MIN XIN HOLDINGS LIMITED
閩信集團有限公司

(Stock Code: 222)

ANNUAL REPORT 2005

Content

BOARD OF DIRECTORS

Executive Directors:

Ding Shi Da *(Chairman)*
Chen Gui Zong *(Vice Chairman)*
Zhu Xue Lun
Weng Jian Yu
Yang Sheng Ming *(resigned on 1st July 2005)*

Non-executive Director:

Wang Hui Jin *(appointed on 13th October 2005)*

Independent Non-executive Directors:

Ip Kai Ming
Robert Tsai To Sze
So Hop Shing

AUDIT COMMITTEE

Robert Tsai To Sze *(Chairman)*
Ip Kai Ming
So Hop Shing

REMUNERATION COMMITTEE

Ip Kai Ming *(Chairman)*
Robert Tsai To Sze
So Hop Shing
Weng Jian Yu
Wu Dan Ying

COMPANY SECRETARY

Connie Yee Moy Chan

AUDITORS

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

SHARE REGISTRARS

Standard Registrars Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

REGISTERED OFFICE

17th Floor, Fairmont House
8 Cotton Tree Drive
Central
Hong Kong

Summary of the results, net assets and total equity of the Group for the last five financial years is presented as follows:

	2005	2004 *(Restated)*	2003 *(Restated)*	2002 *(Restated)*	2001 *(Restated)*
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Results					
Profit before taxation	**56,652,195**	66,884,204	72,012,439	47,901,944	74,588,539
Income tax credit/(charge)	**694,891**	(5,220,272)	(3,765,231)	(2,561,356)	(3,152,564)
Profit for the year	**57,347,086**	61,663,932	68,247,208	45,340,588	71,435,975
Profit/(loss) attributable to					
Equity holders of the Company	**59,849,138**	56,699,868	64,493,669	42,823,610	68,989,049
Minority interest	**(2,502,052)**	4,964,064	3,753,539	2,516,978	2,446,926
Profit for the year	**57,347,086**	61,663,932	68,247,208	45,340,588	71,435,975
Net assets					
Property, plant and equipment	**8,838,153**	8,395,892	9,674,135	10,315,201	11,022,003
Investment properties	**68,721,326**	64,722,163	101,710,930	119,394,720	126,466,377
Leasehold land and land use rights	**18,627,613**	19,099,639	19,405,822	20,135,957	19,775,405
Jointly controlled entities	**622,897,968**	519,354,861	486,166,746	424,411,978	410,809,682
Associates	**58,345,028**	67,357,175	94,529,706	87,921,486	79,011,100
Available-for-sale financial assets	**359,348,550**	–	–	–	–
Held-to-maturity debt securities, unlisted	**–**	11,008,897	9,009,318	–	–
Other asset	**–**	58,050,000	58,050,000	58,050,000	58,050,000
Deferred income tax assets	**549,915**	–	–	–	–
Net current assets	**297,879,140**	480,279,745	408,111,877	397,201,447	373,941,217
Bank borrowings	**(95,810,298)**	–	–	–	–
Deferred income tax liabilities	**(198,822)**	(311,731)	(1,573,161)	(1,003,629)	(348,756)
Net assets	**1,339,198,573**	1,227,956,641	1,185,085,373	1,116,427,160	1,078,727,028
Total equity					
Share capital	**459,428,656**	459,428,656	459,428,656	459,428,656	459,428,656
Other reserves	**821,892,144**	678,330,630	654,847,035	658,279,850	649,958,330
Retained profits/(accumulated losses)					
Proposed final dividend	**13,782,860**	–	18,377,146	–	–
Others	**29,731,752**	73,716,111	37,979,937	(13,488,684)	(43,343,195)
Total equity attributable to equity holders of the Company	**1,324,835,412**	1,211,475,397	1,170,632,774	1,104,219,822	1,066,043,791
Minority interest	**14,363,161**	16,481,244	14,452,599	12,207,338	12,683,237
Total equity	**1,339,198,573**	1,227,956,641	1,185,085,373	1,116,427,160	1,078,727,028

Mr Ding Shi Da

OVERALL RESULTS

The Group recorded a consolidated profit attributable to equity holders of HK$59.85 million for the year ended 31st December 2005 with earnings per share of 13.03 cents, an increase of 5.6% from the restated consolidated profit attributable to equity holders of HK$56.70 million and earnings per share of 12.34 cents for the year ended 31st December 2004.

DIVIDEND

The Directors have resolved to recommend at the forthcoming Annual General Meeting of the Company to be held on 16th June 2006 the payment of a final dividend of 3 cents per share totaling HK$13,782,860 *(2004: Nil)* for the year ended 31st December 2005 to those shareholders whose names appear on the Register of Members on 16th June 2006. The proposed dividend, if approved, will be paid on or before 3rd July 2006.

BUSINESS REVIEW

Banking Business

During the year under review, Xiamen International Bank Group, a 36.75% owned major investment of the Group, reported a steady growth in its Renminbi business and its deposit base and loan portfolios have increased significantly as compared with last year. The rise in interest rate spread earned by Xiamen International Bank Group also resulted in an increase in its net interest income as compared with last year. The consolidated net profit of Xiamen International Bank as adjusted in accordance with the Hong Kong Financial Reporting Standards reached HK$189.72 million, an increase of 53.1% from HK$123.90 million for the year ended 31st December 2004. By leveraging the success in setting up its Shanghai Branch at the Lujiazui Finance and Trade Zone of Pudong Area, Xiamen International Bank will continue to devote its efforts in developing a nationwide business network. It will adopt the basic policy of strengthening its foundation and progressing prudently in order to further enhance the size of its business, the standard of management as well as its overall efficiencies.

Insurance

Min Xin Insurance Company Limited ("MXIC"), the Group's wholly-owned subsidiary, achieved a net profit after tax of HK$6.69 million for the year ended 31st December 2005, an increase of 14.2% from HK$5.86 million in 2004. Despite the increasingly competitive environment in the Hong Kong insurance market, MXIC was successful in increasing its market share significantly in the domestic helpers insurance sector.

Riding on the improving economy of Hong Kong and Macau, MXIC will continue its effort in securing more business, especially in the private car, domestic helpers and bancasurance business, in order to achieve a better return for its shareholders.

Property Development and Investment

The Group's 51% owned property development subsidiary in Jinan, Shandong Province, has sold all the property units of its last development project in late 2004. However, the parcel of land bidded in late 2004 for property development purposes was still at its planning stage in 2005. As a result, a loss after taxation of RMB5.31 million was recorded by the subsidiary in 2005 against a profit after taxation of RMB10.72 million in 2004. On 16th March 2006, the Company obtained approval from its shareholders to dispose of its equity interest in this subsidiary to an independent third party for a consideration of RMB10.08 million.

Following the leasing of one floor of its investment property in Fuzhou, Fujian Province, to a local insurance company in the first half of 2005, the Group also successfully leased another floor of that property to the local branch of an international shipping and logistics company for a term of three years before the end of 2005. The Group recorded a rental income of HK$0.90 million for the year ended 31st December 2005 and it is expected that the rental income will rise in 2006.

Toll Road Investments

During the year under review, through its 30% owned associated company, the Group's toll road investment in Maanshan, Anhui Province, recorded a revenue of RMB47.25 million, a decrease of 6.0% from RMB50.29 million in last year.

Due to the diversion effect on traffic flow, the Group's toll road investment, through its 40% owned associated company in Fenghua, Zhejiang Province, recorded a revenue of RMB20.32 million, a decrease of 31.3% from RMB29.57 million in last year. On 29th March 2006, this associated company entered into an agreement with the joint venture party of its subsidiaries holding the toll roads in Mainland China to dispose of its equity interest in the subsidiaries for a consideration of RMB70 million.

High-Tech Investments

Min Faith Investments Limited ("Min Faith"), a jointly controlled entity of the Group which is engaged in the manufacturing of industrial digital instruments in Mainland China, has achieved a better second half in 2005 notwithstanding the impacts arising from the macroeconomic adjustment policies in Mainland China and the increased operating costs incurred in relation to its removal to the new location and new product development efforts in the first half of 2005. For the year 2005, it recorded a profit after taxation of HK$9.95 million, an increase of 14.1% from the profit after taxation of HK$8.72 million in 2004. Min Faith will continue to increase its research and development efforts and expand its product application into new areas in order to maintain the leading position in market share and technology.

Investment in Huaneng Power International, Inc.

The transfer procedures of the 108,000,000 non-tradable legal person shares of Huaneng Power International, Inc. ("Huaneng") from the Company's substantial shareholder, Fujian Investment & Enterprise Holdings Corporation, were completed on 15th June 2005. As at 31st December 2005, the Group recorded a revaluation gain of HK$4.31 million in the investment revaluation reserve. On 29th March 2006, Huaneng announced its 2005 results with earnings per share of RMB0.40 and recommended final dividend of RMB0.25 per share. It is expected that the Group will record a dividend income (excluding the pre-acquisition portion) of approximately RMB15.31 million in 2006.

Financial Review

The Group maintained a sound financial position during the year under review. Based on the issued share capital of 459,428,656 shares *(2004: 459,428,656 shares)*, the net asset value per share was HK$2.91 *(2004: HK$2.67)*. As at 31st December 2005, the current assets and current liabilities was HK$487.19 million *(2004: HK$630.05 million)* and HK$189.31 million *(2004: HK$149.77 million)* respectively, with a current ratio of 2.6 *(2004: 4.2)*.

During the year, the Group obtained a five-year floating rate loan facility of HK$120 million from a bank in Hong Kong for the purpose of the acquisition of Huaneng's non-tradable legal person shares. The bank loan is secured by a property (including the leasehold land component) of the Group with a net book value of HK$14.43 million as at 31st December 2005. In addition, the Group's non-wholly owned subsidiary had outstanding short-term fixed rate advances amounted to HK$27.39 million *(2004: HK$21.14 million)* as at 31st December 2005. The gearing ratio (total borrowings divided by total net asset) was 11.0% *(2004: 1.7%)* as at 31st December 2005.

As at 31st December 2005, bank deposits of the Group amounted to HK$300.38 million *(2004: HK$504.18 million)*, which included deposits of RMB141.02 million (equivalent to HK$135.50 million) placed with certain banks in Mainland China *(2004: RMB128.64 million, equivalent to HK$120.78 million)*.

The Group's assets and liabilities and receipts and payments are primarily denominated in Hong Kong Dollars, Renminbi and United States Dollars. In 2005, the PRC government commenced a reform of exchange rate adjustment mechanism for Renminbi. Since the announcement of the appreciation of Renminbi on 21st July 2005, the exchange rate of Renminbi against various major currencies (including United States Dollars and Hong Kong Dollars) has increased steadily. The Group's net monetary assets denominated in Renminbi has resulted in foreign currency translation gain of approximately HK$2.83 million recorded by the Group in 2005. The Group anticipates that it will not face material adverse risks arising from fluctuated foreign exchange rates.

Contingent Liabilities

As at 31st December 2005, a non wholly-owned subsidiary of the Group in Mainland China has issued guarantees amounting to RMB0.79 million (equivalent to HK$0.76 million) *(2004: RMB40.25 million, equivalent to HK$37.79 million)* for mortgage loan facilities obtained by certain buyers for acquiring properties from it. Such guarantees will be released upon receipt of the title deeds of the properties by the relevant banks.

Employees and remuneration policy

As at 31st December 2005, the Group had 74 employees. The remuneration of the employees is based on individual merits and experience. The Group also provides other benefits to the employees including retirement benefits and medical scheme.

PROSPECTS

The year of 2006 will be the first year of the Eleventh Five-Year Plan implemented by the PRC government. The PRC economy is expected to maintain a steady growth rate in 2006 as driven by favourable factors including the continuing industrialization trend and the 2008 Olympic Games in Beijing. Coupled with the full opening of the financial services industry, it is envisaged that the investees of the Group in Mainland China, particularly those in the financial services industry, will be benefited. The Group will continue to increase its investments in financial services industry in Mainland China in future, and seek new investments in suitable business that will generate long-term returns to the Group. The Directors believe that by capitalizing on the Group's solid foundation and the experience accumulated in the past, the Group is in an advantageous position to seize market opportunities and sustain the current financial performance in future.

APPRECIATION

On behalf of the Board of Directors, I would like to express my appreciation and gratitude to our friends for their support, and to the management and all our staff for their dedicated services and contribution.

Ding Shi Da
Chairman

Hong Kong, 25th April 2006

EXECUTIVE DIRECTORS

Mr Ding Shi Da, aged 57, has been appointed as Chairman of the Company since April 2002. Mr Ding is a senior economist in Mainland China and holds a Doctorate Degree in Management from the Postgraduate School of the Chinese Academy of Social Science. He has spent about 35 years in various large companies such as Fujian Building Materials Industry Company and Fujian Building Materials Holding Co., Ltd., as well as the economic administration department of the government in Shang Hang County and Long Yan Region. He has extensive experience in capital and financial management and has previously assumed the positions of Chief Leader and Section Head of the Economic Committee in Long Yan Region, General Manager of Fujian Building Materials Industry Company and Fujian Building Materials Holding Co., Ltd., and Chairman of Fujian Cement Inc., a listed company in Shanghai. He is currently the President of Fujian Investment & Enterprise Holdings Corporation, the Chairman of Vigour Fine Company Limited, and the President of Samba Limited, all of which are substantial shareholders of the Company.

Mr Chen Gui Zong, aged 64, was appointed as Vice Chairman of the Company in January 1997. He acted as Chairman of the Company for the period from July 1999 to July 2000 and was re-appointed as Vice Chairman since then. Mr Chen is a senior economist in Mainland China. He has spent about 34 years in various finance and economic departments of the Fujian Provincial Government, Putian Municipal Government, The Fuzhou Branch of The People's Bank of China, and The Planning and Budget Division, External Economic Affairs Committee and investments enterprises in Fuzhou and has previously assumed the positions of Section Head, General Manager, Mayor, Deputy Chief Secretary and Director of Administrative Office of the Provincial Government. He is currently the Chairman of Xiamen International Bank.

Mr Zhu Xue Lun, aged 54, has been appointed as a Director of the Company since April 2003. Mr Zhu is an university graduate and an engineer in Mainland China. He has spent a long time in corporate management and has extensive experience in corporate management, property management, investment and capital management. He has previously assumed the positions of Director of Taining Light Industry Bureau in Fujian Province, Head of Taining County, General Manager of Huafu Real Estate Company in Fujian Province. He is currently a Vice President of Fujian Investment & Enterprise Holdings Corporation and a Director of Vigour Fine Company Limited, both of which are substantial shareholders of the Company.

Mr Weng Jian Yu, aged 49, has been appointed as a Director of the Company since November 2004. Mr Weng joined the Company as Deputy General Manager in June 2004 and has served as the General Manager of the Company since October 2004. He is an economist in Mainland China. He has over 20 years' management experience in financial companies which include banks, trust companies and fund management companies etc. He is currently a Director of Vigour Fine Company Limited and Samba Limited, both of which are substantial shareholders of the Company.

NON-EXECUTIVE DIRECTOR

Mr Wang Hui Jin, aged 43, has been appointed as a Director of the Company since October 2005. Mr Wang is an university graduate and holds a Bachelor's Degree in Economics. He is a senior accountant in Mainland China. He has spent a long time in corporate management and has extensive experience in corporate management, financial management and capital management. He has previously assumed the positions of Deputy and Section Head of the Finance Department of Fuzhou Medical Centre in Fujian Province, General Manager of Fuzhou Medical Centre in Fujian Province, Vice Chairman and General Manager of Fuzhou Tong Chun Pharmaceutical Group Corporation, Chairman of Fuzhou Chang Chun Pharmaceutical Company and Chief Accountant of Fujian Investment Development Company. He has also served as Chairman of the Supervisory Committee of CNOOC Fujian Gas Ltd. and CNOOC Fujian Gas Power Ltd. He is currently a Vice President and the Chief Accountant of Fujian Investment & Enterprise Holdings Corporation, a substantial shareholder of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr Ip Kai Ming, aged 54, has been appointed as a Director of the Company since April 1989. He is currently an Executive Director and General Manager of Luso International Banking Limited in Macau. He is a fellow member of both the Hong Kong Institute of Bankers and the Hong Kong Institute of Directors, and has over 30 years' extensive experience in banking and finance. He is also a member of Beijing Municipal Committee of the Chinese People's Political Consultative Conference, a Director of the Macau Chamber of Commerce, the Vice Chairman of the Executive Board of the Macau Institute of Financial Services and a Vice Chairman of the Macau Chinese Enterprises Association.

Mr Robert Tsai To Sze, aged 65, has been appointed as a Director of the Company since May 1999. He is a fellow of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants and was a partner of an international firm of accountants with which he practised for over 20 years. He is a non-executive director to a number of Hong Kong listed companies. He is also a member of the Shanghai Committee of the Chinese People's Political Consultative Conference.

Mr So Hop Shing, aged 58, has been appointed as a Director of the Company since September 2004. He is a practising solicitor and senior partner of Tang and So, Solicitors and Notaries. Mr. So is the holder of Bachelor of Laws Degree from the University of London, Master of Laws Degree from the City University of Hong Kong and The People's University of China, and Doctor of Laws Degree from Peking University.

SENIOR MANAGEMENT

Ms Cai Xiao Hong, aged 51, joined the Company as Deputy General Manager in June 1995. She holds a Master's Degree in Business Administration from the University of California, Los Angeles and has previously worked for various large companies. She has over 20 years' extensive experience in financial and investment management.

Ms Wu Dan Ying, aged 37, joined the Company as Group Chief Auditor in November 2003 and was appointed as Deputy General Manager in October 2005. Ms Wu graduated from the Hunan University in financial accounting. She is an Accountant in Mainland China and has over 17 years' extensive experience in financial management.

Mr Huang Jian Feng, aged 40, joined the Company as Deputy General Manager in January 2006. Mr Huang holds a Master's Degree in Economics from the Shanghai University of Finance & Economics and a Bachelor's Degree in Science from the Sun Yat-Sen University. He has been working for various trust, securities and fund management companies in Mainland China and has almost 20 years' extensive experience in financial and investment management.

Mr Chan Kwong Yu, aged 35, joined the Company in April 2000 and was appointed as the Qualified Accountant and Deputy Financial Controller of the Company in July 2004. He is a Certified Public Accountant and a Fellow of the Association of Chartered Certified Accountants. Before joining the Company in 2000, he has worked for various listed companies in Hong Kong. He holds a Bachelor of Commerce Degree in Accounting and has 16 years of extensive experience in finance and accounting.

Mr Chen Hua Ming, aged 39, joined the Company as a Manager in the Company's Investment Department in November 2003 and was appointed as Group Chief Auditor in October 2005. Mr Chen graduated from the Sun Yat-Sen University in accounting. He is an accountant in Mainland China and has over 18 years' extensive experience in financial, investment and corporate management.

Mr Chan Kwok Kwong, aged 47, joined Min Xin Insurance Company Limited, a wholly-owned subsidiary of the Company, in 1999 and was appointed as Chief Executive in October of the same year. He holds a Master's Degree in Business Administration from the Chinese University of Hong Kong and a Master's Degree in Engineering (Civil & Structural Engineering) from the Sheffield University of England. He has acquired extensive experience from various multi-national insurance and reinsurance companies for 19 years.

REPORT ON CORPORATE GOVERNANCE PRACTICES

For the financial year ended 31st December 2005, the Company has applied the principles and complied with all the requirements set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") except for certain deviations from code provisions A.4.1 and A.4.2 in respect of the service terms and rotation of Directors, details of which are set out in this report.

Board of Directors

The Board of Directors (the "Board") of the Company currently comprises a total of eight Directors, with four Executive Directors, one Non-executive Director and three Independent Non-executive Directors. More than one-third of the Board is Independent Non-executive Directors and these Independent Non-executive Directors collectively possess a wide range of expertise on accounting, financial management and legal areas. The Directors' biographical information is set out on pages 8 to 9.

Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules to the Company. Accordingly, the Company is of the view that all the Independent Non-executive Directors meet the independence guidelines set out in the Listing Rules and are independent in accordance with the terms of the guidelines.

The Board determines the Group's overall objectives and strategies, monitors and evaluates its operating and financial performance. It also decides on matters such as annual budgets and business plans; major transactions, director appointments or re-appointments, and dividend and accounting policies. The Board has delegated the authority and responsibility for implementing its business strategies and managing the daily operations of the Group's businesses to senior management under the supervision of the General Manager and the Executive Committee of Board of Directors.

Board meetings are normally scheduled in advance to facilitate fullest possible attendance. Each Director is invited to present any businesses that he wishes to discuss or propose at such meetings. All Directors have access to appropriate business documents and information about the Company on a timely basis. The Board and each Director have separate and independent access to senior management of the Company. Directors may choose to take independent professional advice at the Company's expenses, if necessary. Draft and final versions of minutes are circulated to all Directors for comments. The Company held six full Board meetings in 2005 and the average attendance rate was 94%. Individual attendance of

each Director at the Board meetings, the Audit Committee meetings and the Remuneration Committee meetings during 2005 is set out below:

	Attendance/Number of Meetings		
	Board	Audit Committee	Remuneration Committee
Executive Directors			
Mr Ding Shi Da *(Chairman)*	6/6	–	–
Mr Chen Gui Zong *(Vice Chairman)*	6/6	–	–
Mr Yang Sheng Ming (Resigned on 1/7/2005)	3/3	–	–
Mr Zhu Xue Lun	5/6	–	–
Mr Weng Jian Yu *(General Manager)*	6/6	–	1/1
Independent Non-executive Directors			
Mr Robert Tsai To Sze *(Chairman of the Audit Committee)*	6/6	2/2	1/1
Mr Ip Kai Ming *(Chairman of the Remuneration Committee)*	6/6	2/2	1/1
Mr So Hop Shing	4/6	2/2	1/1
Non-executive Director			
Mr Wang Hui Jin (Appointed on 13/10/2005)	2/2	–	–

Chairman and Chief Executive Officer

The positions of the Chairman of the Board ("Chairman") and the existing General Manager (acting in the capacity of Chief Executive Officer) of the Company are held by separate individuals with a view to maintain an effective segregation of duties regarding management of the Board and the day-to-day management of the Group's business. One of the important roles of the Chairman is to provide leadership to the Board to ensure that the Board acts in the best interests of the Group. The Chairman ensures that the Board works effectively and discharges its responsibilities, and that all key and appropriate issues are discussed by the Board in a timely manner. The Chairman has delegated the responsibility for drawing up the agenda for each Board meeting to the General Manager and the Company Secretary. Senior management is responsible for the day-to-day operations of the Group under the leadership of the General Manager of the Company. The General Manager, working with the Executive Committee and supported by other management, is responsible for managing the businesses of the Group, including implementation of strategies adopted by the Board and assuming full accountability to the Board for the operations of the Group.

Apart from regular Board meetings, the Chairman also held meetings with the Independent Non-executive Directors without the presence of Executive Directors in 2005.

Appointment and Re-election of Directors

Since the full Board is involved in the appointment of new Directors, the Company has not established a Nomination Committee. The Board will take into consideration criteria such as expertise, experience, integrity and commitment when considering new director appointments.

Under the existing Articles of Association of the Company, all Directors of the Company do not have a specific term of appointment. At every Annual General Meeting, one-third of the Directors for the time being or, if their number is not a multiple of three, then the number nearest to but not exceeding one-third shall retire from office. Further, a Director appointed by the Board to fill a casual vacancy or as an addition shall hold office until the next annual general meeting.

However, Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election; and Code Provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. In order to ensure full compliance with Code Provisions A.4.1 and A.4.2, a special resolution will be proposed to amend the relevant Articles of Association of the Company at the forthcoming Annual General Meeting to be held in June 2006.

Executive Committee

The Board has delegated the authority and responsibility for implementing its business strategies and managing the daily operations of the Group's businesses to the Executive Committee which currently consists of three Executive Directors of the Board, namely Mr Ding Shi Da, Mr Chen Gui Zong and Mr Zhu Xue Lun. These members meet frequently as when necessary.

Audit Committee

The Audit Committee comprises the three Independent Non-executive Directors and is chaired by Mr Robert Tsai To Sze who has been a partner of an international firm of accountants with which he practised for over 20 years. It is responsible for the appointment of external auditors, reviewing the Group's financial information and providing oversight of the Group's financial reporting and internal control system. It is also responsible for reviewing the interim and final results of the Group prior to recommending them to the Board for approval. It meets regularly to review financial reporting and internal control matters and to perform such duties it has unrestricted access to both the Company's external and internal auditors. In 2005, the Audit Committee held two meetings with full attendance of its members. At the meetings, it reviewed the final results for the year ended 31st December 2004 and the interim accounts for the six months ended 30th June 2005 respectively with the external auditors; and also the activities of the Group's internal audit function and its findings and recommendations as laid down in the internal audit reports.

Remuneration Committee

The Company has established a Remuneration Committee with specific written Terms of Reference which deal clearly with its authority and duties. The Terms of Reference of the Remuneration Committee include the specific duties set out in Code Provision B.1.3 (a) to (f), with appropriate modifications made as necessary.

The Remuneration Committee is responsible for making recommendations to the Board regarding the Company's remuneration policy, and the formulation and review of the specific remuneration packages of all Executive Directors and senior management of the Company.

A majority of the members of the Remuneration Committee are Independent Non-executive Directors. This Committee is chaired by Mr Ip Kai Ming who is an Independent Non-executive Director. The other members are Mr Robert Tsai To Sze, Mr So Hop Shing, Mr Weng Jian Yu and Ms Wu Dan Ying. In 2005, the Remuneration Committee held one meeting with full attendance to discuss about the remuneration policy of the Group.

Directors' Responsibility for the Financial Statements

The Directors are responsible for overseeing the preparation of accounts for each financial period with a view to ensuring such accounts give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. The Company's accounts are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently; and that judgments and estimates made are prudent and reasonable.

Auditors' Remuneration

For the year ended 31 December 2005, the fees paid or payable to the external Auditors for statutory audit services, attestation work (in relation to interim financial statements and circular issued by the Company), and tax and consultancy service were HK$1,850,000, HK$440,000 and HK$2,591,000 respectively.

Model Code for Securities Transactions

The Company has adopted a code of conduct governing securities transactions by directors on terms no less exacting than that required by the Listing Rules. Following a specific enquiry, all Directors confirmed that they complied with the code of conduct for transactions in the Company's securities throughout the year.

The Company has also adopted a code of conduct governing securities transactions by employees who may possess or have access to price sensitive information.

The directors hereby present their report together with the audited accounts for the year ended 31st December 2005.

PRINCIPAL ACTIVITIES AND BUSINESS AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the subsidiaries are shown in Note 16 to the accounts.

An analysis of the Group's performance for the year by business and geographical segments is set out in Note 5 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December 2005 are set out on page 21.

The Directors have resolved to recommend the payment of a final dividend of 3 cents per ordinary share, totaling HK$13,782,860 *(2004: Nil)*.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results, net assets and total equity of the Group for the last five financial years is set out on page 3.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in Note 33 to the accounts.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment are shown in Note 13 to the accounts.

PRINCIPAL PROPERTY INTERESTS HELD

Details of the Group's principal property interests held for investment purpose are set out on page 108.

SHARE CAPITAL

Details of the share capital of the Company are shown in Note 33 to the accounts.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31st December 2005, calculated under section 79B of the Hong Kong Companies Ordinance, amounted to HK$17,940,030 *(2004: HK$6,852,646)*.

DIRECTORS

The names of the directors serving during the year and at the date of this report are set out on page 1.

In accordance with articles 94 and 95 of the Company's Articles of Association, Messrs Zhu Xue Lun and Robert Tsai To Sze will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with article 85 of the Company's Articles of Association, Mr Wang Hui Jin who was appointed as a director of the Company on 13th October 2005, shall hold office until the forthcoming annual general meeting of the Company following his appointment and, being eligible, offers himself for re-election.

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation.

The Company has received from each independent non-executive director an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Company considers all the independent non-executive directors are independent as defined in the Listing Rules.

DIRECTORS' INTERESTS

No contracts of significance in relation to the Company's business to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

At no time during the year was the Company or its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS (Continued)

At 31st December 2005, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Hong Kong Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

Long Position in Ordinary Shares of the Company

Name of Director	Nature of interests	Number of shares held	Approximate percentage of shareholding
Ip Kai Ming	Personal interest	666,000	0.14%

Save as disclosed above, as at 31st December 2005, none of the directors and chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code; and none of the directors or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

SUBSTANTIAL SHAREHOLDERS

The register maintained by the Company pursuant to section 336 of the SFO recorded that, as at 31st December 2005, the following corporations had interests (as defined in the SFO) in the Company:

Name of Corporation	*Notes*	Number of shares held	Approximate percentage of shareholding
Samba Limited ("Samba")		144,885,000	31.54%
Papilio Inc.	*1*	169,125,000	36.81%
Vigour Fine Company Limited ("Vigour Fine")	*1*	192,764,600	41.96%
Fujian Investment & Holdings Corporation ("FIEC")	*2*	192,764,600	41.96%

SUBSTANTIAL SHAREHOLDERS (Continued)

Notes:

1. Papilio Inc. and Vigour Fine both were the substantial shareholders of Samba and were deemed to be interested in Samba's shareholding in the Company of 144,885,000 shares.

2. FIEC was deemed to be interested in Vigour Fine's interest of 192,764,600 shares in the Company by virtue of its controlling interests in Vigour Fine.

   The above interest of FIEC was transferred from Fujian International Trust & Investment Corporation ("FITIC") on 25th August 2005 following the completion of the liquidation and deregistration of FITIC. The details of the transfer have been set out in the announcement of the Company dated 25th August 2005.

All the interests stated above represent long positions in the ordinary shares of the Company. As at 31st December 2005, no short positions were recorded in the register maintained by the Company under section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

MANAGEMENT CONTRACTS

During the year, the Company renewed the annual management agreement with Vigour Fine, a substantial shareholder of the Company, whereby Vigour Fine provides management services to the Company which include the provision of directors to the board of directors of the Company. A management fee of HK$1,880,000 has been paid to Vigour Fine during the year.

Messrs Ding Shi Da, Yang Sheng Ming, Zhu Xue Lun and Weng Jian Yu have interest in the above transaction as directors of Vigour Fine.

Except for the above, no other contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details in respect of the Company's directors and senior management are set out on pages 8 to 10.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group purchased less than 30% of its products and services from its 5 largest suppliers and sold less than 30% of its products and services to its 5 largest customers.

CONNECTED TRANSACTIONS

Significant related party transactions entered into by the Group during the year ended 31st December 2005, which are not required to be disclosed under the Listing Rules as connected transactions, are disclosed in Notes 16, 17, 18, 26(a), 29, 38(a), 38(c) and 39(d) to the accounts.

Other related party transactions, which also constitute connected transactions under the Listing Rules, are disclosed in Notes 19, 38(b) and 39(a) to the accounts.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors, as of the date of this report, the Company has maintained the prescribed public float under the Listing Rules.

POST BALANCE SHEET DATE EVENTS

Details of the post balance sheet date events are disclosed in Note 39 to the accounts.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

DING SHI DA
Chairman

HONG KONG, 25th April 2006

TO THE SHAREHOLDERS OF MIN XIN HOLDINGS LIMITED
(incorporated in Hong Kong with limited liability)

We have audited the accounts on pages 21 to 107 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

BASIS OF OPINION

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

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

OPINION

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

PricewaterhouseCoopers
Certified Public Accountants

HONG KONG, 25th April 2006

Consolidated Profit and Loss Account

for the year ended 31st December 2005

	Note	2005	2004 (Restated)
		HK$	HK$
Turnover	5	**71,361,451**	135,829,049
Total revenues	5	**70,908,190**	146,658,559
Cost of properties sold		**–**	(49,927,230)
Net insurance claims incurred and commission expenses incurred on insurance business	6	**(35,421,866)**	(30,922,793)
Staff costs		**(23,063,138)**	(23,682,932)
Depreciation and amortisation		**(2,692,577)**	(1,869,838)
Impairment of loan receivable	20	**(1,403,000)**	–
Other operating expenses		**(18,264,444)**	(15,105,766)
Total operating expenses		**(80,845,025)**	(121,508,559)
Operating (loss)/profit	7	**(9,936,835)**	25,150,000
Finance costs	7	**(3,526,918)**	(69,854)
Share of results of jointly controlled entities	17(a)	**73,703,508**	49,022,381
Share of results of associates		**(3,587,560)**	(7,218,323)
Profit before taxation		**56,652,195**	66,884,204
Income tax credit/(expense)	9	**694,891**	(5,220,272)
Profit for the year		**57,347,086**	61,663,932
Profit/(loss) attributable to			
Equity holders of the Company	10	**59,849,138**	56,699,868
Minority interest		**(2,502,052)**	4,964,064
Profit for the year		**57,347,086**	61,663,932
Dividend	11	**13,782,860**	–
		HK CENTS	HK CENTS
Basic earnings per share for profit attributable to the equity holders of the Company for the year	12	**13.03**	12.34
Dividend per share		**3**	–

Consolidated Balance Sheet

as at 31st December 2005

	Note	2005	2004 (Restated)
		HK$	HK$
Non-current assets			
Property, plant and equipment	13	**8,838,153**	8,395,892
Investment properties	14	**68,721,326**	64,722,163
Leasehold land and land use rights	15	**18,627,613**	19,099,639
Jointly controlled entities	17	**622,897,968**	519,354,861
Associates	18	**58,345,028**	67,357,175
Available-for-sale financial assets	19	**359,348,550**	–
Held-to-maturity debt securities, unlisted		**–**	11,008,897
Other asset	20	**–**	58,050,000
Deferred income tax assets	32	**549,915**	–
		1,137,328,553	747,988,627
Current assets			
Loan receivable	20	**56,647,000**	–
Land acquisition deposit	15	**–**	67,698,295
Land use rights	15	**68,285,833**	–
Deferred acquisition costs	21	**13,445,240**	11,421,587
Premium receivable	22	**12,610,565**	18,882,553
Reinsurance assets	23	**10,935,189**	17,131,262
Other debtors		**3,776,136**	3,581,035
Taxation recoverable		**33,183**	–
Prepayment and deposits		**1,374,037**	954,377
Held-to-maturity debt securities, unlisted		**11,001,370**	–
Trading securities, listed	24	**–**	6,199,974
Financial assets at fair value through profit or loss			
– listed equity securities held for trading	25	**8,706,383**	–
Cash and bank balances	26	**300,375,758**	504,179,301
		487,190,694	630,048,384
Current liabilities			
Insurance contracts	27	**92,632,612**	95,095,275
Insurance liabilities	28	**5,637,532**	8,613,245
Other creditors and accruals		**25,282,091**	21,061,793
Deposits received	29	**14,449,848**	–
Short term advances	30	**27,392,019**	21,143,482
Current portion of bank borrowings	31	**23,896,784**	–
Taxation payable		**20,668**	3,854,844
		189,311,554	149,768,639
Net current assets		**297,879,140**	480,279,745
Total assets less current liabilities		**1,435,207,693**	1,228,268,372

as at 31st December 2005

	Note	2005	2004 (Restated)
		HK$	HK$
Non-current liabilities			
Bank borrowings	31	**95,810,298**	–
Deferred income tax liabilities	32	**198,822**	311,731
		96,009,120	311,731
Net assets		**1,339,198,573**	1,227,956,641
Share capital	33	**459,428,656**	459,428,656
Other reserves	33	**821,892,144**	678,330,630
Retained profits			
Proposed final dividend	33	**13,782,860**	–
Others	33	**29,731,752**	73,716,111
Total equity attributable to equity holders of the Company		**1,324,835,412**	1,211,475,397
Minority interest	33	**14,363,161**	16,481,244
Total equity		**1,339,198,573**	1,227,956,641

Ding Shi Da
Director

Weng Jian Yu
Director

Balance Sheet

as at 31st December 2005

	Note	2005	2004 (Restated)
		HK$	HK$
Non-current assets			
Property, plant and equipment	13	**3,823,891**	2,626,415
Investment properties	14	**22,041,326**	20,422,163
Leasehold land and land use rights	15	**2,835,666**	2,805,134
Subsidiaries	16	**158,576,584**	159,070,581
Jointly controlled entities	17	**205,800,000**	205,800,000
Associates	18	**10,069,838**	10,069,838
Available-for-sale financial assets	19	**359,348,550**	–
Other asset	20	**–**	58,050,000
		762,495,855	458,844,131
Current assets			
Loan receivable	20	**56,647,000**	–
Other debtors		**1,206,924**	1,571,650
Prepayment and deposits		**735,809**	–
Dividend receivable from a subsidiary		**6,600,000**	–
Trading securities, listed	24	**–**	3,499,974
Financial assets at fair value through profit or loss – listed equity securities held for trading	25	**1,475,278**	–
Cash and bank balances	26	**230,734,298**	438,243,759
		297,399,309	443,315,383
Current liabilities			
Other creditors and accruals		**12,355,514**	4,171,798
Deposits received	29	**14,449,848**	–
Current portion of bank borrowings	31	**23,896,784**	–
		50,702,146	4,171,798
Net current assets		**246,697,163**	439,143,585
Total assets less current liabilities		**1,009,193,018**	897,987,716
Non-current liabilities			
Bank borrowings	31	**95,810,298**	–
Net assets		**913,382,720**	897,987,716
Share capital	33	**459,428,656**	459,428,656
Other reserves	33	**436,014,034**	431,706,414
Retained profits			
Proposed final dividend	33	**13,782,860**	–
Others	33	**4,157,170**	6,852,646
Total equity		**913,382,720**	897,987,716

Ding Shi Da
Director

Weng Jian Yu
Director

for the year ended 31st December 2005

	Note	2005	2004 (Restated)
		HK$	HK$
Total equity as at 1st January			
– as previously reported as equity		**1,262,612,809**	1,215,150,904
– as previously separately reported as minority interest	33	**16,481,244**	14,452,599
		1,279,094,053	1,229,603,503
Change in accounting policy			
– Prior period adjustments on adoption of HKAS 17 and 28	33	**(51,137,412)**	(44,518,130)
Total equity as at 1st January, as restated		**1,227,956,641**	1,185,085,373
Change in accounting policy			
– Opening adjustments on adoption of HKAS 39	33	**14,884,709**	–
Total equity as at 1st January, as adjusted		**1,242,841,350**	1,185,085,373
Change in fair value of available-for-sale financial assets	33	**4,307,620**	–
Change in fair value of available-for-sale financial assets held by a jointly controlled entity	33	**34,829,481**	3,056,331
Deferred tax liabilities recognised	33	**(7,490,580)**	(458,450)
Disposal of an associate		**–**	78,732
Exchange differences arising on translation of the financial statements of foreign subsidiaries, associates and jointly controlled entities	33	**7,363,616**	(210,802)
Net gain recognised directly in equity		**39,010,137**	2,465,811
Profit for the year	33	**57,347,086**	61,663,932
Net gain recognised in the profit and loss account		**57,347,086**	61,663,932
Net gain recognised for the year		**96,357,223**	64,129,743
Dividend	33	**–**	(21,258,475)
Total equity as at 31st December		**1,339,198,573**	1,227,956,641

Consolidated Cash Flow Statement

for the year ended 31st December 2005

	Note	2005	2004 (Restated)
		HK$	HK$
Net cash outflow from operations	*37(a)*	**(12,416,821)**	(63,995,082)
Interest income from bank deposits received		**6,997,710**	3,872,876
Interest paid		**(1,875,622)**	–
Tax paid		**(343,009)**	(7,484,652)
Net cash outflow from operating activities		**(7,637,742)**	(67,606,858)
Investing activities			
Dividend received from a jointly controlled entity		**18,669,000**	18,375,000
Dividend received from an associate		**5,307,300**	4,205,400
Dividends received from listed equity securities held for trading		**279,413**	175,813
Interest income received from unlisted held-to-maturity debt securities		**292,083**	205,463
Purchase of available-for-sale financial assets		**(373,165,562)**	–
Pre-acquisition dividend received from available-for-sale financial assets		**25,311,709**	–
Loans repaid by an associate		**300,000**	–
Withdrawal/(placement) of bank deposits with original maturity over three months		**68,000,000**	(68,000,000)
Withdrawal/(placement) of bank deposits pursuant to insurance regulatory requirements		**498,225**	(729,771)
Purchase of property, plant and equipment		**(2,542,667)**	(951,592)
Purchase of unlisted held-to-maturity debt securities		**–**	(6,004,800)
Redemption of unlisted held-to-maturity debt securities		**–**	4,000,000
Sale of investment properties		**–**	51,704,660
Sale of equity and debt interests in an associate		**–**	21,721,531
Sale of a subsidiary	*37(b)*	**(30,000)**	–
Sale of leasehold land and property, plant and equipment		**891,645**	194
Net cash (outflow)/inflow from investing activities		**(256,188,854)**	24,701,898
Net cash outflow before financing		**(263,826,596)**	(42,904,960)

for the year ended 31st December 2005

	Note	2005	2004 (Restated)
		HK$	HK$
Net cash outflow before financing *(from previous page)*		**(263,826,596)**	(42,904,960)
Financing			
Short term advances obtained		**24,844,370**	21,143,482
Short term advances repaid		**(18,779,000)**	–
Bank loans obtained		**119,641,954**	–
Dividend paid		**–**	(18,377,146)
Dividend paid to a minority shareholder		**–**	(2,881,329)
Net cash inflow/(outflow) from financing		**125,707,324**	(114,993)
Decrease in cash and cash equivalents		**(138,119,272)**	(43,019,953)
Cash and cash equivalents at 1st January		**414,212,500**	457,232,453
Exchange gains on cash and cash equivalents		**2,813,954**	–
Cash and cash equivalents at 31st December		**278,907,182**	414,212,500
Analysis of the balances of cash and cash equivalents			
Cash and bank balances	*26*	**300,375,758**	504,179,301
Less: Bank deposits placed pursuant to insurance regulatory requirements	*26*	**(21,468,576)**	(21,966,801)
Bank deposits with original maturity over three months		**–**	(68,000,000)
		278,907,182	414,212,500

1. GENERAL INFORMATION

The Company is a limited liability company incorporated in Hong Kong. The address of its registered office is 17th Floor, Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong. The Company is listed on the Main Board of the Stock Exchange of Hong Kong Limited.

These consolidated accounts have been approved for issue by the Board of Directors on 25th April 2006.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated accounts of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collectively refer to individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1st January 2005. The changes in accounting policies resulting from the adoption of these new and revised HKFRSs and the implications on the Group's financial results presented in these accounts are discussed in Note 2.2 below.

The consolidated accounts have been prepared under the historical cost convention as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss and investment properties, which are carried at fair value.

The preparation of accounts in conformity with the HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates.

Estimates and judgment made by management 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.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated accounts, are disclosed in Note 4.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 The adoption of new and revised HKFRSs

In 2005, the Group adopted the new and revised standards and interpretations of HKFRSs below, which are relevant to its operations. The 2004 comparatives have been amended as required in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 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 31	Investments in Joint Ventures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HK(SIC)-INT 15	Operating Leases - Incentives
HK(SIC)-INT 21	Income Taxes - Recovery of Revalued Non-Depreciated Assets
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations
HKFRS 4	Insurance Contracts
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations

The adoption of HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 31, 33, 36, 38, HK(SIC)-INT 15 and HKFRS 3 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associates and jointly controlled entities and other disclosures.

– HKASs 2, 7, 8, 10, 16, 21, 23, 27, 31, 33, 36, 38, HK(SIC)-INT 15 and HKFRS 3 had no material effect on the Group's accounting policies.

– HKAS 24 has affected the identification of related parties and some other related party disclosures.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 The adoption of new and revised HKFRSs (Continued)

– The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from fixed assets (other than those related to investment properties) to operating leases. The up-front prepayments made for the leasehold land and land use rights are expensed in the profit and loss account on a straight-line basis over the period of the lease and where there is impairment, the impairment loss is expensed in the profit and loss account. Revaluation surplus previously recognised on the buildings, leasehold land and land use rights are reversed. In prior years, the leasehold land and buildings were accounted for at valuation or cost less accumulated depreciation and accumulated impairment losses. Investment properties and the remainder of assets previously accounted for under fixed assets are reclassified as investment properties and property, plant and equipment in the balance sheet.

– The adoption of HKAS 28 has resulted in a change in the accounting policy relating to the equity accounting of interests in associates. The Group recognises its share of losses in an associate to the extent of its equity contribution and the loans advanced to the associate which form part of the Group's investment. The residual net investment is then assessed for impairment losses. In prior years, the Group shared the losses of an associate to the extent of its equity contribution only and the loans advanced to the associate were separately assessed for impairment.

– The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the accounting and/or classification of financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets and held-to-maturity debt securities. It has also resulted in the recognition of derivative financial instruments at fair value and a change in the recognition and measurement of hedging activities.

– The adoption of revised HKAS 40 has resulted in a change in the accounting policy for investment properties. Changes in fair values of investment properties are recorded in the profit and loss account as part of other income. In prior years, the increases in fair value were credited to the investment properties revaluation reserve. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the profit and loss account.

– The adoption of revised HK(SIC)-INT 21 has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of investment properties through use. In prior years, the carrying amount of investment properties was expected to be recovered through sale.

– The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments which requires the Group to expense the cost of share-based payments in the profit and loss account. In prior years, share-based payments made by the Group did not result in an expense in the profit and loss account.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 The adoption of new and revised HKFRSs (Continued)

- The adoption of HKFRS 4 has affected the disclosures with respect to insurance contracts issued and reinsurance contracts held.

- The adoption of HKFRS 5 has resulted in a change in the accounting policy of which non-current assets or disposal groups are stated at the lower of their carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use. In prior years, there was no difference in measurement for non-current assets or disposal groups held for sale or for continuing use.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

- HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 "Accounting for investments in securities" to investments in securities in presenting the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1st January 2005.

- HKAS 40 – the Group has adopted the fair value model and there is no requirement for the Group to restate the comparative information. Any adjustment should be made to the retained earnings as at 1st January 2005, including the reclassification of any amount held in revaluation surplus for investment property. The Group has incurred revaluation loss in prior years and there was no revaluation reserve brought forward. As a result, the adoption of HKAS 40 has no effect to the Group's opening retained earnings.

- HKFRS 2 – only retrospective application for all equity instruments granted after 7 November 2002 and not vested at 1 January 2005.

- HKFRSs 3 and 5 – prospectively after 1st January 2005.

- HKFRS 4 – retrospective application of the disclosure requirements of this standard except for disclosures required about accounting policies, and recognised assets, liabilities, income and expense. The Group has restated all comparative information following the application of this standard.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 The adoption of new and revised HKFRSs (Continued)

(a) Effects of changes in accounting policies on the current year financial statements

The following tables provide estimates of the extent to which each of the line items in the consolidated profit and loss account and consolidated balance sheet would be changed had the previous policies still been applied in 2005, where it is practicable to make such estimates:

– Estimated effects on the consolidated profit and loss account for the year ended 31st December 2005

		Increase/(decrease) in net profit					
	As reported	HKAS 1	HKAS 17	HKAS 28	HKAS 39	HKFRS 4	As estimated
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Total revenues	70,908,190	–	–	–	–	2,395,000	73,303,190
Net insurance claims incurred and commission expenses incurred on insurance business	(35,421,866)	–	–	–	–	(2,395,000)	(37,816,866)
Depreciation and amortization	(2,692,577)	–	(638,296)	–	–	–	(3,330,873)
Share of results of jointly controlled entities	73,703,508	25,522,754	(568,368)	–	(7,139,485)	–	91,518,409
Share of results of associates	(3,587,560)	307,033	–	6,538,157	–	–	3,257,630
Income tax credit/(expense)	694,891	(25,829,787)	117,006	–	671,543	–	(24,346,347)
		–	(1,089,658)	6,538,157	(6,467,942)	–	
		HK CENTS	*HK CENTS*	*HK CENTS*	*HK CENTS*	*HK CENTS*	
Increase/(decrease) in basic earnings per share		–	(0.24)	1.42	(1.41)	–	

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 The adoption of new and revised HKFRSs (Continued)

(a) Effects of changes in accounting policies on the current year financial statements (Continued)

– Estimated effect on the consolidated balance sheet as at 31st December 2005

		Increase/(decrease)					
	As reported	HKAS 1	HKAS 17	HKAS 28	HKAS 39	HKFRS 4	As estimated
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Assets							
Property, plant and equipment	8,838,153	–	(8,838,153)	–	–	–	–
Investment properties	68,721,326	–	(68,721,326)	–	–	–	–
Leasehold land and land use rights	18,627,613	–	(18,627,613)	–	–	–	–
Fixed assets	–	–	122,203,599	–	–	–	122,203,599
Jointly controlled entities	622,897,968	–	26,261,153	–	–	–	649,159,121
Associates	58,345,028	–	–	7,859,367	–	–	66,204,395
Loan receivable	56,647,000	–	–	–	(56,647,000)	–	–
Other asset	–	–	–	–	56,647,000	–	56,647,000
Premium receivable	12,610,565	–	–	–	3,372,434	–	15,982,999
Reinsurance assets	10,935,189	–	–	–	–	(10,935,189)	–
Claims recoverable from reinsurers	–	–	–	–	–	7,466,743	7,466,743
Trading securities, listed	–	–	–	–	8,706,383	–	8,706,383
Financial assets at fair value through profit or loss – listed equity securities held for trading	8,706,383	–	–	–	(8,706,383)	–	–
Other current and non-current assets	758,190,022	–	–	–	–	–	758,190,022
Total assets	1,624,519,247	–	52,277,660	7,859,367	3,372,434	(3,468,446)	1,684,560,262

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 The adoption of new and revised HKFRSs (Continued)

(a) Effects of changes in accounting policies on the current year financial statements (Continued)

– Estimated effect on the consolidated balance sheet as at 31st December 2005

		(Increase)/decrease					
	As reported	HKAS 1	HKAS 17	HKAS 28	HKAS 39	HKFRS 4	As estimated
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Liabilities							
Minority interests	–	(14,363,161)	–	–	–	–	(14,363,161)
Insurance contracts	(92,632,612)	–	–	–	–	92,632,612	–
Insurance liabilities	(5,637,532)	–	–	–	(3,372,434)	–	(9,009,966)
Unearned premiums, net	–	–	–	–	–	(31,002,878)	(31,002,878)
Unexpired risks	–	–	–	–	–	(720,000)	(720,000)
Outstanding claims reserve	–	–	–	–	–	(57,441,288)	(57,441,288)
Deferred income tax liabilities	(198,822)	–	(3,551,116)	–	–	–	(3,749,938)
Other current and non-current liabilities	(186,851,708)	–	–	–	–	–	(186,851,708)
Total liabilities	(285,320,674)	(14,363,161)	(3,551,116)	–	(3,372,434)	3,468,446	(303,138,939)
Equity							
Share capital	(459,428,656)	–	–	–	–	–	(459,428,656)
Other reserves	(821,892,144)	–	(24,182,332)	–	–	–	(846,074,476)
Retained profits							
Proposed final dividend	(13,782,860)	–	–	–	–	–	(13,782,860)
Others	(29,731,752)	–	(24,544,212)	(7,859,367)	–	–	(62,135,331)
Total equity attributable to equity holders of the Company	(1,324,835,412)	–	(48,726,544)	(7,859,367)	–	–	(1,381,421,323)
Minority interest	(14,363,161)	14,363,161	–	–	–	–	–
Total equity	(1,339,198,573)	14,363,161	(48,726,544)	(7,859,367)	–	–	(1,381,421,323)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 The adoption of new and revised HKFRSs (Continued)

(b) Restatement of prior year and opening balances

The following tables disclose the adjustments that have been made in accordance with the transitional provisions of the respective HKFRSs to the respective line items in the consolidated profit and loss account and consolidated balance sheet as previously reported in 2004 and the effects of the changes in the accounting policies on opening consolidated balance sheet as at 1st January 2005:

– Effects on the consolidated profit and loss account for the year ended 31st December 2004

		Increase/(decrease) in net profit				
	At 31st December 2004, as previously reported	HKAS 1	HKAS 17	HKAS 28	HKFRS 4	At 31st December 2004, as restated
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Total revenues	144,009,332	–	–	482,227	2,167,000	146,658,559
Net insurance claims incurred and commission expenses incurred on insurance business	(28,755,793)	–	–	–	(2,167,000)	(30,922,793)
Depreciation and amortization	(2,471,096)	–	601,258	–	–	(1,869,838)
Other provisions and losses	(9,384,192)	–	–	9,384,192	–	–
Share of results of jointly controlled entities	65,118,354	(15,526,528)	(569,445)	–	–	49,022,381
Share of results of associates	3,988,315	(19,009)	–	(11,187,629)	–	(7,218,323)
Income tax expense	(20,405,476)	15,545,537	(360,333)	–	–	(5,220,272)
		–	(328,520)	(1,321,210)	–	
		HK CENTS	*HK CENTS*	*HK CENTS*	*HK CENTS*	
Decrease in basic earnings per share		–	(0.07)	(0.29)	–	

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 The adoption of new and revised HKFRSs (Continued)

(b) Restatement of prior year and opening balances (Continued)

– Effects on the consolidated balance sheet as at 31st December 2004 and 1st January 2005

		Increase/(decrease)					Increase/ (decrease)	
	At 31st December 2004, as previously reported	HKAS 1	HKAS 17	HKAS 28	HKFRS 4	At 31st December 2004, as restated	HKAS 39	At 1st January 2005, as adjusted
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Assets								
Property, plant and equipment	–	–	8,395,892	–	–	8,395,892	–	8,395,892
Investment properties	–	–	64,722,163	–	–	64,722,163	–	64,722,163
Leasehold land and land use rights	–	–	19,099,639	–	–	19,099,639	–	19,099,639
Fixed assets	118,872,497	–	(118,872,497)	–	–	–	–	–
Jointly controlled entities	546,184,382	–	(26,829,521)	–	–	519,354,861	14,884,709	534,239,570
Associates	68,678,385	–	–	(1,321,210)	–	67,357,175	–	67,357,175
Loan receivable	–	–	–	–	–	–	58,050,000	58,050,000
Other asset	58,050,000	–	–	–	–	58,050,000	(58,050,000)	–
Premium receivable	18,882,553	–	–	–	–	18,882,553	–	18,882,553
Claims recoverable from reinsurers	12,817,235	–	–	–	(12,817,235)	–	–	–
Reinsurance assets	–	–	–	–	17,131,262	17,131,262	–	17,131,262
Trading securities, listed	6,199,974	–	–	–	–	6,199,974	(6,199,974)	–
Financial assets at fair value through profit or loss – listed equity securities held for trading	–	–	–	–	–	–	6,199,974	6,199,974
Other current and non-current assets	598,843,492	–	–	–	–	598,843,492	–	598,843,492
Total assets	1,428,528,518	–	(53,484,324)	(1,321,210)	4,314,027	1,378,037,011	14,884,709	1,392,921,720

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 The adoption of new and revised HKFRSs (Continued)

(b) Restatement of prior year and opening balances (Continued)

– Effects on the consolidated balance sheet as at 31st December 2004 and 1st January 2005 (Continued)

		(Increase)/decrease					(Increase)/decrease	
	At 31st December 2004, as previously reported	HKAS 1	HKAS 17	HKAS 28	HKFRS 4	At 31st December 2004, as restated	HKAS 39	At 1st January 2005, as adjusted
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Liabilities								
Minority interest	(16,481,244)	16,481,244	–	–	–	–	–	–
Unearned premiums, net	(26,772,604)	–	–	–	26,772,604	–	–	–
Unexpired risks	(3,115,000)	–	–	–	3,115,000	–	–	–
Outstanding claims reserve	(60,742,915)	–	–	–	60,742,915		–	–
Insurance contracts	–	–	–	–	(95,095,275)	(95,095,275)	–	(95,095,275)
Insurance liabilities	(8,763,974)	–	–	–	150,729	(8,613,245)	–	(8,613,245)
Deferred income tax liabilities	(3,979,853)	–	3,668,122	–	–	(311,731)	–	(311,731)
Other current and non-current liabilities	(46,060,119)	–	–	–	–	(46,060,119)	–	(46,060,119)
Total liabilities	(165,915,709)	16,481,244	3,668,122	–	(4,314,027)	(150,080,370)	–	(150,080,370)
Equity								
Share capital	(459,428,656)	–	–	–	–	(459,428,656)	–	(459,428,656)
Other reserves	(702,512,962)	–	24,182,332	–	–	(678,330,630)	(1,881,364)	(680,211,994)
Retained profits	(100,671,191)	–	25,633,870	1,321,210	–	(73,716,111)	(13,003,345)	(86,719,456)
Total equity attributable to equity holders of the Company	(1,262,612,809)	–	49,816,202	1,321,210	–	(1,211,475,397)	(14,884,709)	(1,226,360,106)
Minority interest	–	(16,481,244)	–	–	–	(16,481,244)	–	(16,481,244)
Total equity	(1,262,612,809)	(16,481,244)	49,816,202	1,321,210	–	(1,227,956,641)	(14,884,709)	(1,242,841,350)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 The adoption of new and revised HKFRSs (Continued)

As of the date of approval of these accounts, the HKICPA has issued a number of new and revised HKFRSs which are effective for accounting periods beginning on or after 1st January 2006. The Group has not early adopted the following new standards, amendments or interpretations in these accounts:

- Amendment to HKAS 1 — Presentation of Financial Statements – Capital Disclosures
- Amendment to HKAS 19 — Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures
- Amendments to HKAS 39 — Financial Instruments: Recognition and Measurement – Cash Flow Hedge Accounting of Forecast Intra-group Transactions
- Amendments to HKAS 39 — Financial Instruments: Recognition and Measurement – The Fair Value Option
- Amendments to HKAS 39 — Financial Instruments: Recognition and Measurement – Financial Guarantee Contracts
- HKFRS 6 — Exploration for and Evaluation of Mineral Resources
- HKFRS 7 — Financial Instruments: Disclosures
- HK(IFRIC) 4 — Determining whether an arrangement contains a lease
- HK(IFRIC) 5 — Rights to Interests arising from Decommissioning, Restoration and Environment Rehabilitation Funds
- HK(IFRIC) 6 — Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
- Amendments, as a consequence of the Hong Kong Companies (Amendment) Ordinance 2005, to:
  - HKAS 1 — Presentation of Financial Statements
  - HKAS 27 — Consolidated and Separate Financial Statements
  - HKFRS 3 — Business Combinations

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

The Group is assessing the impact of these new HKFRSs and the Hong Kong Companies (Amendment) Ordinance 2005 and has preliminarily concluded that the adoption of HKFRS 6, HK(IFRIC) 5 and 6 and the amendments to HKAS 1, HKAS 27 and HKFRS 3 as a result of the Hong Kong Companies (Amendment) Ordinance 2005 are unlikely to have a significant impact on the Group's financial results or position.

2.3 Consolidation

The consolidated accounts include the accounts of the Company and all its subsidiaries made up to 31 December.

(i) Subsidiaries

Subsidiaries are those entities in which the Company, directly or indirectly, controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Consolidation (Continued)

(i) Subsidiaries (Continued)

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit and loss account.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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 the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and the statement of changes in equity within equity but separated from equity attributable to the equity holders of the Company. Minority interests in the results of the 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 holders of the Company.

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

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

(ii) Associates

Associates are entities over which the Group has a significant influence, but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Consolidation (Continued)

(ii) Associates (Continued)

Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in an associate includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated profit and loss account, and its share of the associates' post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investments. When the Group's share of losses exceeds its carrying amount of the interests in an associate, the Group does not recognise further losses, unless the Group has incurred obligations or guaranteed obligations in respect of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in associates are stated at cost less impairment losses. The results of associates are accounted for by the Company on the basis of dividends received and receivable.

(iii) Jointly controlled entities

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

Investments in jointly controlled entities are accounted for in the consolidated accounts under the equity method of accounting and are initially recognised at cost. The Group's investments in a jointly controlled entity includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its jointly controlled entities' post-acquisition profits or losses is recognised in the consolidated profit and loss account, and its share of the jointly controlled entities' post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investments. When the Group's share of losses exceeds its interests in a jointly controlled entity, the Group does not recognise further losses unless it has incurred obligations or guaranteed obligations in respect of the jointly controlled entity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Consolidation (Continued)

(iii) Jointly controlled entities (Continued)

Unrealised gains on transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of jointly controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in jointly controlled entities are stated at cost less impairment losses. The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

2.4 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 Group's interest in the net fair value of the acquiree's net identifiable assets.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment. 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 entities.

Any excess of the Group's interest in the net fair value of the acquiree's net identifiable assets 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 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.

2.5 Segment reporting

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

In accordance with the Group's internal financial reporting system, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format for the purposes of these accounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Segment reporting (Continued)

Unallocated items represent corporate overheads. Segment assets consist primarily of investment properties, leasehold land and land use rights, receivables, investments in debt and equity securities, insurance related assets and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation, accruals for corporate overheads and corporate borrowings. Capital expenditure comprises additions to property, plant and equipment *(Note 13)* and leasehold land and land use rights *(Note 15)*. Inter-segment loans and advances employed by the Group as part of the Group's funding and capital allocation and the resulting interest income and expenses are excluded from the determination of segment assets, liabilities and results.

In respect of geographical segment reporting, sales are based on the country in which the customers are located. Total assets and capital expenditure are based on the country in which the assets are located.

2.6 Foreign currency translation

(i) Functional and presentation currency

Items included in the accounts of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency"). The consolidated accounts are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at closing exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the investment revaluation reserve in equity.

(iii) Group companies

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

– assets and liabilities items in their balance sheet are translated at the closing rate at the date of that balance sheet;

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Foreign currency translation (Continued)

(iii) Group companies (Continued)

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

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

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the profit and loss account as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.7 Property, plant and equipment

All property, plant and equipment, including buildings held for own use, are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the assets. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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

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 asset and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of property, plant and equipment, less their estimated residual value, if any, over their estimated useful lives at the following annual rates:

(i) Straight line method

Buildings held for own use	Over the shorter of the unexpired term of the lease and 30 years
Computer equipment	20% – 25%

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Property, plant and equipment (Continued)

(ii) Reducing balance method

Furniture, fixtures and office equipment	10% – 20%
Motor vehicles	20% – 25%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount *(Note 2.9)*.

2.8 Investment properties

Investment properties are land and/or buildings which are owned or held for long-term rental yields or for capital appreciation or both, and are not occupied by the companies in the consolidated Group. They comprise land held under operating leases and buildings held under finance leases.

Land held under operating leases are classified and accounted for as investment property on a property-by-property basis when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs. After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value.

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

Changes in fair values are recognised in the profit and loss account. Any gain or loss arising from the retirement or disposal of an investment property is recognised in the profit and loss account.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Impairment of assets other than financial assets

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

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any amortization or depreciation), had no impairment loss been recognised against the asset in prior years. Reversal of impairment loss is credited to the profit and loss account in the period in which it arises.

2.10 Investments

From 1st January 2004 to 31st December 2004

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

(i) Non-trading securities

Non-trading securities are stated at fair value other than debt securities intended to be held-to-maturity. Non-trading securities are held by the Group's jointly controlled entities.

Changes in the fair value of non-trading securities are credited or debited to the 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 sale proceeds and the carrying amount of the relevant security, together with any surplus/deficit in the investment revaluation reserve, is dealt with in the profit and loss account. Where there is objective evidence that individual investments are impaired, the cumulative loss recorded in the investment revaluation reserve is taken to the profit and loss account.

(ii) Trading securities

Trading securities are securities which are acquired for the purpose of generating a profit from short-term fluctuations in price and are stated at fair value at the balance sheet date. Fair value is the amount for which an asset can be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. At each balance sheet date, the net realised gains or losses arising from the changes in fair value of trading securities were recognised in the profit and loss account.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Investments (Continued)

(ii) Trading securities (Continued)

Profits or loss on disposal of trading securities, representing the difference between the net sale proceeds and the carrying amount, is recognised in the profit and loss account as it arises.

(iii) Held-to-maturity securities

Held-to-maturity securities are stated in the balance sheet at cost plus/less any discount/ premium amortised to date. The discount/premium is amortised over the period to maturity and is included as interest income/ expense in the profit and loss account.

The carrying amounts of individual held-to-maturity securities or holdings of the same securities are reviewed at the balance sheet date in order to assess the credit risk and whether the carrying amounts are expected to be recovered. Impairment loss is recognised when there is a diminution in value other than temporary and the carrying amounts are not expected to be recovered. Such impairment loss is recognised in the profit and loss account as an expense immediately.

From 1st January 2005 onwards

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

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

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months from the balance sheet date.

(ii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets traded in active markets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. They are included in current assets except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets.

For held-to-maturity investments, 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Investments (Continued)

(ii) Held-to-maturity investments (Continued)

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 the profit and loss account. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years.

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other categories. They are included in non-current assets unless management intends to dispose of the investments within 12 months from the balance sheet date.

When there is objective evidence that an available-for-sale financial asset is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and is recognised in the profit and loss account. The amount of the cumulative loss that is recognised in the profit and loss account 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 the profit and loss account.

For unquoted available-for-sale equity securities that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

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

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in the profit and loss account.

Purchases and sales of investments are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss; and are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of investments within the "financial assets at fair value through profit or loss" category are included in the profit and loss account in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of equity securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the profit and loss account as gains or losses from investment securities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Investments (Continued)

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the reference to recent arm's length transactions or fair values of other instruments that are substantially the same, use of discounted cash flow analysis or other valuation models as appropriate.

2.11 Accounting for derivative financial instruments

From 1st January 2004 to 31st December 2004:

Derivatives financial instruments are recorded at cost. The gains and losses on derivative financial instruments are included in their profit and loss under the accrual methods.

From 1st January 2005 onwards:

Derivative financial instruments are initially recognized at fair value on the date the derivative contract is entered into and are subsequently remeasured at their fair value. Changes in the fair value of any derivative instruments are recognized immediately in the profit and loss account.

2.12 Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Payments made under operating leases net of any incentives received from the lessor are charged to the profit and loss account on a straight-line basis over the lease periods.

The up-front prepayments made for land use rights are amortised on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the profit and loss account. The amortisation of land use rights is capitalized under the relevant assets when the properties on the land are under construction. The remaining carrying amount of the land use rights is recognised as cost of sales when the relevant properties are sold.

2.13 Loan receivable and debtors

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for those with maturities greater than or are expected to be realised after 12 months from the balance sheet date which are classified as non-current assets. Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less impairment losses, and are included in loan receivable and debtors in the balance sheet.

Impairment loss of loan receivable and debtors is recognised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms. The amount of impairment loss is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate, and is recognised in the profit and loss account.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14 Properties for sale

Properties for sale are stated at the lower of cost and net realisable value. Cost, calculated on an average basis, includes land cost, development expenditure and other direct expenses. Net realisable value is determined on the basis of anticipated sale proceeds less estimated selling expenses.

2.15 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from the date of investment less bank overdrafts.

2.16 Insurance contracts classification

The Group issues contracts that transfer insurance risk.

Insurance contracts are those contracts that transfer significant insurance risk. As a general guideline, the Group defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

2.17 Insurance contracts

(a) Recognition and measurement

Insurance contracts are classified depending on the duration of risk and whether or not the terms and conditions are fixed.

Short-term insurance contracts

These contracts are property and casualty insurance contracts.

Casualty insurance contracts protect the Group's customers against the risk of causing harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non-contractual events. The typical protection offered is designed for employers who become legally liable to pay compensation to injured employees (employers' liability) and for individual and business customers who become liable to pay compensation to a third party for bodily harm or property damage (public liability).

Property insurance contracts mainly compensate the Group's customers for damage suffered to their properties or for the value of property lost. Customers who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business activities (business interruption cover).

For all these contracts, premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the balance sheet date is reported as the unearned premium liability. Premiums are shown before deduction of commission.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Insurance contracts (Continued)

(a) Recognition and measurement (Continued)

Claims and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the balance sheet date even if they have not yet been reported to the Group. The Group does not discount its liabilities for unpaid claim. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Group and statistical analyses for the claims incurred but not reported, and to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions).

(b) Deferred acquisition costs (DAC)

Commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are capitalised as an intangible asset (DAC). All other costs are recognised as expenses when incurred. The DAC is subsequently amortised over the life of the contracts as premium is earned.

(c) Liability adequacy test

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related DAC assets. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to profit or loss initially by writing off DAC and by subsequently establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision). Any DAC written off as a result of this test cannot subsequently be reinstated.

(d) Reinsurance contracts held

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts in Note 2.16 are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Group under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Insurance contracts (Continued)

(d) Reinsurance contracts held (Continued)

In certain cases a reinsurance contract is entered into retrospectively to reinsure a notified claim under the Group's property or casualty insurance contracts. Where the premium due to the reinsurer differs from the liability established by the Group for the related claim, the difference is amortised over the estimated remaining settlement period.

The Group assesses its reinsurance assets for impairment on a regular basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the profit and loss account. The Group gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets. These processes are described in Note 2.13.

(e) Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders.

If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the profit and loss account. The Group gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is also calculated under the same method used for these financial assets. These processes are described in Note 2.13.

(f) Salvage and subrogation reimbursements

Some insurance contracts permit the Group to sell (usually damaged) property acquired in settling a claim (salvage). The Group may also have the right to pursue third parties for payment of some or all costs (subrogation).

Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims, and salvage property is recognised in other assets when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the property.

Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are recognised in other assets when the liability is settled. The allowance is the assessment of the amount that can be recovered from the action against the liable third party.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently measured at amortized cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

2.19 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial liability, including fees and commissions paid to the borrowers. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.20 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 and 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 the expected tax payable on the taxable income for the year, using tax rates enacted or substantially 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 utilized, 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 differences or in periods into which a tax loss arising from the deferred tax asset can be carried back to 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 utilized.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 Income tax (Continued)

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 and 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 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 recognised is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantially 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 utilized. 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 the Company or the Group has a 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, the Company or the 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 the same taxable entity.

2.21 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.22 Employee benefits

(i) Short term employee benefits

Salaries and annual bonuses are paid or accrued in the year in which the associated services are rendered by employees. When payment or settlement is deferred and the effect would be material, these amounts are stated at their present value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Employee benefits (Continued)

(ii) Retirement benefit costs

The Group pays contributions to publicly or privately administered pension plans on a mandatory, contractual or voluntary basis. These pension plans are defined contribution schemes which the Group pays fixed contributions and has no further payment obligations once the contributions have been paid. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The contributions are recognised as employee benefit expense when they are due and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(iii) Employee leaves entitlements

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

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

(iv) Share-based compensation

A jointly controlled entity of the Group operates a share compensation plan under which its shares are granted to eligible employees for services rendered. The fair value of the employee services received in exchange of the shares granted net of any consideration received is recognised as an expense.

As at the balance sheet date, a jointly controlled entity of the Group operates a share compensation plan under which its shares are granted to eligible employees for services rendered.

(v) Bonus plans

The Group recognises a liability and an expense for bonuses where it is contractually obliged or where there is a past practice that created a constructive obligation. The liabilities for bonus plan are expected to be settled within the 12 months and are measured at the amounts expected to be paid when they are settled.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Employee benefits (Continued)

(vi) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

2.23 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable than an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

2.24 Contingent liabilities and contingent assets

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

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

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

A contingent asset is not recognised but is disclosed in the notes to the accounts when an inflow of economic benefits is probable. When the inflow is virtually certain, an asset is recognised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.25 Revenue recognition

Revenue is recognised on the following basis provided it is probable that the economic benefits will flow to the Group and the amount can be measured reliably:

(i) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised either as cash is collected or on a cost-recovery basis as conditions warrant.

(ii) Rental income from investment properties

Rental income receivable under operating leases is recognised in profit and loss in equal installments over the period covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable.

(iii) Sale of properties

Revenue arising from the sale of properties developed by the Group in Mainland China is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the development and construction of the properties as well as the sale process are completed. Deposits and installments received on the properties sold prior to the date of revenue recognition are recorded as deposits received and included in other creditors in the balance sheet.

(iv) Management fees

Management fees are recognised upon the provision of services. Income accrual is ceased in case the collectibility of the income is doubtful.

(v) Dividend income

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

(vi) Insurance contracts

The basis of recognition of insurance revenue is detailed in Note 2.17.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.26 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.

2.27 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's accounts in the period in which the dividends are approved for distribution.

2.28 Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) held for sale are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use.

2.29 Comparatives

As detailed in note 2.2 above, the accounting treatment and presentation of certain items in these accounts have been revised to comply with the new and revised HKFRSs effective from 1st January 2005. Accordingly, certain comparatives have been restated to conform with the current year presentation.

3. FINANCIAL RISK MANAGEMENT

The Group's investment policy is to prudently invest all funds managed by the Group in a manner which satisfies the Group's liquidity requirements and generates optimal returns to the Group within a manageable risk level.

The Group's business activities expose it to a variety of financial risks including insurance risk, currency risk, price risk, credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's performance.

The Board has adopted procedures for evaluating and approving significant investment decisions. Given the nature of the Group's financial assets and liabilities, their risk exposures are monitored primarily by the Group on a qualitative basis.

The Group reviews the changes in foreign exchange rates on a regular basis and appropriate actions (such as unwinding the positions) will be taken if the changes are considered significant and adversely affect the Group's financial results.

(a) Insurance risk

The Group issues contracts that transfer insurance risk. This section summarises these risks and the way the Group manages them.

3. FINANCIAL RISK MANAGEMENT (Continued)

(a) Insurance risk (Continued)

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims will vary from year to year from the level established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

(i) Frequency and severity of claims

The frequency and severity of claims can be affected by several factors. The most significant are the increasing level of awards for the damage suffered and the increase in number of cases coming to court that were inactive or latent for a long period of time. Estimated inflation is also a significant factor due to the long period typically required to settle these cases.

The Group manages these risks through its underwriting strategy, adequate reinsurance arrangements and claims handling.

The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography.

Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the Group has the right to re-price, cancel or not to renew the risk, it can impose deductibles and it has the right to reject the payment of fraudulent claim. Insurance contracts also entitle the Group to pursue third parties for payment of some or all costs (i.e. subrogation). Unless the legislation requires, the Group's strategy limits the total exposure of any individual policies to a certain amounts.

The reinsurance arrangements include facultative, proportional treaties and excess of loss coverage. The effect of such reinsurance arrangements is that the Group should not suffer total net insurance losses more than the prescribed amount. In addition to the overall reinsurance program, additional reinsurance protection for any individual risk will be arranged when necessary.

3. FINANCIAL RISK MANAGEMENT (Continued)

(a) Insurance risk (Continued)

(i) Frequency and severity of claims (Continued)

The Group focused on motor and domestic helper insurance business in Hong Kong and therefore the insurance risk before and after reinsurance is concentrated at motor and domestic helper insurance accepted in Hong Kong with reference to the carrying amount of the insurance liabilities arising from insurance contracts.

(ii) Sources of uncertainty in the estimation of future claims payments

Claims on insurance contracts are payable on a claim-occurrence basis. The Group is liable for all insured events that occurred during the term of the contract even if the loss is discovered after the end of the contract term. As a result, liability claims are settled over a long period of time and a larger element of claims provision relates to incurred but not reported claims (IBNR). There are several variables that affect the amount and timing of cash flows from these contracts. These mainly relate to the inherent risks by individual contract holders and the risk management procedures adopted. The compensation paid on these contracts is the monetary awards granted for bodily injury suffered. Such awards are lump-sum payments that are calculated as the present value of the lost of earnings and rehabilitation expenses that the injured party will incur as a result of the accident.

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The liabilities for these contracts comprise a provision for IBNR, a provision for reported claims not yet paid and a provision for unexpired risks at the balance sheet date.

In calculating the estimated cost of unpaid claims (both reported or not), the Group estimation techniques are a combination of loss-ratio-based estimates (where the loss ratio is defined as the ratio between the ultimate cost of insurance claims and insurance premiums earned in a particular financial year in relation to such claims) and an estimate based upon actual claim experience using predetermined formulae where greater weight is given to actual claims experience as time passes.

The ultimate loss-ratio estimate is an important assumption in the estimation technique and is based on previous years' experience. The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group, where information about the claim event is available. In estimating the amount of IBNR which makes reasonable provisions for the claims and the unexpired risks, it is necessary to project future claims cost and associated claims expenses and simulates the outcomes of claims liabilities using models. These models are simplified representations of many legal, social and economic forces and may not be entirely appropriate for the types of insurance business being analyzed. It is certain that actual future claim and claims expenses will not develop exactly as projected and may vary significantly from the projections.

3. FINANCIAL RISK MANAGEMENT (Continued)

(a) Insurance risk (Continued)

(ii) Sources of uncertainty in the estimation of future claims payments (Continued)

In estimating the liability for the cost of reported claims not yet paid, the Group considers any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods. Large claims are assessed on a case-by-case basis or projected separately in order to allow for the possible distortive effect of their development and incidence on the rest of the portfolio.

Where possible, the Group adopts multiple techniques to estimate the required level of provisions. This provides a greater understanding of the trends inherent in the experience being projected. The projections given by the various methodologies also assist in estimating the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

(b) Market risk

(i) Foreign exchange risk

Foreign exchange risk is the risk of loss due to adverse movements in foreign exchange rates relating to investments denominated in foreign currencies. The Group mainly operates in Hong Kong and the People's Republic of China ("PRC") and is exposed to foreign exchange risk arising from various currencies, primarily with respect to Renminbi ("RMB"). Foreign exchange risk arises from recognised assets and liabilities and net investments in foreign operations.

(ii) Price risk

The Group is exposed to equity price risk on investments held by the Group classified on the balance sheet as available-for-sale financial assets or as financial assets at fair value through profit or loss.

(iii) Cash flow and fair value interest rate risks

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rate. Cash flow interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest bearing assets and liabilities mainly comprise bank deposits, held-to-maturity debt securities and bank borrowings denominating in floating rates which expose the Group to cash flow interest rate risks; and short term advances denominated in fixed rates which expose the Group to fair value interest rate risks. The Group manages these risks primarily through maintaining the maturity profile of these assets and liabilities within a short period and monitoring the market interest rate movements so that the Group can react accordingly when there are adverse interest rate movements.

3. FINANCIAL RISK MANAGEMENT (Continued)

(b) Market risk (Continued)

The Group reviews the changes in foreign exchange rates, market prices and interest rates on a regular basis and appropriate actions (such as unwinding the positions) will be taken if the changes are considered significant and adversely affect the Group's financial results.

(c) Credit risk

The Group is exposed to credit risk, which is the risk that a counter-party will not be able to fulfill its repayment obligations for amounts due to the Group. The Group limits its exposure to credit risk by screening the counter-parties, on-going monitoring and acquisition of collateral from counter-parties. As at 31st December 2005, all debt securities held were of investment grade and bank balances are placed with reputable financial institutions with diversification. Insurance debtors are required to meet the Group's established financial requirements and provide third party guarantees to the Group when considered necessary.

(d) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet its cashflow needs or commitments. Liquidity risk may result from either inability to sell financial assets quickly at their fair values, a counter-party failing on repayment of a contractual obligation or an insurance liability falling due for payment earlier than expected.

The Group manages the liquidity risk primarily by keeping surplus cash balances. Credit facilities will also be arranged when necessary to maintain flexibility in funding.

(e) Fair value of financial assets and financial liabilities

In the directors' opinion, the fair values of financial assets and financial liabilities of the Group approximate their carrying values as at the balance sheet date.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of accounts requires management to make estimates and assumptions concerning the future that affect the reported amounts of assets, liabilities, revenues and expenses in these accounts. The application of assumptions and estimates means that any changes of them, either due to changes of management's judgement or the evolvement of the actual circumstances, would cause the Group's financial position and results to differ.

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. The Group believes that the assumptions and estimates that have been made in the preparation of these accounts are appropriate and that the accounts therefore present the Group's financial position and results fairly, in all material respects.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Valuation of available-for-sale financial assets

The Group reviews periodically to assess the fair value of the investments in unlisted available-for-sale financial assets and whether such investments have suffered any impairment loss in accordance with the accounting policy stated in Note 2.10. The Group has appointed an external professional valuer to estimate the fair value of the 108,000,000 unlisted legal person shares ("Huaneng Shares") of Huaneng Power International, Inc. ("Huaneng") at 31st December 2005. The fair value of Huaneng Shares is determined using the market approach *(Note 19)*.

(b) Recognition of impairment losses against the loan receivable from a third party

The Group reviews periodically to assess whether its loan receivable from a third party *(Note 20)* has suffered any impairment loss in accordance with the accounting policy stated in Note 2.13. The Group makes judgment as to whether there is any objective evidence that the loan is impaired and expected future cash flows are estimated based on observable information. Impairment is assessed by a discount cash flow method, measured at the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. As at 31st December 2005, the Group has recognised an impairment loss of HK$7,853,000 against the loan receivable *(Note 20)*.

(c) Held-to-maturity investments

The Group classified non-derivative financial assets with fixed or determinable payments and fixed maturity and where the Group has a positive intention and ability to hold to maturity as held-to-maturity investments. In making this judgment, the Group evaluates its intention and ability to hold such investments till maturity. If the Group fails to hold these investments to maturity other than for certain specific circumstances, the Group will have to reclassify the entire portfolio of held-to-maturity investments as available-for-sale, and this would result in held-to-maturity investments being measured at fair value instead of at amortised cost. As at 31st December 2005, the Group held held-to-maturity unlisted debt securities with a carrying value of HK$11,001,370.

(d) Estimate of fair value of investment properties

The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its judgement, the Group considers information including current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences or recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices. As at 31st December 2005, the fair value of the Group's investment properties was HK$68.7 million *(Note 14)*.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(e) Income taxes

The Group is subject to income taxes in various jurisdictions. Judgment is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. As at 31st December 2005, the Group had unrecognized tax losses of approximately HK$114 million *(Note 32)*.

(f) Critical accounting estimates and judgements of jointly controlled financial institutions

The Group's major jointly controlled financial institutions, Xiamen International Bank and its subsidiaries ("XIB Group"), are principally engaged in the banking business *(Note 17)*. In the conversion of its statutory accounts prepared under generally accepted accounting principles in the Peoples' Republic of China ("PRC") for the Group's equity accounting purposes in accordance with the accounting policy stated in Note 2.3(iii), certain critical accounting estimates and judgments have been applied as described below:

– Valuation of available-for-sale financial assets

The fair value of an unlisted available-for-sale equity investment held by XIB Group has been estimated using a discounted cash flow model. Based on the historical financial information, dividend payout ratio, macro and micro economic environment and other available information of the investee, management makes estimates and judgements on the future cash flows from the investee and the appropriate discount rate for the fair value estimation purposes. As at 31st December 2005, the Group's attributable share of the fair value gain (before deferred tax adjustment) arising from this investment, which is accounted for in the investment revaluation reserve, was HK$35.3 million. To the extent that the discount rate differs by +/- 1%, such share will decrease and increase by HK$4 million respectively.

– Impairment allowances on loans and advances

The loan portfolios of XIB Group have been reviewed to determine if they have suffered any impairment loss in accordance with the accounting policy stated in Note 2.13. Judgement is made as to whether there is any objective evidence that a loan is impaired. Objective evidence for impairment includes observable data that the payment status of borrowers has adversely changed. If management has determined, based on their judgment, that objective evidence for impairment exists, expected future cash flows are estimated based on observable data obtained and impairment is assessed by a discount cash flow method, measured at the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The quantum of the impairment is also impacted by the collateral value and this in turn, may be discounted in certain circumstances to recognise the impact of forced sale. The methodology and assumptions used for estimating both the amount and timing of future cash flows are being reviewed periodically to reduce any difference between loss estimates and the actual loss experience.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(f) Critical accounting estimates and judgements of jointly controlled financial institutions (Continued)

– Fair value of derivatives

The fair values of derivative contracts held by XIB Group that are not traded in active markets are estimated primarily based on broker quotes. Management assesses the reasonableness of the broker quotes with reference to changes in market parameters from the inception date of the contract and the price and terms of other contracts entered into, and makes judgement as to whether such brokers quotes are indicative of the fair value of the derivative contracts at the balance sheet date.

5. TURNOVER AND SEGMENTAL INFORMATION

The Group is principally engaged in financial services, property development and investment, toll road investment, industrial instrument manufacturing and investment holding businesses.

The Group's turnover represents the gross insurance premiums, insurance brokerage commission, proceeds from sales of property, rental income, interest income and management fee income. The amount of each significant category of revenue recognised during the year is as follows:

	2005	2004 *(Restated)*
	HK$	*HK$*
Turnover		
Gross insurance premiums	**58,441,886**	57,740,656
Insurance brokerage commission	**1,385,020**	1,353,756
Interest income from bank deposits	**7,110,028**	4,329,361
Gross proceeds from disposal of properties for sale	**–**	68,002,866
Rental income from investment properties	**4,039,991**	3,813,810
Management fees	**384,526**	588,600
	71,361,451	135,829,049
Movement in unearned insurance premiums	**(3,384,693)**	(3,139,346)
Reinsurance premiums ceded and reinsurers' share of movement in unearned insurance premiums	**(8,327,129)**	(11,083,619)
Other gains – net		
Dividend income from listed equity securities held for trading	**279,413**	175,813
Interest income from unlisted held-to-maturity debt securities	**292,083**	205,463
Compensation received on affected right over usage of land *(a)*	**–**	3,954,280
Fair value gains on listed equity securities measured at fair value through profit or loss	**313,847**	–
Net realised and unrealised losses on listed trading securities	**–**	(29,006)
Fair value gains/write back of deficit on revaluation of investment properties *(Note 14)*	**3,999,163**	511,233
Gain on disposal of a subsidiary *(Note 16)*	**3,469,525**	–
Gain on disposal of an associate *(b)*	**–**	6,030,032
Gain on disposal of investment properties	**–**	14,204,660
Net exchange gains and others	**2,904,530**	–
	11,258,561	25,052,475
Total revenues	**70,908,190**	146,658,559

5. TURNOVER AND SEGMENTAL INFORMATION (Continued)

(a) In June 2004, a local government office of the Tianqiao District People's Government of Jinan, Shandong Province, Mainland China has agreed to pay the Group RMB4.18 million as a compensation for the Group's consequential loss of potential profits arising from the Group's affected right over the usage of certain parcels of land in Jinan. The compensation was received in December 2004.

(b) In 2004, the Group disposed of its entire equity and debt interests in an associate, Changchun Changxin International Real Estate Development Co., Ltd., to a third party for a cash consideration of RMB22.15 million (equivalent to approximately HK$20.9 million). The Group held a 20% interest in this associate and a gain of HK$6,030,032 was recognised from this disposal in 2004.

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is presented as the primary reporting format pursuant to the Group's internal financial reporting system.

Business segments

The Group's activities comprise the following major business segments:

Financial services	–	underwriting of general insurance, insurance brokerage, investing in banking business and trading in securities for short term profit
Property development and investment	–	development and sale of residential properties, leasing of investment properties and investing in properties to gain from the long term appreciation in their values
Toll road investment	–	investing in toll road projects in Mainland China
Industrial instrument manufacturing	–	investing in manufacturers and distributors of digital instruments
Investment holding and others	–	investing in strategic investments and other assets for income and capital appreciation purposes

5. TURNOVER AND SEGMENTAL INFORMATION (Continued)

Business segments (Continued)

	Financial services		Property development and investment		Toll road investment		Industrial instrument manufacturing		Investment holding and others		Unallocated items		Consolidated	
	2005	2004 (Restated)	2005	2004 (Restated)	2005	2004 (Restated)	2005	2004 (Restated)	2005	2004 (Restated)	2005	2004 (Restated)	2005	2004 (Restated)
	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$
Year ended 31st December														
Turnover	64,503,914	62,370,878	918,100	69,235,251	–	–	–	–	5,939,437	4,222,920	–	–	71,361,451	135,829,049
Movement in net unearned insurance premiums and reinsurance premiums ceded	(11,711,822)	(14,222,965)	–	–	–	–	–	–	–	–	–	–	(11,711,822)	(14,222,965)
Other gains – net	3,264,068	352,270	1,712,701	24,700,205	–	–	–	–	6,281,792	–	–	–	11,258,561	25,052,475
Total revenues	56,056,160	48,500,183	2,630,801	93,935,456	–	–	–	–	12,221,229	4,222,920	–	–	70,908,190	146,658,559
Segment results	7,452,141	7,628,924	(2,681,761)	38,354,015	–	–	–	–	10,649,212	3,186,300	–	–	15,419,592	49,169,239
Corporate overheads	–	–	–	–	–	–	–	–	–	–	(25,356,427)	(24,019,239)	(25,356,427)	(24,019,239)
Operating (loss)/profit	7,452,141	7,628,924	(2,681,761)	38,354,015	–	–	–	–	10,649,212	3,186,300	(25,356,427)	(24,019,239)	(9,936,835)	25,150,000
Finance costs	–	–	–	–	–	–	–	–	–	–	(3,526,918)	(69,854)	(3,526,918)	(69,854)
Share of results of jointly controlled entities	69,722,842	45,533,233	–	–	–	–	3,980,666	3,489,148	–	–	–	–	73,703,508	49,022,381
Share of results of associates	–	–	–	–	(3,595,958)	(7,255,969)	–	–	8,398	37,646	–	–	(3,587,560)	(7,218,323)
Profit before taxation	77,174,983	53,162,157	(2,681,761)	38,354,015	(3,595,958)	(7,255,969)	3,980,666	3,489,148	10,657,610	3,223,946	(28,883,345)	(24,089,093)	56,652,195	66,884,204
Income tax credit/(expense)													694,891	(5,220,272)
Profit for the year													57,347,086	61,663,932
Depreciation and amortisation for the year	236,028	584,919	1,327,709	273,032	–	–	–	–	508,689	426,777	620,151	585,110	2,692,577	1,869,838
Reversal of impairment of other properties (recognised in equity)	–	–	–	–	–	–	–	–	–	–	–	(6,023,700)	–	(6,023,700)
Impairment of loan receivable	1,403,000	–	–	–	–	–	–	–	–	–	–	–	1,403,000	–
At 31st December														
Segment assets	230,738,751	232,714,414	92,813,547	92,376,600	–	–	–	–	597,560,053	444,193,282	583,098	–	921,695,449	769,284,296
Corporate assets	–	–	–	–	–	–	–	–	–	–	21,580,802	22,040,679	21,580,802	22,040,679
Investments in jointly controlled entities	596,050,083	496,835,890	–	–	–	–	26,847,885	22,518,971	–	–	–	–	622,897,968	519,354,861
Investments in associates	–	–	–	–	48,028,009	57,283,249	–	–	10,317,019	10,073,926	–	–	58,345,028	67,357,175
Total assets	826,788,834	729,550,304	92,813,547	92,376,600	48,028,009	57,283,249	26,847,885	22,518,971	607,877,072	454,267,208	22,163,900	22,040,679	1,624,519,247	1,378,037,011
Segment liabilities	103,592,121	108,754,725	7,220,252	11,484,170	–	–	–	–	8,281,723	1,006,498	–	–	119,094,096	121,245,393
Unallocated liabilities	–	–	–	–	–	–	–	–	–	–	166,226,578	28,834,977	166,226,578	28,834,977
Total liabilities	103,592,121	108,754,725	7,220,252	11,484,170	–	–	–	–	8,281,723	1,006,498	166,226,578	28,834,977	285,320,674	150,080,370
Capital expenditure incurred during the year	424,682	55,431	27,672	531,345	–	–	–	–	2,090,313	364,816	–	–	2,542,667	951,592

5. TURNOVER AND SEGMENTAL INFORMATION (Continued)

Geographical segments

The Group operates in three principal economic environments, namely Hong Kong, Mainland China and Macau. The Group's insurance and investment activities are mainly conducted in Hong Kong whilst the Group's property development activities and the major investees are located in Mainland China. The Group has certain insurance underwriting activities in Macau.

In presenting geographical segmental information, segment revenue is presented based on the geographical location of customers. Segment assets and capital expenditure are presented based on the geographical location of the assets.

	Hong Kong		Mainland China		Macau		Consolidated	
	2005	2004 *(Restated)*	**2005**	2004 *(Restated)*	**2005**	2004 *(Restated)*	**2005**	2004 *(Restated)*
	HK$	*HK$*	***HK$***	*HK$*	***HK$***	*HK$*	***HK$***	*HK$*
Year ended 31st December								
Turnover	**59,699,471**	57,528,319	**4,347,405**	70,906,765	**7,314,575**	7,393,965	**71,361,451**	135,829,049
Movement in net unearned insurance premiums and reinsurance premiums ceded	**(10,632,394)**	(13,340,867)	**–**	–	**(1,079,428)**	(882,098)	**(11,711,822)**	(14,222,965)
Other gains – net	**6,616,613**	19,956,930	**4,397,997**	5,095,545	**243,951**	–	**11,258,561**	25,052,475
Total revenues	**55,683,690**	64,144,382	**8,745,402**	76,002,310	**6,479,098**	6,511,867	**70,908,190**	146,658,559
Operating (loss)/profit	**(13,344,212)**	349,634	**1,125,498**	22,601,082	**2,281,879**	2,199,284	**(9,936,835)**	25,150,000
At 31st December								
Segment assets	**223,651,981**	265,358,398	**672,853,497**	398,865,162	**25,189,971**	105,060,736	**921,695,449**	769,284,296
Corporate assets	**20,786,210**	21,206,070	**794,592**	834,609	**–**	–	**21,580,802**	22,040,679
Investments in jointly controlled entities	**–**	–	**622,897,968**	519,354,861	**–**	–	**622,897,968**	519,354,861
Investments in associates	**–**	–	**58,345,028**	67,357,175	**–**	–	**58,345,028**	67,357,175
	244,438,191	286,564,468	**1,354,891,085**	986,411,807	**25,189,971**	105,060,736	**1,624,519,247**	1,378,037,011
Capital expenditure incurred during the year	**2,500,986**	420,247	**41,681**	531,345	**–**	–	**2,542,667**	951,592

6. NET INSURANCE CLAIMS INCURRED AND COMMISSION EXPENSES INCURRED ON INSURANCE BUSINESS

(a) Net insurance claims incurred on insurance business

		2005	
	Gross	**Reinsurance**	**Net**
	HK$	***HK$***	***HK$***
Current year claims and loss adjustment expenses	35,952,430	(7,072,283)	**28,880,147**
Additional cost for prior year claims and loss adjustment expenses	(18,836,606)	8,334,466	**(10,502,140)**
Decrease in the expected cost of claims for unexpired risks	(2,395,000)	–	**(2,395,000)**
	14,720,824	1,262,183	**15,983,007**

		2004	
	Gross	Reinsurance	Net
	HK$	*HK$*	*HK$*
Current year claims and loss adjustment expenses	34,090,282	(8,750,228)	25,340,054
Additional cost for prior year claims and loss adjustment expenses	(18,997,212)	6,728,534	(12,268,678)
Increase in the expected cost of claims for unexpired risks	2,167,000	–	2,167,000
	17,260,070	(2,021,694)	15,238,376

(b) Commission expenses incurred on insurance business

	2005	2004
	HK$	*HK$*
Gross commissions paid and payable	**20,188,538**	16,584,193
Less: Commissions received and receivable from reinsurers	**(749,679)**	(899,776)
Net commissions payable	**19,438,859**	15,684,417

7. OPERATING (LOSS)/PROFIT

	2005	2004
	HK$	*HK$*
Operating (loss)/profit is stated after crediting and charging the following:		
Crediting		
Net exchange gains	**2,831,045**	–
Charging		
Depreciation and amortisation	**2,692,577**	1,869,838
Loss on disposal of property, plant and equipment	**29,157**	–
Net exchange losses	**–**	216,082
Operating lease rentals in respect of land and buildings	**918,786**	640,150
Finance costs:		
Interest on long term bank loans wholly repayable within five years *(note 31)*	**2,273,038**	–
Interest on short term advances wholly repayable within five years *(note 30)*	**1,253,880**	69,854
	3,526,918	69,854
Auditors' remuneration	**1,931,710**	1,997,441
Management fee *(note 38(b))*	**1,880,000**	1,880,000
Retirement benefit costs *(a)*	**652,790**	615,625

(a) The Group contributed to a defined contribution scheme ("DC Scheme") which was available to all eligible Hong Kong employees prior to 30th November 2000. The assets of the scheme were held separately from those of the Group in an independently administered fund. Contributions to the scheme by the Group and employees were calculated at 15% of the employees' basic salary until 30th November 2000 when the DC Scheme was replaced by a mandatory provident fund scheme ("MPF Scheme") set up under the Hong Kong Mandatory Provident Fund Schemes Ordinance.

The Group's monthly contributions (mandatory and voluntary) to the MPF Scheme for each employee are calculated at the lower of HK$2,000 or 10% (or 6% for employees who joined after 30th September 2000) of the monthly basic salary. The Group's contributions to the DC Scheme and MPF Scheme can be reduced by the Group's voluntary contributions forfeited in relation to those employees who leave the schemes prior to vesting fully in the contributions. At 31st December 2005 and 2004, there were no material unutilised forfeited contributions.

For Mainland China employees, the Group participates in the employee pension schemes of the respective municipal government in various locations in Mainland China where the Group operates. The Group makes monthly contributions calculated at a percentage of the monthly payroll costs to these schemes and the respective municipal government undertakes to assume the retirement benefit obligations of all existing and future retired employees of the Group.

8. SENIOR EXECUTIVES' EMOLUMENTS

(a) Directors' emoluments

	Directors' fees	Salaries, housing, other allowances and benefits in kind	**2005 Total**
	HK$	*HK$*	***HK$***
Chairman			
Mr. Ding Shi Da	50,000	–	**50,000**
Vice Chairman			
Mr. Chen Gui Zong	30,000	–	**30,000**
Executive Directors			
Mr. Yang Sheng Ming	15,000	–	**15,000**
Mr. Zhu Xue Lun	30,000	–	**30,000**
Mr. Weng Jian Yu	50,000	969,251	**1,019,251**
Non-executive Director			
Mr. Wong Hui Jin	6,575	–	**6,575**
Independent Non-executive Directors			
Mr. Ip Kai Ming	150,000	–	**150,000**
Mr. Robert Tsau To Sze	200,000	–	**200,000**
Mr. So Hop Shing	150,000	–	**150,000**
	681,575	969,251	**1,650,826**

8. SENIOR EXECUTIVES' EMOLUMENTS (Continued)

(a) Directors' emoluments (Continued)

	Directors' fees	Salaries, housing, other allowances and benefits in kind	2004 Total
	HK$	*HK$*	*HK$*
Chairman			
Mr. Ding Shi Da	50,000	41,500	91,500
Vice Chairman			
Mr. Chen Gui Zong	30,000	14,000	44,000
Executive Directors			
Mr. Yang Sheng Ming	30,000	14,000	44,000
Mr. Zhu Xue Lun	30,000	16,000	46,000
Mr. Weng Jian Yu	5,998	103,907	109,905
Mr. Shang Jian Guang	43,079	875,075	918,154
Independent Non-executive Directors			
Mr. Ip Kai Ming	150,000	–	150,000
Mr. Robert Tsau To Sze	200,000	–	200,000
Mr. So Hop Shing	38,115	–	38,115
	577,192	1,064,482	1,641,674

8. SENIOR EXECUTIVES' EMOLUMENTS (Continued)

(b) Other senior executives' emoluments

The analysis in note (a) above does not include those individuals who are not directors but whose emoluments are among the five highest in the Group. Details of the emoluments paid to those individuals are as follows:

	2005	2004
	HK$	*HK$*
Salaries, housing and other allowances, and benefits in kind	**4,127,237**	4,530,188
Contributions to retirement benefit scheme	**24,000**	24,000
Bonus	**2,290,000**	2,280,000
	6,441,237	6,834,188

Emoluments Band	**2005**	2004
	Number of Individuals	Number of Individuals
HK$Nil – HK$1,000,000	**–**	–
HK$1,000,001 – HK$1,500,000	**5**	5

9. INCOME TAX CREDIT/(EXPENSE)

Hong Kong profits tax has been provided at the rate of 17.5% *(2004: 17.5%)* on the estimated assessable profit for the year. Taxation on Mainland China and Macau profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in Mainland China and Macau.

The amount of taxation credited/(charged) to the consolidated profit and loss account represents:

	2005	2004 *(Restated)*
	HK$	*HK$*
Current tax		
Hong Kong profits tax	**(10,170)**	(8,551)
Mainland China and Macau taxation	**(10,498)**	(6,437,699)
	(20,668)	(6,446,250)
Over/(under) provision in prior years		
Hong Kong profits tax	**(186)**	187
Mainland China and Macau taxation	**45,679**	(38,686)
	45,493	(38,499)
Deferred tax		
Relating to the origination and reversal of temporary differences *(Note 32)*	**670,066**	1,264,477
Income tax credit/(expense)	**694,891**	(5,220,272)

9. INCOME TAX CREDIT/(EXPENSE) (Continued)

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the Company in Hong Kong as follows:

	2005	2004 *(Restated)*
	HK$	*HK$*
Profit before taxation	**56,652,195**	66,884,204
Calculated at a taxation rate of 17.5%	**(9,914,132)**	(11,704,734)
Effect of different taxation rates in other tax jurisdictions	**876,247**	(2,337,669)
Income not subject to taxation	**15,329,625**	15,227,312
Expenses not deductible for taxation purposes	**(1,435,796)**	(3,248,359)
Utilisation of previously unrecognised tax losses	**1,218,935**	310,102
Increase in unrecognised tax losses and deductible temporary differences	**(5,371,052)**	(3,482,074)
Over/(under) provision in prior years	**45,493**	(38,499)
Others	**(54,429)**	53,649
Income tax credit/(expense)	**694,891**	(5,220,272)

10. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company includes a profit of HK$11,087,384 *(2004: HK$5,987,978 as restated)* which has been dealt with in the accounts of the Company.

11. DIVIDEND

	2005	2004
	HK$	*HK$*
Final dividend proposed after the balance sheet date of 3 HK cents per ordinary share *(2004: Nil)*	**13,782,860**	–

At a board meeting held on 25th April 2006, the Directors proposed a final dividend of 3 HK cents per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained profits for the year ending 31st December 2006.

12. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary equity holders of the Company of HK$59,849,138 *(2004: HK$56,699,868 as restated)* and the weighted average of 459,428,656 *(2004: 459,428,656)* ordinary shares in issue during the year.

The Group has no dilutive potential ordinary shares in issue during the current year and prior year and therefore no diluted earnings per share information is presented in these accounts.

13. PROPERTY, PLANT AND EQUIPMENT

(a) The Group

	Building held for own use	Furniture, fixtures, office and computer equipment	Motor vehicles	Total
	HK$	*HK$*	*HK$*	*HK$*
At 1st January 2004, as restated				
Cost	9,976,505	9,392,877	4,887,309	24,256,691
Accumulated depreciation and impairment losses	(5,023,335)	(5,647,927)	(3,911,294)	(14,582,556)
Net book value at 1st January 2004	4,953,170	3,744,950	976,015	9,674,135
Year ended 31st December 2004, as restated				
Opening net book value	4,953,170	3,744,950	976,015	9,674,135
Translation differences	(2,873)	47	(319)	(3,145)
Additions	–	603,899	347,693	951,592
Charge for the year	(331,041)	(944,379)	(288,074)	(1,563,494)
Disposals	–	(607,720)	(55,476)	(663,196)
Closing net book value	4,619,256	2,796,797	979,839	8,395,892
At 31st December 2004 and 1st January 2005, as restated				
Cost	9,973,489	8,955,816	4,676,919	23,606,224
Accumulated depreciation and impairment losses	(5,354,233)	(6,159,019)	(3,697,080)	(15,210,332)
Net book value at 31st December 2004	4,619,256	2,796,797	979,839	8,395,892
Year ended 31st December 2005				
Opening net book value	4,619,256	2,796,797	979,839	8,395,892
Translation differences	6,456	8,368	21,206	36,030
Additions	–	542,279	2,000,388	2,542,667
Charge for the year	(394,081)	(566,415)	(471,269)	(1,431,765)
Disposals	(353,426)	(91,553)	(259,692)	(704,671)
Closing net book value	**3,878,205**	**2,689,476**	**2,270,472**	**8,838,153**
At 31st December 2005				
Cost	9,407,223	8,876,737	3,753,752	22,037,712
Accumulated depreciation and impairment losses	(5,529,018)	(6,187,261)	(1,483,280)	(13,199,559)
Net book value at 31st December 2005	**3,878,205**	**2,689,476**	**2,270,472**	**8,838,153**

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) The Company

	Building held for own use	Furniture, fixtures, office and computer equipment	Motor vehicles	Total
	HK$	*HK$*	*HK$*	*HK$*
At 1st January 2004, as restated				
Cost	1,184,194	2,743,069	3,771,204	7,698,467
Accumulated depreciation and impairment losses	(167,408)	(1,429,214)	(3,349,236)	(4,945,858)
Net book value at 1st January 2004	1,016,786	1,313,855	421,968	2,752,609
Year ended 31st December 2004, as restated				
Opening net book value	1,016,786	1,313,855	421,968	2,752,609
Translation differences	(2,604)	–	–	(2,604)
Additions	–	362,216	–	362,216
Charge for the year	(39,377)	(283,276)	(70,671)	(393,324)
Disposals	–	(18,878)	(73,604)	(92,482)
Closing net book value	974,805	1,373,917	277,693	2,626,415
At 31st December 2004 and 1st January 2005, as restated				
Cost	1,181,548	2,893,281	2,899,820	6,974,649
Accumulated depreciation and impairment losses	(206,743)	(1,519,364)	(2,622,127)	(4,348,234)
Net book value at 31st December 2004	974,805	1,373,917	277,693	2,626,415
Year ended 31st December 2005				
Opening net book value	974,805	1,373,917	277,693	2,626,415
Translation differences	4,218	–	–	4,218
Additions	–	33,278	2,000,388	2,033,666
Charge for the year	(109,653)	(206,082)	(256,520)	(572,255)
Disposals	–	(13,601)	(254,552)	(268,153)
Closing net book value	**869,370**	**1,187,512**	**1,767,009**	**3,823,891**
At 31st December 2005				
Cost	1,186,186	2,841,913	2,000,388	6,028,487
Accumulated depreciation and impairment losses	(316,816)	(1,654,401)	(233,379)	(2,204,596)
Net book value at 31st December 2005	**869,370**	**1,187,512**	**1,767,009**	**3,823,891**

14. INVESTMENT PROPERTIES

	Group		Company	
	2005	2004	**2005**	2004
	HK$	*HK$*	***HK$***	*HK$*
At 1st January	**64,722,163**	101,710,930	**20,422,163**	21,810,930
Fair value gain	**3,999,163**	–	**1,619,163**	–
Write back of deficit on revaluation/ (Revaluation loss)	**–**	511,233	**–**	(1,388,767)
Disposals	**–**	(37,500,000)	**–**	–
	68,721,326	64,722,163	**22,041,326**	20,422,163

The analysis of the Group's and the Company's interests in investment properties at their net book value is as follows:

	Group		Company	
	2005	2004	**2005**	2004
	HK$	*HK$*	***HK$***	*HK$*
Held in Hong Kong				
Leases of over 50 years	**11,380,000**	9,300,000	**–**	–
Leases of between 10 to 50 years	**29,800,000**	29,500,000	**–**	–
Held outside Hong Kong				
Leases of between 10 to 50 years	**27,541,326**	25,922,163	**22,041,326**	20,422,163
	68,721,326	64,722,163	**22,041,326**	20,422,163

The investment properties were revalued as at 31st December 2005 based on their fair values by independent professional valuers, namely Savills (Hong Kong) Limited and Vigers Appraisal & Consulting Limited in Hong Kong and Fujian Huaxing Certified Public Accountants Ltd. in Mainland China.

The title deed in respect of certain investment properties in Hong Kong with a net book value of HK$41.18 million *(2004: HK$38.8 million)* held by a subsidiary, which is regulated by the Hong Kong Insurance Authority, ('HKIA") are placed in the custody of the Office of the Commissioner of Insurance in Hong Kong pursuant to the relevant regulatory requirements.

15. LEASEHOLD LAND AND LAND USE RIGHTS

The Group's and Company's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book value are analysed below:

	Group		Company	
	2005	2004 *(Restated)*	**2005**	2004 *(Restated)*
	HK$	*HK$*	***HK$***	*HK$*
Opening net book value	**19,099,639**	19,405,822	**2,805,134**	2,824,077
Translation differences	**15,267**	–	**15,267**	–
Reclassification *(a)*	**69,275,483**	–	**–**	–
Amortisation	**(1,260,812)**	(306,183)	**15,265**	(18,943)
Disposals	**(216,131)**	–	**–**	–
Closing net book value	**86,913,446**	19,099,639	**2,835,666**	2,805,134
Less: Amount included in current assets *(a)*	**(68,285,833)**	–	**–**	–
Amount included in non-current assets	**18,627,613**	19,099,639	**2,835,666**	2,805,134

The net book value of leasehold land and land use rights is analysed as follows:

	Group		Company	
	2005	2004 *(Restated)*	**2005**	2004 *(Restated)*
	HK$	*HK$*	***HK$***	*HK$*
Held in Hong Kong				
Leases of over 50 years	**18,054,750**	18,456,654	**2,159,595**	2,162,149
Held outside Hong Kong				
Leases of over 50 years	**68,285,833**	–	**–**	–
Leases of between 10 to 50 years	**572,863**	642,985	**676,071**	642,985
	86,913,446	19,099,639	**2,835,666**	2,805,134

The cost of the leasehold land and land use rights was HK$98,527,571 *(2004: HK$29,841,306)*.

15. LEASEHOLD LAND AND LAND USE RIGHTS (Continued)

(a) The balance represents the land use rights of a parcel of land in Jinan, the PRC (the "Land"), acquired by a non-wholly owned subsidiary of the Group, Jinan Pacific Real Estate Development Co., Ltd. ("Jinan Pacific") in its ordinary course of property development and sales business and therefore is classified as current assets. Subsequent to the year end, the Group has arranged for the disposal of Jinan Pacific *(Note 39(b))*.

In 2004, Jinan Pacific has made full payment (inclusive of transaction costs) of RMB72.1 million (equivalent to HK$67.7 million) to the Land and Resources Bureau of Jinan City (the "Bureau") for the acquisition of the Land. The amount was recognised as land acquisition deposit in the accounts as at 31st December 2004 in view of the fact that the sale and purchase agreement of the land was signed with the Bureau in January 2005. The consideration paid was reclassified to leasehold land and land use rights thereafter in 2005.

Jinan Pacific is currently in the process of obtaining the land use rights certificate of the Land.

According to a legal opinion obtained by the Group, there shall be no legal impediment for Jinan Pacific to obtain the state-owned land use rights certificate. After having obtained the state-owned land use rights certificate, Jinan Pacific has the right to transfer, lease and mortgage the property. As a result, the directors consider it appropriate to account for the Group's interests in the Land in the accounts as land use rights as at 31st December 2005.

16. SUBSIDIARIES

	Company	
	2005	2004
	HK$	*HK$*
Unlisted shares, at cost	**61,155,032**	61,155,034
Loans to subsidiaries, interest bearing *(a)*	**92,101,597**	154,806,548
Loans to subsidiaries, interest free	**72,907,235**	78,491,985
Amounts due from subsidiaries, interest free *(a)*	**23,418,030**	82,422,539
Amounts due to subsidiaries, interest free	**(543,139)**	(9,449,053)
	187,883,723	306,272,019
	249,038,755	367,427,053
Less: Impairment losses *(a)*	**(90,462,171)**	(208,356,472)
	158,576,584	159,070,581

The loans to and amounts due from/(to) subsidiaries are unsecured and are not repayable within the next 12 months. The interest bearing loans to subsidiaries are charged at a spread over Hong Kong Dollar prime or at fixed rates ranging from 6% to 10% per annum.

As of 31st December 2005, the Group has provided loans of RMB7 million *(31st December 2004: RMB5 million)* to a non-wholly owned subsidiary for working capital purposes. The loans are unsecured, bearing interest at 6% per annum and repayable on demand.

16. SUBSIDIARIES (Continued)

(a) During the year, the Group disposed of its entire interests in a non-wholly owned subsidiary which was engaged in property management business but has become inactive in prior years to a third party. As part of the disposal agreement, the Company has agreed to waive the loans and amounts due from the subsidiary of HK$125.9 million, against which a full impairment loss has been recognised in prior years. A gain of HK$3,469,525 *(Note 37(b))* was recognised on the disposal.

The following list contains the particulars of those subsidiaries at 31st December 2005 which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary shares unless otherwise stated.

Name of company	Place of incorporation and operations	Particulars of issued and paid up capital	Group's equity interest	Principal activities
Directly held				
Dorfine Development Limited	Hong Kong	2 shares of HK$1 each	100%	Property investment
Fujian Minxin Investment Consultants Co., Ltd. (1) & (2)	The People's Republic of China	Registered capital HK$3,000,000	100%	Investment consulting services
Min Xin (China) Investment Limited	British Virgin Islands	1 share of US$1	100%	Investment holding
Min Xin Infrastructure Limited	British Virgin Islands	1 share of US$1	100%	Investment holding
Min Xin Insurance Company Limited	Hong Kong	55,000,000 shares of HK$1 each	100%	Writing of general insurance business
Ranger Insurance Brokers Limited	Hong Kong	600,000 shares of HK$1 each	100%	Insurance brokerage services
Take Chance Company Limited	Hong Kong	2 shares of HK$1 each	100%	Property investment
Thousand Limited	British Virgin Islands	1 share of US$1	100%	Investment holding
Welljet Development Limited	Hong Kong	2 shares of HK$1 each	100%	Property investment

16. SUBSIDIARIES (Continued)

Name of company	Place of incorporation and operations	Particulars of issued and paid up capital	Group's equity interest	Principal activities
Indirectly held				
Crown Land International Limited	Hong Kong	10,000 shares of HK$1 each	100%	Investment holding
Jinan Pacific Real Estate Development Co., Ltd. [(1) & (3)] *(Note 39(b))*	The People's Republic of China	Registered capital RMB13,881,160	51%	Property development and sales
Min Xin Properties Limited	Hong Kong	5,000,000 shares of HK$1 each	100%	Investment holding
Shining Gold Limited	British Virgin Islands	1 share of US$1	100%	Investment holding
Wide Exposure Developments Limited	British Virgin Islands	1 share of US$1	100%	Investment holding

(1) Companies not audited by PricewaterhouseCoopers. The aggregate net assets and turnover attributable to these companies represent approximately 3.0% and 2.8% respectively of the Group's consolidated totals.

(2) Wholly foreign-owned enterprise in Mainland China

(3) Equity joint venture enterprise in Mainland China.

17 JOINTLY CONTROLLED ENTITIES

	Group		Company	
	2005	2004 *(Restated)*	**2005**	2004 *(Restated)*
	HK$	*HK$*	***HK$***	*HK$*
Unlisted investments, at cost	**–**	–	**210,805,000**	210,805,000
Share of net assets	**606,564,298**	503,021,191	**–**	–
Less: Impairment losses	**–**	–	**(5,005,000)**	(5,005,000)
	606,564,298	503,021,191	**205,800,000**	205,800,000
Loan to a jointly controlled entity *(b)*	**16,333,670**	16,333,670	**–**	–
Amount due from a jointly controlled entity *(c)*	**–**	13,500,000	**–**	13,500,000
	16,333,670	29,833,670	**–**	13,500,000
Less: Impairment losses *(c)*	**–**	(13,500,000)	**–**	(13,500,000)
	16,333,670	16,333,670	**–**	–
Total investments *(a)*	**622,897,968**	519,354,861	**205,800,000**	205,800,000
Unlisted investments, at cost	**210,805,040**	210,805,040		

(a) The Group's investments in jointly controlled entities are analysed below:

	Xiamen International Bank	**Others**	**Total**
	HK$	***HK$***	***HK$***
At 1st January 2004	467,079,776	19,086,970	486,166,746
Translation difference	–	(57,147)	(57,147)
Share of net profit	45,533,233	3,489,148	49,022,381
Dividend paid	(18,375,000)	–	(18,375,000)
Increase in investment revaluation reserve	2,597,881	–	2,597,881
At 31st December 2004, as previously reported	496,835,890	22,518,971	519,354,861
Prior period adjustments on adoption of new HKFRSs *(Note 2.2)*	14,884,709	–	14,884,709
At 1st January 2005, as restated	511,720,599	22,518,971	534,239,570
Translation difference	5,936,741	348,248	6,284,989
Share of net profit	69,722,842	3,980,666	73,703,508
Dividend paid	(18,669,000)	–	(18,669,000)
Increase in investment revaluation reserve	27,338,901	–	27,338,901
At 31st December 2005	**596,050,083**	**26,847,885**	**622,897,968**

17 JOINTLY CONTROLLED ENTITIES (Continued)

(b) The loan is unsecured, interest free and has no fixed repayment terms.

Bank deposits placed by the Group and the Company with jointly controlled financial institutions in the normal course of business are included in cash and bank balances *(Note 26(a))*.

(c) As a result of the accumulated losses arising from the underlying joint venture, impairment losses were recognised by the Group and the Company against the investment cost and the amount due from a jointly controlled entity in prior years. In view of the current financial position of that jointly controlled entity and that the recovery of the outstanding balance was considered to be unlikely, the Group and the Company have written off the amount due from that jointly controlled entity of HK$13,500,000 against the corresponding cumulative impairment losses made of HK$13,500,000 in the current year.

The following list contains the particulars of those jointly controlled entities at 31st December 2005 which principally affected the results or assets of the Group. All of these entities are unlisted corporates.

Name of jointly controlled entities	Place of incorporation and operations	Particulars of issued and paid up capital	Group's effective interest	Principal activities
Directly held				
Xiamen International Bank, and its subsidiaries:–	The People's Republic of China	Registered capital RMB600,000,000 and HK$434,389,140	36.75%	Banking and investment holding
Fast Rise Investments Limited	Hong Kong	2 shares of HK$1 each	36.75%	Property investment
Luso International Banking Limited	Macau	300,000 Class A and 15,600 Class B Shares of MOP1,000 each	34.95%	Banking
Setwide Investments Limited	Hong Kong	2 shares of HK$1 each	36.75%	Property investment
Silver Win Development Limited	Hong Kong	2 shares of HK$1 each	36.75%	Property investment
Wealth Rise Development Limited	Hong Kong	2 shares of HK$1 each	36.75%	Property investment

17 JOINTLY CONTROLLED ENTITIES (Continued)

Name of jointly controlled entities	Place of incorporation and operations	Particulars of issued and paid up capital	Group's effective interest	Principal activities
Directly held (Continued)				
Xiamen International Investment Limited	Hong Kong	10,000 shares of HK$1 each	36.75%	Investment holding
XIB Properties Limited	Liberia	1,000 shares of US$1 each	36.75%	Property investment
Indirectly held				
Min Faith Investments Limited (1), and its subsidiaries:–	Hong Kong	100 shares of HK$1 each	40%	Investment holding
Fuzhou Charm Faith Autosystem Co., Ltd. (1)	The People's Republic of China	Registered capital US$1,210,000	40%	Manufacturing and distribution of digital instruments
Fuzhou Charm Faith Instruments Co., Ltd. (1)	The People's Republic of China	Registered capital US$200,000	40%	Manufacturing and distribution of digital instruments
Min Faith Instruments Limited (1) and its subsidiary:–	Hong Kong	100 shares of HK$1 each	20.4%	Investment holding
Tianjin Charm Faith Instruments Co., Ltd. (1)	The People's Republic of China	Registered capital US$600,000	20.4%	Manufacturing and distribution of digital instruments

(1) Companies not audited by PricewaterhouseCoopers. The aggregate net assets and profits before taxation attributable to these companies represent approximately 0.8% and 7.0% respectively of the Group's consolidated totals.

17 JOINTLY CONTROLLED ENTITIES (Continued)

(d) The financial information of the Group's jointly controlled entities extracted from their accounts prepared in accordance with the generally accepted accounting principles in their place of incorporation is as follows:

	Xiamen International Bank		Others		Total		Group's attributable interests	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	RMB	*RMB*	***HK$***	*HK$*	***HK$***	*HK$*	***HK$***	*HK$*
Non-current assets	**8,176,835,875**	5,910,459,876	**23,680,732**	19,833,359	**7,880,189,062**	5,569,459,660	**2,896,739,104**	2,047,421,009
Current assets	**15,150,982,154**	10,647,574,714	**53,397,050**	46,738,043	**14,610,839,478**	10,044,278,321	**5,371,376,534**	3,692,966,679
Non-current liabilities	**(3,431,298,730)**	(1,133,535,681)	**–**	–	**(3,296,877,602)**	(1,064,333,328)	**(1,211,602,519)**	(391,142,498)
Current liabilities	**(18,245,675,090)**	(13,942,772,692)	**(11,568,716)**	(11,103,440)	**(17,542,469,484)**	(13,102,669,859)	**(6,447,729,867)**	(4,816,065,894)
Net assets	**1,650,844,209**	1,481,726,217	**65,509,066**	55,467,962	**1,651,681,454**	1,446,734,794	**608,783,252**	533,179,296
Income	**904,527,195**	606,298,228	**40,553,068**	42,685,779	**899,752,144**	611,969,500	**331,976,888**	226,286,079
Expenses	**(702,536,026)**	(463,742,071)	**(31,025,117)**	(33,962,910)	**(698,355,306)**	(469,393,528)	**(257,653,891)**	(173,605,916)
Profit for the year	**201,991,169**	142,556,157	**9,527,951**	8,722,869	**201,396,838**	142,575,972	**74,322,997**	52,680,163

18 ASSOCIATES

	Group		Company	
	2005	2004 *(Restated)*	**2005**	2004 *(Restated)*
	HK$	*HK$*	***HK$***	*HK$*
Unlisted investments, at cost	**–**	–	**10,069,838**	10,069,838
Share of net assets	**3,645,615**	12,305,780	**–**	–
	3,645,615	12,305,780	**10,069,838**	10,069,838
Loans to associates	**54,699,413**	55,051,395	**–**	–
	58,345,028	67,357,175	**10,069,838**	10,069,838
Unlisted investments, at cost	**14,515,029**	14,515,029		

The loans to associates are unsecured, interest free and have no fixed repayment terms.

18 ASSOCIATES (Continued)

The following list contains the particulars of those associates at 31st December 2005 which principally affected the results or assets of the Group. All these associates are unlisted corporates.

Name of associates	Place of incorporation and operations	Particulars of issued and paid up capital	Group's effective interest	Principal activities
Directly held				
Fujian Hua Yuan City Construction Environment Protection Co., Ltd. [1]	The People's Republic of China	Registered capital RMB42,670,000	25%	Sewage and waste treatment services
Indirectly held				
Promise Good Limited [1] & [4], and its subsidiaries:–	British Virgin Islands	10,000 shares of US$1 each	40%	Investment holding
Nickwell Investments Limited [1]	British Virgin Islands	1 share of US$1	40%	Investment holding
Raytek Investments Limited [1]	British Virgin Islands	1 share of US$1	40%	Investment holding
Wise Link Investments Limited [1]	British Virgin Islands	1 share of US$1	40%	Investment holding
Ningbo Nickwell Highway Development Company Limited [1] & [4]	The People's Republic of China	Registered capital RMB88,000,000	26% [2]	Infrastructure
Ningbo Rayter Highway Development Company Limited [1] & [4]	The People's Republic of China	Registered capital RMB96,000,000	26% [2]	Infrastructure
Ningbo Wise Link Highway Development Company Limited [1] & [4]	The People's Republic of China	Registered capital RMB56,000,000	26% [2]	Infrastructure

18 ASSOCIATES (Continued)

Name of associates	Place of incorporation and operations	Particulars of issued and paid up capital	Group's effective interest	Principal activities
Indirectly held (Continued)				
Vigorous Developments Limited [1], and its subsidiary:–	British Virgin Islands	10,000 shares of US$1 each	30%	Investment holding
Maanshan Huan Tung Highway Development Limited [1]	The People's Republic of China	Registered capital RMB99,450,000	21% [3]	Infrastructure

(1) Companies not audited by PricewaterhouseCoopers. The Group's share of the aggregate net assets and net loss before taxation of these companies represent approximately 0.3% and 6.3% respectively of the Group's consolidated net assets and net profit before taxation.

(2) The profit sharing arrangement commenced from August 1998 and the Group's share of the associates' profit is 32% for the first five years, 20% for the next five years and 26% for the remaining years.

(3) The profit sharing arrangement commenced from January 2000 and the Group's share of the associate's profit is 24% for the first five years, 18% for the next five years and 21% for the remaining years.

(4) Subsequent to the year end, Promise Good Limited has entered into an agreement to dispose of these subsidiaries *(Notes 29 and 39(d))*.

(a) The financial information of the Group's associates extracted from their accounts prepared in accordance with the generally accepted accounting principles in their place of incorporation is as follows:

	Assets	Liabilities	Equity	Revenues	Profit/(loss)
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
2005					
Aggregated	**625,010,888**	**(398,466,881)**	**226,544,007**	**56,520,611**	**1,225,837**
Group's attributable interest	**152,613,035**	**(101,191,845)**	**51,421,190**	**12,525,463**	**(3,587,560)**
2004					
Aggregated	640,452,548	(299,820,914)	340,631,634	74,021,862	4,392,136
Group's attributable interest	156,165,167	(75,581,831)	80,583,336	16,977,806	(2,212,947)

19 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group and Company	
	2005	2004
	HK$	*HK$*
Cost of acquisition		
Amount paid	**373,165,562**	–
Additional cost payable	**7,187,077**	–
Less: Pre-acquisition dividend received	**(25,311,709)**	–
Fair value gain recognised in investment revaluation reserve *(Note 33)*	**4,307,620**	–
	359,348,550	–

The available-for-sale financial assets represent the Group's investment in 108,000,000 unlisted legal person shares ("Huaneng Shares") of Huaneng Power International, Inc. ("Huaneng"), a company incorporated in the People's Republic of China ("PRC") with shares listed on the stock exchanges of Shanghai and Hong Kong. The investment was acquired from the then substantial shareholder of the Group, Fujian International Trust & Investment Corporation ("FITIC"), which has subsequently been liquidated and deregistered and its interests in Huaneng were succeeded by Fujian Investment & Enterprise Holdings Corporation ("FIEC"). The transaction therefore constituted a connected and very substantial acquisition of the Group under the Listing Rules. The Group has obtained the independent shareholders' and relevant PRC authorities' approval for the acquisition and completed the transaction on 7th June 2005.

Pursuant to the agreement and supplemental agreement with FIEC dated 19th July 2004 and 2nd March 2005 respectively, the purchase consideration of Huaneng Shares comprised a fixed sum of approximately RMB374 million (equivalent to approximately HK$353.4 million) and an amount based on the net asset value appreciation (as defined in the agreements) of Huaneng from 1st January 2004 to the date of completion of the acquisition at 7th June 2005. The net asset value appreciation is calculated based on the published annual audited financial information of Huaneng. As at 31st December 2005, the Group has paid an amount of HK$19.8 million to FIEC for the net asset value appreciation of Huaneng for the year ended 31st December 2004. In addition, the Group has also determined the additional cost of acquisition in relation to Huaneng's net asset value appreciation from 1st January 2005 to 7th June 2005 (i.e. date of completion) with reference to its published audited financial information for the year ended 31st December 2005.

The Group has appointed an external professional valuer to estimate the fair value of the Huaneng Shares at 31st December 2005. Reference was made to the listed share price of Huaneng on the Shanghai Stock Exchange and the estimated discount rate to reflect the unlisted status of Huaneng's legal person shares. Based on the valuation result, the Group's investment in Huaneng Shares was revalued to RMB374 million (equivalent to HK$359.3 million) as at 31st December 2005 and recognised a fair value change of HK$4,307,620 in the investment revaluation reserve.

20 LOAN RECEIVABLE/OTHER ASSET

	Group and Company	
	2005	2004
	HK$	*HK$*
Advance to an unrelated company	**64,500,000**	64,500,000
Less: Impairment losses	**(7,853,000)**	(6,450,000)
	56,647,000	58,050,000

The advance is secured by certain units of a building in Fuzhou, Mainland China. Interest of 14% and a management fee of 4% per annum was payable by the borrower on the advance.

In 2001, the Company took legal actions against the borrower for settlement of the advance which was not repaid as originally scheduled. On 26th January 2001, a court order was granted to confirm the Company's right to foreclose on the secured units of the building held as collateral.

The Company has undertaken various steps in order to realise the property collateral since 2001. In January 2006, the Group has successfully realised the property collateral through a public auction *(Note 39(c))*. Based on the discounted cash flows from realisation of the property collateral, an additional impairment loss of HK$1,403,000 was made against the advance in the current year.

21 DEFERRED ACQUISITION COSTS

	Group	
	2005	2004
	HK$	*HK$*
Opening net book amount	**11,421,587**	7,824,360
Additions	**21,462,512**	19,281,644
Amortisation charge to profit and loss *(Note 6(b))*	**(19,438,859)**	(15,684,417)
Closing net book amount	**13,445,240**	11,421,587

22 PREMIUM RECEIVABLE

	Group	
	2005	2004
	HK$	*HK$*
Due from agents, brokers and intermediates	**14,578,276**	14,281,416
Less: Impairment losses	**(2,581,818)**	(2,581,818)
	11,996,458	11,699,598
Due from contract holders	**240,887**	4,557,702
Less: Impairment losses	**(5,371)**	(5,371)
	235,516	4,552,331
Due from reinsurers	**915,747**	3,170,634
Less: Impairment losses	**(537,156)**	(540,010)
	378,591	2,630,624
	12,610,565	18,882,553

The credit period for the majority of insurance debtors normally ranges from 90 to 120 days. The credit terms of insurance debtors, including whether guarantees from third parties are required, are determined by senior management.

At 31st December 2005, the ageing analysis of the insurance debtors by invoice date was as follows:

	Group	
	2005	2004
	HK$	*HK$*
Within 30 days	**2,525,094**	4,286,924
31-60 days	**3,993,562**	3,357,819
61-90 days	**2,820,574**	8,068,186
Over 90 days	**3,271,335**	3,169,624
	12,610,565	18,882,553

23 REINSURANCE ASSETS

	Group	
	2005	2004
	HK$	*HK$*
Reinsurers' share of insurance liabilities *(Note 27)*	**10,935,189**	17,131,262

Amounts due from reinsurers in respect of claims already paid by the Group on the contracts that are reinsured are included in premium receivable *(Note 22)*.

Included in the reinsurance assets balance is an amount of HK$427,965 *(2004: HK$5,168,048)* which is expected to be recovered after 12 months.

24 TRADING SECURITIES, LISTED

	Group		Company	
	2005	2004	**2005**	2004
	HK$	*HK$*	***HK$***	*HK$*
Equity securities, listed in Hong Kong – at market value	**–**	6,199,974	**–**	3,499,974

25 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Company	
	2005	2004	**2005**	2004
	HK$	*HK$*	***HK$***	*HK$*
Equity securities held for trading, listed in Hong Kong – at market value	**8,706,383**	–	**1,475,278**	–

26 CASH AND BANK BALANCES

Included in cash and bank balances are :

(a) deposits with jointly controlled financial institutions totalling HK$159,350,297 *(2004: HK$337,546,492)* by the Group and HK$147,457,630 *(2004: HK$325,203,105)* by the Company. The deposits carry interest at normal commercial rates and have generated interest income of HK$4,367,153 *(2004: HK$2,752,697)* to the Group for the year.

(b) deposits of RMB141,021,908 (equivalent to HK$135,497,375) placed with certain banks (including jointly controlled financial institutions as disclosed in note (a) above) in Mainland China *(2004: RMB128,637,902, equivalent to HK$120,784,558)*.

In accordance with a request from HKIA, a subsidiary regulated by HKIA maintains at all time a portion of its funds, being not less than HK$16 million *(2004: HK$16 million)*, in fixed deposits. The subsidiary also pledged a fixed deposit of HK$5,468,576 *(2004: HK$5,966,801)* in favour of Autoridade Monetaria de Macau to guarantee the gross technical reserves of its Macau Branch which comprise outstanding claims and unearned premium reserves as required under the Macau Insurance Ordinance.

27 INSURANCE CONTRACTS

	Group	
	2005	2004
	HK$	*HK$*
Gross		
Short term insurance contracts		
– claims reported and loss adjustment expenses	**42,967,288**	46,515,644
– claims incurred but not reported	**14,474,000**	14,378,000
– unearned premiums	**34,471,324**	31,086,631
– unexpired risks provision	**720,000**	3,115,000
Total insurance liabilities, gross	**92,632,612**	95,095,275
Recoverable from reinsurers		
Short term insurance contracts		
– claims reported and loss adjustment expenses	**(1,934,743)**	(5,654,235)
– claims incurred but not reported	**(5,532,000)**	(7,163,000)
– unearned premiums	**(3,468,446)**	(4,314,027)
Total reinsurers' share of insurance liabilities *(Note 23)*	**(10,935,189)**	(17,131,262)
Net		
Short term insurance contracts		
– claims reported and loss adjustment expenses	**41,032,545**	40,861,409
– claims incurred but not reported	**8,942,000**	7,215,000
– unearned premiums	**31,002,878**	26,772,604
– unexpired risks provision	**720,000**	3,115,000
Total insurance liabilities, net	**81,697,423**	77,964,013

The liabilities for gross claims reported, loss adjustment expenses and claims incurred but not reported are net of expected recoveries from salvage and subrogation.

Included in the net insurance liabilities balance is an amount of HK$28,974,314 *(2004: HK$30,841,918)* which is expected to be settled after 12 months.

28 INSURANCE LIABILITIES

At 31st December 2005, the ageing analysis of the insurance liabilities by invoice date was as follows:

	Group	
	2005	2004
	HK$	*HK$*
Within 30 days	**1,454,968**	2,200,857
31-60 days	**1,477,788**	1,286,934
61-90 days	**995,139**	4,156,633
Over 90 days	**1,709,637**	968,821
	5,637,532	8,613,245

29 DEPOSITS RECEIVED

Balance represents the deposits of RMB15 million received from a potential buyer on behalf of an associate, Promise Good Limited ("PGL"), in relation to its contemplated disposal of the toll road investments in the PRC. Subsequent to the year end, PGL has executed an agreement with the potential buyer to dispose of the toll road investments *(Note 39(d))*.

The deposits, which form part of the consideration for the disposal, are repayable by the Company to PGL on the latter's demand.

30 SHORT TERM ADVANCES

As at 31st December 2005, a non-wholly owned subsidiary of the Group, Jinan Pacific *(Note 15(a))* had the following outstanding short term advances:

	Group	
	2005	2004
	HK$	*HK$*
Loans from a minority shareholder *(a)*	**8,638,427**	–
Loans from third parties *(b)*	**18,753,592**	21,143,482
	27,392,019	21,143,482

(a) The loans are denominated in RMB and were advanced for working capital requirements. They are unsecured, repayable on demand and bearing interest at 6% per annum.

(b) The loans are denominated in RMB and were advanced from two non-financial institutions in Mainland China for financing the acquisition of the land use rights of a parcel of land *(Note 15(a))*. The loans are unsecured, repayable on demand and bearing interest at 5.22% to 6% per annum.

31 BANK BORROWINGS

	Group and Company	
	2005	2004
	HK$	*HK$*
Bank loans, secured	**119,707,082**	–
Less: Amounts due within one year included under current liabilities	**(23,896,784)**	–
	95,810,298	–

These bank loans are denominated in Hong Kong Dollar and secured by one of the properties (including the leasehold land component) of the Group with a net book value of HK$14.4 million as at 31st December 2005.

The maturity profile of the bank loans is as follows:

	Group and Company	
	2005	2004
	HK$	*HK$*
Within 1 year	**23,896,784**	–
More than 1 year but within 2 years	**23,917,789**	–
More than 2 years but within 5 years	**71,892,509**	–
	119,707,082	–

The bank loans bear interest at a spread over Hong Kong Interbank Offered Rate and the effective interest rate at the balance sheet date was 5.97% per annum.

32 DEFERRED INCOME TAX

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% *(2004: 17.5%)* for Hong Kong taxation and 33% *(2004: 33%)* for Mainland China taxation. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The movement on the deferred tax assets/(liabilities) account is as follows:

	Group	
	2005	2004
	HK$	*HK$*
At the beginning of the year	**(311,731)**	(1,573,162)
Deferred taxation credited to current year profit and loss	**670,066**	1,264,478
Exchange differences	**(7,242)**	(3,047)
At the end of the year	**351,093**	(311,731)

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profits is probable. At 31st December 2005, the Group has estimated unrecognised tax losses of approximately HK$114 million *(2004: approximately HK$95 million)* to carry forward against future taxable income. These tax losses have no expiry date.

(i) The movement in deferred income tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

The Group

Deferred income tax liabilities

	Accelerated tax depreciation		Accrued income		Total	
	2005	2004	**2005**	2004	**2005**	2004
	HK$	*HK$*	***HK$***	*HK$*	***HK$***	*HK$*
At 1st January	**2,024,882**	1,525,777	**332,976**	2,511,128	**2,357,858**	4,036,905
Charged/(credited) to profit and loss	**(159,305)**	499,126	**(23,601)**	(2,184,182)	**(182,906)**	(1,685,056)
Exchange differences	**43**	(21)	**7,199**	6,030	**7,242**	6,009
At 31st December	**1,865,620**	2,024,882	**316,574**	332,976	**2,182,194**	2,357,858

32 DEFERRED INCOME TAX (Continued)

Deferred income tax assets

	Tax losses		Unearned income		Total	
	2005	2004	**2005**	2004	**2005**	2004
	HK$	*HK$*	***HK$***	*HK$*	***HK$***	*HK$*
At 1st January	**(2,046,127)**	(1,524,863)	**–**	(938,880)	**(2,046,127)**	(2,463,743)
Charged/(credited) to profit and loss	**(487,160)**	(521,264)	**–**	941,842	**(487,160)**	420,578
Exchange differences	**–**	–	**–**	(2,962)	**–**	(2,962)
At 31st December	**(2,533,287)**	(2,046,127)	**–**	–	**(2,533,287)**	(2,046,127)

(ii) Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amount, determined after appropriate offsetting, is shown in the consolidated balance sheet:

	2005	2004 *(Restated)*
	HK$	*HK$*
Deferred income tax assets		
– To be recovered after 12 months	**500,178**	–
– To be recovered within 12 months	**49,737**	–
	549,915	–
Deferred income tax liabilities		
– To be settled after 12 months	**(198,822)**	–
– To be settled within 12 months	**–**	(311,731)
	(198,822)	(311,731)
	351,093	(311,731)

33 CAPITAL AND RESERVES

(a) The Group

	Attributable to equity holders of the Company													
		Other reserves												
	Share capital	Share premium	Capital redemption reserve	Statutory reserve	General reserve	Capital reserve	Investment revaluation reserve	Other properties revaluation reserve	Exchange translation reserve	Sub-total	Retained profits	Total	Minority interest	Total equity
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
At 1st January 2005														
– As previously stated	459,428,656	384,620,414	47,086,000	38,287,658	61,217,599	134,427,785	12,374,176	24,182,332	316,998	702,512,962	100,671,191	1,262,612,809	–	1,262,612,809
– As previously separately reported as minority interest	–	–	–	–	–	–	–	–	–	–	–	–	16,481,244	16,481,244
– Prior period adjustments on adoption of new HKFRSs *(Note 2.2)*	–	–	–	–	–	–	–	(24,182,332)	–	(24,182,332)	(26,955,080)	(51,137,412)	–	(51,137,412)
At 1st January 2005, as restated	459,428,656	384,620,414	47,086,000	38,287,658	61,217,599	134,427,785	12,374,176	–	316,998	678,330,630	73,716,111	1,211,475,397	16,481,244	1,227,956,641
– Opening adjustments on adoption of:														
– HKAS 39 *(Note 2.2)*	–	–	–	–	–	–	–	–	–	–	14,884,709	14,884,709	–	14,884,709
– Transfer	–	–	–	–	–	–	1,881,364	–	–	1,881,364	(1,881,364)	–	–	–
At 1st January 2005, as adjusted	459,428,656	384,620,414	47,086,000	38,287,658	61,217,599	134,427,785	14,255,540	–	316,998	680,211,994	86,719,456	1,226,360,106	16,481,244	1,242,841,350
Change in fair value of available-for-sale financial assets	–	–	–	–	–	–	4,307,620	–	–	4,307,620	–	4,307,620	–	4,307,620
Change in fair value of available-for-sale financial assets held by a jointly controlled entity	–	–	–	–	–	–	34,829,481	–	–	34,829,481	–	34,829,481	–	34,829,481
Deferred tax liabilities recognised	–	–	–	–	–	–	(7,490,580)	–	–	(7,490,580)	–	(7,490,580)	–	(7,490,580)
Exchange differences arising on translation of the financial statements of foreign subsidiaries, associates and jointly controlled entities	–	–	–	–	10,224	(134)	–	–	6,969,557	6,979,647	–	6,979,647	383,969	7,363,616
Net gain recognised directly in equity	–	–	–	–	10,224	(134)	31,646,521	–	6,969,557	38,626,168	–	38,626,168	383,969	39,010,137
	459,428,656	384,620,414	47,086,000	38,287,658	61,227,823	134,427,651	45,902,061	–	7,286,555	718,838,162	86,719,456	1,264,986,274	16,865,213	1,281,851,487
Profit for the year	–	–	–	–	–	–	–	–	–	–	59,849,138	59,849,138	(2,502,052)	57,347,086
Transfers	–	–	–	5,090,475	20,789,736	77,173,771	–	–	–	103,053,982	(103,053,982)	–	–	–
At 31st December 2005	**459,428,656**	**384,620,414**	**47,086,000**	**43,378,133**	**82,017,559**	**211,601,422**	**45,902,061**	**–**	**7,286,555**	**821,892,144**	**43,514,612**	**1,324,835,412**	**14,363,161**	**1,339,198,573**
Representing:														
2005 final dividend proposed											13,782,860			
Others											29,731,752			
Retained profits as at 31st December 2005											**43,514,612**			

33 CAPITAL AND RESERVES (Continued)

(a) The Group (Continued)

	Attributable to equity holders of the Company													
		Other reserves												
	Share capital	Share premium	Capital redemption reserve	Statutory reserve	General reserve	Capital reserve	Investment revaluation reserve	Other properties revaluation reserve	Exchange translation reserve	Sub-total	Retained profits	Total	Minority interest	Total equity
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
At 1st January 2004														
– As previously stated	459,428,656	384,620,414	47,086,000	34,171,673	44,372,423	134,433,527	9,776,295	19,212,780	386,703	674,059,815	81,662,433	1,215,150,904	–	1,215,150,904
– As previously separately reported as minority interest	–	–	–	–	–	–	–	–	–	–	–	–	14,452,599	14,452,599
– Prior period adjustments on adoption of new HKFRSs *(Note 2.2)*	–	–	–	–	–	–	–	(19,212,780)	–	(19,212,780)	(25,305,350)	(44,518,130)	–	(44,518,130)
At 1st January 2004, as restated	459,428,656	384,620,414	47,086,000	34,171,673	44,372,423	134,433,527	9,776,295	–	386,703	654,847,035	56,357,083	1,170,632,774	14,452,599	1,185,085,373
Change in fair value of available-for-sale financial assets held by a jointly controlled entity	–	–	–	–	–	–	3,056,331	–	–	3,056,331	–	3,056,331		3,056,331
Deferred tax liabilities recognised	–	–	–	–	–	–	(458,450)	–	–	(458,450)	–	(458,450)		(458,450)
Disposal of an associate	–	–	–	–	–	–	–	–	78,732	78,732	–	78,732		78,732
Exchange differences arising on translation of the financial statements of foreign subsidiaries, associates and jointly controlled entities	–	–	–	–	(2,533)	(5,742)	–	–	(148,437)	(156,712)	–	(156,712)	(54,090)	(210,802)
Net gain recognised directly in equity	–	–	–	–	(2,533)	(5,742)	2,597,881	–	(69,705)	2,519,901	–	2,519,901	(54,090)	2,465,811
	459,428,656	384,620,414	47,086,000	34,171,673	44,369,890	134,427,785	12,374,176	–	316,998	657,366,936	56,357,083	1,173,152,675	14,398,509	1,187,551,184
Profit for the year	–	–	–	–	–	–	–	–	–	–	56,699,868	56,699,868	4,964,064	61,663,932
Transfers	–	–	–	4,115,985	16,847,709	–	–	–	–	20,963,694	(20,963,694)	–	–	
Dividends	–	–	–	–	–	–	–	–	–	–	(18,377,146)	(18,377,146)	(2,881,329)	(21,258,475)
At 31st December 2004, as restated	459,428,656	384,620,414	47,086,000	38,287,658	61,217,599	134,427,785	12,374,176	–	316,998	678,330,630	73,716,111	1,211,475,397	16,481,244	1,227,956,641
Representing:														
2004 final dividend proposed											–			
Others											73,716,111			
Retained profits as at 31st December 2004											73,716,111			

33 CAPITAL AND RESERVES (Continued)

(b) The Company

		Other reserves					
	Share capital	Share premium	Capital redemption reserve	Investment revaluation reserve	Sub-total	Retained profits	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
At 1st January 2005							
– As previously stated	459,428,656	384,620,414	47,086,000	–	431,706,414	6,840,857	897,975,927
– Prior period adjustments on adoption of HKAS 17	–	–	–	–	–	11,789	11,789
At 1st January 2005, as restated	459,428,656	384,620,414	47,086,000	–	431,706,414	6,852,646	897,987,716
Change in fair value of available– for-sale financial assets	–	–	–	4,307,620	4,307,620	–	4,307,620
Profit for the year	–	–	–	–	–	11,087,384	11,087,384
At 31st December 2005	**459,428,656**	**384,620,414**	**47,086,000**	**4,307,620**	**436,014,034**	**17,940,030**	**913,382,720**
Representing:							
2005 final dividend proposed						13,782,860	
Others						4,157,170	
Retained profits as at 31st December 2005						17,940,030	
At 1st January 2004							
– As previously stated	459,428,656	384,620,414	47,086,000	–	431,706,414	19,237,510	910,372,580
– Prior period adjustments on adoption of HKAS 17	–	–	–	–	–	4,304	4,304
At 1st January 2004, as restated	459,428,656	384,620,414	47,086,000	–	431,706,414	19,241,814	910,376,884
Profit for the year	–	–	–	–	–	5,987,978	5,987,978
Dividends	–	–	–	–	–	(18,377,146)	(18,377,146)
At 31st December 2004	459,428,656	384,620,414	47,086,000	–	431,706,414	6,852,646	897,987,716
Representing:							
2004 final dividend proposed						–	
Others						6,852,646	
Retained profits as at 31st December 2004						6,852,646	

33 CAPITAL AND RESERVES (Continued)

(c) Share capital

	2005		2004	
	No. of shares	***HK$***	No. of shares	*HK$*
Authorised				
Ordinary shares of HK$1 each	**800,000,000**	**800,000,000**	800,000,000	800,000,000
Ordinary shares, issued and fully paid				
Ordinary shares of HK$1 each	**459,428,656**	**459,428,656**	459,428,656	459,428,656

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 shareholders' meetings. All ordinary shares rank equally with regard to the Company's residual assets.

(d) Nature and purpose of reserves

(i) Share premium and capital redemption reserve

The application of the share premium account and the capital redemption reserve is governed by Sections 48B and 49H respectively of the Hong Kong Companies Ordinance.

(ii) Statutory reserve

The statutory reserve is set aside from retained earnings in accordance with the relevant statutory requirements in Mainland China and Macau.

(iii) General reserve

The general reserve is transferred from retained earnings and is available for general use.

(iv) Capital reserve

The capital reserve comprises the following:

- goodwill and the excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost arising from consolidation of subsidiaries and associates acquired prior to 1st January 2001; and

- capitalisation of reserves for the purpose of increasing the share capital of a jointly controlled entity and its subsidiaries in current and previous years.

33 CAPITAL AND RESERVES (Continued)

(d) Nature and purpose of reserves (Continued)

(v) Investment revaluation reserve

The investment revaluation reserve comprises the cumulative net change in the fair value of available-for-sale financial assets held by the Company and a jointly controlled entity at the balance sheet date and is dealt with in accordance with the accounting policies in Note 2.10.

(vi) Exchange translation reserve

The exchange translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign subsidiaries, associates and jointly controlled entities into the reporting currency of the Company. The reserve is dealt with in accordance with the accounting policies set out in Note 2.6.

34 CONTINGENT LIABILITIES

A non-wholly owned subsidiary of the Group, Jinan Pacific *(Note 15(a))*, has issued guarantees for bank mortgage loan facilities obtained by certain buyers to acquire properties in Mainland China from it. As at 31st December 2005, the outstanding loan balances amounted to RMB787,500 (equivalent to HK$756,650) *(2004: RMB40,247,696, equivalent to HK$37,790,574)*. These guarantees will be released upon the receipt of title deeds of the related mortgaged properties by the banks.

35 CAPITAL COMMITMENTS

For property, plant and equipment

	Group		Company	
	2005	2004	**2005**	2004
	HK$	*HK$*	***HK$***	*HK$*
Authorised but not contracted for	**–**	2,600,000	**–**	2,600,000
Contracted but not provided for	**159,295**	155,669	**159,295**	155,669
	159,295	2,755,669	**159,295**	2,755,669

The Group's share of capital commitments of the jointly controlled entities not included above is as follows:

Contracted but not provided for	**2,424,381**	1,215,513

36 LEASE COMMITMENTS

(a) As lessee

At 31st December 2005, the Group and the Company had future aggregate minimum lease payments payable under non-cancellable operating leases as follows:

	Group		Company	
	2005	2004	**2005**	2004
	HK$	*HK$*	***HK$***	*HK$*
Land and buildings				
Within one year	**603,709**	697,233	**1,474,560**	208,000
In the second to fifth year inclusive	**208,255**	478,964	**144,000**	288,000
	811,964	1,176,197	**1,618,560**	496,000

(b) As lessor

At 31st December 2005, the Group had future aggregate minimum lease payments receivable under non-cancellable operating leases as follows:

	Group		Company	
	2005	2004	**2005**	2004
	HK$	*HK$*	***HK$***	*HK$*
Land and buildings				
Within one year	**4,593,142**	2,775,000	**–**	–
In the second to fifth year inclusive	**3,612,941**	2,025,000	**–**	–
	8,206,083	4,800,000	**–**	–

The lease terms for business and residential properties leased out by the Group range from one to five years and with fixed rentals throughout the lease periods.

37 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to net cash outflow from operations

	2005	2004 *(Restated)*
	HK$	*HK$*
Profit before taxation for the year	**56,652,195**	66,884,204
Adjustments for:		
Share of profits of jointly controlled entities	**(73,703,508)**	(49,022,381)
Share of losses of associates	**3,587,560**	7,218,323
Fair value gain/write back of deficit on revaluation of investment properties	**(3,999,163)**	(511,233)
Impairment loss on loan receivable	**1,403,000**	–
Depreciation and amortisation	**2,692,577**	1,869,838
Gain on disposal of a subsidiary *(b)*	**(3,469,525)**	–
Gain on disposal of an associate	**–**	(6,030,032)
Loss on disposal of property, plant and equipment	**29,157**	663,386
Gain on disposal of investment properties	**–**	(14,204,660)
Dividend income from listed equity securities held for trading	**(279,413)**	(175,813)
Interest income from unlisted held-to-maturity debt securities	**(292,083)**	(205,463)
Interest income from bank deposits	**(7,110,028)**	(4,324,140)
Interest expenses	**3,526,918**	69,854
Net exchange gains	**(2,831,045)**	–
Changes in working capital:		
Increase in amounts due to associates	**–**	106,113
Decrease/(increase) in land acquisition deposit *(c)*	**67,698,295**	(67,698,295)
Increase in land use rights *(c)*	**(68,285,833)**	–
Decrease in properties for sale	**–**	32,960,761
Increase in deferred acquisition costs	**(2,023,653)**	(3,597,227)
Decrease/(increase) in premium receivable	**6,271,988**	(5,105,239)
Decrease in reinsurance assets	**6,196,073**	4,693,944
(Increase)/decrease in other debtors	**(75,256)**	572,439
(Increase)/decrease in prepayments and deposits	**(419,660)**	59,994
Decrease/(increase) in listed trading securities	**6,199,974**	(534,878)
Increase in financial assets at fair value through profit or loss	**(8,706,383)**	–
Decrease in insurance contracts	**(2,462,663)**	(1,220,400)
(Decrease)/increase in insurance liabilities	**(2,975,713)**	3,158,343
Decrease in other creditors and accruals	**(4,369,780)**	(29,503,969)
Increase in deposits received	**14,449,848**	–
Exchange difference	**(120,700)**	(118,551)
Net cash outflow from operations	**(12,416,821)**	(63,995,082)

37 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Sale of a subsidiary

	2005
	HK$
Net liabilities disposed of	
Taxation payable	**3,499,525**
Transaction costs paid	**(30,000)**
Gain on disposal	**3,469,525**
Cash outflow on disposal	
Transaction costs paid	**(30,000)**

(c) Major non-cash transaction

As disclosed in Note 15(a), the Group reclassified the land acquisition deposit paid in 2004 to land use rights during 2005.

38 RELATED PARTY TRANSACTIONS

For the purposes of these consolidation accounts, parties are considered to be related to the Group if the 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 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 Group where those parties are individuals.

In addition to those disclosed elsewhere in the accounts, significant related party transactions which were carried out in the normal course of the Group's business are as follows:

(a) Gross insurance premium less commission paid totalling HK$3,363,660 *(2004: HK$3,874,315)* was derived from business referred to a subsidiary by a jointly controlled entity during the year. Those insurance policies underwritten by the Group were contracted at prices and terms not less favourable than those contracted with other third party customers of the Group.

(b) An amount of HK$1,880,000 *(2004 : HK$1,880,000)* was paid to Vigour Fine Company Limited, a substantial shareholder of the Company, for the provision of certain management services which include the provision of directors to the board of directors of the Company pursuant to a management agreement.

38 RELATED PARTY TRANSACTIONS (Continued)

(c) Key management personnel

The senior executives' emolument for the year ended 31st December 2005 and 2004 is detailed as follows:

	2005	2004
	HK$	*HK$*
Fees	**681,575**	577,192
Salaries, housing and other allowances, and benefits in kind	**6,763,283**	7,053,963
Contributions to retirement benefit scheme	**72,000**	60,000
Bonus	**2,355,000**	2,280,000
	9,871,858	9,971,155

39 POST BALANCE SHEET DATE EVENTS

(a) On 19th December 2005, the Company announced its plan to bid for the entire equity interests in two property development companies in Mainland China from a wholly-owned subsidiary of its substantial shareholder, Fujian Investment & Enterprise Holdings Corporation, through an open bidding process. The proposed bidding was approved by the independent shareholders of the Company at an extraordinary general meeting held on 10 February 2006 but the Company did not succeed in the bidding held on 7th April 2006.

(b) On 16th February 2006, the Group announced that an agreement was entered into by the Group which conditionally agreed to sell its entire 51% equity interest in Jinan Pacific to an independent third party (the "Buyer") for a cash consideration of RMB10.1 million (equivalent to approximately HK$9.7 million) (the "Disposal") *(Note 15(a))*. The Disposal has been approved by the shareholders of the Company and its completion is conditional upon the receipt of the relevant regulatory approval in the PRC. No significant gain or loss is expected from this disposal. Pursuant to the agreement, the Buyer will acquire the outstanding loans due from Jinan Pacific to the Group of RMB13.6 million (equivalent to approximately HK$13.1 million) and the Group has received the repayment of these loans in February 2006.

(c) On 19th January 2006, the Company received a court notice that a public auction of the property collateral of the Group's loan receivable *(Note 20)* would be held on 25th January 2006. The property collateral was successfully sold to a third party in the auction and pursuant to the auction agreement, the disposal will be completed upon the payment of the purchase consideration, which is due within 90 days from the auction date.

(d) On 29th March 2006, an associate of the Group, Promise Good Limited ("PGL"), entered into an agreement to dispose of its interests in the subsidiaries investing in toll road projects in Fenghua, the PRC to their minority shareholder (the "Buyer"). The agreed consideration for the disposal was RMB70 million and the Group has received deposits of RMB15 million from the Buyer on behalf of PGL as at 31st December 2005 *(Note 29)*. The Group's estimated share of PGL's gain on disposal of these subsidiaries is approximately HK$7 million.

Schedule of Principal Property Interests Held for Investment

	Location	Lease expiry	Group's attributable interest (%)	Approximate gross floor area (sq. ft.)	Existing use
(1)	Shops 7 & 8 on ground floor including store 8 on the cockloft therein and the whole of 1st and 2nd floors Winfield Building 847-865 Canton Road, Yaumatei Hong Kong	2049	100	14,841	Commercial
(2)	Apartment A, 34/F of Tower I Park Towers 1 King's Road, Causeway Bay Hong Kong	2060	100	1,276	Residential
(3)	10/F, Block B of City Plaza Balizhuang, Chaoyang District, Beijing City The People's Republic of China	2043	100	10,020	Commercial
(4)	22/F and 23/F, Worldwide Plaza 158 Wusi Road, Fuzhou The People's Republic of China	2044	100	41,288	Commercial