

*Notes:*

1. The registered owner of the property is Benefit Plus Company Limited vide Memorial No. UB6101379 dated 29 July 1994.
2. The property is subject to a Debenture and Mortgage in favour of The Bank of East Asia, Limited vide Memorial No. UB8328539 dated 26 February 2001.

## VALUATION CERTIFICATE

No.	The Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 March 2006
2.	Century Square, Nos. 1 - 13 D'Aguilar Street, Central, Hong Kong  All shares of and in Sections A, B and D of Inland Lot No. 18, the Remaining Portion of Section A of Inland Lot No. 18A and Section C of Inland Lot No. 18A.	The property comprises a 21-storey plus a basement commercial building completed in 1984.  It is designed to have commercial premises from Basement to 4th Floor and office premises from 5th to 20th Floor.  The total gross floor area of the property is approximately 94,727 sq.ft. (8,800.43 sq.m.)  Inland Lot No. 18 is held under a Government Lease for a term of 999 years commencing on 26 June 1843.  Inland Lot No. 18A is held under a Government Lease for a term of 75 years extended to 999 years commencing on 26 June 1843.	The property, except for office spaces of approximately 9,006 sq.ft. that are vacant and 366 sq.ft. that are management office, is subject to various tenancies with the last expiry date on 8 November 2008. The total monthly rental is HK\$3,154,586.	HK\$1,003,000,000

*Notes:*

1. The registered owner for those floors from Basement to 4th Floors of the property is Score Goal Investment Limited vide Memorial No. UB5752646 dated 19 July 1993.
2. The registered owner for those floors from 5th to 20th Floors of the property is Harson Investment Limited vide Memorial No. UB5752649 dated 19 July 1993.
3. In addition to various tenancy agreements, the property is subject to the following encumbrances:
  - i) Occupation Permit No. H66/84 vide Memorial No. UB2611583 dated 21 June 1984;
  - ii) Mortgage to secure general banking facilities in favour of The Hongkong and Shanghai Banking Corporation Limited vide Memorial No. UB5752647 dated 19 July 1993 (Re: Basement to 4th Floor only);
  - iii) Mortgage to secure general banking facilities in favour of The Hongkong and Shanghai Banking Corporation Limited vide Memorial No. UB5752650 dated 19 July 1993 (Re: 5th Floor to 20th Floor only);
  - iv) Deed of Mutual Covenant and Management Agreement vide Memorial No. UB5776965 dated 19 July 1993;
  - v) Agreement for Sale and Purchase in favour of China Star Consultants Limited vide Memorial No. UB7332270 dated 6 November 1997;
  - vi) Deed of Variation of Memorial No. UB5752647 and Further Charge to secure general banking facilities in favour of The Hongkong and Shanghai Banking Corporation Limited vide Memorial No. UB7547431 dated 20 July 1998 (Re: Basement to 4th Floor only);

- vii) Assignment of Rental in favour of The Hongkong and Shanghai Banking Corporation Limited vide Memorial No. UB7547432 dated 20 July 1998 (Re: Basement to 4th Floor only);
  - viii) Deed of Variation of Memorial No. UB5752650 and Further Charge to secure general banking facilities in favour of The Hongkong and Shanghai Banking Corporation Limited vide Memorial No. UB7547434 dated 20 July 1998 (Re: 5th Floor to 20th Floor only);
  - ix) Assignment of Rental in favour of the Hongkong and Shanghai Banking Corporation Limited vide Memorial No. UB7547435 dated 20 July 1998 (Re: 5th Floor to 20th Floor only);
  - x) Sealed Copy of Order in favour of Score Goal Investment Limited and Harson Investment Limited “The Plaintiffs” and China Star Consultants Limited “The Defendant” in H.C. Action No. 2470 of 1998 vide Memorial No. UB7847142 dated 29 July 1999; and
  - xi) Sealed Copy of Amended Order in favour of Score Goal Investment Limited and Harson Investment Limited “The Plaintiffs” and China Star Consultants Limited “The Defendant” in H.C. Action No. 2470 of 1998 (as amended on 16 August 2000) vide Memorial No. UB8162727 dated 25 July 2000
4. As mentioned in Note 3, the property is subject to various Orders. However, we have assumed in our valuation that the property is free from any encumbrances which would affect its value.

## VALUATION CERTIFICATE

No.	The Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 March 2006
3.	2nd Floor, Eurasia Building, No. 6 (formerly No. 2) Stanley Street, Central, Hong Kong.  1/6th parts or shares of and in Section C of Inland Lot No. 18 and Section B of Inland Lot No. 18A	Eurasia Building is a 6-storey commercial building completed in about 1971.  The property comprises the whole of 2nd Floor of the subject building.  The gross floor area and saleable area of the property are approximately 830 sq.ft. (77.11 sq.m.) and 525 sq.ft (48.77 sq.m.) respectively.  Inland Lot No. 18 is held under a Government Lease for a term of 999 years commencing on 26 June 1843  Inland Lot No. 18A is held under a Government Lease for a term of 75 years extended to 999 years commencing on 26 June 1843.	The property is subject to a tenancy expiring on 8 November 2006 at a monthly rental of approximately HK\$10,000.	HK\$1,650,000

*Notes:*

1. The registered owner of the property is Best View Limited vide Memorial No. UB6678169 dated 18 June 1996.
2. The property is subject to Deed of Mutual Covenant vide Memorial No. UB826518 dated 9 August 1971.



## VALUATION CERTIFICATE

No.	The Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 March 2006
4.	Flat A on 2nd Floor including Flat Roof, Manley House, Nos. 86 — 98 Canton Road, Tsim Sha Tsui, Kowloon  10/1,421st parts or shares of and in Kowloon Inland Lot Nos. 3536 to 3542 (both inclusive)	Manley House is a 16-storey composite building completed in about 1978.  The property comprises a domestic unit together with the flat roof appertaining thereto on the 2nd Floor of the Manley House.  The gross floor area and saleable area of the property are approximately 430 sq.ft. (39.95 sq.m.) and 340 sq.ft. (31.59 sq.m.) respectively plus a flat roof of approximately 69 sq.ft (6.41 sq.m.).  Kowloon Inland Lot Nos. 3536 to 3542 (both inclusive) are held under seven Government Leases for the same terms of 75 years commencing on 4 July 1899 and are renewal for a further term of 75 years.	The property is owner-occupied.	HK\$1,190,000

*Note:*

1. The registered owner of the property is Best View Limited vide Memorial No. UB8139285 dated 26 June 2000.
2. The property is subject to the following encumbrances:
  - i) Deed of Mutual Covenant vide Memorial No. UB1517604 dated 31 March 1978;
  - ii) Superseding Order No. D00361/K/05MS/TF by The Building Authority under Section 26 of The Buildings Ordinance (Re: Common Areas and Exterior of The Building) vide Memorial No. 06021700370047 dated 19 January 2006; and
  - iii) Superseding Order No. DR00334/K/05/MS/TF by The Building Authority under Section 28 of The Buildings Ordinance (Re: Common Drains) vide Memorial No. 06021700370057 dated 19 January 2006.
3. In our valuation, we have assumed that the building orders as mentioned in Note 2(ii) and 2(iii) above have been fully complied with to the satisfaction of the Building Authority and no remedial cost has been allowed for.

## VALUATION CERTIFICATE

No.	The Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 March 2006
5.	Car Parking Space No. A4 on 1st Floor, Car Parking Spaces Nos. C2, C4, C5, C6 and C7 on 3rd Floor and Car Parking Space No. D4 on 4th Floor, Village Garden, No. 17 Village Road, Happy Valley, Hong Kong  105/4,786th parts or shares of and in Inland Lot No. 8830	Village Garden is a residential development of 24 storeys erected over a car park podium of four storeys. It was completed in 1995.  The property comprises seven parking spaces within the car parking podium. They are all designated for the parking of private vehicles.  Inland Lot No. 8830 is held under conditions of Exchange No. 12274 for a term commencing from 8 October 1993 to 30 June 2047.	The property is vacant.	HK\$2,100,000

*Notes:*

1. The registered owner of the property is Best View Limited vide Memorial No. UB8139287 dated 26 June 2000.
2. The property is subject to the following encumbrances:
  - i) Occupation Permit No. H66/95 vide Memorial No. UB646909 dated 1 September 1995; and
  - ii) Deed of Mutual Covenant and Management Agreement in favour of Broadview Property Services Limited "Management Company" vide Memorial No. UB6465233 dated 8 November 1995.

## VALUATION CERTIFICATE

No.	The Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 March 2006
6.	Unit No. 9 on Level 16, Unit No. 11 on Level 26 and Unit No. 11 on Level 31, in the apartment tower Di Wang Commercial Centre, Shun Hing Square, No. 333 Shennan East Road, Luohu District, Shenzhen, Guangdong Province, the PRC	<p>Shun Hing Square is a commercial / residential complex completed in 1996. It comprises one 68-storey office tower and one 33-storey apartment tower.</p> <p>The property comprises three apartment units situated on Levels 16, 26 and 31 respectively in the apartment tower.</p> <p>The total gross floor area of the property is approximately 416.20 sq.m. (4,480 sq.ft.).</p> <p>The land use rights of the property have been granted for a term of 50 years from 2 January 1995 to 1 January 2045.</p>	The property is owner-occupied.	HK\$4,850,000

*Notes:*

1. Pursuant to three Real Estate Title Certificates, Shen Fang Di Zi No. 2000127513, Shen Fang Di Zi No. 2000127515 and Shen Fang Di Zi No. 2000127516 issued by Shenzhen Municipal Government all dated 24 January 2003, the ownership of the property having a total gross floor area of 416.20 sq.m. is vested to Mainland Sun Limited.
2. A summary of major certificates/ approvals as at 31 March 2006 is shown as follows:
  - (i) Real Estate Title Certificate                      Yes
3. The PRC Legal Advisors have stated in their legal opinion, including but not limited to the following:
  - (i) The property is held in the name of Mainland Sun Limited under three Real Estate Title Certificates (Document Shen Fang Di Zi No. 2000127513, Shen Fang Di Zi No. 2000127515 and Shen Fang Di Zi No. 2000127516).
  - (ii) The owner of the property has the right to occupy, use, lease, mortgage and transfer the property.
  - (iii) The property is not subject to any mortgage or encumbrance.



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29 April 2006

Dear Sirs,

**Re: Valuation of Two Properties of The Cross-Harbour (Holdings) Limited**

In accordance with your instructions to value the properties in which The Cross-Harbour (Holdings) Limited and its subsidiaries have interests in Hong Kong, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as at 31 March 2006 (the “date of valuation”).

Our valuations are our opinion of the Market Values of the properties concerned which we would define as intended to mean “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.”

In valuing the property interests, we have complied with relevant provisions in the Companies Ordinance; the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited; and the HKIS Valuation Standards on Properties (First Edition 2005) published by The Hong Kong Institute of Surveyors effective from 1 January 2005.

Unless otherwise stated, our valuations have been made on the assumption that the owner sell the properties in the open market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement which could serve to affect the values of the properties.

We have valued the properties in their existing state with reference to sales evidence as available on the market and subject to vacant possession.

The Government Lease of the property had already expired prior 30 June 1997, in our valuation, we have taken into account the provision contained in Annex III of the Joint Declaration of the Government of the United Kingdom and the Government of the People's Republic of China on the question of Hong Kong as well as the New Territories Leases (Extension) Ordinance 1988, which stipulating that such lease has been extended without premium until 30 June 2047 and that a rent of three percent of the rateable value is charged per annum from the date of extension.

We have relied on information provided by you, particularly on such matters as planning approvals, statutory notices, easements, tenure, lettings and site and floor areas and unless otherwise stated, all other relevant matters.

We have caused searches to be made at the Land Registry, but have not given any legal advice in respect of title. Further, we have not searched the original documents to verify the correctness of any information or to verify whether any amendments have been made which do not appear on the copies handed to us. All documents have been used as reference only and all dimensions, measurements and areas are approximate.

We have inspected the properties externally. However, no structural survey has been made nor were any tests carried out on any of the services. We have not inspected the woodwork or other covered, unexposed or inaccessible parts of the premises, nor has any geotechnical site investigation been conducted. We are, therefore, not able to report that the property is or is not free from rot, infestation or other structural or non-structural defects. Unless otherwise stated in the report, no on-site or on-building measurement has been made.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions, and outgoings of an onerous nature which could affect their values.

We enclose herewith our Summary of Values and valuation certificates.

Yours faithfully,

For and on behalf of

**Savills Valuation and Professional Services Limited**

**Charles C K Chan**

MSc FRICS FHKIS MCI Arb RPS(GP)

*Managing Director*

## SUMMARY OF VALUES

No.	Property	Market Value as at 31 March 2006 (HK\$)
1.	Flat No. 17 on 18th Floor, Apartment Tower on The Western Side, Convention Plaza, No. 1 Harbour Road, Wan Chai, Hong Kong	\$12,000,000
2.	No. 38 Chung Yip Road, The Remaining Portion of Lot No. 1347 in Demarcation District No. 115, Yuen Long, New Territories	\$42,000,000
<b>Total:</b>		<b><u>\$54,000,000</u></b>

## VALUATION CERTIFICATE

No.	The Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 March 2006
1.	Flat No. 17 on 18th Floor, Apartment Tower on The Western Side, Convention Plaza, No. 1 Harbour Road, Wan Chai, Hong Kong	The property comprises a residential unit in Apartment Tower of Convention Plaza which comprises exhibition and convention venue, two hotels, an office tower and an apartment tower. The development was completed in 1989.  The property has gross floor area and saleable area of approximately 1,315 sq.ft. (122.17 sq.m.) and 1,012 sq.ft. (94.02 sq.m.) respectively.	The property is vacant.	HK\$12,000,000
	901/4,000,000th parts or shares of and in Inland Lot No. 8593	Inland Lot No. 8593 is held under Conditions of Grant No. 11784 for a term 75 years commencing from 10 February 1985.		

*Notes:*

1. The registered owner of the property is Join Harbour Limited vide Memorial No. 05101900520043 dated 30 September 2005.
2. The property is subject to the following encumbrances:
  - i) Occupation Permit No. H29/90 vide Memorial No. UB4501042 dated 7 March 1990;
  - ii) Deed of Mutual Covenant vide Memorial No. UB4568130 dated 13 September 1990; and
  - iii) Sub-Deed of Mutual Covenant vide Memorial No. UB6082631 dated 27 January 1992.

## VALUATION CERTIFICATE

No.	The Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 March 2006
2.	No. 38 Chung Yip Road, Yuen Long, New Territories The Remaining Portion of Lot No. 1347 in Demarcation District No. 115	<p>The property comprises a plot of land (for fish pond purpose) which is roughly trapezium in shape and is situated to the north of Chung Yip Road in Yuen Long district. The Property has a site area of approximately 186,432.48 sq.ft. (17,320 sq.m.)</p> <p>An administration building, a vehicle repair workshop, a fuel station and two ramps area currently erected on the property.</p> <p>The Remaining Portion of Lot No. 1347 in Demarcation District No. 115 is held under New Grant No. 157 for a term 75 years commencing from 1 July 1898 renewable for further 24 years. By virtue of the New Territories Leases (Extension) Ordinance 1988 stipulating that the New Grant has been extended without premium until 30 June 2047 and that a rent of three per cent of the rateable value is charged per annum from the date of extension</p>	The property is owner-occupied as a driving school.	HK\$42,000,000

*Notes:*

1. The registered owner of the property is HKSM Yuen Long Driving School Limited vide Memorial No. YL497826 dated 18 February 1992.
2. Upon our recent land search, the property is subject to the following encumbrances:-
  - i) Short Term Waiver No. 1781 vide Memorial No. YL587340 dated 18 March 1994; and
  - ii) Supplemental Agreement in favour of HKSM Yuen Long Driving School Limited vide Memorial No. YL853333 dated 30 January 1999.
3. Uses and Development of the property is governed by New Grant No. 157 which is subject to the General and Special Conditions of Sale as published in Government Notice No. 1411 of 4 December 1950 in Government Gazette No. 62 of 8 December 1950. The property is subject to the General Conditions of Sale and special condition No. 1(a) and (b) published in Government Notification No. 364 of 1934 as amended by Government Notification No. 50 of 1940 and Government Notification No. 106 of 1946. The property shall be used for the purpose of fish pond (including foreshore and seabed) and no building of any description shall be erected on the lot.
4. Short Term Waiver No. 1781 was registered against the subject property which contains, inter alia, the following salient conditions:
  - 2.1 ....Premises shall be used for the purpose of Driving School, during the continuance of the waiver. On the expiration or sooner determination of the waiver, the Premises shall forthwith revert to fish pond in accordance with the terms of the New Grant.



- 2.4 (a)(ii)(I) The total site coverage of any structure or structures erected or maintained or to be erected or maintained on the Premises shall not exceed 1,485 square metres.
- 2.4 (a)(ii)(II) The height of any structure or structures erected or maintained or to be erected or maintained on the Premises shall not exceed one storey and 4.8 metres above level of the ground on which it is erected.
5. According to the information provided, the said Short Term Waiver No. 1781 had been renewed with the expiry date of 30 June 2006 at a current waiver fee of HK\$64,950 per quarter.
6. In our valuation, we have assumed that the existing building / structures erected on the property and permitted by the Government under Short Term waiver No. 1781.
7. The property is zoned as “Other Specified Uses” for “Comprehensive Development to include Wetland Restoration Area” only under Nam Sang Wai Outline Zoning Plan No. S/YL-NSW/7 dated 9 December 2005.

Under this zone, “Agricultural use” is always permitted whilst “Flat”, “House”, “Hotel” uses may be permitted on application to the Town Planning Board. Moreover, No new development within the zone shall result in excess of a maximum plot ratio of 0.4 and a maximum building height of 6 storeys including car park, or the plot ratio, site coverage and height of the building which was in existence on the date of the first publication in the Gazette of the notice of the interim development permission area plan, whichever is the greater.

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information with regard to the Group contained in this circular (other than that relating to the CHH Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein (other than that relating to the CHH Group) misleading.

## 2. DISCLOSURE OF DIRECTORS' INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in Y. T. Shares, underlying Y. T. Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

### (i) Long positions in Y. T. Shares:

Director	Type of interest	Number of Y. T. Shares held	Approximate % of shareholding
Cheung Chung Kiu	Corporate	273,000,000 (Note 1)	34.14%
Wong Chi Keung	Personal	2,000,000	0.25%
Ng Kwok Fu	Personal/Family	90,000 (Note 2)	0.01%

### (ii) Long positions in CHH Shares:

Director	Type of interest	Number of CHH Shares held	Approximate % of shareholding
Cheung Chung Kiu	Corporate	90,022,373 (Note 3)	29.92%

### (iii) Long positions in the share options of CHH:

Director	Type of interest	Number of underlying CHH Shares	Approximate % of shareholding
Cheung Chung Kiu	Corporate	52,647,059 (Note 4)	17.50%

*Notes:*

1. Mr. Cheung Chung Kiu (“Mr. Cheung”) was deemed to be interested in 273,000,000 Y. T. Shares by virtue of his indirect shareholding interest in Funrise Limited (“Funrise”) which owned these Y. T. Shares. Funrise was a wholly-owned subsidiary of Yugang International (B.V.I.) Limited (“Yugang BVI”), which was in turn a wholly owned subsidiary of Yugang. Mr. Cheung and Chongqing Industrial Limited (“Chongqing Industrial”) owned 0.63% and 37.79% of the issued share capital of Yugang respectively. Chongqing Industrial was owned as to 35% by Mr. Cheung, as to 30% by Prize Winner Limited (a company owned by Mr. Cheung and his associates), as to 30% by Peking Palace Limited (“Peking Palace”) and as to 5% by Miraculous Services Limited (“Miraculous Services”). Peking Palace and Miraculous Services were companies controlled by Palin Discretionary Trust, the objects of which included Mr. Cheung and his family.
2. Of these 90,000 Y. T. Shares, 50,000 Y. T. Shares were held by Mr. Ng Kwok Fu in person and 40,000 Y. T. Shares were held by his wife.
3. Honway held 90,022,373 CHH Shares. Of these 90,022,373 CHH Shares, 20,630,015 CHH Shares were acquired by Honway on conversion of a convertible note (the then outstanding principal amount being HK\$80,457,060) at a pre-determined conversion price of HK\$3.90 per CHH Share prior to its maturity. Mr. Cheung was deemed to be interested in these CHH Shares held by Honway by virtue of his deemed interest in Y. T. Shares as described in note (1) above.
4. The parcel of 52,647,059 underlying CHH Shares represents the maximum number of CHH Shares issuable on exercise of the remainder of the Option granted to Honway pursuant to the Share Option Agreement. As described in note (3) above, Mr. Cheung was deemed to be interested in these underlying CHH Shares by virtue of his deemed interest in Honway.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had or was deemed to have any interests and short positions in any Y. T. Shares, underlying Y. T. Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules, to be notified to the Company and the Stock Exchange.

## 3. INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS

- (i) As at the Latest Practicable Date, so far as is known to the Directors and the chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had, or were deemed to have, interests or short positions in Y. T. Shares or underlying Y. T. Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

<b>Name</b>	<b>Number of Y. T. Shares held</b>	<b>Approximate % of shareholding</b>
Palin Holdings Limited	273,000,000 ( <i>Note 1</i> )	34.14%
Chongqing Industrial	273,000,000 ( <i>Note 1</i> )	34.14%
Yugang	273,000,000 ( <i>Note 1</i> )	34.14%
Yugang BVI	273,000,000 ( <i>Note 1</i> )	34.14%
Funrise	273,000,000 ( <i>Note 1</i> )	34.14%
Deutsche Bank Aktiengesellschaft	114,046,000	14.26%
PMA Capital Management Limited	87,974,000 ( <i>Note 2</i> )	11.00%
PMA Prospect Fund	40,469,000 ( <i>Note 2</i> )	5.06%

*Notes:*

- The 273,000,000 Y. T. Shares represents the same block of Y. T. Shares beneficially owned by Funrise and are duplicated in Mr. Cheung's long position in Y. T. Shares as disclosed in the section headed "Disclosure of Directors' Interests" in this appendix. All the interests disclosed above represent long positions in Y. T. Shares.
- The number of 87,974,000 Y. T. Shares held by PMA Capital Management Limited includes the 40,469,000 Y. T. Shares held by PMA Prospect Fund.

- (ii) As at the Latest Practicable Date, so far as is known to the Directors and the chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had, or were deemed to have, interests or short positions in CHH Shares or underlying CHH Shares, or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the CHH Group:

Name ( <i>Note 3</i> )	No. of CHH Shares ( <i>Note 1</i> )	% of issued CHH Share capital	No. of underlying CHH Shares ( <i>Note 2</i> )	% of issued CHH Share capital
Palin Holdings Limited	90,022,373	29.92%	52,647,059	17.50%
Chongqing Industrial	90,022,373	29.92%	52,647,059	17.50%
Yugang	90,022,373	29.92%	52,647,059	17.50%
Yugang BVI	90,022,373	29.92%	52,647,059	17.50%
Funrise	90,022,373	29.92%	52,647,059	17.50%
The Company	90,022,373	29.92%	52,647,059	17.50%
Y. T. Investment Holdings Limited	90,022,373	29.92%	52,647,059	17.50%
Honway	90,022,373	29.92%	52,647,059	17.50%
Deutsche Bank Aktiengesellschaft	24,427,000	8.12%	—	—
PMA Capital Management Limited ( <i>Note 4</i> )	24,081,000	8.00%	—	—
PMA Prospect Fund ( <i>Note 4</i> )	18,571,000	6.17%	—	—

*Notes:*

- Each parcel of the 90,022,373 CHH Shares set out in this column represents the same shareholding interest of Honway, which is duplicated in Mr. Cheung's interest in CHH Shares on page 184. Of these 90,022,373 CHH Shares, 20,630,015 CHH Shares were acquired by Honway on conversion of a convertible note (the then outstanding principal amount being HK\$80,457,060) at a pre-determined price of HK\$3.90 per CHH Share prior to its maturity.
- Each parcel of the 52,647,059 underlying CHH Shares set out in this column represents the same underlying shareholding interest of Honway, which is duplicated in Mr. Cheung's interest in underlying CHH Shares on page 184.
- Each of Palin Holdings Limited, Chongqing Industrial, Yugang, Yugang BVI, Funrise, the Company and Y. T. Investment Holdings Limited was deemed to be interested in the above CHH Shares and underlying CHH Shares held by Honway by virtue of its direct/indirect shareholding interest in Honway.
- The number of 24,081,000 CHH Shares held by PMA Capital Management Limited includes the 18,571,000 CHH Shares held by PMA Prospect Fund.

Name of subsidiary of the CHH Group	Name of shareholder	No. of shares	% interest
The Autopass Company Limited	Amtech Systems (Hong Kong) Limited	30,000 "B" ordinary shares	30%
The Hong Kong School of Motoring Limited	Wilson Parking International Holdings Limited	600,000 ordinary shares	30%

Save as disclosed above, as at the Latest Practicable Date, the Directors and chief executives of the Company were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in Y. T. Shares or underlying Y. T. Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital (including any options in respect of such capital) carrying rights to vote in all circumstances at general meetings of any other member of the Enlarged Group.

#### 4. MATERIAL LITIGATION

As at the Latest Practicable Date, neither the Company, CHH nor any of their subsidiaries was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against the Company, CHH or any of their subsidiaries.

#### 5. COMPETING INTERESTS

As at the Latest Practicable Date, to the best knowledge of the Directors, none of the Directors and their respective associates were considered to have any interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group, other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or the Group.

#### 6. DIRECTORS' INTERESTS IN CONTRACTS

None of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which was significant in relation to the business of the Enlarged Group.

#### 7. DIRECTORS' INTEREST IN GROUP ASSETS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which had been acquired or disposed of by or leased to any member of the Enlarged Group or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since 31 December 2005, being the date to which the latest published audited consolidated accounts of the Company were made up.

## 8. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group which would not expire or was not determinable within one year without payment of compensation (other than statutory compensation).

## 9. PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS AT THE SGM

According to the Company's Bye-law 66, a resolution put to the vote of a meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

- (a) by the chairman of the meeting, or
- (b) by at least three members present in person or in the case of a member being a corporation by its duly authorised representative or proxy for the time being entitled to vote at the meeting, or
- (c) by a member or members present in person or in the case of a member being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting, or
- (d) by a member or members present in person or in the case of a member being a corporation by its duly authorised representative or by proxy and holding Y. T. Shares conferring a right to vote at the meeting being Y. T. Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all Y. T. Shares conferring that right.

## 10. MATERIAL CONTRACTS

The following contracts (being contracts not entered into in the ordinary course of business of the Enlarged Group) have been entered into by members of the Enlarged Group within the two years immediately preceding the date of this circular, and are or may be material:

1. the placing agreement dated 20 December 2004 (the "Placing Agreement") made between Honway, CHH and Bear Stearns Asia Limited ("Bear Stearns") whereby Bear Stearns agreed as agent of Honway to procure purchasers to acquire, and Honway would sell or procure the sale of, up to 20,000,000 CHH Shares owned by Honway (the "Placing CHH Shares") at the placing price of HK\$5.10 per Placing CHH Share (the "Placing").
2. the subscription agreement dated 20 December 2004 (the "Subscription Agreement") made between Honway and CHH whereby Honway agreed to subscribe for, and CHH agreed to issue, such number of Placing CHH Shares (the "New CHH Shares") which Honway would have sold pursuant to the Placing Agreement (in any event not exceeding 20,000,000 CHH Shares) at a subscription price (the "Subscription Price") equivalent to the aggregate of the price per Placing CHH Share multiplied by the total number of the Placing CHH Shares net of expenses in relation to the Placing and the subscription of the New CHH Shares payable

by Honway under the Placing Agreement (such expenses being offset by the amount of interest earned on the net proceeds of the Placing during the period from the completion of the Placing up to the completion of the subscription pursuant to the Subscription Agreement).

3. on 24 May 2005, Honway through Bear Stearns placed a total of 7,000,000 CHH Shares held by it to an independent third party at the placing price of HK\$7.25 per CHH Share.
4. the debenture dated 30 March 2006 made by Honway in favour of The Bank of East Asia, Limited (the “Bank”) in consideration of the Bank agreeing to make available banking facilities of up to HK\$460 million to the Group by way of first floating charge over all the assets, properties, undertakings, rights and revenues, both present and future, including goodwill and uncalled capital of Honway.

## 11. QUALIFICATION AND CONSENT OF EXPERTS

The following are the qualifications of the professional experts who have given opinion or advice contained in this circular:

<b>Name</b>	<b>Qualifications</b>
Ernst & Young	Certified Public Accountants
Savills Valuation and Professional Services Limited (“Savills”)	Professional surveyors and property valuers

Ernst & Young and Savills have given and have not withdrawn their respective written consents to the issue of this circular with the inclusion of their reports and letters (if any), as the case may be, and/or references to their name in the form and context in which they respectively appear.

As at the Latest Practicable Date, each of Ernst & Young and Savills:

- (a) was not interested, directly or indirectly, in any assets which have been acquired or disposed of by or leased to any member of the Enlarged Group, or which are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since 31 December 2005, being the date to which the latest published audited accounts of the Company were made up; and
- (b) did not have any shareholding interest in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.



**12. MATERIAL ADVERSE CHANGE**

Save as disclosed in this circular, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2005, being the date to which the latest published audited financial statements of the Group were made up.

**13. MISCELLANEOUS**

- (a) The secretary of the Company is Mr. Albert T. da Rosa, Jr. who is a practicing solicitor in Hong Kong;
- (b) The qualified accountant of the Company is Mr. Vong Veng Kei, who is a fellow of the Hong Kong Institute of Certified Public Accountants and a member of The American Institute of Certified Public Accountant;
- (c) The registered office of the Company is situated at Clarendon House, Church Street, Hamilton HM11, Bermuda and the principal place of business of the Company in Hong Kong is situated at Rooms 3301-3307, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong;
- (d) The branch share registrars and transfer office of the Company in Hong Kong is Abacus Share Registrars Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong;
- (e) Mr. Lee Ka Sze, Carmelo, is a partner of Woo, Kwan, Lee & Lo, legal adviser to the Company and CHH on Hong Kong law in relation to the possible exercise of the Option and the Offer (if implemented). Woo, Kwan, Lee & Lo will receive normal professional fees in connection with such matters; and
- (f) The English texts of this circular and the accompanying form of proxy shall prevail over their respective Chinese texts.

**14. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours at the office of Messrs. Woo, Kwan, Lee & Lo at 27th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong up to and including the date of the SGM:

- (a) the memorandum of association and the Bye-laws of the Company;
- (b) the annual reports of the Company for the two financial years ended 31 December 2005;
- (c) the audited consolidated financial statements of the Group and additional information regarding the Group, the text of which is set out in Appendix I and Appendix II to this circular;

- (d) the audited consolidated financial statements of the CHH Group, the text of which is set out in Appendix III to this circular;
- (e) the letter and the report from Ernst & Young in respect of the unaudited pro forma financial information on the Enlarged Group as set out in Appendix IV to this circular;
- (f) the summary report (including the letter, summary of values and valuation certificates) prepared by Savills in respect of the property interests of the Enlarged Group, the texts of which are set out in Appendix VI and Appendix VII to this circular;
- (g) the material contracts referred to in the section headed “Material Contracts” in this Appendix VIII; and
- (h) the written consents referred to in the section headed “Qualification and Consent of Experts” in this Appendix VIII.

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## NOTICE OF THE SGM

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# Y. T. REALTY GROUP LIMITED 渝太地產集團有限公司\*

(Incorporated in Bermuda with limited liability)

(Stock Code: 75)

**NOTICE IS HEREBY GIVEN** that a special general meeting of Y. T. Realty Group Limited (“the Company”) will be held at Rooms 3301-3307, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong, on Thursday, 18 May 2006 at 9:00 a.m. for the purpose of considering and, if thought fit, passing the following resolution, with or without modification, as an ordinary resolution of the Company:

### ORDINARY RESOLUTION

**“THAT:**

- (a) the exercise of the option (the “Option”) granted by The Cross-Harbour (Holdings) Limited (“CHH”) to Honway Holdings Limited (“Honway”), a wholly-owned subsidiary of the Company, to subscribe for up to a total of 52,647,059 shares of HK\$1.00 each in the share capital of CHH (the “CHH Shares”) (currently at the exercise price per CHH Share of HK\$4.00) pursuant to the share option agreement dated 9 May 2003 entered into between Honway and CHH be and is hereby approved and authorised;
- (b) the implementation of a conditional mandatory general offer (the “Offer”) in cash by and on behalf of Honway for all the CHH Shares other than those already owned by Honway or parties acting in concert with it pursuant to The Code on Takeovers and Mergers (including the offer to holders of outstanding share options granted under the employee share option scheme adopted by CHH on 8 May 2001 and terminated on 29 April 2005 to cancel rights under such share options) upon exercise of the Option as more particularly described in the circular to the shareholders of the Company (of which this notice forms part) be and is hereby approved and authorised; and
- (c) the directors of the Company be and are hereby authorised on behalf of the Company to sign, execute, perfect, deliver all such documents and deeds, and do all such acts, matters and things as they may in their discretion consider necessary or desirable to give effect to the exercise of the Option and the implementation of the Offer and the directors of the Company be and are hereby authorised to make and agree such variations of a non-material nature in the terms of the same as they may in their discretion consider to be desirable and in the interests of the Company.

By Order of the Board  
**Albert T. da Rosa, Jr.**  
*Secretary*

Hong Kong, 29 April 2006

\* For identification purposes only

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## NOTICE OF THE SGM

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**Notes:**

1. A form of proxy for use at the meeting is enclosed.
2. Any member entitled to attend and vote at the meeting of the Company shall be entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member. A member may appoint a proxy in respect of part only of his holding of shares in the Company.
3. The form of proxy shall be signed by the appointor or his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person duly authorised to sign the same.
4. To be valid, the form of proxy and the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, shall be delivered to Rooms 3301-3307, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong, not less than forty-eight (48) hours before the time appointed for holding the special general meeting or adjourned meeting at which the person named in the instrument proposes to vote.
5. In the case of joint holders of a share if more than one of such joint holders be present at any meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders(s), and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding.
6. Completion and return of the form of proxy shall not preclude a member from attending and voting in person at the special general meeting (or at any adjourned meeting thereof) should you so wish and in such event, the form of proxy shall be deemed to have been revoked.