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## THIS PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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**If you are in any doubt** as to any aspect about this Prospectus or as to the action to be taken, you should consult your licensed securities dealer, registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your ordinary shares (the “Shares”) in **Paliburg Holdings Limited** (the “Company”), you should at once hand the Open Offer Documents (as defined herein) to the purchaser or the transferee or to the bank, licensed securities dealer, registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

Dealings in the Shares, the Open Offer Shares (as defined herein) and Subscription Shares (as defined herein) may be settled through CCASS (as defined herein) established and operated by HKSCC (as defined herein). You should consult your licensed securities dealer, registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser for details of the settlement arrangements and how such arrangements may affect your rights and interests.

A copy of each of the Open Offer Documents, together with the written consent of Ernst & Young, have been registered with the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance (as defined herein). A copy of each of the Open Offer Documents will be filed with the Registrar of Companies in Bermuda in accordance with the Companies Act (as defined herein). The Registrar of Companies in Hong Kong and the Registrar of Companies in Bermuda take no responsibility as to the contents of any of these documents.

The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and HKSCC take no responsibility for the contents of the Open Offer Documents, make no representation as to their accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of the Open Offer Documents. Subject to the granting of listing of, and permission to deal in, the Open Offer Shares and the Subscription Shares on the Stock Exchange, the Open Offer Shares and the Subscription Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Open Offer Shares or the issue date of the Subscription Shares on the Stock Exchange or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

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**OPEN OFFER (NOT UNDERWRITTEN)  
ON THE BASIS OF 7 OPEN OFFER SHARES  
(WITH 3 WARRANTS FOR EVERY 7 OPEN  
OFFER SHARES TAKEN UP)  
FOR EVERY 20 EXISTING SHARES HELD  
ON THE RECORD DATE**

**Financial adviser to Paliburg Holdings Limited**

**OSK Asia Capital Limited**

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The latest time for acceptance of, and payment for, the Open Offer Shares is 4:00 p.m. on 5 November 2007. The procedure for application and payment is set out on pages 18 to 19 of this Prospectus.

The existing Shares have been dealt with on an ex-entitlement basis since 12 October 2007. The Open Offer is conditional on, among other things, the approval of the issue of the Warrants and the Subscription Shares falling to be issued on exercise of the Warrants by the Shareholders at the SGM and the Stock Exchange granting the listing of, and permission to deal in, the Open Offer Shares and the Subscription Shares on the Stock Exchange. The Stock Exchange may or may not grant the listing of, and permission to deal in, the Open Offer Shares and the Subscription Shares on the Stock Exchange. If the ordinary resolution to approve the issue of the Warrants and the Subscription Shares is not passed at the SGM or if any other conditions of the Open Offer are not fulfilled on or before 30 November 2007, the Open Offer will lapse and will not proceed. Shareholders and investors should exercise caution when dealing in the Shares before the Open Offer becomes unconditional and are recommended to consult their own professional advisers if they have any doubts about their position.

A letter from the Board of the Company is set out on pages 7 to 20 of this Prospectus.

A notice convening the SGM to be held at the Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong on Wednesday, 7 November 2007 at 11:00 a.m. is appended to this Prospectus. If you do not propose to attend the SGM, you are requested to complete the accompanying proxy form in accordance with the instructions printed thereon and return the same to the Company's branch registrar in Hong Kong, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the SGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the SGM or at any adjourned meeting should you so wish.

**The Open Offer is not underwritten. The Open Offer will proceed regardless of the ultimate subscription level and there is no minimum subscription amount that must be raised by the Open Offer in order for the Open Offer to proceed.**

22 October 2007

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## EXPECTED TIMETABLE

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**2007**  
(Note 1)

Record Date .....	Monday, 22 October
Register of members of the Company reopens .....	Tuesday, 23 October
Latest time for acceptance of, and payment for, Open Offer Shares (Note 2).....	4:00 p.m. on Monday, 5 November
The SGM .....	Wednesday, 7 November
Announcement of results of the SGM to be published on the Company's website (www.paliburg.com.hk) and the Stock Exchange's website (www.hkex.com.hk) by .....	11:00 p.m. on Wednesday, 7 November
Announcement of results of the Open Offer to be published on the Company's website (www.paliburg.com.hk) and the Stock Exchange's website (www.hkex.com.hk) on or before .....	Tuesday, 13 November
Certificates for Open Offer Shares and Warrants expected to be despatched on or before .....	Tuesday, 13 November
Refund cheques in respect of wholly or partially unsuccessful excess applications expected to be despatched on or before .....	Tuesday, 13 November
Dealings in Open Offer Shares expected to commence on .....	Thursday, 15 November

Notes:

1. All times and dates refer to Hong Kong local times and dates.
2. The Latest Acceptance Time will not take place if there is:
  - a tropical cyclone warning signal number 8 or above, or
  - a "black" rainstorm warning
    - (i) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on 5 November 2007. Instead, the Latest Acceptance Time will be extended to 5:00 p.m. on the same day;
    - (ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on 5 November 2007. Instead, the Latest Acceptance Time will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m.

If the Latest Acceptance Time does not take place on Monday, 5 November 2007, the dates mentioned above may be affected. In such event, an announcement will be made by the Company advising the revised dates.

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## **EXPECTED TIMETABLE**

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3. Dates or deadlines specified in this Prospectus for events in the timetable for (or otherwise in relation to) the Open Offer are indicative only and may be varied by the Company in accordance with the applicable rules and regulations. Any consequential changes to the expected timetable will be published by way of an announcement.
  
4. Tricor Tengis Limited, as the transfer agent, will handle splitting and registration of transfer of the Warrants. Further details are set out in the paragraph headed “Transfer, transmission and register” in Appendix III to this Prospectus.

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## DEFINITIONS

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

“Announcements”	the announcements jointly issued by the Company and Century City dated 28 September 2007 and 10 October 2007 respectively in relation to the Open Offer
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Assured Allotment Application Form(s)”	the application form(s) to be used by the Qualifying Shareholders to accept their assured entitlements of the Open Offer Shares under the Open Offer
“Board”	the board of Directors
“Business Day(s)”	any day (other than Saturday, Sunday or public holiday) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Century City”	Century City International Holdings Limited, a company incorporated in Bermuda with limited liability, the ordinary shares and warrants of which are listed on the Stock Exchange
“Century City Group”	Century City and its subsidiaries (excluding the Group)
“Companies Act”	the Companies Act 1981 of Bermuda, as amended
“Companies Ordinance”	the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (as amended from time to time)
“Company”	Paliburg Holdings Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Stock Exchange
“Director(s)”	the director(s) of the Company
“Excess Application Form(s)”	the excess application form(s) to be used in connection with the Open Offer by the Qualifying Shareholders to apply for excess Open Offer Shares not initially taken up under the Open Offer

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## DEFINITIONS

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“Excluded Shareholder(s)”	those Overseas Shareholders with registered addresses in the territories where, based on the Company’s enquiry, there may be legal restrictions (under the laws of the relevant places and the requirements of the relevant regulatory bodies or stock exchanges), other restrictions, impracticality or difficulties for the Company’s making the Open Offer to such Overseas Shareholders
“Exercise Price”	the sum payable in respect of each Subscription Share subscribed for upon exercise of a Subscription Right by a holder of a Warrant, initially being HK\$0.21 per Share, subject to adjustment
“Group”	the Company and its subsidiaries
“Guo Yui Investments”	Guo Yui Investments Limited, a wholly-owned subsidiary of the Company
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Last Trading Day”	21 September 2007, being the last whole trading day which was immediately prior to the suspension of trading in the Shares on the Stock Exchange pending the release of the joint announcement of the Company and Century City dated 28 September 2007
“Latest Acceptance Time”	4:00 p.m. on 5 November 2007 or such other time as the Company may determine, being the latest time for acceptance of, and payment for, the Open Offer Shares
“Latest Practicable Date”	16 October 2007, being the latest practicable date for ascertaining certain information for inclusion in this Prospectus
“Listing Committee”	has the meaning ascribed thereto in the Listing Rules
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Lo”	Mr. Lo Yuk Sui, the Chairman of the respective boards of directors of Century City and the Company

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## DEFINITIONS

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“Open Offer”	the offer of the Open Offer Shares on the basis of 7 Open Offer Shares (with 3 Warrants for every 7 Open Offer Shares taken up) for every 20 existing Shares held by the Qualifying Shareholders on the Record Date
“Open Offer Documents”	the Prospectus, the Assured Allotment Application Form and the Excess Application Form
“Open Offer Share(s)”	new Share(s) to be issued and allotted under the Open Offer
“Options”	the outstanding share options granted pursuant to the terms of a share option scheme adopted by the Company on 16 June 2005 which became effective on 21 July 2005
“Overseas Shareholders”	Shareholders whose names appear on the register of members of the Company at the close of business on the Record Date with registered addresses outside Hong Kong
“Promissory Notes”	promissory notes issued by Guo Yui Investments on 24 April 2007 with an aggregate principal amount of HK\$300 million due on 30 November 2007 and guaranteed by the Company
“Prospectus”	this prospectus issued by the Company in relation to the Open Offer
“Qualifying Shareholders”	Shareholders, other than Excluded Shareholders, whose names appear on the register of members of the Company at the close of business on the Record Date
“Record Date”	22 October 2007 or such other date as the Company may determine for the determination of entitlements of the Shareholders under the Open Offer
“Regal”	Regal Hotels International Holdings Limited, a company incorporated in Bermuda with limited liability, the ordinary shares of which are listed on the Stock Exchange
“Regal Group”	Regal and its subsidiaries
“Registrar”	Tricor Tengis Limited, the branch share registrar of the Company in Hong Kong
“Shareholder(s)”	holder(s) of the Share(s)
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company

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## DEFINITIONS

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“SFC”	the Securities and Futures Commission
“SFO”	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (as amended from time to time)
“SGM”	the special general meeting of the Company convened to be held on Wednesday, 7 November 2007 at 11:00 a.m. for the purpose of considering and, if thought fit, approving the issue of the Warrants and the Subscription Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	HK\$0.21 per Open Offer Share
“Subscription Right(s)”	in relation to each Warrant, means the right of the holder of the Warrant, in units of HK\$0.21 each, to subscribe for a certain number of new Shares at the Exercise Price per Share in accordance with the terms of the Warrants
“Subscription Shares”	new Shares to be issued upon exercise of the Subscription Rights
“Takeovers Code”	the Code on Takeovers and Mergers
“Warrants”	warrants due 2010 to be issued by the Company under the Open Offer which carry the benefit of the Subscription Rights
“HK\$”	Hong Kong dollars
“%”	per cent.



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## LETTER FROM THE BOARD

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*Executive Directors:*

Mr. LO Yuk Sui (*Chairman and Chief Executive Officer*)  
Mr. Donald FAN Tung (*Chief Operating Officer*)  
Mr. Jimmy LO Chun To  
Miss LO Po Man  
Mr. Kenneth NG Kwai Kai  
Mr. Kenneth WONG Po Man

*Independent non-executive Directors:*

Mr. NG Siu Chan  
Hon Abraham SHEK Lai Him, SBS, JP  
Mr. WONG Chi Keung

*Registered office:*

Rosebank Centre  
11 Bermudiana Road  
Pembroke  
Bermuda

*Head office and  
principal place of business:*

11th Floor  
68 Yee Wo Street  
Causeway Bay  
Hong Kong

22 October 2007

*To the Qualifying Shareholders and  
the Excluded Shareholders (the Open Offer is not being extended to the Excluded Shareholders)*

Dear Sir or Madam,

**OPEN OFFER (NOT UNDERWRITTEN)  
ON THE BASIS OF 7 OPEN OFFER SHARES  
(WITH 3 WARRANTS FOR EVERY 7 OPEN  
OFFER SHARES TAKEN UP)  
FOR EVERY 20 EXISTING SHARES HELD  
ON THE RECORD DATE**

**INTRODUCTION**

As set out in the Announcements, the Company proposes the Open Offer of 7 Open Offer Shares for every 20 existing Shares held on the Record Date. The Subscription Price is HK\$0.21 per Open Offer Share. The Open Offer is not underwritten. Based on the number of Shares in issue as at the Latest Practicable Date, approximately 2,640.7 million Open Offer Shares will be issued if all the Open Offer Shares are taken up by the Qualifying Shareholders. Century City has irrevocably undertaken to the Company that the Century City Group will subscribe in full for approximately 1,337.1 million Open Offer Shares to which it is entitled under the Open Offer based on the number of Shares held by the Century City Group as at the Latest Practicable Date. In addition, Mr. Lo has separately and irrevocably undertaken to the Company that he and his associates (other than the Century City Group) will subscribe in full for approximately 150.9 million Open Offer Shares to which they are entitled under the Open Offer based on the number of Shares held by them as at the Latest Practicable Date.

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## LETTER FROM THE BOARD

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Warrants will be issued by way of bonus issue to the Shareholders in the proportion of 3 Warrants for every 7 Open Offer Shares taken up. The Warrants will carry the Subscription Rights in units of HK\$0.21 each which confer on their holders the rights to subscribe for Subscription Shares at the initial Exercise Price of HK\$0.21 per Share. According to the bye-laws of the Company, an issue of warrants by the Company is subject to Shareholders' approval in general meeting. As such, the issue of the Warrants pursuant to the Open Offer is subject to Shareholders' approval. The Open Offer is therefore conditional upon, among other things, Shareholders approving an ordinary resolution at the SGM for the issue of the Warrants and the Subscription Shares falling to be issued on exercise of the Warrants.

The purpose of this Prospectus is to provide you with, among other things, information on the Open Offer, including information on dealings and acceptances of the Open Offer Shares (whilst the Open Offer is not being extended to the Excluded Shareholders), and certain financial and other information in respect of the Group and to give Shareholders a notice of SGM at which an ordinary resolution relating to the issue of the Warrants and the Subscription Shares will be proposed to the Shareholders for their consideration and approval.

### DETAILS OF THE OPEN OFFER

#### Terms of the Open Offer

Basis of the Open Offer	7 Open Offer Shares (with 3 Warrants by way of bonus issue for every 7 Open Offer Shares taken up) for every 20 existing Shares held on the Record Date at the Subscription Price, payable in full on application
Number of existing Shares in issue as at the Latest Practicable Date	7,544,997,452 Shares
Total number of Open Offer Shares and Warrants to be issued	not more than approximately 2,640.7 million Open Offer Shares and Warrants carrying up to approximately 1,131.7 million units of Subscription Rights at an initial Exercise Price of HK\$0.21 per Share based on the number of Shares in issue as at the Latest Practicable Date
Subscription Price	HK\$0.21 per Open Offer Share

As at the Latest Practicable Date, save for 276,500,000 Options (of which 110,300,000 were vested and 166,200,000 were unvested), the Company had no other securities in issue which carried any rights to subscribe for, purchase or convert into any new Shares.

The Open Offer is not underwritten. The Company considers it appropriate not to have the Open Offer underwritten given the additional costs involved and the specific purpose of the fund raising under the Open Offer. Based on the closing price per Share as at the Last Trading Day, the Company's public shareholding had a market capitalization of approximately HK\$1,020.6 million. The Company

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## LETTER FROM THE BOARD

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recorded net profits attributable to Shareholders for each of the two years ended 31 December 2006. Accordingly, the Company satisfies the requirements under Note 2 to Rule 7.19(2) of the Listing Rules in respect of the Open Offer not being underwritten.

Century City has irrevocably undertaken to the Company that the Century City Group will subscribe in full for approximately 1,337.1 million Open Offer Shares to which it is entitled under the Open Offer based on the number of Shares held by the Century City Group as at the Latest Practicable Date. In addition, Mr. Lo has separately and irrevocably undertaken to the Company that he and his associates (other than Century City Group) will subscribe in full for approximately 150.9 million Open Offer Shares to which they are entitled under the Open Offer based on the number of Shares held by them as at the Latest Practicable Date. The number of Open Offer Shares and Warrants which may be issued depends on the level of acceptances and excess application under the Open Offer. **Nevertheless, the Open Offer will proceed regardless of the ultimate subscription level and there is no minimum subscription amount that must be raised by the Open Offer in order for the Open Offer to proceed.**

### Subscription Price

The Subscription Price is HK\$0.21 per Open Offer Share. The aggregate Subscription Price in respect of the Open Offer is payable in full upon acceptance of the assured entitlements.

The Subscription Price represents:

- a discount of approximately 32.3% to the closing price of HK\$0.31 per Share as quoted on the Stock Exchange on the Last Trading Day;
- a discount of approximately 25.0% to the theoretical ex-entitlement price of approximately HK\$0.28 per Share based on the closing price per Share as quoted on the Stock Exchange on the Last Trading Day;
- a discount of approximately 34.4% to the average closing price of HK\$0.32 per Share for the ten trading days up to and including the Last Trading Day; and
- a discount of approximately 26.3% to the closing price of HK\$0.285 per Share on the Latest Practicable Date.

The Subscription Price was determined by the Company based on the recent market prices of the Shares prior to the Last Trading Day. The Company is of the view that the Open Offer will provide the Group with additional funding to further strengthen the financial position of the Group and the terms of the Open Offer are fair and reasonable and in the interests of the Company.

### The Warrants

The Warrants will be issued to the Qualifying Shareholders who have taken up the Open Offer Shares under the Open Offer by way of bonus issue.

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## LETTER FROM THE BOARD

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Based on the initial Exercise Price of HK\$0.21 per Subscription Share, every unit of the Subscription Right will confer on the holder of the relative Warrant the right to subscribe for one Subscription Share. The initial Exercise Price is the same as the Subscription Price of HK\$0.21 and is subject to adjustment in accordance with the terms of the Warrants in certain events, such as, share consolidation, sub-division, capitalisation issue or certain dilutive issues. Should the Exercise Price be adjusted pursuant to the terms of the Warrants, the number of Subscription Shares for which a holder of a Warrant is entitled to subscribe will also be adjusted.

The Warrants will be exercisable at any time from and including the date falling 7 days after the issue date of the Warrants (if such date is not a Business Day, the following Business Day) to the close of business on the date falling 7 days prior to the third anniversary of the issue of the Warrants (if such date is not a Business Day, the following Business Day).

Fractional entitlements to less than one unit of HK\$0.21 Subscription Right attaching to the Warrants will not be granted and will be ignored.

The rights of the Subscription Shares are set out in the paragraph headed “Status and rights of the Open Offer Shares and the Subscription Shares” below.

The Warrants will be freely transferable.

A summary of the terms of the Warrants is set out in Appendix III to this Prospectus.

### **Qualifying Shareholders**

The Open Offer Documents have been registered in Hong Kong and will be filed with the Registrar of Companies in Bermuda. The Open Offer Documents are sent to the Qualifying Shareholders only. This Prospectus is sent to all Shareholders including the Excluded Shareholders, but the Open Offer is not being extended to the Excluded Shareholders.

To qualify for the Open Offer, a Shareholder must be registered as a member of the Company on the Record Date. The register of members of the Company has been closed since 16 October 2007 and will reopen on 23 October 2007.

Entitlements to the Open Offer Shares under the Open Offer are not transferable nor capable of renunciation. There will not be any trading of nil-paid entitlements to the Open Offer Shares.

### **Overseas Shareholders**

The Company has made enquiries in accordance with Rule 13.36(2)(a) (including notes 1 and 2 thereof) of the Listing Rules regarding the legal restrictions (if any) under the laws of the relevant places and the requirements of the relevant regulatory bodies or stock exchanges for the Company making the Open Offer to any Overseas Shareholders. As at the close of business on the Latest

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## LETTER FROM THE BOARD

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Practicable Date, the Company had Shareholders with registered addresses in Australia, Canada, the Macau Special Administrative Region of the People's Republic of China, New Zealand, Singapore, the United Kingdom and the United States of America, apart from in Hong Kong.

In respect of Canada and the United States of America, the Company has made enquiries regarding legal restrictions and understands that either (i) the Open Offer Documents would be required to be registered or filed with or subject to approval by the relevant regulatory authorities in the relevant jurisdictions (as the case may be); or (ii) the Company would need to take additional steps to comply with the regulatory requirements of the relevant regulatory authorities in the relevant jurisdictions. Therefore, the Company would be required to comply with the relevant laws and regulations if the Open Offer is to be extended to the Overseas Shareholders with registered addresses in these two jurisdictions. Having considered the circumstances, the Directors are of the view that it is not expedient to extend the Open Offer to such Overseas Shareholders taking into consideration that the time and costs involved in complying with the legal requirements of these jurisdictions will outweigh the possible benefits to the relevant Overseas Shareholders and the Company. Thus, the Open Offer would not be extended to the Overseas Shareholders in Canada and the United States of America. This Prospectus is sent to each of such Excluded Shareholders (whilst the Open Offer is not being extended to them). Any Excluded Shareholders who remain Shareholders as at the date of the SGM will be entitled to vote at the SGM in respect of the ordinary resolution to approve the issue of the Warrants and Subscription Shares.

In respect of Australia, the Macau Special Administrative Region of the People's Republic of China, New Zealand, Singapore and the United Kingdom, the Company has made enquiries regarding legal restrictions and understands that either (i) there is no legal restriction under the applicable legislation of the relevant jurisdictions or requirement of any relevant regulatory body or stock exchange with respect to the extension of the Open Offer to the Overseas Shareholders in the relevant jurisdictions; or (ii) the Company would be exempt from obtaining approval from, and/or registration of the Open Offer Documents with, the relevant regulatory authorities under the applicable laws and regulations of the relevant jurisdictions since the Company would meet the relevant requirements for exemption under the relevant jurisdictions. Accordingly, the Open Offer will be extended to the Overseas Shareholders with registered addresses in Australia, the Macau Special Administrative Region of the People's Republic of China, New Zealand, Singapore or the United Kingdom. The Open Offer Documents are sent to each of such Overseas Shareholders.

It is the responsibility of any person (including but not limited to nominee, agent and trustee) outside Hong Kong wishing to make an application for the Open Offer Shares to satisfy himself or herself or itself as to the full observation of the laws and regulations of the relevant territory or jurisdiction, including the obtaining of any governmental or other consents and to pay any taxes, duties and other amounts required to be paid in such territory or jurisdiction in connection herewith. Any application for the Open Offer Shares by any person will be deemed to constitute a representation and warranty from such persons to the Company that these local laws and requirements have been complied with. Qualifying Shareholders should consult their professional advisers if in doubt.

Any entitlements of the Excluded Shareholders pursuant to the Open Offer will be made available for excess applications as more detailed below.

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## LETTER FROM THE BOARD

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### **Fractions of Open Offer Shares**

Fractional entitlements of Open Offer Shares will not be allotted, but will be aggregated and made available for excess applications.

### **Application for excess Open Offer Shares**

Under the Open Offer, the Qualifying Shareholders may apply for the entitlements of the Excluded Shareholders, any Open Offer Shares not initially taken up by the Qualifying Shareholders and any aggregate fractional entitlements of the Open Offer Shares. Applications can be made by completing the Excess Application Forms and lodging the same with separate remittances for the excess Open Offer Shares being applied for.

The Company will allocate any excess Open Offer Shares at its discretion on a fair and equitable basis with preference first be given to topping up odd lots to whole board lots under the Open Offer and the remaining excess Open Offer Shares will be allocated with reference to the shareholding in the Company of those Qualifying Shareholders who have validly made excess applications.

The Shareholders with the Shares held by a nominee company should note that the Board will regard the nominee company as a single Shareholder according to the register of members of the Company. Accordingly, the Shareholders should note that the aforesaid arrangement in relation to the allocation of the excess Open Offer Shares will not be extended to beneficial owners individually.

The Century City Group and Mr. Lo and his associates (excluding Century City Group) may separately apply for the excess Open Offer Shares through the above excess application arrangement.

### **Share certificates for the Open Offer Shares and refund cheques**

Subject to the fulfillment of the conditions of the Open Offer as set out in the section headed "Conditions of the Open Offer" below, every Qualifying Shareholder who takes up his/her/its entitlement under the Open Offer and/or applies for excess Open Offer Shares will receive one share certificate for all fully-paid Open Offer Shares, one warrant certificate for the relevant Warrants attached and, if applicable, a refund cheque in respect of a wholly or partially unsuccessful excess application which are expected to be posted on or before 13 November 2007 by ordinary post at their own risks.

### **Status and rights of the Open Offer Shares and the Subscription Shares**

The Open Offer Shares and the Subscription Shares, when allotted and fully paid, will rank *pari passu* with the then existing Shares in all respects. Holders of the Open Offer Shares will be entitled to receive all future dividends and distributions which are declared, made or paid after the allotment of the Open Offer Shares and holders of the Subscription Shares will be entitled to receive all dividends or other distributions paid or made after the relevant subscription date other than any

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## LETTER FROM THE BOARD

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dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be on or before the relevant subscription date and notice of the amount and record date for which shall have been given to the Stock Exchange (or any other stock exchange on which the Shares are listed as is in the opinion of the Directors the primary stock exchange in relation to the Shares) prior to the relevant subscription date.

Based on the number of Shares in issue as at the Latest Practicable Date and the initial Exercise Price, a total number of approximately 2,640.7 million Open Offer Shares and 1,131.7 million Subscription Shares may be issued which represent (i) approximately 35.0% and 15.0% of the number of Shares in issue as at the Latest Practicable Date, (ii) approximately 25.9% and 11.1% of the number of Shares in issue as enlarged by the issue of such Open Offer Shares (but before the issue of any Subscription Shares) and (iii) approximately 23.3% and 10.0% of the number of Shares in issue as enlarged by the issue of the Open Offer Shares and the Subscription Shares.

### APPLICATION FOR LISTING

The Company has applied to the Stock Exchange for the listing of, and permission to deal in, the Open Offer Shares and the Subscription Shares on the Stock Exchange.

Subject to the grant of listing of, and permission to deal in, the Open Offer Shares and the Subscription Shares on the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the Open Offer Shares and the Subscription Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Open Offer Shares or the issue date of the Subscription Shares on the Stock Exchange or such other dates as determined by HKSCC.

Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements will be made to enable the Open Offer Shares and the Subscription Shares to be admitted into CCASS.

None of the securities of the Company are listed or dealt in any other stock exchange other than the Stock Exchange and no such listing or permission to deal is being or is presently proposed to be sought.

Dealings in the Open Offer Shares and the Subscription Shares on the Stock Exchange will be subject to the payment of the applicable stamp duty, the Stock Exchange trading fee, the transaction levy payable to the SFC, or any other applicable fees and charges in Hong Kong.

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## LETTER FROM THE BOARD

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The Warrants upon issue will not be listed on the Stock Exchange or any other stock exchange. Depending on the results of the Open Offer, the Company may apply for listing of the Warrants on the Stock Exchange by way of introduction after their issue subject to the relevant requirements of the Listing Rules. A further announcement will be made by the Company if application for listing of the Warrants on the Stock Exchange is made.

### CONDITIONS OF THE OPEN OFFER

Completion of the Open Offer is conditional upon:

- (a) the listing committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having revoked, listing of and permission to deal in the Open Offer Shares and the Subscription Shares to be issued;
- (b) the delivery to the Stock Exchange and registration with the Registrar of Companies in Hong Kong of one duly signed copy of the Open Offer Documents and otherwise being in compliance with the Listing Rules and the Companies Ordinance in Hong Kong;
- (c) the posting of the Open Offer Documents to the Qualifying Shareholders and the posting of this Prospectus to the Excluded Shareholders;
- (d) the filing with the Registrar of Companies in Bermuda, one copy of each of the Open Offer Documents duly signed by one Director (for and on behalf of all Directors) as having been approved by a resolution of the Board (and all documents required thereto) and otherwise in compliance with the Companies Act; and
- (e) the Shareholders passing an ordinary resolution at the SGM to approve the issue of the Warrants and the Subscription Shares falling to be issued on exercise of the Warrants.

Conditions (b) and (c) above have been fulfilled. Conditions (a), (d) and (e) above have not been fulfilled. As at the Latest Practicable Date, the Century City Group held approximately 3,820.2 million Shares (representing approximately 50.63% of the issued ordinary share capital of the Company) and Mr. Lo and his associates (excluding the Century City Group) held approximately 431.1 million Shares (representing approximately 5.71% of the issued ordinary share capital of the Company). Century City has irrevocably undertaken to the Company that the Century City Group will, and Mr. Lo has also separately and irrevocably undertaken to the Company that he and his associates (excluding the Century City Group) will, vote in favour of the ordinary resolution to be proposed at the SGM to approve the issue of the Warrants and the Subscription Shares. If the ordinary resolution to approve the issue of the Warrants and the Subscription Shares is not passed at the SGM or if any other conditions of the Open Offer are not fulfilled on or before 30 November 2007, the Open Offer will lapse and will not proceed.



## LETTER FROM THE BOARD

### SHAREHOLDING STRUCTURE AND EFFECTS OF THE OPEN OFFER

The table below shows the shareholding structure of the Company, and the effects of the Open Offer on the shareholding structure (assuming there will be no other changes to the shareholding structure of the Company).

	Assuming all Shareholders take up their entitlements under the Open Offer		Assuming only Century City, Mr. Lo and their respective associates take up their entitlements under the Open Offer and no excess application is made		Assuming only Century City, Mr. Lo and their respective associates take up their entitlements under the Open Offer and all remaining entitlements are taken up by Century City Group via excess application							
	As at the Latest Practicable Date	Number of Shares	%	After completion of the Open Offer but before exercise of any Subscription Rights	Number of Shares	%	After completion of the Open Offer and exercise of the Subscription Rights by the allottees of Warrants in full based on the initial Exercise Price	Number of Shares	%	After completion of the Open Offer and exercise of the Subscription Rights by the allottees of Warrants in full based on the initial Exercise Price	Number of Shares	%
Century City Group	3,820,218,001	50.63	5,157,294,301	50.63	5,157,294,301	57.09	5,730,327,001	59.25	6,310,082,540	61.95	7,377,167,341	65.18
Mr. Lo and his associates (other than the Century City Group)	431,098,765	5.71	581,983,332	5.71	581,983,332	6.44	646,648,146	6.69	581,983,332	5.71	646,648,146	5.71
Directors (other than Mr. Lo) and their associates	1,325,218	0.02	1,789,044	0.02	1,325,218	0.01	1,325,218	0.01	1,325,218	0.01	1,325,218	0.01
Public Shareholders	3,292,355,468	43.64	4,444,679,881	43.64	3,292,355,468	36.46	3,292,355,468	34.05	3,292,355,468	32.33	3,292,355,468	29.10
Total	7,544,997,452	100.00	10,185,746,558	100.00	9,032,958,319	100.00	9,670,655,833	100.00	10,185,746,558	100.00	11,317,496,173	100.00

Note: The above shareholding table has not taken into account that fractional entitlements under the Open Offer may not be offered to the Shareholders.

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## LETTER FROM THE BOARD

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Based on the shareholding of the Company as at the Latest Practicable Date set out above and to the best information of the Company, the Company is not aware of any Shareholders who would, as a result of taking up the Open Offer Shares to which they are entitled under the Open Offer, trigger an obligation to make a general offer under the Takeovers Code.

### REASONS FOR AND BENEFITS OF THE OPEN OFFER

The Group is principally engaged in property development and investment, construction and building related businesses, and other investments.

In April 2007, the Group acquired certain convertible bonds convertible into ordinary shares of Regal at a total consideration of HK\$360 million. The Group settled the consideration partly by cash and partly by the issue of the Promissory Notes. The Promissory Notes have an aggregate principal amount of HK\$300 million bearing interest at 5% per annum. The Promissory Notes will become due on 30 November 2007 as agreed between the Company and the holders of the Promissory Notes in writing after issue of the Promissory Notes. The total amount repayable by the Company under the Promissory Notes upon maturity amounts to approximately HK\$309 million. Based on the shareholding structure of the Company as at the Latest Practicable Date, the maximum gross proceeds from the Open Offer are estimated to amount to approximately HK\$554.6 million and the maximum net proceeds from the Open Offer are estimated to be HK\$552.8 million. The Company proposes to use (1) the first available amount of approximately HK\$309 million from the proceeds from the Open Offer to repay the Promissory Notes, (2) the next available amount of approximately HK\$197 million from the proceeds for the repayment of a secured bank loan of the Group which is due in February 2008 (subject to any new financing or refinancing arrangements that could be concluded on terms acceptable to the Company before the aforesaid maturity date) and (3) any remaining balance of the proceeds to be used for the existing property project of the Group in China.

Century City and Mr. Lo have respectively and irrevocably undertaken to the Company that the Century City Group and Mr. Lo and his associates (other than the Century City Group) will subscribe in full for the Open Offer Shares to which they are respectively entitled under the Open Offer. As at the Latest Practicable Date, the Century City Group and Mr. Lo and his associates (excluding the Century City Group) hold approximately 3,820.2 million Shares and approximately 431.1 million Shares respectively. The Century City Group, Mr. Lo and his associates together are entitled to subscribe for approximately 1,488.0 million Open Offer Shares under the Open Offer and the Company will raise at least aggregate gross proceeds of approximately HK\$312.5 million, representing the aggregate Subscription Price of such Open Offer Shares to which the Century City Group, Mr. Lo and his associates are entitled under the Open Offer. The Company estimates that such proceeds (after netting off expenses incurred by the Group in connection with the Open Offer) will be sufficient to repay the Promissory Notes in full and any further subscriptions of the Open Offer Shares will help strengthen the financial and working capital position of the Group. If all the Open Offer Shares are taken up by the Qualifying Shareholders, the gross proceeds are estimated to be approximately HK\$554.6 million.

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## LETTER FROM THE BOARD

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Based on the shareholding of the Company as at the Latest Practicable Date, Warrants carrying approximately 1,131.7 million units of Subscription Rights will be granted if all the Open Offer Shares are taken up by the Qualifying Shareholders. If all such Subscriptions Rights are exercised at the initial Exercise Price, the Company would raise an additional gross proceeds of approximately HK\$237.7 million.

The Company is of the view that the Open Offer will help improve the financial and working capital position of the Group and is in the interests of the Company and the Shareholders as a whole.

### INFORMATION ON THE COMPANY

Set out below are the audited consolidated revenue and the audited consolidated profit before and after tax of the Company for the two years ended 31 December 2006 and the six months ended 30 June 2007:

<i>(HK\$'million)</i>	<b>For the year ended</b>		<b>For the six months</b>
	<b>31 December</b>		<b>ended 30 June</b>
	<b>2005</b>	<b>2006</b>	<b>2007</b>
Revenue	106.8	187.3	221.0
Profit before tax	519.5	308.7	1,201.0
Profit after tax	517.4	300.1	1,200.1

The unaudited consolidated net assets value of the Company amounted to approximately HK\$4,424.1 million as at 30 June 2007. As set out in the interim report of the Company for the six months ended 30 June 2007, the unaudited pro forma consolidated net assets value of the Company amounted to approximately HK\$6,058.0 million after having taken into account the share of the underlying reported net assets of Regal Real Estate Investment Trust attributable to Regal (an associate of the Company) as at 30 June 2007. More financial information in respect of the Company is set out in Appendix I to this Prospectus.

The Company has not carried out any equity fund raising activities and has not carried out any open offer of Shares in the 12 months prior to the date of this Prospectus.

### OPTIONS

The exercise price and number of Shares which may fall to be issued upon exercise of the outstanding Options will be adjusted in accordance with the terms of the relevant share option scheme as a result of the Open Offer (if the Open Offer becomes unconditional). The Company will instruct its auditors or an independent financial adviser to certify in writing the adjustment that ought to be made to the outstanding Options and disclose the details of such adjustment (if any) in accordance with provisions of the relevant share option scheme.

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## LETTER FROM THE BOARD

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### WARNING OF THE RISKS OF DEALINGS IN SHARES

The Shares have been dealt with on an ex-entitlement basis from 12 October 2007. The Stock Exchange may or may not grant the listing of, and permission to deal in, the Open Offer Shares and the Subscription Shares on the Stock Exchange. If the ordinary resolution to approve the issue of the Warrants and the Subscription Shares is not passed at the SGM or if any other conditions of the Open Offer is not fulfilled on or before 30 November 2007, the Open Offer will lapse and will not proceed. Any person dealing in the Shares before the Open Offer becomes unconditional will accordingly bear the risk that the Open Offer may not proceed.

Shareholders or any other person contemplating selling or purchasing Shares from now up to the date on which the Open Offer becomes unconditional and is/are in any doubt about his/her/their position is/are recommended to consult his/her/their own professional advisers.

Shareholders and potential investors are reminded to exercise caution when dealing in the Shares.

### PROCEDURE FOR APPLICATION

#### Application for the Open Offer Shares

The Assured Allotment Application Form is enclosed to this Prospectus which entitles the Qualifying Shareholders to whom it is addressed to apply for the number of Open Offer Shares as shown therein on an assured basis subject to payment in full by the Latest Acceptance Time. Qualifying Shareholders should note that they may apply for any number of Open Offer Shares up to the number set out in the Assured Allotment Application Form.

If Qualifying Shareholders wish to apply for all the Open Offer Shares to which they are entitled as specified in the Assured Allotment Application Form or wish to apply for any number less than their assured entitlements under the Open Offer, they must complete, sign and lodge the Assured Allotment Application Form in accordance with the instructions printed thereon, together with remittance for the full amount payable in respect of such number of Open Offer Shares they wish to apply for, with Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by not later than the Latest Acceptance Time. All remittance(s) must be made in Hong Kong dollars and cheques must be drawn on an account with, or banker's cashier orders must be issued by, a licensed bank in Hong Kong and made payable to "Paliburg Holdings Limited — Assured Allotment Account" and crossed "Account Payee Only".

Qualifying Shareholders should note that unless the duly completed and signed Assured Allotment Application Form, together with the appropriate remittance, have been lodged with the Registrar by not later than the Latest Acceptance Time, their rights to apply for the Open Offer Shares under their respective assured entitlements under the Open Offer shall be deemed to have been declined and will be cancelled.

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## LETTER FROM THE BOARD

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### **Application for excess Open Offer Shares**

Qualifying Shareholders may apply for the entitlements of the Excluded Shareholders, any Open Offer Shares not initially taken up by the Qualifying Shareholders and any aggregate fractional entitlements of the Open Offer Shares.

Application for excess Open Offer Shares should be made by completing the Excess Application Form enclosed to this Prospectus for excess Open Offer Shares and lodging the same with a separate remittance for the full amount payable in respect of the excess Open Offer Shares being applied for in accordance with the instructions printed thereon, with Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by not later than the Latest Acceptance Time. All remittances must be made in Hong Kong dollars and cheques must be drawn on an account with, or banker's cashier orders must be issued by, a licensed bank in Hong Kong and made payable to "Paliburg Holdings Limited — Excess Application Account" and crossed "Account Payee Only". The Registrar will notify the Qualifying Shareholders of any allotment of the excess Open Offer Shares made to them.

**Qualifying Shareholders should note that unless the duly completed and signed Excess Application Form, together with the appropriate remittance, have been lodged with the Registrar by not later than the Latest Acceptance Time, the Excess Application Form is liable to be rejected.**

All cheques or cashier orders will be presented for payment immediately following receipt and all interest earned on such application monies will be retained for the benefit of the Company. Any Assured Allotment Application Form or Excess Application Form in respect of which the cheque or cashier order is dishonoured on first presentation is liable to be rejected, and in that event the relevant rights of the Qualifying Shareholders to apply for the Open Offer Shares under the Open Offer by way of the Assured Allotment Application Form or Excess Application Form (as the case may be) will be deemed to have been declined and will be cancelled.

**Both Assured Allotment Application Form and Excess Application Form are for the use by the Qualifying Shareholder(s) named therein only and are not transferable.**

**No receipt will be issued in respect of any application monies received.**

If no excess Open Offer Shares are allotted to the Qualifying Shareholders, it is expected that a cheque for the full amount tendered on application for the excess Open Offer Shares without interest will be posted to the Qualifying Shareholder's address as shown on the register of members of the Company by ordinary post at his/her/its own risk on or before 13 November 2007. If the number of excess Open Offer Shares allotted to the Qualifying Shareholders is less than that applied for, it is expected that a cheque for the amount of the surplus application monies, without interest, will be posted to the Qualifying Shareholder's address as shown on the register of members of the Company by ordinary post at his/her/its own risk on or before 13 November 2007.

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## LETTER FROM THE BOARD

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### SGM

The Open Offer is conditional on, among other things, the Shareholders approving the issue of the Warrants and the Subscription Shares at the SGM. No Shareholders are required to abstain from voting at the SGM.

As at the Latest Practicable Date, the Century City Group held approximately 3,820.2 million Shares (representing approximately 50.63% of the issued ordinary share capital of the Company) and Mr. Lo and his associates (excluding the Century City Group) held approximately 431.1 million Shares (representing approximately 5.71% of the issued ordinary share capital of the Company). Century City has irrevocably undertaken to the Company that the Century City Group will, and Mr. Lo has also separately and irrevocably undertaken to the Company that he and his associates (excluding the Century City Group) will, vote in favour of the ordinary resolution to be proposed at the SGM to approve the issue of the Warrants and the Subscription Shares.

The SGM will be held at the Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong, on Wednesday, 7 November 2007, at 11:00 a.m. A notice convening the SGM is appended to this Prospectus.

A form of proxy for the SGM is also enclosed to this Prospectus. If you do not propose to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar of the Company in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible, but in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or at any adjourned meeting should you so wish.

### RECOMMENDATION

The Directors (including the independent non-executive Directors) consider that the terms of the Open Offer (including the issue of the Warrants and the Subscription Shares) are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the issue of the Warrants and the Subscription Shares.

### ADDITIONAL INFORMATION

Your attention is also drawn to the additional information contained in the Appendices to this Prospectus.

By Order of the Board  
**Paliburg Holdings Limited**  
**Lo Yuk Sui**  
*Chairman*

## 1. FINANCIAL SUMMARY

Set out below is a summary of the audited consolidated results and financial position of the Group (as restated where applicable) for each of the three years ended 31 December 2004, 2005 and 2006 as extracted from the annual reports of the Company for each of the two years ended 31 December 2005 and 2006 and the unaudited consolidated results and financial position of the Group for the six months ended 30 June 2007 as extracted from the interim report of the Company for the six months ended 30 June 2007. The auditors' reports as set out in the annual reports of the Company for the three years ended 31 December 2004, 2005 and 2006 were unqualified.

**Consolidated results of the Group**

	<b>For the six months ended 30th June, 2007 Unaudited</b>	<b>For the year ended 31st December,</b>		
	<b>2007 Unaudited</b>	<b>2006 Audited</b>	<b>2005 Audited (Restated)</b>	<b>2004 Audited (Restated)</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Revenue	<u>221.0</u>	<u>187.3</u>	<u>106.8</u>	<u>698.3</u>
Profit before tax	1,201.0	308.7	519.5	7.8
Tax	<u>(0.9)</u>	<u>(8.6)</u>	<u>(2.1)</u>	<u>9.9</u>
Profit for the year/period before allocation between equity holders of the parent and minority interests	<u>1,200.1</u>	<u>300.1</u>	<u>517.4</u>	<u>17.7</u>
Attributable to:				
Equity holders of the parent	1,200.1	300.1	517.4	(31.3)
Minority interests	<u>—</u>	<u>—</u>	<u>—</u>	<u>49.0</u>
	<u>1,200.1</u>	<u>300.1</u>	<u>517.4</u>	<u>17.7</u>
Dividends				
Interim	13.6	10.8	—	—
Proposed final	<u>—</u>	<u>21.6</u>	<u>14.4</u>	<u>—</u>
	<u>13.6</u>	<u>32.4</u>	<u>14.4</u>	<u>—</u>
Earnings/(Loss) per ordinary share attributable to equity holders of the parent				
Basic	<u>HK16.65 cents</u>	<u>HK4.16 cents</u>	<u>HK7.18 cents</u>	<u>HK(0.58) cent</u>
Diluted	<u>HK14.93 cents</u>	<u>HK3.89 cents</u>	<u>HK6.72 cents</u>	<u>HK(0.67) cent</u>

## Consolidated financial position of the Group

	As at 30th June, 2007 Unaudited	As at 31st December,		
	2006 Audited	2005 Audited (Restated)	2004 Audited (Restated)	
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Total assets	5,410.7	3,958.0	3,523.4	2,848.5
Total liabilities	<u>(986.4)</u>	<u>(687.1)</u>	<u>(452.4)</u>	<u>(315.4)</u>
Net assets	<u>4,424.3</u>	<u>3,270.9</u>	<u>3,071.0</u>	<u>2,533.1</u>
Net assets attributable to:				
Equity holders of the parent	4,424.1	3,270.7	3,070.8	2,532.9
Minority interests	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>
	<u>4,424.3</u>	<u>3,270.9</u>	<u>3,071.0</u>	<u>2,533.1</u>



## 2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

The financial information of the Group set out below is extracted from the annual report of the Company for the year ended 31 December 2006.

### Consolidated Income Statement

For the year ended 31st December, 2006

	<i>Notes</i>	<b>2006</b> <i>HK\$'million</i>	<b>2005</b> <i>HK\$'million</i> <i>(Restated)</i>
REVENUE	5	187.3	106.8
Cost of sales		<u>(164.5)</u>	<u>(80.0)</u>
Gross profit		22.8	26.8
Other income and gains	5	99.7	91.7
Fair value gain upon reclassification of a property held for sale to an investment property		70.3	—
Administrative expenses		(27.9)	(27.0)
Other operating expenses, net		(1.3)	(0.5)
Write-back of provision for impairment, net	6	<u>—</u>	<u>63.0</u>
OPERATING PROFIT		163.6	154.0
Finance costs	8	(10.3)	(11.3)
Share of profits and losses of associates		<u>155.4</u>	<u>376.8</u>
PROFIT BEFORE TAX	7	308.7	519.5
Tax	11	<u>(8.6)</u>	<u>(2.1)</u>
PROFIT FOR THE YEAR BEFORE ALLOCATION BETWEEN EQUITY HOLDERS OF THE PARENT AND MINORITY INTERESTS		<u>300.1</u>	<u>517.4</u>
Attributable to:			
Equity holders of the parent	12	300.1	517.4
Minority interests		<u>—</u>	<u>—</u>
		<u>300.1</u>	<u>517.4</u>
DIVIDENDS	13		
Interim		10.8	—
Proposed final		<u>21.6</u>	<u>14.4</u>
		<u>32.4</u>	<u>14.4</u>
EARNINGS PER ORDINARY SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	14		
Basic		<u>HK4.16 cents</u>	<u>HK7.18 cents</u>
Diluted		<u>HK3.89 cents</u>	<u>HK6.72 cents</u>

**APPENDIX I****FINANCIAL INFORMATION OF THE GROUP****Consolidated Balance Sheet**

As at 31st December, 2006

		<b>2006</b>	<b>2005</b>
	<i>Notes</i>	<i>HK\$'million</i>	<i>HK\$'million</i> <i>(Restated)</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	15	4.0	4.4
Investment properties	16	350.3	0.3
Property held for future development	19	26.7	26.7
Interests in associates	20	2,980.6	2,697.4
Available-for-sale equity investments	21	34.7	130.8
Loans receivable	22	14.3	22.0
Total non-current assets		<u>3,410.6</u>	<u>2,881.6</u>
<b>CURRENT ASSETS</b>			
Equity investments at fair value through profit or loss	23	19.1	3.2
Properties held for sale	24	38.7	242.9
Inventories	25	6.9	1.5
Debtors, deposits and prepayments	26, 29	87.0	50.3
Time deposits		129.3	72.4
Cash and bank balances		17.0	22.1
		<u>298.0</u>	<u>392.4</u>
Asset of a disposal group classified as held for sale	27	249.4	249.4
Total current assets		<u>547.4</u>	<u>641.8</u>
<b>CURRENT LIABILITIES</b>			
Creditors and accruals	28, 29	(98.0)	(101.0)
Tax payable		(2.8)	(5.7)
Interest bearing bank and other borrowings	30	(10.3)	(13.0)
Deposits received		(220.3)	(85.6)
		<u>(331.4)</u>	<u>(205.3)</u>
Liability directly associated with the asset of a disposal group classified as held for sale	27	(98.9)	(98.9)
Total current liabilities		<u>(430.3)</u>	<u>(304.2)</u>
<b>NET CURRENT ASSETS</b>		<u>117.1</u>	<u>337.6</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>3,527.7</u>	<u>3,219.2</u>

**APPENDIX I****FINANCIAL INFORMATION OF THE GROUP**

		<b>2006</b>	<b>2005</b>
	<i>Notes</i>	<i>HK\$'million</i>	<i>HK\$'million</i> <i>(Restated)</i>
TOTAL ASSETS LESS CURRENT LIABILITIES		3,527.7	3,219.2
NON-CURRENT LIABILITIES			
Interest bearing bank borrowings	30	(248.1)	(148.2)
Deferred tax liabilities	31	<u>(8.7)</u>	<u>—</u>
Total non-current liabilities		<u>(256.8)</u>	<u>(148.2)</u>
Net assets		<u>3,270.9</u>	<u>3,071.0</u>
EQUITY			
<b>Equity attributable to equity holders of the parent</b>			
Issued capital	32	72.1	72.1
Reserves	33(a)	3,177.0	2,984.3
Proposed final dividend	13	<u>21.6</u>	<u>14.4</u>
		3,270.7	3,070.8
<b>Minority interests</b>		<u>0.2</u>	<u>0.2</u>
Total equity		<u>3,270.9</u>	<u>3,071.0</u>

**Consolidated Statement of Changes in Equity**  
For the year ended 31st December, 2006

	Attributable to equity holders of the parent													
	Issued capital HK\$'m	Share premium account HK\$'m	Equity component of convertible bonds of the listed associate HK\$'m	Share option reserve HK\$'m	Special reserve HK\$'m	Assets revaluation reserve HK\$'m	Available-for-sale equity investments revaluation reserve HK\$'m (Restated)	Investments revaluation reserve HK\$'m	Exchange equalisation reserve HK\$'m	Retained profits HK\$'m (Restated)	Proposed final dividend HK\$'m (Restated)	Total HK\$'m (Restated)	Minority interests HK\$'m	Total equity HK\$'m (Restated)
At 1st January, 2005														
As previously reported	72.1	522.1	9.8	—	689.6	693.8	123.9	4.0	1.5	449.1	—	2,565.9	0.2	2,566.1
Prior year adjustments	—	—	—	—	—	—	(9.3)	9.3	—	—	—	—	—	—
Notes	2.2(b)(ii)													
As restated	72.1	522.1	9.8	—	689.6	693.8	114.6	13.3	1.5	449.1	—	2,565.9	0.2	2,566.1
Changes in fair value of available-for-sale equity investments	—	—	—	—	—	—	(13.5)	—	—	—	—	(13.5)	—	(13.5)
Exchange realignment	—	—	—	—	—	—	—	—	(0.8)	—	—	(0.8)	—	(0.8)
Share of the listed associate	—	—	—	—	—	—	—	—	(0.3)	—	—	(0.3)	—	(0.3)
Total income and expense recognised directly in equity	—	—	—	—	—	—	(13.5)	—	(1.1)	—	—	(14.6)	—	(14.6)
Profit for the year	—	—	—	—	—	—	—	—	—	517.4	—	517.4	—	517.4
Total income and expense for the year	—	—	—	—	—	—	(13.5)	—	(1.1)	517.4	—	502.8	—	502.8
Release on disposal of a subsidiary	—	—	—	—	—	—	—	—	0.2	—	—	0.2	—	0.2
Release on conversion to ordinary shares of the listed associate	—	—	—	—	—	—	(2.3)	—	—	—	—	(2.3)	—	(2.3)
Equity-settled share option arrangements	—	—	—	1.6	—	—	—	—	—	—	—	1.6	—	1.6
Share of the listed associate	—	—	—	2.6	—	—	—	—	—	—	—	2.6	—	2.6
Proposed final 2005 dividend	—	—	—	—	—	—	—	—	—	(14.4)	14.4	—	—	—
Notes	13													
At 31st December, 2005	72.1	522.1	9.8	4.2	689.6	693.8	98.8	13.3	0.6	952.1	14.4	3,070.8	0.2	3,071.0

Attributable to equity holders of the parent													
	Share premium account	Equity component of convertible bonds of the listed associate	Share option reserve	Special reserve	Assets revaluation reserve	Investments revaluation reserve	Exchange equalisation reserve	Retained profits	Proposed final dividend	Total	Minority interests	Total equity	
Notes	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m
At 1st January, 2006													
As previously reported	72.1	522.1	9.8	4.2	689.6	693.8	108.0	4.0	14.4	3,070.8	0.2	3,071.0	
Prior year adjustments	—	—	—	—	—	(9.2)	9.3	(0.1)	—	—	—	—	
As restated	72.1	522.1	9.8	4.2	689.6	693.8	98.8	13.3	14.4	3,070.8	0.2	3,071.0	
Changes in fair value of available-for-sale investments	—	—	—	—	—	77.0	—	—	—	77.0	—	77.0	
Exchange realignment	—	—	—	—	—	—	—	—	—	9.8	—	9.8	
Share of the listed associate	—	—	—	—	—	—	—	—	—	4.4	—	4.4	
Total income and expense recognised directly in equity	—	—	—	—	—	—	77.0	—	—	14.2	—	91.2	
Profit for the year	—	—	—	—	—	—	—	—	—	300.1	—	300.1	
Total income and expense for the year	—	—	—	—	—	—	77.0	—	—	14.2	—	391.3	
Release on deemed disposal of interests and exercise of warrants in the listed associate	—	—	—	(0.1)	—	—	—	(0.1)	—	—	—	(0.2)	
Release on exercise of warrants in the listed associate	—	—	—	—	—	(159.0)	—	—	—	—	—	(159.0)	
Final 2005 dividend declared	—	—	—	—	—	—	—	—	(14.4)	—	—	(14.4)	
Equity-settled share option arrangements	—	—	—	3.0	—	—	—	—	—	—	—	3.0	
Share of the listed associate	—	—	(3.7)	6.9	—	—	—	(13.2)	—	—	—	(10.0)	
Interim 2006 dividend	—	—	—	—	—	—	—	—	—	(10.8)	—	(10.8)	
Proposed final 2006 dividend	—	—	—	—	—	—	—	—	21.6	—	—	—	
At 31st December, 2006	72.1	522.1	6.1	14.0	689.6	693.8	16.8	—	21.6	3,270.7	0.2	3,270.9	

**Consolidated Cash Flow Statement**

For the year ended 31st December, 2006

	<i>Notes</i>	<b>2006</b> <i>HK\$'million</i>	<b>2005</b> <i>HK\$'million</i>
Net cash inflow/(outflow) from operating activities	35(a)	<u>19.4</u>	<u>(11.6)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of additional interests in the listed associate		(75.0)	(59.8)
Acquisition of minority interests		—	(0.5)
Disposal of subsidiaries	35(d)	—	(0.5)
Proceeds from disposal of available-for-sale equity investments		3.1	—
Decrease in loans receivable		7.7	11.0
Purchases of items of property, plant and equipment		(1.0)	(3.6)
Net proceeds from disposal of investment properties		—	0.5
Repayment from/(Advance to) associates		(1.2)	0.2
Interest received		4.9	4.4
Dividends received from listed and unlisted investments		<u>32.2</u>	<u>39.7</u>
Net cash outflow from investing activities		<u>(29.3)</u>	<u>(8.6)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Drawdown of new loans		112.0	149.9
Repayments of bank loans and other loans		(14.5)	(96.1)
Payment of loan costs		(0.4)	(0.8)
Interest paid		(9.8)	(35.2)
Dividend paid		<u>(25.2)</u>	<u>—</u>
Net cash inflow from financing activities		<u>62.1</u>	<u>17.8</u>
Net increase/(decrease) in cash and cash equivalents		52.2	(2.4)
Cash and cash equivalents at beginning of year		94.0	97.2
Effect of foreign exchange rate changes, net		<u>0.1</u>	<u>(0.8)</u>
Cash and cash equivalents at end of year		<u><u>146.3</u></u>	<u><u>94.0</u></u>
<b>Analysis of balances of cash and cash equivalents</b>			
Cash and bank balances		17.0	22.1
Non-pledged time deposits with original maturity of less than three months when acquired		<u>129.3</u>	<u>72.4</u>
Bank overdraft		<u>146.3</u>	<u>94.5</u>
		<u>—</u>	<u>(0.5)</u>
		<u><u>146.3</u></u>	<u><u>94.0</u></u>

**APPENDIX I****FINANCIAL INFORMATION OF THE GROUP****Balance Sheet**

As at 31st December, 2006

	<i>Notes</i>	<b>2006</b> <i>HK\$'million</i>	<b>2005</b> <i>HK\$'million</i>
<b>NON-CURRENT ASSETS</b>			
Interests in subsidiaries	34	2,987.5	3,012.8
<b>CURRENT ASSETS</b>			
Deposits and prepayments		0.7	0.7
<b>CURRENT LIABILITIES</b>			
Creditors and accruals		<u>(1.7)</u>	<u>(1.7)</u>
<b>NET CURRENT LIABILITIES</b>			
		<u>(1.0)</u>	<u>(1.0)</u>
Net assets		<u>2,986.5</u>	<u>3,011.8</u>
<b>EQUITY</b>			
Issued capital	32	72.1	72.1
Reserves	33(b)	2,892.8	2,925.3
Proposed final dividend	13	<u>21.6</u>	<u>14.4</u>
Total equity		<u>2,986.5</u>	<u>3,011.8</u>

**Notes to Financial Statements**

31st December, 2006

**1. CORPORATE INFORMATION**

During the year, the Group was principally engaged in property development and investment, construction and building related businesses, and other investments.

In the opinion of the Directors, the parent and the ultimate holding company of the Group is Century City International Holdings Limited (“CCIHL”), which is incorporated in Bermuda and listed on The Stock Exchange of Hong Kong Limited.

**2.1 BASIS OF PREPARATION**

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which also include Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and equity investments, which have been measured at fair value. A disposal group classified as held for sale is stated at the lower of carrying amount and fair value less costs to sell as further explained in note 2.4(g). These financial statements are presented in Hong Kong dollars (“HK\$”) and all values are rounded to the nearest million except where otherwise indicated.

**Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31st December, 2006. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company’s subsidiaries. Acquisition of minority interests is accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

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

The Group has adopted the following new and revised HKFRSs for the first time for the current year’s financial statements. Except for in certain cases which will give rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease



The principal changes in accounting policies are as follows:

(a) HKAS 21 The Effects of Changes in Foreign Exchange Rates

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31st December, 2006 or 31st December, 2005.

(b) HKAS 39 Financial Instruments: Recognition and Measurement

(i) Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*. The adoption of this amendment has had no material impact on these financial statements.

(ii) Amendment for the fair value option

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. Upon the adoption of this amendment at 1st January, 2006, the Group has de-designated equity investments at fair value through profit or loss with a carrying amount of HK\$8.6 million at 31st December, 2005 and has reclassified them as available-for-sale equity investments with a fair value of HK\$8.6 million at 1st January, 2006. In accordance with the transitional provisions of the amendment, comparative amounts have been restated based on the new classification.

	2006	2005
	<i>HK\$'million</i>	<i>HK\$'million</i>
<i>Consolidated income statement for the year ended 31st December</i>		
Decrease in other income and gains	<u>(2.2)</u>	<u>(0.1)</u>
Decrease in basic earnings per share (cent)	<u>(0.03)</u>	<u>—</u>
Decrease in diluted earnings per share (cent)	<u>(0.03)</u>	<u>—</u>

	2006 <i>HK\$'million</i>	2005 <i>HK\$'million</i>
<i>Consolidated balance sheet and equity at 1st January</i>		
Increase in available-for-sale equity investments	8.6	8.5
Decrease in equity investments at fair value through profit or loss	<u>(8.6)</u>	<u>(8.5)</u>
	<u>—</u>	<u>—</u>
Decrease in available-for-sale equity investments revaluation reserve	(9.2)	(9.3)
Increase in investments revaluation reserve	9.3	9.3
Decrease in retained profits	<u>(0.1)</u>	<u>—</u>
	<u>—</u>	<u>—</u>
<i>Consolidated balance sheet and equity at 31st December</i>		
Increase in available-for-sale equity investments	10.8	8.6
Decrease in equity investments at fair value through profit or loss	<u>(10.8)</u>	<u>(8.6)</u>
	<u>—</u>	<u>—</u>
Decrease in available-for-sale equity investments revaluation reserve	(7.0)	(9.2)
Increase in investments revaluation reserve	9.3	9.3
Decrease in retained profits	<u>(2.3)</u>	<u>(0.1)</u>
	<u>—</u>	<u>—</u>

## (iii) Amendment for cash flow hedge accounting of forecast intragroup transactions

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

## (c) HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease

The Group has adopted this interpretation as of 1st January, 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

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

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 <i>Financial Reporting in Hyperinflationary Economies</i>
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 - Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

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

HKFRS 7 shall be applied for annual periods beginning on or after 1st January, 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.

HKFRS 8 shall be applied for annual periods beginning on or after 1st January, 2009. The standard requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenues from the Group's major customers. This standard will supersede HKAS 14 *Segment Reporting*.

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 11 and HK(IFRIC)-Int 12 shall be applied for annual periods beginning on or after 1st March, 2006, 1st May, 2006, 1st June, 2006, 1st November, 2006, 1st March, 2007 and 1st January, 2008, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment, HKFRS 7 and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****(a) Goodwill**

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

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

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

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

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

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 *Segment Reporting*.

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

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

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

(b) **Excess over the cost of business combinations**

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

The excess for associates is included in the Group's share of the associates' profits or losses in the period in which the investments are acquired.

(c) **Subsidiaries**

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

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Upon the disposal of interests in subsidiaries, any gain or loss arising thereon, including the realisation of the attributable reserves, is included in the income statement.

Where the Group's equity interest in a subsidiary is diluted by virtue of the additional issue of shares by such subsidiary (i.e., a "deemed disposal"), any gain or loss arising from the deemed disposal, including the realisation of the attributable reserves, is dealt with in the Group's consolidated income statement.

(d) **Associates**

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

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

(e) **Impairment of non-financial assets other than goodwill**

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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

(f) **Investment properties**

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

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

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

For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the income statement.

(g) **Non-current assets and disposal groups held for sale**

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable.

Non-current assets and disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell.

(h) **Property under development**

Property under development is stated at cost less any impairment losses. Cost includes all costs attributable to such development, including any related finance charges.

(i) **Property held for future development**

Property held for future development is stated at cost less any impairment losses. Cost includes all costs attributable to the acquisition and holding of such property, including any related finance charges.

(j) **Borrowing costs**

Borrowing costs directly attributable to the construction of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Interest is capitalised at the Group's weighted average interest rate on external borrowings and, where applicable, at the interest rates related to specific development project borrowings.

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

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

*Available-for-sale financial assets*

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

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

*Fair value*

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

**(1) Impairment of financial assets**

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

*Assets carried at amortised cost*

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

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

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

In relation to trade debtors, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the debts is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

#### *Assets carried at cost*

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

#### *Available-for-sale financial assets*

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

#### (m) **Derecognition of financial assets**

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

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (i) has transferred substantially all the risks and rewards of the asset, or (ii) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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



(n) **Financial liabilities at amortised cost (including interest bearing bank and other borrowings)**

Financial liabilities including creditors and accruals, interest bearing bank and other borrowings and deposits received are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

(o) **Convertible bonds**

The component of convertible bonds of an associate that exhibits characteristics of a liability is recognised as a liability in the balance sheet of the associate, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity of the associate, net of transaction costs, and the Group's attributable share thereof is included in its shareholders' equity. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

(p) **Derecognition of financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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

(q) **Properties held for sale**

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

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

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

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

Leasehold properties	Over the shorter of the remaining lease terms and 2.5%
Leasehold improvements	Over the remaining lease terms
Furniture, fixtures and equipment	10% to 25%
Site equipment	20%
Motor vehicles	25%

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

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

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

(s) **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on the estimated selling prices less any further costs expected to be incurred to completion and disposal.

(t) **Construction contracts**

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads, including any related finance charges.

Revenue from short term construction contracts is recognised upon completion of the construction work.

Revenue from long term fixed price construction contracts is recognised when the relevant contract has completed not less than 50% based on the percentage of completion method, measured by reference to the work certified by architects for the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

**(u) Revenue recognition**

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

- (i) rental income, in the period in which the properties are let and on the straight-line basis over the lease terms;
- (ii) income on sale of completed properties and outright sale of an entire development prior to completion, on the exchange of legally binding unconditional sales contracts;
- (iii) fee income on short term construction contracts, on completion of the construction work;
- (iv) fee income on long term construction contracts, on the percentage of completion basis as further explained in (t) above;
- (v) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;
- (vi) dividend income, when the shareholders' right to receive payment has been established;
- (vii) proceeds from sale of equity investments at fair value through profit or loss, on the transaction dates when the relevant contract notes are exchanged; and
- (viii) consultancy and management fees, in the period in which such services are rendered.

**(v) Foreign currencies**

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

The functional currencies of certain overseas subsidiaries and associates are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date, and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange equalisation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

(w) **Income tax**

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

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

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

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

**(x) Operating leases**

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

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

**(y) Employee benefits***Share-based payment transactions*

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a Black-Scholes option pricing model, further details of which are given in note 32 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

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

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

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

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

Any dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per ordinary share.

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7th November, 2002 that had not vested by 1st January, 2005 and to those granted on or after 1st January, 2005.

*Staff retirement scheme*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees’ relevant income and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group’s employer voluntary contributions, part or all of which are refunded to the Group when the employee leaves employment prior to the contributions vesting with the employee partly or fully in accordance with the rules of the MPF Scheme.

The employees of the Group’s subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a percentage of their payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

(z) **Related parties**

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

- (i) the party, directly or indirectly through one or more intermediaries, (1) controls, is controlled by, or is under common control with, the Group; (2) has an interest in the Group that gives it significant influence over the Group; or (3) has joint control over the Group;
- (ii) the party is an associate;
- (iii) the party is a jointly controlled entity;
- (iv) the party is a member of the key management personnel of the Group or its parent;
- (v) the party is a close member of the family of any individual referred to in (i) or (iv);
- (vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or
- (vii) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

(aa) **Cash and cash equivalents**

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

(ab) **Dividends**

Final dividend proposed by the Directors is classified as a separate allocation of retained profits within the equity section of the balance sheet, until it has been approved by the shareholders in a general meeting. When the dividend has been approved by the shareholders and declared, it is recognised as a liability.

Interim dividend is simultaneously proposed and declared, because the Company's memorandum and articles of association grant the Directors the authority to declare interim dividend. Consequently, interim dividend is recognised immediately as a liability when it is proposed and declared.

**3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES**

(a) **Judgement**

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

*Operating lease commitments - Group as lessor*

The Group has entered into commercial property leases on its property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

(b) **Estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, 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.

*Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill included in interests in associates at 31st December, 2006 was HK\$54.0 million (2005 - HK\$54.0 million). More details are given in notes 17 and 20 to the financial statements.

*Deferred tax assets*

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The amounts of unrecognised tax losses arising in Hong Kong and the United States of America at 31st December, 2006 were HK\$784.2 million (2005 - HK\$849.6 million) and HK\$213.2 million (2005 - HK\$216.9 million), respectively. Further details are contained in note 31 to the financial statements.

*Outcome of construction contracts*

The Group determines whether outcome of a construction contract can be estimated reliably. This requires a continuous estimation of the total contract revenue and costs and stage of completion with reference to work certified by architects and the assessment of the probability of the future economic flows to the Group. During the year, the outcome of a number of construction contracts was revised, thus leading to a gross construction profit of HK\$7.4 million (2005 - HK\$9.4 million) being recognised in the income statement.

*Measurement of fair value of equity-settled transactions*

The Company operates share option schemes under which employees (including Directors) of the Group receive remuneration in the form of share-based payment transactions. The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted, using assumptions including expected volatility and risk-free interest rate. Such cost is recognised, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

**4. SEGMENT INFORMATION**

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

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

- (a) the property development and investment segment comprises the development and sale of properties, the leasing of office and commercial premises and the provision of estate agency services;
- (b) the construction and building related businesses segment engages in construction works and building related businesses, including the provision of development consultancy and project management services, property management and also security systems and products and other software development and distribution;
- (c) the hotel ownership and management segment engages in hotel operations and the provision of hotel management services;
- (d) the securities investment segment engages in securities trading businesses; and
- (e) the others segment mainly comprises the provision of financing services.

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

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.



## (a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31st December, 2006 and 2005.

**GROUP**

	Property development and investment		Construction and building related businesses		Hotel ownership and management		Securities investment		Others		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m
Segment revenue:														
Sales to external customers	23.8	10.5	133.2	66.5	—	—	30.3	29.8	—	—	—	—	187.3	106.8
Intersegment sales	—	—	5.8	4.6	—	—	—	—	—	—	(5.8)	(4.6)	—	—
<b>Total</b>	<b>23.8</b>	<b>10.5</b>	<b>139.0</b>	<b>71.1</b>	<b>—</b>	<b>—</b>	<b>30.3</b>	<b>29.8</b>	<b>—</b>	<b>—</b>	<b>(5.8)</b>	<b>(4.6)</b>	<b>187.3</b>	<b>106.8</b>
Segment results	158.9	191.1	8.8	(36.8)	—	—	6.9	2.8	2.1	3.0	(0.1)	0.5	176.6	160.6
Interest income and unallocated non-operating and corporate gains													12.5	17.2
Unallocated non-operating and corporate expenses													(25.5)	(23.8)
Operating profit													163.6	154.0
Finance costs													(10.3)	(11.3)
Share of profits and losses of associates	4.3	137.2	—	—	151.2	239.7	—	—	(0.1)	(0.1)	—	—	155.4	376.8
Profit before tax													308.7	519.5
Tax													(8.6)	(2.1)
Profit for the year before allocation between equity holders of the parent and minority interests													300.1	517.4
Attributable to:														
Equity holders of the parent													300.1	517.4
Minority interests													—	—
													300.1	517.4

(a) Business segments (continued)

**GROUP**

	Property development and investment		Construction and building related businesses		Hotel ownership and management		Securities investment		Others		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m
Segment assets	419.2	273.4	39.8	31.6	—	—	19.2	3.2	15.7	23.7	—	—	493.9	331.9
Interests in associates	620.5	385.1	0.3	0.3	2,381.3	2,333.7	—	—	—	0.1	(21.5)	(21.8)	2,980.6	2,697.4
Asset of a disposal group classified as held for sale	249.4	249.4	—	—	—	—	—	—	—	—	—	—	249.4	249.4
Cash and unallocated assets	—	—	—	—	—	—	—	—	—	—	—	—	234.1	244.7
Total assets													<u>3,958.0</u>	<u>3,523.4</u>
Segment liabilities	(4.8)	(7.8)	(88.7)	(75.8)	—	—	—	—	(0.1)	(0.1)	—	—	(93.6)	(83.7)
Liability directly associated with the asset of a disposal group classified as held for sale	(98.9)	(98.9)	—	—	—	—	—	—	—	—	—	—	(98.9)	(98.9)
Bank and other borrowings and unallocated liabilities	—	—	—	—	—	—	—	—	—	—	—	—	(494.6)	(269.8)
Total liabilities													<u>(687.1)</u>	<u>(452.4)</u>
Other segment information:														
Depreciation	—	0.1	0.5	0.3	—	—	—	—	—	—	—	—	—	—
Impairment losses/(Write-back of impairment losses) recognised in the income statement	—	(121.0)	—	58.0	—	—	—	—	—	—	—	—	—	—
Capital expenditure	—	—	1.0	1.1	—	—	—	—	—	—	—	—	—	—
Other non-cash income	—	—	—	—	—	—	—	—	—	—	—	—	—	(0.8)

## (b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31st December, 2006 and 2005.

**GROUP**

	Hong Kong		Mainland China		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005
	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m
Segment revenue:								
Sales to external customers	187.2	106.4	0.1	0.4	—	—	187.3	106.8
Other segment information:								
Segment assets	493.7	329.2	0.2	2.7	—	—	493.9	331.9
Capital expenditure	1.0	1.1	—	—	—	—	—	—

## 5. REVENUE, OTHER INCOME AND GAINS

Revenue (which is also the Group's turnover), other income and gains are analysed as follows:

	<b>GROUP</b>	
	<b>2006</b>	<b>2005</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>
<u>Revenue</u>		
Rental income:		
Investment properties	6.3	0.1
Properties held for sale	5.6	9.4
Construction and construction-related income	128.5	50.2
Proceeds from sale of properties	10.7	0.1
Estate management fees	3.4	3.8
Property development consultancy and project management fees	1.3	12.5
Proceeds from sale of equity investments at fair value through profit or loss	30.3	29.8
Other operations including estate agency service	1.2	0.9
	<u>187.3</u>	<u>106.8</u>

	<b>GROUP</b>	
	<b>2006</b>	<b>2005</b>
	<i>HK\$'million</i>	<i>HK\$'million</i> (Restated)
<u>Other income and gains</u>		
Interest income from:		
Bank balances	2.8	2.1
Loans receivable	5.6	4.3
Dividend income from:		
Listed investments	1.4	9.9
Unlisted investments	—	1.4
Fair value gains on investment properties	80.0	—
Fair value gains on equity investments at fair value through profit or loss, net	4.3	2.2
Gain on disposal of interests in subsidiaries (note 35(d))	—	68.2
Gain on deemed disposal of interests and exercise of warrants in the listed associate	4.8	—
Excess over the cost of a business combination	—	1.0
Others	0.8	2.6
	<u>99.7</u>	<u>91.7</u>

**6. WRITE-BACK OF PROVISION FOR IMPAIRMENT, NET**

Write-back of provision for impairment, net, represents the following items:

	<b>GROUP</b>	
	<b>2006</b>	<b>2005</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>
Write-back of provision for impairment of interest in property under development indirectly held by an associate	—	121.0
Impairment of goodwill	—	(58.0)
	<u>—</u>	<u>63.0</u>

**7. PROFIT BEFORE TAX**

The Group's profit before tax is arrived at after charging:

	<b>GROUP</b>	
	<b>2006</b>	<b>2005</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>
Cost of completed properties sold	7.0	0.1
Cost of inventories sold and services provided	3.9	5.8
Depreciation	1.4	0.7
Less: Depreciation capitalised in respect of construction contracts	<u>(0.1)</u>	<u>(0.1)</u>
	<u>1.3</u>	<u>0.6</u>
Employee benefits expenses (inclusive of Directors' remuneration disclosed in note 9):		
Wages and salaries*	32.3	25.6
Equity-settled share option expenses	3.0	1.6
Staff retirement scheme contributions	1.8	1.4
Less: Forfeited contributions	<u>(0.4)</u>	<u>(0.1)</u>
Net staff retirement scheme contributions	<u>1.4</u>	<u>1.3</u>
	36.7	28.5
Less: Staff costs capitalised in respect of property development projects and construction contracts:		
Wages and salaries	(19.8)	(14.0)
Staff retirement scheme contributions	(0.9)	(0.7)
Add: Forfeited contributions	<u>0.1</u>	<u>—</u>
	<u>16.1</u>	<u>13.8</u>

\* Inclusive of an amount of HK\$3.0 million (2005 - HK\$3.2 million) classified under cost of inventories sold and services provided.

**APPENDIX I****FINANCIAL INFORMATION OF THE GROUP**

	<b>GROUP</b>	
	<b>2006</b>	<b>2005</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>
Auditors' remuneration	1.3	1.3
Minimum lease payments under operating leases:		
Land and buildings	1.8	1.8
Plant and machinery	<u>1.6</u>	<u>0.4</u>
	3.4	2.2
Less: Minimum lease payments capitalised in respect of construction contracts:		
Land and buildings	(0.4)	(0.4)
Plant and machinery	<u>(1.6)</u>	<u>(0.4)</u>
	<u>1.4</u>	<u>1.4</u>
and after crediting:		
Gross rental income	11.9	9.5
Less: Outgoings	<u>(2.6)</u>	<u>(3.1)</u>
Net rental income	<u><u>9.3</u></u>	<u><u>6.4</u></u>

**8. FINANCE COSTS**

	<b>GROUP</b>	
	<b>2006</b>	<b>2005</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>
Interest in respect of:		
Bank loans and overdrafts, wholly repayable within five years	9.3	9.7
Other loans wholly repayable within five years	<u>1.0</u>	<u>1.6</u>
Total finance costs	<u><u>10.3</u></u>	<u><u>11.3</u></u>

## 9. DIRECTORS' REMUNERATION

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

	<b>GROUP</b>	
	<b>2006</b>	<b>2005</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>
Fees	1.0	1.0
Other emoluments:		
Salaries and other allowances	3.9	3.6
Performance related/discretionary bonuses	0.8	0.8
Employee share option benefits	2.6	1.3
Staff retirement scheme contributions	<u>0.4</u>	<u>0.3</u>
	<u>8.7</u>	<u>7.0</u>

In the prior year, certain Directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 32 to the financial statements. The fair value of such options, which has been recognised to the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

## (a) Independent non-executive directors

The fees paid to the Independent Non-Executive Directors during the year were as follows:

	<b>GROUP</b>	
	<b>2006</b>	<b>2005</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>
Hon Abraham Shek Lai Him, JP	0.15	0.15
Mr. Ng Siu Chan	0.15	0.15
Mr. Wong Chi Keung	<u>0.20</u>	<u>0.20</u>
	<u>0.50</u>	<u>0.50</u>

There were no other emoluments payable to the Independent Non-Executive Directors during the year (2005 - Nil).

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

	Fees	Salaries and other allowances	Performance related/ discretionary bonuses	Employee share option benefits	Staff retirement scheme contributions	Total remuneration
	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million
<b>2006</b>						
Executive directors:						
Mr. Lo Yuk Sui	0.10	2.02	0.34	1.68	0.20	4.34
Mr. Donald Fan Tung	0.10	0.83	0.24	0.29	0.08	1.54
Mr. Jimmy Lo Chun To	0.10	0.59	0.15	0.29	0.04	1.17
Mr. Kenneth Ng Kwai Kai	0.10	0.47	0.11	0.29	0.04	1.01
	0.40	3.91	0.84	2.55	0.36	8.06
Non-executive director:						
Mrs. Kitty Lo Lee Kit Tai	0.10	—	—	—	—	0.10
	0.50	3.91	0.84	2.55	0.36	8.16
<b>2005</b>						
Executive directors:						
Mr. Lo Yuk Sui	0.10	1.93	0.34	0.91	0.19	3.47
Mr. Donald Fan Tung	0.10	0.72	0.24	0.13	0.07	1.26
Mr. Jimmy Lo Chun To	0.10	0.44	0.15	0.13	0.03	0.85
Mr. Kenneth Ng Kwai Kai	0.10	0.45	0.11	0.13	0.03	0.82
	0.40	3.54	0.84	1.30	0.32	6.40
Non-executive director:						
Mrs. Kitty Lo Lee Kit Tai	0.10	—	—	—	—	0.10
	0.50	3.54	0.84	1.30	0.32	6.50

The Independent Non-Executive Directors of the Company were entitled to a total sum of HK\$0.50 million (2005 - HK\$0.50 million) as Directors' fees, including the fees entitled by those Independent Non-Executive Directors for serving as audit committee members, for the year ended 31st December, 2006.

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



## 10. SENIOR EXECUTIVES' EMOLUMENTS

The five highest-paid individuals included three (2005 - four) Directors, details of whose remuneration are disclosed in note 9 to the financial statements. The emoluments of the remaining two (2005 - one) individuals, who were not Directors, are as follows:

	GROUP	
	2006	2005
	<i>HK\$'million</i>	<i>HK\$'million</i>
Salaries and other emoluments	2.0	0.9
Performance related/discretionary bonuses	0.3	0.1
Employee share option benefits	0.1	0.1
Staff retirement scheme contributions	<u>0.1</u>	<u>0.1</u>
	<u>2.5</u>	<u>1.2</u>

The emoluments of the two (2005 - one) individuals fell within the following band:

<i>HK\$</i>	2006	2005
	<i>Number of individuals</i>	<i>Number of individuals</i>
1,000,001 - 1,500,000	<u>2</u>	<u>1</u>

In the prior year, 10 million share options were granted to the non-director, highest-paid individual (who is also one of the two non-director, highest paid individuals for the current year) in respect of his service to the Group. Further details of the share option scheme of the Company are set out in note 32 to the financial statements. The fair value of such options, which has been recognised to the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director, senior executives' emoluments disclosures.

## 11. TAX

	GROUP	
	2006	2005
	<i>HK\$'million</i>	<i>HK\$'million</i>
Group:		
Current - Hong Kong		
Provision for tax in respect of profits for the year	0.9	2.1
Overprovision in prior years	(0.7)	—
Current - Overseas		
Overprovision in prior years	(0.3)	—
Deferred tax expenses (note 31)	<u>8.7</u>	<u>—</u>
Total tax charge for the year	<u>8.6</u>	<u>2.1</u>

The provision for Hong Kong profits tax has been calculated by applying the applicable tax rate of 17.5% (2005 - 17.5%) to the estimated assessable profits which were earned in or derived from Hong Kong during the year.

Taxes on the profits of subsidiaries operating overseas are calculated at the rates prevailing in the respective jurisdictions in which they operate, based on existing legislation, practices and interpretations thereof.

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the jurisdictions in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

	2006		Group 2005	
	<i>HK\$' million</i>	%	<i>HK\$' million</i> <i>(Restated)</i>	%
Profit before tax	<u>308.7</u>		<u>519.5</u>	
Tax at the statutory tax rate	54.0	17.5	90.9	17.5
Adjustment in respect of current tax of previous years	(1.0)	(0.3)	—	—
Profits and losses attributable to associates	(27.2)	(8.8)	(65.9)	(12.7)
Income not subject to tax	(7.0)	(2.3)	(37.9)	(7.3)
Expenses not deductible for tax	1.5	0.5	13.5	2.6
Tax losses utilised from previous periods	(11.2)	(3.6)	(3.7)	(0.7)
Tax effect of utilisation of tax losses previously not recognised	(6.0)	(1.9)	—	—
Increase in deferred tax assets not recognised during the year	5.5	1.7	5.4	1.0
Others	<u>—</u>	<u>—</u>	<u>(0.2)</u>	<u>—</u>
Tax charge at the Group's effective rate	<u>8.6</u>	<u>2.8</u>	<u>2.1</u>	<u>0.4</u>

The share of tax charge attributable to associates amounting to HK\$10.9 million (2005 - tax credit of HK\$46.7 million) is included in "Share of profits and losses of associates" on the face of the consolidated income statement.

## 12. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31st December, 2006 includes a loss of HK\$3.1 million (2005 - HK\$3.3 million) which has been dealt with in the financial statements of the Company (note 33(b)).

## 13. DIVIDENDS

	2006	2005
	<i>HK\$'million</i>	<i>HK\$'million</i>
Interim - HK0.15 cent (2005 - Nil) per ordinary share	10.8	—
Proposed final - HK0.3 cent (2005 - HK0.2 cent) per ordinary share	<u>21.6</u>	<u>14.4</u>
	<u>32.4</u>	<u>14.4</u>

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

## 14. EARNINGS PER ORDINARY SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

## (a) Basic earnings per ordinary share

The calculation of basic earnings per ordinary share is based on the profit for the year attributable to equity holders of the parent of HK\$300.1 million (2005 - HK\$517.4 million, as restated) and on the weighted average of 7,208.5 million (2005 - 7,208.5 million) ordinary shares of the Company in issue during the year.

## (b) Diluted earnings per ordinary share

The calculation of diluted earnings per ordinary share for the year ended 31st December, 2006 is based on the profit for the year attributable to equity holders of the parent, adjusted for the decrease in the Group's proportionate interest in the earnings of Regal Hotels International Holdings Limited ("RHIHL"), the listed associate of the Company, and its subsidiaries (the "RHIHL Group") of HK\$17.3 million assuming all outstanding convertible bonds (including optional convertible bonds) of the RHIHL Group were converted into, and the subscription rights attaching to all outstanding warrants of RHIHL were exercised to subscribe for, ordinary shares of RHIHL at the beginning of the year. The weighted average number of ordinary shares used in the calculation is the aggregate of the weighted average number of ordinary shares in issue during the year, as used in the basic earnings per ordinary share calculation, and the weighted average number of ordinary shares of 66.8 million that would be issued at no consideration assuming all outstanding share options of the Company were exercised to subscribe for ordinary shares of the Company at the beginning of the year. The conversion of the outstanding convertible preference shares of RHIHL is anti-dilutive for the year and is not included in the calculation of diluted earnings per ordinary share. In addition, the exercise price of the share options of RHIHL outstanding during the year is higher than the average market price of the ordinary shares of RHIHL and, accordingly, they have no dilutive effect on the basic earnings per ordinary share.

The calculation of diluted earnings per ordinary share for the year ended 31st December, 2005 was based on the profit for that year (as restated) attributable to equity holders of the parent, adjusted for the decrease in the Group's proportionate interest in the RHIHL Group's earnings of HK\$32.9 million and on the weighted average of 7,208.5 million ordinary shares of the Company in issue during that year assuming all outstanding convertible bonds (including optional convertible bonds) of the RHIHL Group were converted into, and the subscription rights attaching to all outstanding warrants of RHIHL were exercised to subscribe for, ordinary shares of RHIHL at the beginning of that year. The conversion of the outstanding convertible preference shares of RHIHL was anti-dilutive for that year and was not included in the calculation of diluted earnings per ordinary share. In addition, the exercise prices of the share options of the Company and RHIHL outstanding during that year were higher than the average market prices of the respective ordinary shares of the Company and RHIHL and, accordingly, they had no dilutive effect on the basic earnings per ordinary share.

## 15. PROPERTY, PLANT AND EQUIPMENT

	<b>GROUP</b>			
	<b>Leasehold properties</b>	<b>Leasehold improvements, fixtures and equipment</b>	<b>Motor vehicles</b>	<b>Total</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
<b>31st December, 2006</b>				
At 31st December, 2005 and at 1st January, 2006:				
Cost	1.1	9.1	1.4	11.6
Accumulated depreciation	<u>(0.3)</u>	<u>(6.2)</u>	<u>(0.7)</u>	<u>(7.2)</u>
Net carrying amount	<u>0.8</u>	<u>2.9</u>	<u>0.7</u>	<u>4.4</u>
At 1st January, 2006, net of accumulated depreciation				
	0.8	2.9	0.7	4.4
Additions	—	0.8	0.2	1.0
Disposals/Write-off	—	—	(0.2)	(0.2)
Write-back of depreciation upon disposals/write-off	—	—	0.2	0.2
Depreciation provided during the year	<u>—</u>	<u>(1.2)</u>	<u>(0.2)</u>	<u>(1.4)</u>
At 31st December, 2006, net of accumulated depreciation				
	<u>0.8</u>	<u>2.5</u>	<u>0.7</u>	<u>4.0</u>
At 31st December, 2006:				
Cost	1.1	9.9	1.4	12.4
Accumulated depreciation	<u>(0.3)</u>	<u>(7.4)</u>	<u>(0.7)</u>	<u>(8.4)</u>
Net carrying amount	<u>0.8</u>	<u>2.5</u>	<u>0.7</u>	<u>4.0</u>

	GROUP				
	Leasehold properties <i>HK\$'million</i>	Leasehold improvements, fixtures and equipment <i>HK\$'million</i>	Site equipment <i>HK\$'million</i>	Motor vehicles <i>HK\$'million</i>	Total <i>HK\$'million</i>
<b>31st December, 2005</b>					
At 1st January, 2005:					
Cost	1.1	7.9	1.7	1.0	11.7
Accumulated depreciation	<u>(0.2)</u>	<u>(7.4)</u>	<u>(1.7)</u>	<u>(0.9)</u>	<u>(10.2)</u>
Net carrying amount	<u>0.9</u>	<u>0.5</u>	<u>—</u>	<u>0.1</u>	<u>1.5</u>
At 1st January, 2005, net of accumulated depreciation					
	0.9	0.5	—	0.1	1.5
Additions	—	2.9	—	0.7	3.6
Disposals/Write-off	—	(1.7)	(1.7)	(0.3)	(3.7)
Write-back of depreciation upon disposals/write-off	—	1.7	1.7	0.3	3.7
Depreciation provided during the year	<u>(0.1)</u>	<u>(0.5)</u>	<u>—</u>	<u>(0.1)</u>	<u>(0.7)</u>
At 31st December, 2005, net of accumulated depreciation					
	<u>0.8</u>	<u>2.9</u>	<u>—</u>	<u>0.7</u>	<u>4.4</u>
At 31st December, 2005:					
Cost	1.1	9.1	—	1.4	11.6
Accumulated depreciation	<u>(0.3)</u>	<u>(6.2)</u>	<u>—</u>	<u>(0.7)</u>	<u>(7.2)</u>
Net carrying amount	<u>0.8</u>	<u>2.9</u>	<u>—</u>	<u>0.7</u>	<u>4.4</u>

The leasehold properties are held under medium term leases and are situated in Hong Kong.

## 16. INVESTMENT PROPERTIES

	<b>GROUP</b>	
	<b>2006</b>	<b>2005</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>
Carrying amount at 1st January	0.3	0.9
Disposals	—	(0.6)
Transfer from properties held for sale	270.0	—
Profit from fair value adjustments	<u>80.0</u>	<u>—</u>
Carrying amount at 31st December	<u><u>350.3</u></u>	<u><u>0.3</u></u>

The Group's investment properties are situated in Hong Kong and are held under the following lease terms:

	<i>HK\$'million</i>
Long term leases	350.2
Medium term lease	<u>0.1</u>
	<u><u>350.3</u></u>

The Group's investment properties were revalued on 31st December, 2006 by independent professionally qualified valuers with an RICS qualification at HK\$350.3 million, on an open market, existing use basis. Certain of the investment properties are leased to third parties under operating leases, further summary details of which are included in note 39(a) to the financial statements.

At 31st December, 2006, the Group's investment property with a carrying value of HK\$350.0 million (2005 - Nil) was pledged to secure banking facilities granted to the Group.

## 17. GOODWILL

The amounts of the goodwill recognised in the consolidated balance sheet as an asset arising from the acquisition of additional interests in the unlisted subsidiaries, are as follows:

	<b>GROUP</b> <i>HK\$ million</i>
At 1st January, 2005:	
Cost	247.6
Accumulated impairment	<u>(189.6)</u>
Net carrying amount	<u>58.0</u>
Cost at 1st January, 2005, net of accumulated impairment	58.0
Impairment provided during the year	<u>(58.0)</u>
At 31st December, 2005	<u>—</u>
At 31st December, 2005 and 2006:	
Cost	247.6
Accumulated impairment	<u>(247.6)</u>
Net carrying amount	<u>—</u>

**Impairment testing of goodwill**

The balance of the goodwill at 1st January, 2005 related to the acquisition of certain subsidiaries which are engaged in building related businesses, including security systems and products and other software development and distribution (the "Business Units"). The carrying value of the relevant goodwill in the amount of HK\$58.0 million had been determined by reference to a business valuation performed by independent professionally qualified valuers based on a contraction scenario as at 31st December, 2004 (the "Valuation").

In the prior year, the operating performance of the Business Units was below the forecast under the contraction scenario in the Valuation due to intense competition in the business environment. In the opinion of the Directors, while the Business Units continued to operate, it was uncertain that sufficient cash flow would be generated by the Business Units in the foreseeable future to substantiate the carrying amount of the goodwill and accordingly a further impairment of HK\$58.0 million had been made and recognised in the prior year's consolidated income statement, resulting in a full write off of the goodwill as at 31st December, 2005.

**APPENDIX I****FINANCIAL INFORMATION OF THE GROUP****18. PROPERTY UNDER DEVELOPMENT**

	<b>GROUP</b>	
	<b>2006</b>	<b>2005</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>
At 1st January	—	7.2
Disposal of a subsidiary (note 35(d))	—	(7.2)
At 31st December	<u>—</u>	<u>—</u>

**19. PROPERTY HELD FOR FUTURE DEVELOPMENT**

	<b>GROUP</b>	
	<b>2006</b>	<b>2005</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>
Medium term leasehold land in Hong Kong, at cost: At 1st January and 31st December	<u>26.7</u>	<u>26.7</u>

**20. INTERESTS IN ASSOCIATES**

	<b>GROUP</b>	
	<b>2006</b>	<b>2005</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>
Listed and unlisted companies:		
Share of net assets	2,550.9	2,341.6
Goodwill on acquisition	<u>54.0</u>	<u>54.0</u>
	2,604.9	2,395.6
Loans to associates	156.4	156.4
Promissory note receivable	—	145.0
Amounts due from associates	222.2	2.9
Amount due to an associate	<u>(2.5)</u>	<u>(2.1)</u>
	2,981.0	2,697.8
Less: Provision for impairment	<u>(0.4)</u>	<u>(0.4)</u>
	<u>2,980.6</u>	<u>2,697.4</u>
Share of net assets of the listed associate	<u>2,308.3</u>	<u>2,113.0</u>
Market value of an associate listed in Hong Kong	<u>2,865.6</u>	<u>2,119.2</u>



**Goodwill**

	<b>GROUP</b>	
	<b>2006</b>	<b>2005</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>
At 1st January		
Cost and carrying amount	<u>54.0</u>	<u>3.4</u>
Cost at 1st January	54.0	3.4
Acquisition of additional interests in the listed associate	<u>—</u>	<u>50.6</u>
Cost and carrying amount at 31st December	<u>54.0</u>	<u>54.0</u>

The loans to associates are unsecured, interest-free and not repayable within one year. The promissory note receivable of HK\$145.0 million due from the listed associate in the prior year, as further detailed in note 36(b) to the financial statements, bore interest at a rate of 3% per annum and was fully repaid during the year. The carrying amounts of these loans approximate to their fair values.

The amounts due from/to associates are unsecured, interest-free and have no fixed terms of repayment.

The share of net assets represents the share attributable to the Group before the Group's minority interests therein.

Details of the Group's principal associates are as follows:

Name	Place of incorporation	Particulars of issued shares held	Percentage of equity interest attributable to the Group		Principal activities
			2006	2005	
Regal Hotels International Holdings Limited ("RHIHL") <sup>#</sup>	Bermuda	Ordinary shares of HK\$0.01 each	45.4	46.0	Investment holding
		Preference shares of US\$10 each	20.5	20.5	
Hang Fok Properties Limited ("Hang Fok")	British Virgin Islands	Ordinary shares of US\$1 each	50.0 <sup>(1)</sup>	50.0 <sup>(1)</sup>	Investment holding
Cheerjoy Development Limited*	Hong Kong	Ordinary shares of HK\$1 each	30.0	30.0	Property development
Smart Tactic Limited*	Hong Kong	Ordinary shares of HK\$1 each	30.0	30.0	Distribution of security systems and software
Regala Management Limited	Hong Kong	Ordinary shares of HK\$1 each	25.0	25.0	Light refreshment operation

- \* Not audited by Ernst & Young.
- # RHIHL and its subsidiaries are engaged in the business activities of hotel ownership and management, property investment and other investments.
- (1) Prior to 2005, Hang Fok, a then wholly-owned subsidiary of the Company, held a 23% equity interest in each of two sino-foreign joint ventures, namely Beijing Century City Real Estate Development Co., Ltd. and Beijing Jianye Real Estate Developing Co., Ltd. (collectively, the “Investee Companies”) established in Beijing, the People’s Republic of China (the “PRC”). As explained in the Group’s prior years’ audited consolidated financial statements, a land site beneficially and collectively held by the Investee Companies was resumed by the Land Bureau in Beijing in 2000 on the grounds of its prolonged idle condition. The Group and the other parties concerned had been undergoing negotiations with the relevant PRC government authorities with a view to safeguarding the Investee Companies’ interest in the land site. Total impairment losses of HK\$242.0 million had been made against the investments during the years of 2001 and 2002.

In July 2005, the Group completed a sale and purchase agreement with the RHIHL Group in respect of 50% of its equity interest in Hang Fok at a consideration of HK\$145.0 million (the “Hang Fok SP Agreement”). The RHIHL Group was given a right to terminate or rescind the Hang Fok SP Agreement exercisable subject to certain conditions subsequent regarding the land use rights then yet to be secured by the Investee Companies. The Group’s investment in Hang Fok was therefore accounted for as an associate since then. Having considered the entitlements of the land use rights granted to the Investee Companies under the Land Grant Contracts as described below, and the prevailing market conditions in Beijing, PRC, the RHIHL Group agreed to accept the conditions subsequent as fulfilled or otherwise waived on 3rd April, 2006.

In September 2005, Hang Fok acquired a further 36% equity interest in the Investee Companies from another joint venture partner, raising its equity interest in the Investee Companies to 59%. Having assessed the fair value of the land site based on an independent valuation, impairment loss in the amount of HK\$121.0 million was written back in 2005.

In February 2006, one of the Investee Companies formally entered into two new land grant contracts in respect of certain portions of the original land site (the “Land Grant Contracts”). As at 31st December, 2006, the land premium payable under the Land Grant Contracts was fully settled while the land use certificates remain yet to be issued by the Land Bureau. Construction work on those portions of the original land site has not yet commenced.

The above table lists the associates of the Group which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the Directors, result in particulars of excessive length.

All associates were indirectly held by the Company.

All of the above associates operate in the place of their incorporation, except for RHIHL and Hang Fok which are incorporated in Bermuda and British Virgin Islands but operate in Hong Kong and the PRC, respectively.

The summarised financial information of the Group’s associates, which has been extracted from their audited consolidated financial statements and/or management accounts is as follows:

	<b>2006</b>	<b>2005</b>
	<i>HK\$’million</i>	<i>HK\$’million</i>
Assets	13,047.6	12,308.9
Liabilities	10,165.6	9,902.9
Revenues	1,262.5	1,144.3
Profit	<u>338.0</u>	<u>839.2</u>

## 21. AVAILABLE-FOR-SALE EQUITY INVESTMENTS

	<b>GROUP</b>	
	<b>2006</b>	<b>2005</b>
	<i>HK\$'million</i>	<i>HK\$'million</i> <i>(Restated)</i>
Listed equity investments, at fair value:		
Hong Kong	23.8	108.0
Elsewhere	<u>10.8</u>	<u>8.6</u>
	<u>34.6</u>	<u>116.6</u>
Unlisted equity investments, at fair value	<u>0.1</u>	<u>14.2</u>
	<u><u>34.7</u></u>	<u><u>130.8</u></u>

During the year, the gross gain of the Group's available-for-sale equity investments recognised directly in equity amounted to HK\$77.0 million (2005 - gross loss of HK\$13.5 million, as restated), of which HK\$67.5 million (2005 - HK\$0.6 million) was removed from equity and recognised in the income statement for the year.

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

The fair values of listed equity investments are based on quoted market prices. The fair values of unlisted available-for-sale equity investments have been estimated using valuation techniques based on assumptions that are not supported by observable market prices or rates. The Directors believe that the estimated fair values resulting from the valuation techniques, which are recorded in the consolidated balance sheet, and the related changes in fair values, which are recorded in the consolidated equity, are reasonable, and that they are the most appropriate values at the balance sheet date.

As at 31st December, 2006, the Group's listed equity investments with a carrying value of HK\$17.5 million (2005 - HK\$27.9 million) were pledged to secure the Group's bank and other borrowings.

## 22. LOANS RECEIVABLE

The balance represents long term mortgage loans granted by the Group to purchasers in connection with the sale of its properties. The loans are secured by second mortgages over the properties sold and are repayable by instalments in 15 to 20 years. The long term mortgage loans bear interest at Hong Kong prime rate to Hong Kong prime rate plus 2% per annum. The carrying amounts of these loans receivable approximate to their fair values.

## 23. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<b>Group</b>	
	<b>2006</b>	<b>2005</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>
Listed equity investments in Hong Kong, at market value	<u>19.1</u>	<u>3.2</u>

The above equity investments at 31st December, 2005 and 2006 were classified as held for trading.

**24. PROPERTIES HELD FOR SALE**

At 31st December, 2006, certain of the Group's properties held for sale with carrying amounts of HK\$32.7 million (2005 - HK\$242.9 million) were pledged to secure banking facilities granted to the Group.

Certain of the Group's properties held for sale are leased to third parties under operating leases, further summary details of which are included in note 39(a) to the financial statements.

**25. INVENTORIES**

	<b>GROUP</b>	
	<b>2006</b>	<b>2005</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>
Raw materials	0.1	0.1
Work in progress	6.6	0.9
Finished goods	<u>0.2</u>	<u>0.5</u>
	<u>6.9</u>	<u>1.5</u>

**26. DEBTORS, DEPOSITS AND PREPAYMENTS**

Included in the balance is an amount of HK\$18.4 million (2005 - HK\$22.4 million) representing the trade debtors of the Group. The aged analysis of such debtors, based on the invoice date, is as follows:

	<b>GROUP</b>	
	<b>2006</b>	<b>2005</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>
Outstanding balances with ages:		
Within 3 months	18.3	21.9
Between 4 to 6 months	<u>0.1</u>	<u>0.5</u>
	<u>18.4</u>	<u>22.4</u>

**Credit Terms**

Trade debtors generally have credit terms of 30 to 90 days. The Group seeks to maintain strict control over its outstanding debts and overdue balances are reviewed regularly by senior management. In view of the aforementioned and that the Group's exposures spread over a number of counter-parties and customers, the Group has no significant concentration of credit risk.

Included in the balances are amounts due from the Group's listed associate, a jointly controlled entity of the listed associate and a related company of HK\$8.5 million (2005 - HK\$13.8 million), HK\$2.0 million (2005 - HK\$2.7 million) and HK\$8.3 million (2005 - HK\$8.4 million), respectively, which are unsecured, non-interest bearing and repayable either on similar credit terms to those offered to the major customers of the Group or on demand.

The balance at 31st December, 2006 also included a loan receivable of HK\$37.0 million (2005 - Nil) which is secured, bears interest at 1% per month and repayable within one year.

**27. A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE**

In prior years, the Group's interest in Talent Faith Investments Ltd. ("Talent Faith") was classified under interests in associates despite the increase in its equity interest therein from 50% to 100% in 2003, since the Group had entered into an agreement (the "SP Agreement") in that year to dispose of its entire equity interest in Talent Faith and accordingly the control over Talent Faith was considered temporary pending the outcome of the SP Agreement.

As at 31st December, 2005, the SP Agreement had not yet been completed and upon the adoption of HKAS 27 and HKFRS 5 in 2005, Talent Faith was consolidated in the Group's consolidated financial statements and the asset and liability of Talent Faith and its subsidiaries (the "Talent Faith Group") were presented as asset and liability of a disposal group classified as held for sale under current assets and current liabilities, respectively. The consideration of the disposal was settled at 31st December, 2006; however, the SP Agreement was yet to be completed due to a delay caused by events beyond the Group's control. Since the Group remains committed to its plan to dispose of Talent Faith, no reclassification has been made therefor.

The major class of the asset and liability of the Talent Faith Group classified as held for sale as at 31st December are as follows:

	<b>2006</b>	<b>2005</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>
Asset		
Loan receivable	<u>249.4</u>	<u>249.4</u>
Liability		
Loan from minority shareholders	<u>(98.9)</u>	<u>(98.9)</u>

**28. CREDITORS AND ACCRUALS**

Included in the balance is an amount of HK\$7.5 million (2005 - HK\$5.2 million) representing the trade creditors of the Group. The aged analysis of such creditors, based on the invoice date, is as follows:

	<b>GROUP</b>	
	<b>2006</b>	<b>2005</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>
Outstanding balances with ages:		
Within 3 months	7.4	5.1
Between 4 to 6 months	<u>0.1</u>	<u>0.1</u>
	<u>7.5</u>	<u>5.2</u>

The trade creditors are non-interest bearing and are normally settled within 90 days.

Included in the balances are amounts due to the Group's listed associate, a fellow subsidiary and related companies of HK\$8.1 million (2005 - HK\$8.1 million), HK\$1.0 million (2005 - HK\$0.2 million) and HK\$4.2 million (2005 - HK\$0.6 million), respectively, which are unsecured, non-interest bearing and have no fixed terms of repayment.

## 29. CONSTRUCTION CONTRACTS

	GROUP	
	2006	2005
	<i>HK\$'million</i>	<i>HK\$'million</i>
Gross amount due from contract customers included in debtors, deposits and prepayments	1.4	—
Gross amount due to contract customers included in creditors and accruals	<u>(43.1)</u>	<u>(28.3)</u>
	<u>(41.7)</u>	<u>(28.3)</u>
Contract costs incurred plus recognised profits less recognised losses to date	1,673.6	1,578.2
Less: Progress billings	<u>(1,715.3)</u>	<u>(1,606.5)</u>
	<u>(41.7)</u>	<u>(28.3)</u>

At 31st December, 2006, retentions held by customers for contract works, as included in debtors, deposits and prepayments under current assets, amounted to approximately HK\$10.9 million (2005 - HK\$3.8 million).

At 31st December, 2006, there was no advance from customers for contract works (2005 - HK\$0.3 million included in creditors and accruals under current liabilities).

## 30. INTEREST BEARING BANK AND OTHER BORROWINGS

	GROUP					
	2006			2005		
	<i>Effective interest rate (%) p.a.</i>	<i>Maturity</i>	<i>HK\$'million</i>	<i>Effective interest rate (%) p.a.</i>	<i>Maturity</i>	<i>HK\$'million</i>
<b>Current</b>						
Bank overdraft - secured	—	—	—	5 - 8	On demand	0.5
Other loans - secured	8 - 12	2007	<u>10.3</u>	8 - 12	2006	<u>12.5</u>
			10.3			13.0
<b>Non-current</b>						
Bank loans - secured	4.9 - 5.7	2008 - 2009	<u>248.1</u>	2.9 - 5.3	2008	<u>148.2</u>
			<u>258.4</u>			<u>161.2</u>

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	<b>2006</b>	<b>2005</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>
Analysed into:		
Bank loans and overdraft repayable:		
Within one year or on demand	—	0.5
In the second year	198.1	—
In the third to fifth years, inclusive	<u>50.0</u>	<u>148.2</u>
	248.1	148.7
Other loans repayable within one year	<u>10.3</u>	<u>12.5</u>
	<u><u>258.4</u></u>	<u><u>161.2</u></u>

All interest bearing bank and other borrowings are in Hong Kong dollars.

The Group's bank and other borrowings are pledged by the Group's certain assets as further detailed in note 37 to the financial statements.

Other interest rate information:

	<b>GROUP</b>			
	<b>2006</b>		<b>2005</b>	
	<b>Fixed rate</b>	<b>Floating rate</b>	<b>Fixed rate</b>	<b>Floating rate</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Bank overdraft - secured	—	—	—	0.5
Bank loans - secured	—	248.1	—	148.2
Other loans - secured	<u>10.3</u>	<u>—</u>	<u>12.5</u>	<u>—</u>

The carrying amounts of the Group's current borrowings approximate to their fair values. The carrying amounts and fair values of the Group's non-current borrowings are as follows:

	<b>Carrying amounts</b>		<b>Fair values</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Bank loans - secured	<u>248.1</u>	<u>148.2</u>	<u>248.1</u>	<u>148.2</u>

The fair values of the non-current borrowings have been calculated by discounting the expected future cash flows at the prevailing interest rates.

## 31. DEFERRED TAX

The movements in deferred tax liabilities of the Group during the year are as follows:

	Group			
	Revaluation of investment properties <i>HK\$'million</i>	Accelerated tax depreciation <i>HK\$'million</i>	Tax losses <i>HK\$'million</i>	Total <i>HK\$'million</i>
Deferred tax charged/(credited) to the income statement during the year (note 11) and balance at 31st December, 2006	<u>14.0</u>	<u>0.7</u>	<u>(6.0)</u>	<u>8.7</u>

The Group has tax losses arising in Hong Kong and the United States of America amounting to HK\$784.2 million (2005 - HK\$849.6 million) and HK\$213.2 million (2005 - HK\$216.9 million), respectively, as at 31st December, 2006. The tax losses arising in Hong Kong are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose, whilst those arising in the United States of America are available for a maximum period of fifteen years. No deferred tax assets in respect of the Group's tax losses have been recognised on account of the unpredictability of future profit streams.

At the balance sheet date, deferred tax assets in respect of tax losses not recognised in the financial statements amounted to HK\$211.9 million (2005 - HK\$224.6 million).

At 31st December, 2006, there is no significant unrecognised deferred tax liability (2005 - Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or associates as the Group has no liability to additional tax should such amounts be remitted.

## 32. SHARE CAPITAL AND SHARE PREMIUM

	COMPANY	
	2006 <i>HK\$'million</i>	2005 <i>HK\$'million</i>
<b>Shares</b>		
Authorised:		
20,000 million (2005 - 20,000 million) ordinary shares of HK\$0.01 each	200.0	200.0
4,750 million (2005 - 4,750 million) convertible preference shares of HK\$0.10 each	<u>475.0</u>	<u>475.0</u>
	<u>675.0</u>	<u>675.0</u>
Issued and fully paid:		
7,208.5 million (2005 - 7,208.5 million) ordinary shares of HK\$0.01 each	<u>72.1</u>	<u>72.1</u>
<b>Share premium</b>		
Ordinary shares	<u>522.1</u>	<u>522.1</u>



## Share options

## (a) Executive Share Option Scheme

During the year ended 31st December, 2005, certain share options previously granted under an executive share option scheme of the Company (the "Executive Share Option Scheme") and remained outstanding were surrendered for cancellation. The Executive Share Option Scheme was adopted by the Company's shareholders on 23rd November, 1993 and approved by the independent shareholders of Paliburg International Holdings Limited, formerly the immediate listed holding company of the Company, on 15th December, 1993, and was subsequently terminated in 2003. Share options granted under the Executive Share Option Scheme did not confer rights on the holders to dividends or to vote at shareholders' meetings.

Details of movements in share options granted by the Company pursuant to the Executive Share Option Scheme during the prior year were as follows:

Date of grant of share options	Category of participant	Number of ordinary shares under share options**				At 31st December, 2005	Vesting period*/Exercise period of share options	Exercise price of share options **
		At 1st January, 2005	Vested during the year	Cancelled during the year				
	<b>Employees</b>							
22nd February, 1997	Employees, in aggregate							
	Vested:	1,750,000	250,000	(2,000,000)	—	Note	6.672	
	Unvested:	<u>750,000</u>	<u>(250,000)</u>	<u>(500,000)</u>	<u>—</u>	Note		
	Total:	<u>2,500,000</u>	<u>—</u>	<u>(2,500,000)***</u>	<u>—</u>			

\* The vesting period of the share options is from the date of the grant until the commencement of the relevant exercise period.

\*\* Subject to adjustment in the case of rights or bonus issues, or other relevant changes in the Company's share capital.

\*\*\* The outstanding share options for 2,500,000 ordinary shares were surrendered and cancelled in August 2005.

*Note:*

Vesting/Exercise periods of share options:

	<b>On completion of continuous service of</b>	<b>Initial/Cumulative percentage vesting</b>	<b>Initial/Cumulative percentage exercisable</b>
(a)	2 years after date of grant	Initial 20%	Initial 20% upon vesting (exercisable until 10 years after date of grant)
(b)	3 years to 9 years after date of grant	Cumulative 30% to 90% (with 10% additional percentage vested each subsequent year (commencing from 3 years after date of grant))	Cumulative 30% to 90% (with 10% additional percentage exercisable each subsequent year (commencing from 3 years after date of grant) upon vesting (exercisable until 10 years after date of grant))
(c)	9½ years after date of grant	100%	100% (exercisable until 10 years after date of grant)

(b) The Paliburg Holdings Limited Share Option Scheme

At the special general meeting of the Company held on 16th June, 2005, the adoption of a new share option scheme of the Company named as “The Paliburg Holdings Limited Share Option Scheme” (the “New Share Option Scheme”) and the conditional grant to Mr. Lo Yuk Sui (“Mr. Lo”), the chairman of the Company, of share options for 180,000,000 ordinary shares, entitling Mr. Lo to subscribe for a total of 180,000,000 new ordinary shares at an exercise price of HK\$0.22 per ordinary share (subject to adjustments), were approved by the shareholders and the independent shareholders of the Company, respectively. The New Share Option Scheme and the conditional grant of options were approved by the shareholders and the independent shareholders of Century City International Holdings Limited (“CCIHL”) at its special general meeting also held on 16th June, 2005, respectively. The exercise price for the options granted to Mr. Lo represents (i) approximately 5.26% premium to the closing price of HK\$0.209 of the ordinary shares traded on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on the offer date, i.e., the date of the conditional grant approved by the Directors of the Company and CCIHL, and (ii) approximately 5.26% premium to the average closing price of HK\$0.209 of the ordinary shares for the five business days immediately preceding such approval date. The number of ordinary shares under the options conditionally granted to Mr. Lo was in excess of the individual maximum limit of 1% of the ordinary shares in issue as of the offer date. Subsequently, both the New Share Option Scheme and the conditional grant of options became effective on 21st July, 2005.

On 25th July, 2005, share options for an aggregate number of 100,000,000 ordinary shares, entitling the holders thereof to subscribe for a total of 100,000,000 new ordinary shares at an exercise price of HK\$0.22 per ordinary share (subject to adjustments), were offered to be granted to other selected eligible persons under the New Share Option Scheme. The exercise price for the options granted to the selected eligible persons represents (i) approximately 3.00% premium to the closing price of HK\$0.212 of the ordinary shares traded on the Stock Exchange on the offer date, i.e., the date of the grants approved by the Directors of the Company, and (ii) approximately 3.77% premium to the average closing price of HK\$0.2136 of the ordinary shares for the five business days immediately preceding such approval date. Such further grants of options have been duly accepted and became effective by end of July 2005.

The summarised information on the New Share Option Scheme is set out as follows:

- |        |  |   |
|--------|--|---|
| (i)    | Purpose:   | To provide the Company with a flexible means of either retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to eligible persons  |
| (ii)   | Participants:  | Eligible person means any person who is either (i) an eligible employee; (ii) a Non-Executive Director (including any Independent Non-Executive Directors); (iii) a direct or indirect shareholder of any member of the Group; (iv) a person or entity that provides advisory, consultancy, professional or other services to any member of the Group; (v) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Group; (vi) any company wholly owned by one or more persons belonging to any of the above classes of participants; or (vii) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any of the above classes of participants, as notified by the Board that he is an eligible person |
| (iii)  | Total number of ordinary shares subject to outstanding options under the New Share Option Scheme and as a percentage of the issued share capital as at 31st December, 2006 and at the date of this report: | 277,000,000 ordinary shares (approximately 3.8%)  |
| (iv)   | Maximum entitlement of each participant under the New Share Option Scheme:   | Not exceeding 1% of the offer ordinary shares of the Company in issue as of the offer date in any 12 month period   |
| (v)    | The period within which the shares must be taken up under an option:   | From the time when the options become vested to no later than ten years after the offer date  |
| (vi)   | Minimum period for which an option must be held before it can be exercised:  | No minimum period unless otherwise determined by the Board at the time of the approval of the grant   |
| (vii)  | Amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid:                                     | N/A   |
| (viii) | The basis of determining the exercise price:   | Determined by the Board (subject to any necessary consent or approval being obtained) and shall not be less than the higher of (i) the closing price of the ordinary shares of the Company on the Stock Exchange as stated in the Stock Exchange's daily quotations sheet on the offer date; (ii) the average closing price of the ordinary shares of the Company on the Stock Exchange as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date; and (iii) the nominal value of the ordinary shares of the Company  |

- (ix) The life of the New Share Option Scheme: The life of the New Share Option Scheme commenced from 16th June, 2005, date of adoption, and ending on 15th June, 2015

During the year, movements in share options granted by the Company pursuant to the New Share Option Scheme are as follows:

Offer date**	Name or category of participant	Number of ordinary shares under share options*			Vesting period/ Exercise period of share options	Exercise price of share options* HK\$
		At 1st January, 2006	Lapsed during the year	At 31st December, 2006		
	<b>Directors</b>					
12th May, 2005	Mr. Lo Yuk Sui Unvested:	180,000,000	—	180,000,000	Note	0.22
25th July, 2005	Mr. Donald Fan Tung Unvested:	20,000,000	—	20,000,000	Note	0.22
25th July, 2005	Mr. Jimmy Lo Chun To Unvested:	20,000,000	—	20,000,000	Note	0.22
25th July, 2005	Mr. Kenneth Ng Kwai Kai Unvested:	20,000,000	—	20,000,000	Note	0.22
	<b>Other Employees</b>					
25th July, 2005	Employees, in aggregate Unvested:	<u>40,000,000</u>	<u>(3,000,000)</u>	<u>37,000,000</u>	Note	0.22
		<u>280,000,000</u>	<u>(3,000,000)***</u>	<u>277,000,000</u>		

\* Subject to adjustment in the case of rights or bonus issues, or other relevant changes in the Company's share capital.

\*\* Offer date is the date on which grant of share options is offered by the Company and deemed the date of grant of the share options unless the grant of the share options is otherwise declined or lapsed.

\*\*\* In July 2006, share options for 3,000,000 ordinary shares were surrendered and cancelled.

Note:

Vesting/Exercise periods of share options:

On completion of continuous service of	Percentage vesting	Cumulative percentage exercisable
2 years after offer date	40% of options granted	40% (exercisable until 6 years after offer date)
3 years after offer date	A further 20% of options granted	60% (exercisable until 6 years after offer date)
4 years after offer date	A further 20% of options granted	80% (exercisable until 6 years after offer date)
5 years after offer date	The final 20% of options granted	100% (exercisable until 6 years after offer date)

### 33. RESERVES

#### (a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the financial statements on pages 26 to 27.

#### Special reserve

The Group's special reserve represents reserve arising from the Company's capital reorganisation in 2002.

#### (b) Company

	Notes	Share premium account HK\$'million	Contributed surplus HK\$'million	Share option reserve HK\$'million	Retained profits HK\$'million	Total HK\$'million
At 1st January, 2005		522.1	1,742.7	—	676.6	2,941.4
Equity-settled share option arrangements	32	—	—	1.6	—	1.6
Loss for the year		—	—	—	(3.3)	(3.3)
Proposed final 2005 dividend	13	—	—	—	(14.4)	(14.4)
At 31st December, 2005 and at 1st January, 2006		522.1	1,742.7	1.6	658.9	2,925.3
Equity-settled share option arrangements	32	—	—	3.0	—	3.0
Loss for the year		—	—	—	(3.1)	(3.1)
Interim 2006 dividend	13	—	—	—	(10.8)	(10.8)
Proposed final 2006 dividend	13	—	—	—	(21.6)	(21.6)
At 31st December, 2006		<u>522.1</u>	<u>1,742.7</u>	<u>4.6</u>	<u>623.4</u>	<u>2,892.8</u>

The contributed surplus represents reserves arising from (i) a group reorganisation in 1993 in preparation for a separate listing of the Company's shares, originally representing the difference between the nominal value of the Company's shares issued under the reorganisation scheme and the then consolidated net assets value of the subsidiaries at the date of acquisition; and (ii) the Company's capital reorganisation in 2002.

Under the Companies Act 1981 of Bermuda, the contributed surplus is distributable to shareholders under certain circumstances.

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.4(y) to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited after vesting.

#### 34. INTERESTS IN SUBSIDIARIES

	COMPANY	
	2006	2005
	<i>HK\$'million</i>	<i>HK\$'million</i>
Unlisted shares, at cost	154.4	154.4
Amounts due from subsidiaries	<u>2,833.1</u>	<u>2,858.4</u>
	<u>2,987.5</u>	<u>3,012.8</u>

The amounts due from subsidiaries are unsecured, interest-free and not repayable within one year. In the opinion of the Directors, these amounts are considered as quasi-equity loans to the subsidiaries.

Details of the principal subsidiaries are as follows:

Name	Place of incorporation/registration	Nominal value of issued share capital/registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2006	2005	
303 Company Limited	Hong Kong	HK\$10,000	100	100	Security systems and software development and distribution
303 Technology Limited	Hong Kong	HK\$2	100	100	Security systems and software development and distribution
Cathay City Property Management, Inc.	U.S.A.	US\$10,000	100	100	Financing
Chatwin Engineering Limited	Hong Kong	HK\$11,200,000	100	100	Building construction

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Name	Place of incorporation/ registration	Nominal value of issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2006	2005	
Cheer Faith Limited	Hong Kong	HK\$2	100	100	Financing
Chinatrend (Holdings) Limited	Hong Kong	HK\$10,000	100	100	Investment holding
Cosmos Best Development Limited	Hong Kong	HK\$2	100	100	Management services
Cosmos Gain Investment Limited	Hong Kong	HK\$2	100	100	Property development and investment
Everlane Investment Limited	Hong Kong	HK\$2	100	100	Property development and investment
Farich Investment Limited	Hong Kong	HK\$2	100	100	Investment holding
Finso Limited	Hong Kong	HK\$2	100	100	Investment holding
Gain World Investments Limited	British Virgin Islands	US\$1	100	100	Investment holding
Glaser Holdings Limited	British Virgin Islands	US\$1	100	100	Investment holding
Granco Development Limited	Hong Kong	HK\$2	100	100	Property development and investment
Grand Equity Limited	British Virgin Islands	US\$1	100	100	Investment holding
Guo Yui Investments Limited	British Virgin Islands	US\$1	100	100	Investment holding
H.P. Nominees Limited	Hong Kong	HK\$2	100	100	Investment holding and nominee services
Lead Fortune Development Limited	Hong Kong	HK\$2	100	100	Property development and investment
Leading Technology Holdings Limited	British Virgin Islands	US\$100	100	100	Investment holding
Linkprofit Limited	Hong Kong	HK\$2	100	100	Investment holding

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Name	Place of incorporation/ registration	Nominal value of issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2006	2005	
Mira Technology Limited	Hong Kong	HK\$937,500	60	60	Software development
Paliburg BVI Holdings Limited	British Virgin Islands	HK\$10	100	100	Investment holding
Paliburg Building Services Limited	Hong Kong	HK\$2	100	100	Mechanical and electrical engineering services
Paliburg Development BVI Holdings Limited	British Virgin Islands	US\$1	100	100	Investment holding
Paliburg Development Consultants Limited	Hong Kong	HK\$100,000	100	100	Development consultants
Paliburg Development Finance Limited	Hong Kong	HK\$2	100	100	Financing
Paliburg Estate Agents Limited	Hong Kong	HK\$20	100	100	Estate agent
Paliburg Estate Management Limited	Hong Kong	HK\$20	100	100	Estate management
Paliburg Finance Limited	Hong Kong	HK\$2	100	100	Financing
Paliburg International Holdings Limited	Bermuda	HK\$100,000	100	100	Investment holding
Paliburg Investments Limited	Hong Kong	HK\$526,506,860	100	100	Investment holding
Rich Pearl Limited	Hong Kong	HK\$10,000	100	100	Financing
Sanefix Development Limited	Hong Kong	HK\$2	100	100	Property investment
Shenzhen Leading Technology Co., Ltd. <sup>(1)</sup>	The People's Republic of China	RMB10,000,000	100	100	Security systems and software development and distribution
Sonnix Limited	Hong Kong	HK\$2	100	100	Property development and investment
Taylor Investments Ltd.	British Virgin Islands	US\$1	100	100	Investment holding



Name	Place of incorporation/ registration	Nominal value of issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2006	2005	
Transcar Investments Limited	British Virgin Islands	US\$1	100	100	Investment holding
Yield Star Limited	British Virgin Islands	US\$1	100	100	Investment holding

(i) This subsidiary is registered as a wholly-foreign-owned enterprise under the PRC law.

Except for Paliburg Development BVI Holdings Limited, all of the above subsidiaries are indirectly held by the Company.

All of the above subsidiaries operate in the place of their incorporation/registration.

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

## 35. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before tax to net cash inflow/(outflow) from operating activities

	2006	2005
	<i>HK\$ million</i>	<i>HK\$ million</i> <i>(Restated)</i>
Profit before tax	308.7	519.5
Adjustments for:		
Finance costs	10.3	11.3
Share of profits and losses of associates	(155.4)	(376.8)
Interest income	(8.4)	(6.4)
Dividend income	(1.4)	(11.3)
Loss/(Gain) on deemed disposal of interests and exercise of warrants in the listed associate	(4.8)	0.1
Gain on disposal of interests in subsidiaries	—	(68.2)
Loss on disposal of investment properties	—	0.1
Depreciation	1.3	0.6
Excess over the cost of a business combination	—	(1.0)
Write-back of provision for impairment of interest in property under development indirectly held by an associate	—	(121.0)
Impairment of goodwill	—	58.0
Write-back of provisions for doubtful debts	—	(0.8)
Profit on sale of properties	(3.0)	—
Fair value gain upon reclassification of a property held for sale to an investment property	(70.3)	—
Fair value gains on investment properties	(80.0)	—
Net proceeds from sale of properties	10.0	0.1
Equity-settled share option expenses	3.0	1.6
	<u>10.0</u>	<u>5.8</u>
Decrease/(Increase) in equity investments at fair value through profit or loss	(15.9)	1.9
Increase in properties held for sale	(2.5)	—
Decrease/(Increase) in inventories	(5.4)	1.8
Increase in debtors, deposits and prepayments	(34.3)	(17.7)
Decrease in creditors and accruals	(2.9)	(13.0)
Increase in deposits received	73.2	11.3
Cash generated from/(used in) operations	22.2	(9.9)
Hong Kong profits tax paid	(2.8)	(1.7)
Net cash inflow/(outflow) from operating activities	<u>19.4</u>	<u>(11.6)</u>

## (b) Major non-cash transactions

- (i) During the year, a partial consideration receivable by the Group in the amount of HK\$72.5 million under the SP Agreement from the vendor (the “Vendor”) in respect of the disposal of the Talent Faith Group, as described in note 27 to the financial statements, was offset against certain liabilities in the same amount due to a related party of the Vendor by an associate of the Group pursuant to the relevant agreements. Accordingly, the consideration receivable in the amount of HK\$72.5 million was considered satisfied (and included as an additional deposit received) and correspondingly, an additional advance to the associate in the same amount was recorded by the Group.
- (ii) As detailed in note 36(b) to the financial statements, in the prior year, the Group’s disposal of its 50% equity interest in Hang Fok to the RHIHL Group was satisfied by the issuance of a promissory note by the RHIHL Group.

## (c) Restricted cash and cash equivalent balances

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi (“RMB”) amounted to HK\$4.2 million (2005 - HK\$5.0 million). The RMB is not freely convertible into other currencies, however, under Mainland China’s Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

## (d) Disposal of subsidiaries

	2006	2005
	<i>HK\$'million</i>	<i>HK\$'million</i>
Net assets disposed of:		
Property under development	—	7.2
Properties held for sale	—	7.6
Available-for-sale equity investments	—	28.5
Debtors, deposits and prepayments	—	0.2
Cash and bank balances	—	0.5
Creditors and accruals	—	(13.3)
	—	30.7
Exchange equalisation reserve released on disposal	—	0.2
Gain on disposal	—	68.2
Unrealised gain on disposal included in interests in associates	—	53.6
	<u>—</u>	<u>152.7</u>
Satisfied by:		
Promissory note receivable included in interests in associates	—	145.0
Other receivable included in debtors, deposits and prepayments	—	7.7
	<u>—</u>	<u>152.7</u>

An analysis of the outflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	<b>2006</b>	<b>2005</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>
Cash and bank balances disposed of	<u>—</u>	<u>(0.5)</u>

### 36. CONNECTED AND RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions and balances set out elsewhere in the notes to the financial statements, the Group had the following material connected and related party transactions during the year:

	<i>Notes</i>	<b>2006</b>	<b>2005</b>
		<i>HK\$'million</i>	<i>HK\$'million</i>
The listed ultimate holding company:			
Management fees	(i)	6.2	6.6
The listed associate:			
Gross construction fee income	(ii)	23.8	7.1
Gross development consultancy fee income	(iii)	1.1	12.4
Gross income in respect of security systems and products and other software	(iv)	1.4	3.0
A jointly controlled entity of the listed associate*:			
Gross construction fee income	(ii)	1.4	12.0
A related company*:			
Advertising and promotion fees (including cost reimbursements)	(v)	<u>0.3</u>	<u>0.3</u>

\* Certain directors of these related companies are also the Directors of the Company.

*Notes:*

- (i) The management costs included rentals and other overheads allocated from CCIHL either on the basis of specific attribution or by reference to a predetermined ratio assessed by the management of CCIHL, RHIHL and the Company based on the distribution of job responsibilities and the estimated time to be spent by the relevant staff in serving each of the three groups.
- (ii) The construction fee income was received from the RHIHL Group for providing repairs and maintenance and construction works for the hotel properties. The fees were negotiated based on cost plus a margin and/or awarded through competitive tendering process.
- (iii) The gross development consultancy fee income was charged to the RHIHL Group for advisory, supervisory, architectural and design services provided in connection with the room extension and other renovation projects of the hotel properties of the RHIHL Group. The fees were charged at rates ranging from 4% to 10% of the estimated cost of individual projects. In the prior year, a consultancy fee was also charged to the RHIHL Group for architectural and design services rendered in connection with a proposed hotel development project in Macau.

- (iv) The fees were received from the RHIHL Group for the purchases and maintenance services of the security systems and products and other software installed in its hotel properties. The fees were charged based on cost plus a margin depending on the nature and location of the work provided.
- (v) The advertising and promotion fees comprised a retainer determined by reference to the estimated volume of advertising and promotional activities of the Group and a standard fee based on total costs involved, in addition to which actual costs and out-of-pocket expenses incurred were reimbursed.

The Directors of the Company are of the opinion that the above transactions were entered into in the normal and usual course of business.

- (b) Other transaction with related party:

During the prior year, the Group entered into a sale and purchase agreement with the RHIHL Group to dispose of its 50% equity interest in Hang Fok at a consideration of HK\$145.0 million, which was completed in July 2005. As a result, Hang Fok ceased to be a wholly-owned subsidiary of the Group and became an associate thereafter. The consideration was satisfied by the issuance of a promissory note by the RHIHL Group, bearing interest at a rate of 3% per annum. During the year, the promissory note was fully settled by the RHIHL Group.

- (c) Outstanding balances with related parties:

	<i>Notes</i>	<b>2006</b> <i>HK\$'million</i>	<b>2005</b> <i>HK\$'million</i>
Due from associates	(i)	230.7	16.7
Due from a jointly controlled entity of the listed associate	(ii)	2.0	2.7
Due from a related company	(ii)	8.3	8.4
Due to a fellow subsidiary	(iii)	(1.0)	(0.2)
Due to related companies	(iii)	(4.2)	(0.6)
Due to the listed associate	(iv)	(10.6)	(10.2)
Loans to associates	(v)	156.4	156.4
Promissory note receivable	(v)	—	145.0

*Notes:*

- (i) Except for an amount of HK\$222.2 million (2005 - HK\$2.9 million) included in interests in associates in note 20 to the financial statements, the remaining balance is included in debtors, deposits and prepayments in note 26 to the financial statements.
- (ii) The amounts are included in debtors, deposits and prepayments in note 26 to the financial statements.
- (iii) The amounts are included in creditors and accruals in note 28 to the financial statements.
- (iv) Except for an amount of HK\$2.5 million (2005 - HK\$2.1 million) included in interests in associates in note 20 to the financial statements, the remaining balance is included in creditors and accruals in note 28 to the financial statements.
- (v) Details of loans to associates and promissory note receivable are included in note 20 to the financial statements.

(d) Compensation of key management personnel of the Group:

	<b>2006</b>	<b>2005</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>
Short term employee benefits	5.7	5.4
Share-based payments	<u>2.7</u>	<u>1.4</u>
Total compensation paid to key management personnel	<u><u>8.4</u></u>	<u><u>6.8</u></u>

Further details of Directors' emoluments are included in note 9 to the financial statements.

The related party transactions set out in notes 36(a)(i) and (v) above also constituted connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules to the Company. Such transactions are exempted from relevant disclosures and other requirements, including, inter alia, independent shareholders' approval pursuant to Rules 14A.31(8) and 14A.33(3)(a) of the Listing Rules. Related details of the related party transaction during the prior year set out in note 36(b) were disclosed in the Directors' Report of the Company for the financial year ended 31st December, 2005.

The related party transactions set out in notes 36(a)(ii) to (iv) and 36(b) above did not constitute connected transactions as defined in the Listing Rules to the Company.

### 37. PLEDGE OF ASSETS

At the balance sheet date, certain of the Group's investment properties, properties held for sale and available-for-sale equity investments with a total carrying value of HK\$400.2 million (2005 - HK\$270.8 million) and certain ordinary shares in the listed associate were pledged to secure general banking facilities granted to the Group.

### 38. CONTINGENT LIABILITIES

At the balance sheet date, the Company had the following contingent liabilities:

	<b>2006</b>	<b>2005</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>
Corporate guarantees provided by the Company in respect of outstanding bank and other borrowings of subsidiaries	<u><u>279.0</u></u>	<u><u>172.0</u></u>

At 31st December, 2006, the banking facilities granted to the subsidiaries subject to guarantees given by the Company were utilised to the extent of approximately HK\$258.8 million (2005 - HK\$161.8 million).

**39. OPERATING LEASE ARRANGEMENTS**

## (a) As lessor

The Group leases certain of its properties (notes 16 and 24) under operating lease arrangements, with leases negotiated for terms ranging from 3 months to 3 years. The terms of the leases generally also require the tenants to pay security deposits and, in certain cases, provide for periodic rent adjustments according to the terms under the leases.

At 31st December, 2006, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	<b>GROUP</b>	
	<b>2006</b>	<b>2005</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>
Within one year	6.8	5.6
In the second to fifth years, inclusive	<u>3.1</u>	<u>2.2</u>
	<u><u>9.9</u></u>	<u><u>7.8</u></u>

## (b) As lessee

The Group leases certain office property, area and machinery under operating lease arrangements. Leases for the office property and area are negotiated for terms ranging from 1 to 2 years, and those for the machinery are for a term of 1.5 years.

At 31st December, 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>GROUP</b>	
	<b>2006</b>	<b>2005</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>
Within one year	1.7	0.1
In the second to fifth years, inclusive	<u>1.0</u>	<u>—</u>
	<u><u>2.7</u></u>	<u><u>0.1</u></u>

At the balance sheet date, the Company had no outstanding operating lease commitment.

**40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group's principal financial instruments comprise bank loans and overdraft, other interest bearing loans and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade debtors and trade creditors, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. The Directors meet periodically to analyse and formulate measures to manage the Group's exposure to these risks. Generally, the Group introduces conservative strategies on its risk management. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The Directors review and agree policies for managing each of these risks and they are summarised below.

**Interest rate risk**

The Group's exposure to interest rate risks relates primarily to the Group's borrowings with a floating interest rate. The interest rates and terms of repayment of the Group's borrowings are disclosed in note 30 to the financial statements. The Group's policy is to obtain the most favourable interest rates available for its borrowings.

**Credit risk**

The Group's major exposure to the credit risk arising from the default of the trade debtors, with a maximum exposure equal to their carrying amounts in the consolidated balance sheet. The Group only grants credits after due credit risk assessments. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and available-for-sale equity investments, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

**Liquidity risk**

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank facilities. In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuation in cash flows. The Group will raise funds from either the financial market or from realisation of its assets if required.

**41. POST BALANCE SHEET EVENTS**

In January 2007, the Group entered into a sale and purchase agreement with an independent third party to dispose of its entire equity interest in a wholly-owned subsidiary indirectly holding a property held for sale at a consideration of HK\$70.0 million, HK\$14.0 million of which was paid in cash and the balance of HK\$56.0 million was to be satisfied by the issue to the Group of convertible bonds in a principal amount of HK\$56.0 million. The sale and purchase agreement has subsequently been duly completed in March 2007 resulting in a gain on disposal of approximately HK\$37.0 million.

**42. COMPARATIVE AMOUNTS**

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

**43. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the Board of Directors on 19th April, 2007.



### 3. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2007

The financial information of the Group set out below is extracted from the interim report of the Company for the six months ended 30 June 2007.

#### Condensed Consolidated Income Statement

	<i>Notes</i>	<b>Six months ended 30th June, 2007 (Unaudited) HK\$'million</b>	<b>Six months ended 30th June, 2006 (Unaudited) HK\$'million</b>
REVENUE	2	221.0	86.1
Cost of sales		<u>(170.5)</u>	<u>(75.9)</u>
Gross profit		50.5	10.2
Other income and gains	3	114.0	5.8
Fair value gain upon reclassification of a property held for sale to an investment property		—	70.3
Administrative expenses		(14.1)	(12.8)
Other operating expenses, net	4	<u>(71.3)</u>	<u>(0.6)</u>
OPERATING PROFIT	2	79.1	72.9
Finance costs	6	(8.8)	(4.6)
Share of profits and losses of associates		<u>1,130.7</u>	<u>141.3</u>
PROFIT BEFORE TAX		1,201.0	209.6
Tax	7	<u>(0.9)</u>	<u>(0.5)</u>
PROFIT FOR THE PERIOD BEFORE ALLOCATION BETWEEN EQUITY HOLDERS OF THE PARENT AND MINORITY INTERESTS		<u>1,200.1</u>	<u>209.1</u>
Attributable to:			
Equity holders of the parent		1,200.1	209.1
Minority interests		<u>—</u>	<u>—</u>
		<u>1,200.1</u>	<u>209.1</u>
EARNINGS PER ORDINARY SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	8		
Basic		<u>HK16.65 cents</u>	<u>HK2.90 cents</u>
Diluted		<u>HK14.93 cents</u>	<u>HK2.63 cents</u>
DIVIDEND PER ORDINARY SHARE	9	<u>HK0.18 cent</u>	<u>HK0.15 cent</u>

**APPENDIX I****FINANCIAL INFORMATION OF THE GROUP****Condensed Consolidated Balance Sheet**

		<b>30th June, 2007</b> <b>(Unaudited)</b> <i>HK\$'million</i>	<b>31st December, 2006</b> <b>(Audited)</b> <i>HK\$'million</i>
	<i>Notes</i>		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		3.6	4.0
Investment properties		350.3	350.3
Property held for future development		—	26.7
Interests in associates		4,341.7	2,980.6
Available-for-sale equity investments		32.0	34.7
Financial asset at fair value through profit or loss		141.3	—
Loans receivable		<u>11.9</u>	<u>14.3</u>
Total non-current assets		<u>4,880.8</u>	<u>3,410.6</u>
<b>CURRENT ASSETS</b>			
Financial assets at fair value through profit or loss		—	19.1
Properties held for sale		6.0	38.7
Inventories		8.5	6.9
Debtors, deposits and prepayments	10	125.0	87.0
Time deposits		127.1	129.3
Cash and bank balances		<u>13.9</u>	<u>17.0</u>
		280.5	298.0
Asset of a disposal group classified as held for sale		<u>249.4</u>	<u>249.4</u>
Total current assets		<u>529.9</u>	<u>547.4</u>
<b>CURRENT LIABILITIES</b>			
Creditors and accruals	11	(106.6)	(98.0)
Tax payable		(3.7)	(2.8)
Promissory notes payable		(300.0)	—
Interest bearing bank and other borrowings		(197.5)	(10.3)
Deposits received		<u>(221.0)</u>	<u>(220.3)</u>
		(828.8)	(331.4)
Liability directly associated with the asset of a disposal group classified as held for sale		<u>(98.9)</u>	<u>(98.9)</u>
Total current liabilities		<u>(927.7)</u>	<u>(430.3)</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>(397.8)</u>	<u>117.1</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>4,483.0</u>	<u>3,527.7</u>

**APPENDIX I****FINANCIAL INFORMATION OF THE GROUP**

	<b>30th June, 2007</b> <b>(Unaudited)</b> <i>HK\$'million</i>	<b>31st December, 2006</b> <b>(Audited)</b> <i>HK\$'million</i>
TOTAL ASSETS LESS CURRENT LIABILITIES	4,483.0	3,527.7
NON-CURRENT LIABILITIES		
Interest bearing bank borrowings	(50.0)	(248.1)
Deferred tax liabilities	<u>(8.7)</u>	<u>(8.7)</u>
Total non-current liabilities	<u>(58.7)</u>	<u>(256.8)</u>
Net assets	<u>4,424.3</u>	<u>3,270.9</u>
EQUITY		
<b>Equity attributable to equity holders of the parent</b>		
Issued capital	72.1	72.1
Reserves	4,338.4	3,177.0
Dividends	<u>13.6</u>	<u>21.6</u>
	4,424.1	3,270.7
<b>Minority interests</b>	<u>0.2</u>	<u>0.2</u>
Total equity	<u>4,424.3</u>	<u>3,270.9</u>

### Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th June, 2007

	Attributable to equity holders of the parent													
	Issued capital (Unaudited) HK\$'m	Share premium account (Unaudited) HK\$'m	Share premium account (Unaudited) HK\$'m	Share option reserve (Unaudited) HK\$'m	Special reserve (Unaudited) HK\$'m	Assets revaluation reserve (Unaudited) HK\$'m	Investments revaluation reserve (Unaudited) HK\$'m	Available-for-sale equity (Unaudited) HK\$'m	Hedge reserve (Unaudited) HK\$'m	Exchange equalisation reserve (Unaudited) HK\$'m	Retained profits (Unaudited) HK\$'m	Dividends (Unaudited) HK\$'m	Total (Unaudited) HK\$'m	Minority interests (Unaudited) HK\$'m
At 1st January, 2007	72.1	522.1	6.1	14.0	689.6	693.8	16.8	—	14.8	1,219.8	21.6	3,270.7	0.2	3,270.9
Changes in fair value of available-for-sale investments	—	—	—	—	—	—	(2.7)	—	—	—	—	(2.7)	—	(2.7)
Total income and expense recognised directly in equity	—	—	—	—	—	—	(2.7)	—	—	—	—	—	—	(2.7)
Profit for the period	—	—	—	—	—	—	—	—	—	1,200.1	—	1,200.1	—	1,200.1
Total income and expense for the period	—	—	—	—	—	—	(2.7)	—	—	1,200.1	—	1,197.4	—	1,197.4
Release on deemed disposal of interests in the listed associate	—	—	(1.7)	(0.5)	—	(29.8)	—	—	(0.2)	—	—	—	—	(32.2)
Final 2006 dividend declared	—	—	—	—	—	—	—	—	—	—	(21.6)	—	—	(21.6)
Equity-settled share option arrangements	—	—	—	1.5	—	—	—	—	—	—	—	—	—	1.5
Share of the listed associate	—	—	(4.4)	3.3	—	—	—	9.0	0.4	—	—	—	—	8.3
2007 Interim dividend	—	—	—	—	—	—	—	—	—	(13.6)	13.6	—	—	—
At 30th June, 2007	72.1	522.1	—	18.3	689.6	664.0	14.1	9.0	15.0	2,406.3	13.6	4,424.1	0.2	4,424.3

	Attributable to equity holders of the parent													
	Issued capital (Unaudited) HK\$'m	Share premium account (Unaudited) HK\$'m	Share option reserve (Unaudited) HK\$'m	Special reserve (Unaudited) HK\$'m	Assets revaluation reserve (Unaudited) HK\$'m	Investments revaluation reserve (Unaudited) HK\$'m	Exchange equalisation reserve (Unaudited) HK\$'m	Retained profits (Unaudited) HK\$'m	Dividends (Unaudited) HK\$'m	Total (Unaudited) HK\$'m	Minority interests (Unaudited) HK\$'m	Total equity (Unaudited) HK\$'m		
At 1st January, 2006	72.1	522.1	9.8	4.2	689.6	693.8	98.8	13.3	0.6	952.1	14.4	3,070.8	0.2	3,071.0
Changes in fair value of available-for-sale investments	—	—	—	—	—	—	20.3	—	—	—	—	20.3	—	20.3
Total income and expense recognised directly in equity	—	—	—	—	—	—	20.3	—	—	—	—	20.3	—	20.3
Profit for the period	—	—	—	—	—	—	—	—	—	209.1	—	209.1	—	209.1
Total income and expense for the period	—	—	—	—	—	—	20.3	—	—	209.1	—	229.4	—	229.4
Release on deemed disposal of interests in the listed associate	—	—	—	—	—	—	—	(0.1)	—	—	—	(0.1)	—	(0.1)
Final 2005 dividend declared	—	—	—	—	—	—	—	—	—	—	(14.4)	(14.4)	—	(14.4)
Equity-settled share option arrangements	—	—	—	1.5	—	—	—	—	—	—	—	1.5	—	1.5
Share of the listed associate	—	—	—	3.3	—	—	—	—	—	—	—	3.3	—	3.3
2006 Interim dividend	—	—	—	—	—	—	—	—	—	(10.8)	10.8	—	—	—
At 30th June, 2006	72.1	522.1	9.8	9.0	689.6	693.8	119.1	13.2	0.6	1,150.4	10.8	3,290.5	0.2	3,290.7

## Condensed Consolidated Cash Flow Statement

	Six months ended 30th June, 2007 (Unaudited) <i>HK\$'million</i>	Six months ended 30th June, 2006 (Unaudited) <i>HK\$'million</i>
Net cash inflow/(outflow) from operating activities	45.2	(3.8)
Net cash inflow/(outflow) from investing activities	(11.8)	21.5
Net cash inflow/(outflow) from financing activities	<u>(38.7)</u>	<u>30.6</u>
Net increase/(decrease) in cash and cash equivalents	(5.3)	48.3
Cash and cash equivalents at beginning of period	<u>146.3</u>	<u>94.0</u>
Cash and cash equivalents at end of period	<u>141.0</u>	<u>142.3</u>
Analysis of balances of cash and cash equivalents		
Cash and bank balances	13.9	12.4
Non-pledged time deposits with original maturity of less than three months when acquired	<u>127.1</u>	<u>129.9</u>
	<u>141.0</u>	<u>142.3</u>

## Notes to Condensed Consolidated Financial Statements

### 1. ACCOUNTING POLICIES

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”. The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31st December, 2006, except for the adoption of the following Hong Kong Financial Reporting Standards (“HKFRSs”) mandatory for annual periods beginning on or after 1st January, 2007.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 <i>Financial Reporting in Hyperinflationary Economies</i>
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

The adoption of the above HKFRSs has had no material impact on the accounting policies of the Group and the methods of computation in the Group’s condensed consolidated financial statements.

### 2. SEGMENT INFORMATION

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

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

- (a) the property development and investment segment comprises the development and sale of properties, the leasing of office and commercial premises and the provision of estate agency services;
- (b) the construction and building related businesses segment engages in construction works and building related businesses, including the provision of development consultancy and project management services, property management and also security systems and products and other software development and distribution;
- (c) the hotel ownership/operation and management segment engages in hotel operations and the provision of hotel management services;
- (d) the securities investment segment engages in securities trading and investment businesses; and
- (e) the others segment mainly comprises the provision of financing services.

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

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

## (a) Business segments

The following table presents revenue and profit/(loss) information for the Group's business segments.

**GROUP**

	Property development and investment		Construction and building related businesses		Hotel ownership/operation and management		Securities investment		Others		Eliminations		Consolidated	
	Six months ended 30th June, 2007	2006	Six months ended 30th June, 2007	2006	Six months ended 30th June, 2007	2006	Six months ended 30th June, 2007	2006	Six months ended 30th June, 2007	2006	Six months ended 30th June, 2007	2006	Six months ended 30th June, 2007	2006
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
Segment revenue:														
Sales to external customers	77.5	6.0	124.8	49.8	—	—	18.7	30.3	—	—	—	—	221.0	86.1
Intersegment sales	—	—	—	1.0	—	—	—	—	—	—	—	(1.0)	—	—
<b>Total</b>	<b>77.5</b>	<b>6.0</b>	<b>124.8</b>	<b>50.8</b>	<b>—</b>	<b>—</b>	<b>18.7</b>	<b>30.3</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(1.0)</b>	<b>221.0</b>	<b>86.1</b>
Segment results	65.7	72.7	7.4	4.1	—	—	84.9	2.9	0.8	1.1	(0.9)	—	157.9	80.8
Interest income and unallocated non-operating and corporate gains													3.9	3.9
Unallocated non-operating and corporate expenses													(82.7)	(11.8)
Operating profit													79.1	72.9
Finance costs													(8.8)	(4.6)
Share of profits and losses of associates	(0.3)	(0.6)	(0.2)	—	1,131.2	141.9	—	—	—	—	—	—	1,130.7	141.3
Profit before tax													1,201.0	209.6
Tax													(0.9)	(0.5)
Profit for the period before allocation between equity holders of the parent and minority interests													1,200.1	209.1
Attributable to:													1,200.1	209.1
Equity holders of the parent													—	—
Minority interests													1,200.1	209.1



## (b) Geographical segments

The following table presents revenue information for the Group's geographical segments.

**GROUP**

	Hong Kong		Mainland China		Eliminations		Consolidated	
	Six months ended 30th June, 2007 (Unaudited) HK\$'m		Six months ended 30th June, 2007 (Unaudited) HK\$'m		Six months ended 30th June, 2007 (Unaudited) HK\$'m		Six months ended 30th June, 2006 (Unaudited) HK\$'m	
Segment revenue:								
Sales to external customers	220.9	86.0	0.1	0.1	—	—	221.0	86.1

**3. OTHER INCOME AND GAINS**

Other income and gains represent the following items:

	<b>Six months ended 30th June, 2007 (Unaudited) <i>HK\$'million</i></b>	<b>Six months ended 30th June, 2006 (Unaudited) <i>HK\$'million</i></b>
Interest income	3.9	3.5
Fair value gains on financial assets at fair value through profit or loss	85.3	0.3
Gain on disposal of subsidiaries	23.2	—
Gain on deemed disposal of interests in the listed associate	—	1.4
Others	<u>1.6</u>	<u>0.6</u>
	<u><u>114.0</u></u>	<u><u>5.8</u></u>

**4. OTHER OPERATING EXPENSES, NET**

Other operating expenses, net, include the following major items:

	<b>Six months ended 30th June, 2007 (Unaudited) <i>HK\$'million</i></b>	<b>Six months ended 30th June, 2006 (Unaudited) <i>HK\$'million</i></b>
Depreciation	0.7	0.6
Loss on deemed disposal of interests in the listed associate	<u>69.9</u>	<u>—</u>

**5. AN ANALYSIS OF PROFIT ON SALE OF INVESTMENTS OR PROPERTIES OF THE GROUP IS AS FOLLOWS:**

	<b>Six months ended 30th June, 2007 (Unaudited) <i>HK\$'million</i></b>	<b>Six months ended 30th June, 2006 (Unaudited) <i>HK\$'million</i></b>
Profit on disposal of listed investments	0.3	2.5
Profit on sale of properties	<u>37.1</u>	<u>—</u>

## 6. FINANCE COSTS

	Six months ended 30th June, 2007 (Unaudited) <i>HK\$'million</i>	Six months ended 30th June, 2006 (Unaudited) <i>HK\$'million</i>
Interest in respect of:		
Bank loans wholly repayable within five years	5.6	4.1
Other loans and promissory notes, wholly repayable within five years	<u>3.2</u>	<u>0.5</u>
Total finance costs	<u><u>8.8</u></u>	<u><u>4.6</u></u>

## 7. TAX

	Six months ended 30th June, 2007 (Unaudited) <i>HK\$'million</i>	Six months ended 30th June, 2006 (Unaudited) <i>HK\$'million</i>
Current - Hong Kong		
Provision for tax in respect of profits for the period	0.9	0.4
Current - Overseas		
Underprovision in prior periods	<u>—</u>	<u>0.1</u>
Total tax charge for the period	<u><u>0.9</u></u>	<u><u>0.5</u></u>

The provision for Hong Kong profits tax has been calculated by applying the applicable tax rate of 17.5% (2006 - 17.5%) to the estimated assessable profits which were earned in or derived from Hong Kong during the period.

Taxes on the profits of subsidiaries operating overseas are calculated at the rates prevailing in the respective jurisdictions in which they operate, based on existing legislation, practices and interpretations thereof.

The share of tax charge attributable to associates amounting to HK\$5.5 million (2006 - tax credit of HK\$1.5 million) is included in "Share of profits and losses of associates" on the face of the condensed consolidated income statement.

## 8. EARNINGS PER ORDINARY SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

## (a) Basic earnings per ordinary share

The calculation of basic earnings per ordinary share is based on the profit for the period attributable to equity holders of the parent of HK\$1,200.1 million (2006 - HK\$209.1 million) and on the weighted average of 7,208.5 million (2006 - 7,208.5 million) ordinary shares of the Company in issue during the period.

## (b) Diluted earnings per ordinary share

The calculation of diluted earnings per ordinary share for the period ended 30th June, 2007 is based on the profit for the period attributable to equity holders of the parent, adjusted for the decrease in the Group's proportionate interest in the earnings of Regal Hotels International Holdings Limited ("RHIHL"), the listed associate of the Company, and its subsidiaries (the "RHIHL Group") of HK\$109.0 million assuming all outstanding convertible bonds (including optional convertible bonds) of the RHIHL Group and all outstanding convertible preference shares of RHIHL were converted into, and the subscription rights attaching to all outstanding warrants of RHIHL were exercised to subscribe for, ordinary shares of RHIHL at the beginning of the period. The weighted average number of ordinary shares used in the calculation is the aggregate of the weighted average number of ordinary shares in issue during the period, as used in the basic earnings per ordinary share calculation, and the weighted average number of ordinary shares of 101.4 million that would be issued at no consideration assuming all outstanding share options of the Company were exercised to subscribe for ordinary shares of the Company at the beginning of the period. The exercise price of the share options of RHIHL outstanding during the period is higher than the average market price of the ordinary shares of RHIHL and, accordingly, they have no dilutive effect on the basic earnings per ordinary share.

The calculation of diluted earnings per ordinary share for the period ended 30th June, 2006 was based on the profit for that period attributable to equity holders of the parent, adjusted for the decrease in the Group's proportionate interest in the RHIHL Group's earnings of HK\$18.3 million assuming all outstanding convertible bonds (including optional convertible bonds) of the RHIHL Group were converted into, and the subscription rights attaching to all outstanding warrants of RHIHL were exercised to subscribe for, ordinary shares of RHIHL at the beginning of that period. The weighted average number of ordinary shares used in the calculation was the aggregate of the weighted average number of ordinary shares in issue during that period, as used in the basic earnings per ordinary share calculation, and the weighted average number of ordinary shares of 39.4 million that would be issued at no consideration assuming all outstanding share options of the Company were exercised to subscribe for ordinary shares of the Company at the beginning of that period. The conversion of the outstanding convertible preference shares of RHIHL was anti-dilutive for that period and was not included in the calculation of diluted earnings per ordinary share. In addition, the exercise price of the share options of RHIHL outstanding during that period was higher than the average market price of the ordinary shares of RHIHL and, accordingly, they had no dilutive effect on the basic earnings per ordinary share.

**9. DIVIDEND**

The Directors have declared the payment of an interim dividend of HK0.18 cent per ordinary share for the financial year ending 31st December, 2007 (2006 - HK0.15 cent), absorbing a total amount of approximately HK\$13.6 million (2006 - HK\$10.8 million).

**10. DEBTORS, DEPOSITS AND PREPAYMENTS**

Included in the balance is an amount of HK\$38.4 million (31st December, 2006 - HK\$18.4 million) representing the trade debtors of the Group. The aged analysis of such debtors, based on the invoice date, is as follows:

	<b>30th June, 2007</b> <b>(Unaudited)</b> <i>HK\$'million</i>	<b>31st December, 2006</b> <b>(Audited)</b> <i>HK\$'million</i>
Outstanding balances with ages:		
Within 3 months	37.9	18.3
Between 4 to 6 months	0.1	0.1
Between 7 to 12 months	<u>0.4</u>	<u>—</u>
	<u>38.4</u>	<u>18.4</u>

**Credit Terms**

Trade debtors generally have credit terms of 30 to 90 days. The Group seeks to maintain strict control over its outstanding debts and overdue balances are reviewed regularly by senior management. In view of the aforementioned and that the Group's exposures spread over a number of counter-parties and customers, the Group has no significant concentration of credit risk.

Included in the balances are amounts due from the Group's listed associate, a jointly controlled entity of the listed associate and a related company of HK\$25.6 million (31st December, 2006 - HK\$8.5 million), HK\$0.6 million (31st December, 2006 - HK\$2.0 million) and HK\$8.3 million (31st December, 2006 - HK\$8.3 million), respectively, which are unsecured, non-interest bearing and repayable either on similar credit terms to those offered to the major customers of the Group or on demand.

The balance at 31st December, 2006 also included a loan receivable of HK\$37.0 million which was secured, bore interest at 1% per month and was fully repaid during the current period.

**11. CREDITORS AND ACCRUALS**

Included in the balance is an amount of HK\$17.6 million (31st December, 2006 - HK\$7.5 million) representing the trade creditors of the Group. The aged analysis of such creditors, based on the invoice date, is as follows:

	<b>30th June, 2007</b> <b>(Unaudited)</b> <i>HK\$'million</i>	<b>31st December, 2006</b> <b>(Audited)</b> <i>HK\$'million</i>
Outstanding balances with ages:		
Within 3 months	17.3	7.4
Between 4 to 6 months	<u>0.3</u>	<u>0.1</u>
	<u>17.6</u>	<u>7.5</u>

The trade creditors are non-interest bearing and are normally settled within 90 days.

Included in the balances are amounts due to the Group's listed associate, a fellow subsidiary and related companies of HK\$8.1 million (31st December, 2006 - HK\$8.1 million), HK\$0.5 million (31st December, 2006 - HK\$1.0 million) and HK\$5.9 million (31st December, 2006 - HK\$4.2 million), respectively, which are unsecured, non-interest bearing and have no fixed terms of repayment.

## 12. RELATED PARTY TRANSACTIONS

### (a) Transactions with related parties

The Group had the following material related party transactions during the period:

	Six months ended 30th June, 2007 (Unaudited) <i>HK\$'million</i>	Six months ended 30th June, 2006 (Unaudited) <i>HK\$'million</i>
The listed ultimate holding company:		
Management fees	2.9	2.8
The listed associate:		
Gross construction fee income	69.2	3.1
Gross development consultancy fee income	3.7	—
Gross income in respect of security systems and products and other software	0.1	0.2
A jointly controlled entity of the listed associate:		
Gross construction fee income	0.8	0.4
A related company:		
Advertising and promotion fees (including cost reimbursements)	<u>0.1</u>	<u>0.2</u>

The nature and terms of these related party transactions were already disclosed in the Group's audited consolidated financial statements for the year ended 31st December, 2006.

### (b) Outstanding balances with related parties

	30th June, 2007 (Unaudited) <i>HK\$'million</i>	31st December, 2006 (Audited) <i>HK\$'million</i>
Due from associates	253.4	230.7
Due from a jointly controlled entity of the listed associate	0.6	2.0
Due from a related company	8.3	8.3
Due to a fellow subsidiary	(0.5)	(1.0)
Due to the listed associate	(10.6)	(10.6)
Due to related companies	(5.9)	(4.2)
Loans to associates	<u>156.4</u>	<u>156.4</u>

## (c) Compensation of key management personnel of the Group

	Six months ended 30th June, 2007 (Unaudited) <i>HK\$'million</i>	Six months ended 30th June, 2006 (Unaudited) <i>HK\$'million</i>
Short term employee benefits	2.8	2.1
Share-based payments	<u>1.4</u>	<u>1.3</u>
Total compensation paid to key management personnel	<u><u>4.2</u></u>	<u><u>3.4</u></u>

## 13. PLEDGE OF ASSETS

At 30th June, 2007, certain of the Group's investment property and available-for-sale equity investments with a total carrying value of HK\$350.8 million and certain ordinary shares in the listed associate were pledged to secure general banking facilities granted to the Group.

At 31st December, 2006, certain of the Group's investment properties, properties held for sale and available-for-sale equity investments with a total carrying value of HK\$400.2 million and certain ordinary shares in the listed associate were pledged to secure general banking facilities granted to the Group.

## 14. OPERATING LEASE ARRANGEMENTS

## (a) As lessor

The Group leases certain of its properties under operating lease arrangements, with leases negotiated for terms ranging from 2 months to 3 years. The terms of the leases generally also require the tenants to pay security deposits and, in certain cases, provide for periodic rent adjustments according to the terms under the leases.

At 30th June, 2007, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30th June, 2007 (Unaudited) <i>HK\$'million</i>	31st December, 2006 (Audited) <i>HK\$'million</i>
Within one year	8.5	6.8
In the second to fifth years, inclusive	<u>4.1</u>	<u>3.1</u>
	<u><u>12.6</u></u>	<u><u>9.9</u></u>

## (b) As lessee

The Group leases certain office property, area and machinery under operating lease arrangements. Leases for the office property and area are negotiated for terms ranging from 1 to 2 years, and those for the machinery are for terms ranging from 13 to 18 months.

At 30th June, 2007, the Group had total future minimum lease payments under non-cancellable operating lease falling due as follows:

	30th June, 2007 (Unaudited) <i>HK\$'million</i>	31st December, 2006 (Audited) <i>HK\$'million</i>
Within one year	2.7	1.7
In the second to fifth years, inclusive	<u>0.3</u>	<u>1.0</u>
	<u>3.0</u>	<u>2.7</u>

#### 15. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, in July 2007, the Group completed a share swap agreement with an independent third party to acquire from that party 180.0 million existing issued shares in Cosmopolitan International Holdings Limited for a total consideration of HK\$126.0 million which was settled by the Company issuing to that party 336.0 million new ordinary shares.

#### 16. SHARE OPTIONS

The Company operates a share option scheme named as "The Paliburg Holdings Limited Share Option Scheme" (the "Paliburg Share Option Scheme"). The Paliburg Share Option Scheme was adopted by the Company's shareholders on 16th June, 2005 and became effective on 21st July, 2005. Share options granted under the Paliburg Share Option Scheme do not confer rights on the holders to dividends or to vote at shareholders' meetings.

During the period, movements in share options granted by the Company pursuant to the Paliburg Share Option Scheme are as follows:

Offer date**	Name or category of participant	Number of ordinary shares under share options*			Vesting/ Exercise periods of share options	Exercise price of share options* <i>HK\$</i>
		At 1st January, 2007	Vested during the period	At 30th June, 2007		
	<b>Directors</b>					
12th May, 2005	Mr. Lo Yuk Sui					
	Vested:	—	72,000,000	72,000,000	Note	0.22
	Unvested:	180,000,000***	(72,000,000)	108,000,000		
25th July, 2005	Mr. Donald Fan Tung					
	Unvested:	20,000,000	—	20,000,000	Note	0.22
25th July, 2005	Mr. Jimmy Lo Chun To					
	Unvested:	20,000,000	—	20,000,000	Note	0.22



Offer date**	Name or category of participant	Number of ordinary shares under share options*			Vesting/Exercise periods of share options	Exercise price of share options* HK\$
		At 1st January, 2007	Vested during the period	At 30th June, 2007		
25th July, 2005	Miss Lo Po Man <sup>#</sup> Unvested:	10,000,000	—	10,000,000	Note	0.22
25th July, 2005	Mr. Kenneth Ng Kwai Kai Unvested:	20,000,000	—	20,000,000	Note	0.22
25th July, 2005	Mr. Kenneth Wong Po Man <sup>#</sup> Unvested:	10,000,000	—	10,000,000	Note	0.22
	<b>Other Employees</b>					
25th July, 2005	Employees, in aggregate Unvested:	<u>17,000,000</u>	<u>—</u>	<u>17,000,000</u>	Note	0.22
	<b>Total</b>					
	Vested:	—	<b>72,000,000</b>	<b>72,000,000</b>		
	Unvested:	<b><u>277,000,000</u></b>	<b><u>(72,000,000)</u></b>	<b><u>205,000,000</u></b>		

\* Subject to adjustment in the case of rights or bonus issues, or other relevant changes in the Company's share capital.

\*\* Offer date is the date on which the grant of share options is offered by the Company and deemed the date of grant of the share options unless the grant of the share options is otherwise declined or lapsed.

\*\*\* In excess of the individual maximum limit of 1% of the ordinary shares in issue as of the offer date.

# Appointed as Directors of the Company on 11th January, 2007.

Note:

Vesting/Exercise periods of share options:

On completion of continuous service of	Percentage vesting	Cumulative percentage exercisable
2 years after offer date	40% of options granted	40% (exercisable until 6 years after offer date)
3 years after offer date	A further 20% of options granted	60% (exercisable until 6 years after offer date)
4 years after offer date	A further 20% of options granted	80% (exercisable until 6 years after offer date)
5 years after offer date	The final 20% of options granted	100% (exercisable until 6 years after offer date)

#### 4. BUSINESS TREND AND PROSPECTS

The Group is principally engaged in property development and investment, construction and building related businesses, and other investments.

As stated in the interim report of the Company for the six months ended 30 June 2007, the Group recorded an unaudited consolidated profit attributable to Shareholders of approximately HK\$1,200.1 million for the six months ended 30 June 2007, representing an increase of more than 4.7 times over the comparative amount of approximately HK\$209.1 million attained in the corresponding period in 2006. The profit increase was largely attributable to the share of profit from Regal, the Group's listed associate, which increased significantly due to the gain derived by Regal from the spin-off of Regal Real Estate Investment Trust in March 2007.

The Group has a 30% interest in the joint development project at Ap Lei Chau Inland Lot No. 129, Ap Lei Chau East. This development project entails primarily residential accommodation comprising luxury apartments together with ancillary retail areas, having total gross floor area of about 913,000 square feet, and complemented with recreational and car parking facilities. Site formation works have been completed and the piling works are in progress. As the supply of luxury apartments in Hong Kong within the next few years, particularly on the south side of the Hong Kong island, is relatively limited, the luxury residential apartments in this project are anticipated to be well received and in great demand.

The ground floor shops and all the office floors in the commercial building at 211 Johnston Road, Wanchai, which are retained as investment properties, have virtually been fully leased and are yielding increasing rental income.

The development project in the Central Business District of Beijing, the People's Republic of China, is 59% owned by an associate which, in turn, is 50% each held by Regal and the Group. Due to the time required to secure the development rights to the Phase II land site included within the project and to resolve relocation and compensation arrangements with existing occupiers on the land sites, the overall development timetable has been delayed. It is expected that a more accurate projection of the development timetable for this project should be finalised in the near future.

The Group's construction and building related businesses on the whole are progressing steadily and the Group's construction arm, Chatwin Engineering Limited, has secured additional construction contracts, both in the private and public sectors.

More information regarding the recent business trend and prospects of the Group is set out in the interim report of the Company for the six months ended 30 June 2007.

**5. INDEBTEDNESS**

As at the close of business on 31 August 2007 (being the latest practicable date for the purpose of this indebtedness statement), the Group had outstanding borrowings of approximately HK\$497.4 million comprising bank borrowings of approximately HK\$197.4 million and Promissory Notes payable with an aggregate principal amount of HK\$300.0 million, both of which were guaranteed by the Company. The bank borrowings of the Group as at 31 August 2007 were also secured by the Group's investment property.

Save as disclosed above and apart from intra-group liabilities, the Group did not have, at the close of business on 31 August 2007, any outstanding mortgages, charges, debentures, bank loans and overdrafts, debt securities or loan notes or other similar indebtedness, loan capital issued or outstanding or agreed to be issued, finance leases, liabilities under acceptances or acceptance credits or any finance leases commitments, or any guarantees or other material contingent liabilities.

**6. WORKING CAPITAL**

The Directors are of the opinion that after taking into account the present internal financial resources of the Group and the estimated net proceeds raised from the Open Offer, the Group has sufficient working capital for its present requirements for at least the next 12 months from the date of this Prospectus.

**7. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position or outlook of the Group since 31 December 2006, the date to which the latest published audited consolidated financial statements of the Group were made up.

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**APPENDIX II                      UNAUDITED PRO FORMA FINANCIAL INFORMATION**

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**1. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP**

The unaudited pro forma financial information prepared in accordance with Rule 4.29 of the Listing Rules is set out below to illustrate the effect of the Open Offer on the net tangible assets of the Group as if the Open Offer had completed and all Subscription Rights had been exercised on 30 June 2007 (assuming that all the Open Offer Shares are taken up by the Qualifying Shareholders based on the number of Shares in issue as at the Latest Practicable Date).

The unaudited pro forma financial information has been prepared for illustrative purposes only and has not taken into account any transactions or activities of the Group took place from 1 July 2007 to the Latest Practicable Date (save for the Open Offer). Due to its nature, the unaudited pro forma financial information may not give a true picture of the financial position of the Group as at 30 June 2007 or at any future date or the consolidated net tangible assets per Share as at 30 June 2007 or any future date.

The following unaudited pro forma statement of adjusted consolidated net tangible assets of the Group is based on the unaudited consolidated net tangible assets of the Group as at 30 June 2007 and adjusted to reflect the effect of the Open Offer:

<b>Unaudited consolidated net tangible assets as at 30 June 2007</b>	<b>Estimated net proceeds from the Open Offer</b>	<b>exercise of any Subscription Rights</b>	<b>Unaudited pro forma adjusted consolidated net tangible assets upon completion of the Open Offer but before the Subscription Rights</b>	<b>Estimated proceeds from the exercise of the Subscription Rights at the initial Exercise Price in full</b>	<b>Unaudited pro forma adjusted consolidated net tangible assets upon completion of the Open Offer and after the exercise of the Subscription Rights at the initial Exercise Price in full</b>
<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
(Note 1)	(Note 2)			(Note 5)	
<u>4,424.1</u>	<u>552.8</u>		<u>4,976.9</u>	<u>237.7</u>	<u>5,214.6</u>
Consolidated net tangible assets per Share prior to the Open Offer (Note 3) <u>HK61.37 cents</u>					
Unaudited pro forma adjusted consolidated net tangible assets per Share					
			<u>HK50.53 cents</u>		<u>HK47.49 cents</u>
			(Note 4)		(Note 6)

Notes:

- This represents the unaudited consolidated net tangible assets attributable to equity holders of the Company as at 30 June 2007 of HK\$4,424.1 million.

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**APPENDIX II                      UNAUDITED PRO FORMA FINANCIAL INFORMATION**

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2. The estimated net proceeds from the Open Offer are calculated based on approximately 2,640.7 million Open Offer Shares (assuming all the Open Offer Shares are taken up by the Qualifying Shareholders based on the number of Shares in issue as at the Latest Practicable Date) to be issued at the Subscription Price of HK\$0.21 per Open Offer Share and the deduction of estimated expenses of approximately HK\$1.8 million.
3. This is based on approximately 7,208.5 million Shares in issue as at 30 June 2007.
4. This is based on approximately 9,849.2 million Shares which represents the total of approximately 7,208.5 million Shares in issue as at 30 June 2007 and approximately 2,640.7 million Open Offer Shares (assuming all the Open Offer Shares are taken up by the Qualifying Shareholders based on the number of Shares in issue as at the Latest Practicable Date).
5. The estimated proceeds from the exercise of the Subscription Rights at the initial Exercise Price in full are calculated based on approximately 1,131.7 million Subscription Shares to be issued at the initial Exercise Price of HK\$0.21 per Subscription Share before taking into account any expenses which may be incurred in connection with the issue of the Subscription Shares upon exercise of the Subscription Rights, which are estimated not to be material.
6. This is based on approximately 10,980.9 million Shares which represents the total of approximately 7,208.5 million Shares in issue as at 30 June 2007, approximately 2,640.7 million Open Offer Shares (assuming all the Open Offer Shares are taken up by the Qualifying Shareholders based on the number of Shares in issue as at the Latest Practicable Date) and approximately 1,131.7 million Subscription Shares to be issued upon exercise in full of the Subscription Rights at the initial Exercise Price.

**2.    REPORT ON UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP**

The following is the text of a report, prepared for the sole purpose of inclusion in this Prospectus, received from the reporting accountants of the Company namely Ernst & Young, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group set out under the paragraph headed “Unaudited pro forma statement of adjusted consolidated net tangible assets of the Group” in this Appendix.

** ERNST & YOUNG**

18th Floor  
Two International Finance Centre  
8 Finance Street, Central  
Hong Kong

22 October 2007

The Directors  
Paliburg Holdings Limited  
11th Floor, 68 Yee Wo Street  
Causeway Bay  
Hong Kong

Dear Sirs

**Paliburg Holdings Limited  
Unaudited Pro Forma Statement of Adjusted Consolidated Net Tangible Assets**

We report on the unaudited pro forma financial information (the “Unaudited Pro Forma Financial Information”) of Paliburg Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) set out on pages 106 to 107 in Appendix II to the Company’s prospectus dated 22 October 2007 (the “Prospectus”) in connection with the open offer of new ordinary shares of HK\$0.01 each in the share capital of the Company (“Open Offer Shares”) to qualifying shareholders on the basis of seven Open Offer Shares (with three warrants for every seven Open Offer Shares taken up) for every twenty existing shares of the Company held on the record date (being 22 October 2007 or such other date as the Company may determine) (the “Open Offer”). The Unaudited Pro Forma Financial Information has been prepared by the Directors of the Company, for illustrative purposes only, to provide information about how the Open Offer might have affected the consolidated net tangible assets of the Group as if the Open Offer had taken place at 30 June 2007.

**Respective responsibilities of Directors of the Company and reporting accountants**

It is the responsibility solely of the Directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

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It is our responsibility to form an opinion, as required by Rule 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

### **Basis of opinion**

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the Directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the Directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the Directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of (i) the financial position of the Group as at 30 June 2007 or any future date; or (ii) the consolidated net tangible assets per share of the Group as at 30 June 2007 or any future date.

### **Opinion**

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

Yours faithfully  
**Ernst & Young**  
Certified Public Accountants  
Hong Kong

The Warrants upon issue will be subject to and with the benefit of a warrant instrument by way of deed poll to be executed by the Company (the “**Instrument**”) and will be issued in registered form. Shares issued upon exercise of the Warrants will rank pari passu with the then existing Shares in all respects.

The Warrants will represent direct obligations of the Company to the registered holders for the time being of the Warrants (the “**Warrantholders**”). The principal terms and conditions of the Warrants will be set out in the certificates for the Warrants (the “**Warrant Certificates**”). The Warrantholders will be entitled to the benefit of, be bound by, and be deemed to have notice of all such terms and conditions (the “**Conditions**”) and of the provisions of the Instrument, copies of which will be available for inspection at the Registrar. The following is a summary of the principal provisions of the Instrument and is subject to the provisions of the Instrument.

## 1 EXERCISE OF SUBSCRIPTION RIGHTS

- 1.1 Subject to the provisions in the Instrument and Conditions and to compliance with all fiscal and other laws and regulations applicable thereto, the Warrantholders will, commencing 9:00 a.m. on the date falling seven (7) days after the date of issue of the Warrants, if such date is not a Business Day, the following Business Day, (“**Initial Subscription Date**”), have the right, which may be exercised in whole or in part, but not in respect of a fraction of a Share, at any time during the period from 9:00 a.m. on the Initial Subscription Date to 4:00 p.m. on the date falling seven (7) days prior to the third anniversary after the date of issue of the Warrants, if such date is not a Business Day, the following Business Day, (“**Last Subscription Date**”) (both dates inclusive), (“**Subscription Period**”), to subscribe in Hong Kong dollars for fully-paid Shares at the Exercise Price per Share. After 4:00 p.m. on the Last Subscription Date, any Subscription Rights which have not been exercised will lapse. According to the tentative timetable set out in this Prospectus, it is expected that the Warrants will be issued on 13 November 2007 and the Subscription Period would be from 20 November 2007 to 6 November 2010 (both dates inclusive).
- 1.2 In order to exercise in whole or in part the Subscription Rights represented by the Warrant Certificate, the Warrantholder must complete and sign the form endorsed on each Warrant Certificate in respect thereof (or a separate form obtained from the office of the Registrar which the Company may in its discretion permit to be used for the purpose of exercise of Subscription Rights) (“**Subscription Form**”) (which shall be irrevocable) and deliver the Warrant Certificate (and, if the subscription form used is not the form endorsed thereon, that subscription form) to the Registrar, together with a remittance made payable to the Company for the aggregate Exercise Price (or, in the case of a partial exercise, the relevant portion of the aggregate Exercise Price). In each case compliance must also be made with any exchange control, fiscal or other laws or regulations applicable at that time.
- 1.3 The number of Shares to be allotted on exercise of the Subscription Rights shall be calculated by dividing the aggregate amount of Exercise Price specified in the relevant Subscription Form and duly remitted as aforesaid by the Exercise Price applicable on any Business Day falling in the Subscription Period on which the Subscription Rights represented by such Warrant Certificate is duly exercised (“**Subscription Date**”). No



fraction of a Share will be allotted but provided always that for the purpose of determining whether any (and if so what) fraction of a Share arises, if the Subscription Rights represented by the Warrant Certificate and any one or more other Warrant Certificates are exercised on the same Subscription Date by the same Warrantholder, then the Subscription Rights represented by such Warrants shall be aggregated.

- 1.4 The Company will undertake in the Instrument that Shares falling to be issued upon the exercise of the Subscription Rights represented by the Warrant Certificate will be issued and allotted not later than ten (10) Business Days after the relevant Subscription Date and will rank *pari passu* with the fully-paid Shares in issue on the relevant Subscription Date and accordingly shall entitle the holders to participate in all dividends or other distributions paid or made on or after the relevant Subscription Date (unless adjustment (if appropriate) therefor has been made as provided in paragraph 2 below), other than any dividend or other distribution previously declared, recommended or resolved to be paid or made if the date fixed in accordance with the bye-laws of the Company (as may be amended and modified from time to time) (“**Bye-laws**”) or otherwise specified by the Company or otherwise for the purpose of determining entitlement to dividends or other distributions to, or rights of, Shareholders (“**Entitlement Record Date**”) therefor shall be before the relevant Subscription Date and notice of the amount and the Entitlement Record Date for which shall have been given to the Exchange prior to the relevant Subscription Date.
- 1.5 Subject to the provisions under paragraph 14 below, as soon as practicable after the relevant allotment of Shares under this paragraph (and not later than 10 Business Days after the relevant Subscription Date), there will be issued free of charge to the Warrantholder of the Warrant(s) represented by the Warrant Certificate:
- (a) a certificate(s) for the relevant Shares in the name(s) of such Warrantholder(s); and
  - (b) (if applicable) a balancing Warrant Certificate in registered form in the name(s) of such Warrantholder(s) in respect of any Subscription Rights represented by the Warrant Certificate which remain unexercised.

The certificate(s) for Shares arising on the exercise of Subscription Rights and the balancing Warrant Certificate (if any) will be sent by post at the risk of the relevant Warrantholder(s) to the address of such Warrantholder or (in the case of a joint holding) to that Warrantholder whose name stands first in the register of Warrantholders required to be maintained pursuant to the Instrument (“**Register**”) as the holder(s). If the Company agrees, such certificates may by prior arrangement be retained by the Registrar to await collection by the relevant Warrantholder.

## 2 ADJUSTMENTS OF EXERCISE PRICE

The Instrument contains detailed provisions relating to the adjustment of the Exercise Price in specified circumstances. The following is a summary of the adjustment provisions of the Instrument:

- 2.1 The Exercise Price shall be adjusted as provided in and subject to the provisions of the Instrument in each of the following cases:
- (a) if the Company shall (i) make a Stock Split, (ii) consolidate its outstanding Shares into a smaller number of shares, or (iii) re-classify any of its Shares into other securities of the Company;
  - (b) if and whenever the Company shall make any Capital Distribution to the Shareholders;
  - (c) if and whenever the Company shall issue any Shares to all or substantially all Shareholders as a class by way of rights, or issue or grant to all or substantially all Shareholders as a class by way of rights, options, warrants or other rights to subscribe for any new Shares, in each case at less than 90 per cent. of the Current Market Price per Share on the last Trading Day preceding the date of the announcement of the terms of the issue or grant;
  - (d) if and whenever the Company shall issue any securities (other than new Shares, or options or any securities convertible or exchangeable into new Shares, or warrants or other rights to subscribe for new Shares) to all or substantially all Shareholders as a class by way of rights or grant to all or substantially all Shareholders as a class by way of rights, options, warrants or other rights to subscribe for any securities (other than Shares, or options or any securities convertible or exchangeable into new Shares, or warrants or other rights to subscribe for new Shares);
  - (e) if and whenever the Company shall issue any Shares, whether for cash or otherwise (other than Shares issued on the exercise of Subscription Rights or on the exercise of any other rights of conversion into, or exchange or subscription for, Shares) or the issue or grant of options, warrants or other rights to subscribe for any new Shares or securities convertible or exchangeable into new Shares in each case at a price per Share which is less than 90 per cent. of the Current Market Price on the last Trading Day preceding the date of announcement of the terms of such issue; or
  - (f) save in the case of an issue of securities arising from a conversion or exchange of other securities in accordance with the terms applicable to such securities themselves falling within this paragraph 2.1(f), if and whenever the Company or (at the direction or request of or pursuant to any arrangements with the Company) any other person or entity shall issue any securities (other than the Warrants) which by their terms of issue carry rights of conversion into, or exchange or subscription for, Shares to be issued by the Company on conversion, exchange or subscription at a consideration per Share which is less than 90 per cent. of the Current Market Price on the last Trading Day preceding the date of announcement of the terms of issue of such securities.

- 2.2 (a) Any adjustment to the Exercise Price shall be made to the nearest one cent so that any amount under half a cent shall be rounded down and any amount of half a cent or more shall be rounded up. In addition to any determination which may be made by the Directors, every adjustment to the Exercise Price shall be certified (at the sole discretion of the Directors) either by the Auditors or the Approved Merchant Bank.
- (b) The Exercise Price may not be reduced so that, on exercise of the Subscription Rights, Shares would fall to be issued at a discount to their par value.
- (c) No adjustment involving an increase in the Exercise Price will be made, except in the case of a consolidation of the Shares as referred to in paragraph 2.1(a) above.
- 2.3 Provisions contained in paragraph 2.1 above shall not apply to:
- (a) (i) an issue of fully paid Shares upon the exercise of any conversion rights attached to securities convertible into Shares or upon exercise of any rights (including any exercise of the Warrants) to acquire or subscribe for Shares or (ii) any adjustment in the conversion price of any securities convertible into Shares, if such adjustment is in accordance with the existing terms of such securities provided that an adjustment has been made (if appropriate) under paragraph 2 in respect of the issue of such securities or granting of such rights (as the case may be);
- (b) an issue or grant of Shares or other securities of the Company or any Subsidiary wholly or partly convertible into, or rights to acquire or subscribe for, Shares pursuant to a Share Option Scheme;
- (c) an issue or grant by the Company of Shares or by the Company or any Subsidiary of securities wholly or partly convertible into or rights to subscribe for Shares, in any such case in consideration or part consideration for the acquisition of any other securities, assets or business;
- (d) an issue of Shares pursuant to a scrip dividend scheme where an amount not less than the nominal amount of the Shares so issued is capitalised and the market value (calculated as provided in the Instrument) of such Shares is not more than 110 per cent. of the amount of dividend which Shareholders could elect to or would otherwise receive in cash; or
- (e) any issue or exercise of exchangeable securities which are exchangeable into existing Shares in a non-dilutive manner.

- 2.4 Notwithstanding the provisions referred to in paragraphs 2.1 and 2.3 above, in any circumstances where the Directors may consider that an adjustment to the Exercise Price:
- (a) provided for under those provisions should not be made or should be calculated on a different basis;
  - (b) should be made notwithstanding that no such adjustment is required under those provisions; or
  - (c) should take effect on a different date or at a different time from that provided for under those provisions,

the Company may appoint the Approved Merchant Bank or the Auditors (at the sole discretion of the Directors) to consider whether for any reason whatsoever the adjustment to be made (or the absence of adjustment) would not or might not fairly and appropriately reflect the relative interests of the persons affected thereby and, if such Approved Merchant Bank or Auditors (as the case may be) shall consider this to be the case, the adjustment shall be modified or nullified or an adjustment made instead of no adjustment in such manner (including, without limitation, making an adjustment calculated on a different basis and/or the adjustment shall take effect from such other date and/or time) as shall be certified by such Approved Merchant Bank or Auditors (as the case may be) to be in its opinion appropriate.

- 2.5 Whenever the Exercise Price is adjusted as herein provided, the Company shall give Notice to the Warrantholders within seven (7) Business Days that the Exercise Price has been adjusted (setting forth brief particulars of the event(s) giving rise to the adjustment, the Exercise Price in effect prior to such adjustment, the adjusted Exercise Price and the effective date thereof) and shall at all times thereafter for so long as any of the Subscription Rights remains exercisable, make available for inspection at its principal place of business in Hong Kong a certificate signed by a Director setting forth brief particulars of the event(s) giving rise to the adjustment, the Exercise Price in effect prior to such adjustment, the adjusted Exercise Price and the effective date thereof.

### **3 REGISTERED WARRANTS**

The Warrants are issued in registered form. The Company shall be entitled to treat the registered holder of any Warrant as the absolute owner thereof and accordingly shall not, except as ordered by a court of competent jurisdiction or required by law, be bound to recognise any equitable or other claim to or interest in such Warrant on the part of any other person, whether or not it shall have express or other notice thereof.

**4 TRANSFER, TRANSMISSION AND REGISTER**

- 4.1 The Warrants will be transferable, in whole or in integral multiples of units of Subscription Rights. The Registrar, as the transfer agent, will handle splitting and registration of transfer of the Warrants.
- 4.2 The procedures involving a transfer of the Warrants are as follows:
- (a) A transfer of the Warrants shall be effected by instrument of transfer executed by both the transferor and transferee. The instrument of transfer can be obtained at the office of the Registrar at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong (or such other place being the registered office of the Registrar for the time being).
  - (b) The Warrant Certificate(s) in respect of the Warrant(s) to be transferred must be delivered for registration during normal business hours (Monday to Friday: 9:00 a.m. to 4:00 p.m.) at the aforesaid office of the Registrar accompanied by (i) a duly executed instrument of transfer; (ii) in case of the execution of the instrument of transfer on behalf of a corporation by its officers, the authority of that person or those persons to do so; and (iii) such other evidence (including legal opinions) as the Company may reasonably require if the instrument of transfer is executed by some other person on behalf of the relevant Warrantholder(s). The Company shall, within ten (10) Business Days of receipt of such documents by the Registrar from the Warrantholder(s), cancel the existing Warrant Certificate(s) and issue a new Warrant Certificate in favour of the transferee.
  - (c) Each new Warrant Certificate to be issued upon a transfer of Warrants will be made available for personal collection by the new Warrantholder entitled thereto during normal business hours (Monday to Friday: 9:00 a.m. to 4:00 p.m.) at the aforesaid office of the Registrar from the tenth (10) Business Day onwards following receipt of the documents specified above by the Registrar and upon production of such identification papers as may be reasonably requested by the Company.
  - (d) Where some but not all the Warrants in respect of which a Warrant Certificate is issued are to be transferred, a new Warrant Certificate in respect of the balance of the Warrants not so transferred will be made available for personal collection by such Warrantholder during normal business hours (Monday to Friday: 9:00 a.m. to 4:00 p.m.) at the aforesaid office of the Registrar from the tenth (10) Business Day onwards following receipt of the documents specified above by the Registrar and upon production of such identification papers as may be reasonably requested by the Company.
  - (e) Registration of transfer of Warrants will be effected upon (i) payment of a fee of HK\$2.50 (or such higher amount as may from time to time be allowed by the Exchange) for each Warrant Certificate cancelled or each new Warrant Certificate

issued (“**Transfer Fee**”), whichever number of Warrant Certificates cancelled/issued is higher; and (ii) payment (or the giving of such indemnity as the Company may require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer. Both charges shall be borne by the Warrantholder(s) or transferee who lodges the request with the Registrar.

- (f) Where the transferor or transferee is HKSCC Nominees Limited or its successor(s), the transfers may be executed under the hand of its authorized person(s) or by machine imprinted signature.

4.3 The Company shall maintain a Register in Hong Kong and the provisions of the Bye-laws in relation to the registration, transmission and transfer of Shares and the Company’s register of members shall apply, mutatis mutandis, to the registration, transmission and transfer of the Warrants and the Register and shall have full effect as if the same had been incorporated in the Instrument.

4.4 Persons who hold Warrants and have not registered the Warrants in their own names and wish to transfer or exercise the Warrants should note that they may incur additional costs and expenses in connection with any expedited re-registration of the Warrants prior to the transfer or exercise of the Warrants, in particular during the period commencing 10 Business Days prior to and including the Last Subscription Date.

4.5 Where the Directors have decided to list the Warrants on the Exchange at any time during the Subscription Period, the Company shall procure that the Warrants will be admitted to CCASS (or other clearing and settlement system), and the Company may (so far as any applicable laws or regulations of the relevant regulatory authorities, the terms of the Instrument and the circumstances permit) determine the last Trading Day of the Warrants to be a date at least three (3) Trading Days prior to the Last Subscription Date.

## **5 CLOSURE OF REGISTER OF WARRANTHOLDERS**

The registration of transfers may be suspended and the Register may be closed for such period as the Directors may from time to time direct, provided that the same shall not be closed for a period of more than thirty (30) days in any one year. Any transfer or exercise of the Subscription Rights attached to the Warrants made while the Register is so closed shall:

- (a) as between the Company and the person claiming under the relevant transfer of Warrants;  
or
- (b) as between the Company and the Warrantholder who has so exercised the Subscription Rights attached to his Warrants (but not otherwise),

be considered as made immediately after the re-opening of the Register.

**6 PURCHASE AND CANCELLATION**

The Company or any Subsidiary may at any time purchase Warrants:

- (a) in the open market (where the Warrants have become listed on the Exchange during the Subscription Period) or by tender (available to all Warrantholders alike) at any price and in any amount subject to the Code on Share Repurchases, the Listing Rules and all other applicable laws, rules and regulations; or
- (b) by private treaty subject to the Code on Share Repurchases, the Listing Rules and all other applicable laws, rules and regulations.

All Warrants purchased as aforesaid shall be cancelled forthwith and may not be re-issued or re-sold.

**7 MEETINGS OF WARRANTHOLDERS AND MODIFICATION OF RIGHTS**

- 7.1 The Instrument will contain provisions for convening meetings of Warrantholders to consider any matter affecting the interests of Warrantholders, including the modification by an Ordinary Resolution of the provisions of the Instrument and/or the Conditions. An Ordinary Resolution duly passed at any such meeting shall be binding on the Warrantholders, whether present or not.
- 7.2 All or any of the rights attached to the Warrants (including any of the provisions of the Instrument) may from time to time (whether or not the Company is being wound up) be altered or abrogated (including, but without prejudice to that generality, by waiving compliance with, or by waiving or authorising any past or proposed breach of, any of the provisions of the Conditions and/or the Instrument) and the sanction of an Ordinary Resolution shall be necessary and sufficient to effect such alteration or abrogation.
- 7.3 Where any Warrantholder is a recognised clearing house (within the meaning of the SFO) or its nominee(s), such Warrantholder may authorise such person or persons as it thinks fit to act as its representative (or representatives) or proxy (or proxies) at any Warrantholders' meeting provided that, if more than one person is so authorised, the authorisation or proxy form must specify the amount of Warrants in respect of which each such person is so authorised. The person so authorised will be entitled to exercise the same power on behalf of the recognised clearing house as that clearing house or its nominee(s) could exercise as if such person were an individual Warrantholder.

**8 REPLACEMENT OF WARRANT CERTIFICATES**

- 8.1 If a Warrant Certificate is mutilated, defaced, lost or destroyed, it may, at the discretion of the Company, be replaced at the principal office of the Registrar (or such other place as may be determined by the Directors) on payment of such costs as may be incurred in connection therewith and on such terms as to evidence, indemnity and/or security as the Company may require and on payment of such fee not exceeding HK\$2.50 (or such higher fee as may from time to time be permitted by the Exchange) as the Company may determine. Mutilated or defaced Warrant Certificates must be surrendered before replacements will be issued.
- 8.2 In the case of lost Warrant Certificates, sections 71A(2), (3), (4), (6), (7) and (8) of the Companies Ordinance shall apply as if “shares” referred to therein included Warrants.

**9 RESTRICTIONS TO PROTECT SUBSCRIPTION RIGHTS**

- 9.1 The Instrument will contain certain restrictions on the Company designed to protect the Subscription Rights.

**10 CALL**

- 10.1 If at any time the aggregate Subscription Rights of the Warrants which have not been exercised is less than 10 per cent. of the aggregate Subscription Rights of all the Warrants issued under the Instrument, then the Company may, on giving not less than three (3) months' Notice, require Warrantholders either to exercise their Subscription Rights or to allow them to lapse. On expiry of such Notice, all unexercised Warrants will be automatically cancelled without compensation to Warrantholders.

**11 FURTHER ISSUES**

- 11.1 The Company shall be at liberty to issue further subscription warrants, including further warrants ranking pari passu with and forming one class with the Warrants, to subscribe for Shares subject to and in accordance with the requirements of the Listing Rules and all applicable laws, rules and regulations. In this case, the Exercise Price may be adjusted in accordance with the terms set out in the Instrument and the Conditions as summarised above in paragraph 2.

**12 UNDERTAKINGS BY THE COMPANY**

- 12.1 The Instrument will contain certain undertakings by the Company in addition to the restrictions to protect the Subscription Rights.



**13 NOTICES**

13.1 Every Warrantholder shall register with the Company an address either in Hong Kong or elsewhere to which Notices can be sent and if any Warrantholder shall fail to do so, Notice may be given to such Warrantholder by sending the same in any of the manners mentioned below to his last known place of business or residence or, if there be none, by posting the same for three days at the registered office and/or principal office of the Company from time to time.

13.2 A Notice may be given by delivery, prepaid letter (airmail in the case of an overseas address), cable, telex message, by advertisement in newspapers or by publication on the websites of the Exchange and the Company in accordance with the requirements of the Exchange.

13.3 All Notices with respect to Warrants standing in the names of joint holders shall be given to whichever of such persons is named first in the Register and Notice so given shall be sufficient notice to all the joint holders of such Warrants.

**14 OVERSEAS WARRANTHOLDERS**

14.1 If a Warrantholder has a registered address in any territory other than Hong Kong where, in the opinion of the Directors, the allotment of Shares to such Warrantholder upon exercise of any Subscription Rights would or might, in the absence of compliance with registration and/or any other legal or regulatory requirements in such territory, be unlawful or impracticable under the laws of such territory and, in the opinion of the Directors, such compliance would be unduly burdensome, then the Company shall as soon as practicable after exercise by such Warrantholder of any Subscription Rights either:

- (a) allot the Shares which would otherwise have been allotted to such Warrantholder to one or more third parties selected by the Company; or
- (b) allot such Shares to such Warrantholder and then, on his behalf, sell them to one or more third parties selected by the Company,

in each case for a consideration which is then reasonably obtainable by the Company. As soon as reasonably practicable following any such allotment or (as the case may be) allotment and sale, the Company shall pay to the relevant Warrantholder an amount equal to the consideration received by the Company therefor (but having deducted therefrom all brokerages, commissions, stamp duty, withholding tax and all other payments, charges, taxes or postages incurred by or on behalf of the Company in respect thereof) by posting the relevant remittance to him at his risk. The Company is hereby deemed to be authorised to effect any of the aforesaid transactions pursuant to the provisions contained in this paragraph and, for this purpose, the Company may appoint one or more persons to execute such transfers, renunciations or other documents on behalf of the relevant Warrantholder as may be required to be executed and generally may make all such arrangements as may appear to the Directors to be necessary or appropriate in connection therewith.

**15 WINDING UP OF THE COMPANY**

15.1 If an effective resolution is passed by the Shareholders in general meeting for the voluntary winding-up of the Company, and such winding-up is for the purpose of reconstruction or amalgamation pursuant to a scheme of arrangement to which the Warrantholders, or some person designated by them for such purpose by Ordinary Resolution, shall be a party or in conjunction with which a proposal is made to the Warrantholders and is approved by Ordinary Resolution, the terms of such scheme of arrangement or (as the case may be) proposal shall be binding on all the Warrantholders.

15.2 If a notice is given by the Company to the Shareholders to convene a general meeting for the purposes of considering and, if thought fit, approving a resolution to voluntarily wind up the Company, in situations other than those falling under the provisions contained in paragraph 15.1 above, the Company shall forthwith give Notice thereof to each Warrantholder and thereupon, every Warrantholder shall be entitled by irrevocable surrender of his Warrant Certificate(s) to the Company (such surrender to occur not later than five (5) Business Days prior to the proposed general meeting referred to above) together with the duly completed Subscription Form(s) and payment of the relevant Exercise Price to exercise the Subscription Rights represented by such Warrant and the Company shall, as soon as practicable and, in any event, no later than the day immediately prior to the date of the proposed general meeting, allot such number of Shares to the Warrantholder which fall to be issued pursuant to the exercise of the Subscription Rights represented by such Warrant. The Company shall give Notice to the Warrantholders of the passing of such resolution within seven (7) Business Days after the passing thereof.

15.3 Subject to the provisions contained in paragraphs 15.1 and 15.2 above, if the Company is wound up, all Subscription Rights which have not been exercised at the commencement of the winding-up shall lapse and each Warrant Certificate will cease to be valid for any purposes.

**16 GOVERNING LAW**

The Instrument and the Warrants will be governed by and will be construed in accordance with the laws of Hong Kong.

## 17 DEFINITIONS IN APPENDIX III

For the purposes of this Appendix III,

**“Approved Merchant Bank”** means a merchant bank or other reputable financial institution in Hong Kong selected by the Directors from time to time;

**“Auditors”** means the auditors of the Company from time to time;

**“Capital Distribution”** means (a) any distribution of assets in specie by the Company for any financial period (whenever paid or made and however described) (and for these purposes a distribution of assets in specie includes without limitation an issue of Shares or other securities credited as fully or partly paid by way of capitalisation of reserves and (b) any cash dividend or distribution of any kind by the Company for any financial period (whether paid and however described) unless:

- (i) (and to the extent that) the value of the Capital Distribution does not, when taken together with any other dividend or distribution previously made or paid in respect of all periods after 31 December 2006, exceed the aggregate of the consolidated net profits for such periods (less the aggregate of any consolidated net losses) attributable to Shareholders after deducting minority interests and preference dividends (if any) but (A) deducting any amounts in respect of any asset previously credited to the Company’s reserves (in respect of any period or date up to and including 31 December 2006) pursuant to any revaluation of such asset, where amounts arising on the disposal of such asset have contributed to such profits and (B) deducting any exceptional and extraordinary items, (and for the avoidance of doubt after excluding any amount arising as a result of any reduction in registered capital, share premium account or capital redemption reserve), in each case calculated by reference to the audited consolidated profit and loss accounts (where appropriate as restated pursuant to the then prevailing generally accepted accounting principles in Hong Kong) for such periods of the Company and the Subsidiaries, or

- (ii) it comprises a purchase or redemption of Shares by or on behalf of the Company in accordance with the Listing Rules or the Code on Share Repurchases.

In making any such calculation, such adjustments (if any) shall be made as the Auditors or failing which, the Approved Merchant Bank, may consider appropriate to reflect (1) any consolidation or sub-division of the Shares, (2) issues of Shares by way of capitalisation of profits or reserves, or any like or similar event or (3) the modification of any rights to dividends of Shares;

**“Current Market Price”**

means, in respect of a Share at a particular date, the average of the closing prices published in the Daily Quotation Sheet of the Exchange for one Share (being a Share carrying full entitlement to dividend) for the five (5) consecutive Trading Days ending on the Trading Day immediately preceding such date, provided that if at any time during the said five Trading Day period the Shares shall have been quoted ex-dividend and during some other part of that period the Shares shall have been quoted cum-dividend then:

- (a) if the Shares to be issued in such circumstances do not rank for the dividend in question, the quotations on the dates on which the Shares shall have been quoted cum-dividend shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the amount of that dividend per Share; or
- (b) if the Shares to be issued in such circumstances rank for the dividend in question, the quotations on the dates on which the Shares shall have been quoted ex-dividend shall for the purpose of this definition be deemed to be the amount thereof increased by an amount equal to the amount of that dividend per Share;

and provided further that if the Shares on each of the said five (5) Trading Days have been quoted cum-dividend in respect of a dividend which has been declared or announced but the Shares to be issued do not rank for that dividend, the quotations on each of such dates shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the amount of that dividend per Share;

<b>“Exchange”</b>	means the Stock Exchange or any other stock exchange on which Shares are for the time being listed as is in the opinion of the Directors the primary stock exchange in relation to the Shares;
<b>“Face Value”</b>	means, in relation to any Warrant(s), the amount stated on the face of the Warrant Certificate(s) issued in respect of such Warrant(s) in respect of which the Warrantholder of such Warrant(s) is entitled to subscribe upon the exercise of the Subscription Rights represented thereby;
<b>“Notice”</b>	means, in the case of notices given to the Warrantholders, a notice given or to be given in accordance with paragraph 13 above;
<b>“Ordinary Resolution”</b>	means a resolution passed at a meeting of the Warrantholders duly convened and held and carried by a majority consisting of more than one-half of the votes cast upon a show of hands or, if a poll is duly demanded, by a majority consisting of more than one-half of the votes cast on a poll in accordance with the provisions contained in the Instrument and subject to and in accordance with all applicable laws, rules and regulations and the Listing Rules;
<b>“Registrar”</b>	means Tricor Tengis Limited or such other person, firm or company which, as for the time being, maintains in Hong Kong (unless the Directors otherwise determine) the Register and the branch register of members of the Company and the transfer agent in respect of the Warrants;
<b>“Share Option Scheme”</b>	means Paliburg Holdings Limited Share Option Scheme adopted by the Shareholders on 16 June 2005 which became effective on 21 July 2005 and any other scheme as may be approved at a general meeting of the Company and pursuant to Chapter 17 (or any other similar chapter) of the Listing Rules for the issue or grant of Shares or options to subscribe for Shares;
<b>“Stock Split”</b>	means any kind of stock split in relation to the Shares, including a bonus share distribution, a stock dividend distribution or a sub-division of Shares;
<b>“Subscription Rights”</b>	means the rights of the Warrantholders to subscribe for Shares pursuant to the Warrants, and in relation to each Warrant, means the right, in units of HK\$0.21 each, of the relevant Warrantholder to subscribe up to the Face Value for Shares at the Exercise Price per Share, upon and subject to the Conditions;

**“Subsidiary”**

means a company which is from time to time a subsidiary (having the meaning ascribed to it under the Listing Rules) of the Company and **“Subsidiaries”** shall be construed accordingly; and

**“Trading Day”**

means a day when the Exchange is open for dealing business, provided that if no closing price is reported in respect of the relevant Shares on the Stock Exchange for one or more consecutive dealing days, such day or days will be disregarded in any relevant calculation and shall be deemed not to have existed when ascertaining any period of dealing days and **“Trading Days”** shall be construed accordingly.

## 1. RESPONSIBILITY STATEMENT

This Prospectus includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company.

The Directors collectively and individually accept full responsibility for the accuracy of information contained in this Prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts not contained herein the omission of which would make any statement herein misleading.

## 2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date and upon completion of the Open Offer are as follows:

<i>Authorised:</i>		<i>HK\$'million</i>
20,000 million	Shares as at the Latest Practicable Date and upon completion of the Open Offer	200.0
4,750 million	Convertible preference shares of HK\$0.10 each	475.0
 <i>Issued and fully paid or credited as fully paid:</i>		
7,545.0 million	Shares as at the Latest Practicable Date	75.5
2,640.7 million	Open Offer Shares to be issued if all the Open Offer Shares are taken up by the Qualifying Shareholders	26.4
1,131.7 million	Subscription Shares to be issued if all the Open Offer Shares are taken up by the Qualifying Shareholders and if the Subscription Rights are exercised at the initial Exercise Price in full	11.3
11,317.4 million	Shares upon completion of the Open Offer and exercise of the Subscription Rights at the initial Exercise Price in full	113.2

As at the Latest Practicable Date, save for 276,500,000 Options (of which 110,300,000 were vested and 166,200,000 were unvested), the Company had no other securities in issue which carry any rights to subscribe for, purchase or convert into any new Shares.

Warrants carrying up to approximately 1,131.7 million units of Subscription Rights based on the number of Shares in issue as at the Latest Practicable Date will be issued to the Qualifying Shareholders who have taken up the Open Offer Shares under the Open Offer by way of bonus issue.

All the Open Offer Shares and the Subscription Shares (when allotted and fully paid) will rank *pari passu* in all respects with the then existing Shares.

The issued Shares are listed on the Stock Exchange. No part of the securities of the Company is listed or dealt in, nor listing or permission to deal in any securities of the Company is presently being or proposed to be sought, on any other stock exchange.

The Warrants, upon issue will not be listed on the Stock Exchange or any other stock exchange. Depending on the results of the Open Offer, the Company may apply for listing of the Warrants on the Stock Exchange by way of introduction after their issue subject to the relevant requirements of the Listing Rules. A further announcement will be made by the Company if application for listing of the Warrants on the Stock Exchange is made.

There is presently no arrangement under which future dividends are/will be waived or agreed to be waived.

Save as disclosed in this Prospectus, no members of the Group have put or agreed conditionally or unconditionally to put their share or loan capital under option and have issued or granted or agreed conditionally, or unconditionally to issue or grant any warrant or conversion right affecting the Shares.

### 3. DISCLOSURE OF DIRECTORS' INTERESTS

As at the Latest Practicable Date, the interests and short positions, if any, of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executive were deemed or taken to have under such provisions of the SFO), or which were required to be and are recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers adopted by the Company ("Model Code") were as follows:

		Number of Shares Held				Total (Approximate percentage of the issued shares as at the Latest Practicable Date)	
	Name of Director	Class of shares held	Personal interests	Family/other interests	Corporate interests		
1.	The Company	Mr. Lo	Ordinary (i) issued	124,242,765	100,000	4,126,974,001 <i>(Note c(i))</i>	4,251,316,766
			(ii) unissued <i>(Note c(ii))</i>	180,000,000	—	—	180,000,000
					Total (i) & (ii):		4,431,316,766 (58.73%)



Number of Shares Held					Total (Approximate percentage of the issued shares as at the Latest Practicable Date)
Name of Director	Class of shares held	Personal interests	Family/other interests	Corporate interests	
Mr. Donald Fan Tung	Ordinary (i) issued	2,718	—	—	2,718
	(ii) unissued	20,000,000 <i>(Note d)</i>	—	—	20,000,000
				Total (i) & (ii):	20,002,718 (0.27%)
Mr. Jimmy Lo Chun To	Ordinary (i) issued	284,000	—	—	284,000
	(ii) unissued	20,000,000 <i>(Note d)</i>	—	—	20,000,000
				Total (i) & (ii):	20,284,000 (0.27%)
Miss Lo Po Man	Ordinary (unissued)	10,000,000 <i>(Note e)</i>	—	—	10,000,000 (0.13%)
Mr. Kenneth Ng Kwai Kai	Ordinary (i) issued	500,000	—	—	500,000
	(ii) unissued	19,500,000 <i>(Note f)</i>	—	—	19,500,000
				Total (i) & (ii):	20,000,000 (0.27%)
Mr. Ng Siu Chan	Ordinary (issued)	—	536,500	—	536,500 (0.0071%)
Mr. Kenneth Wong Po Man	Ordinary (i) issued	2,000	—	—	2,000
	(ii) unissued	10,000,000 <i>(Note e)</i>	—	—	10,000,000
				Total (i) & (ii):	10,002,000 (0.13%)

		Number of Shares Held				Total (Approximate percentage of the issued shares as at the Latest Practicable Date)
Name of associated corporation	Name of Director	Class of shares held	Personal interests	Family/other interests	Corporate interests	
2. Century City	Mr. Lo	Ordinary (i) issued	294,516,903	2,510,000	11,664,822,186 <i>(Note a(i))</i>	11,961,849,089
		(ii) unissued	408,903,380 <i>(Notes a(ii) &amp; (iii))</i>	502,000 <i>(Note a(iv))</i>	2,332,964,436 <i>(Note a(v))</i>	2,742,369,816
					Total (i) & (ii):	14,704,218,905 (68.45%)
	Mr. Jimmy Lo Chun To	Ordinary (i) issued	1,659,800	—	—	1,659,800
		(ii) unissued	331,960 <i>(Note b(i))</i>	—	—	331,960
					Total (i) & (ii):	1,991,760 (0.009%)
	Miss Lo Po Man	Ordinary (i) issued	740,437	—	—	740,437
		(ii) unissued	148,087 <i>(Note b(ii))</i>	—	—	148,087
					Total (i) & (ii):	888,524 (0.004%)
	Mr. Ng Siu Chan	Ordinary (i) issued	—	23,221,800	—	23,221,800
		(ii) unissued	—	4,644,360 <i>(Note b(iii))</i>	—	4,644,360
					Total (i) & (ii):	27,866,160 (0.13%)
	Mr. Kenneth Wong Po Man	Ordinary (i) issued	2,000	—	—	2,000
		(ii) unissued	400 <i>(Note b(iv))</i>	—	—	400
					Total (i) & (ii):	2,400 (0.000%)

Name of associated corporation	Name of Director	Class of shares held	Number of Shares Held			Total (Approximate percentage of the issued shares as at the Latest Practicable Date)
			Personal interests	Family/other interests	Corporate interests	
3. Regal	Mr. Lo	Ordinary (i) issued	242,000	2,607,000	4,760,972,636 <i>(Note g(i))</i>	4,763,821,636
		(ii) unissued	200,000,000 <i>(Note g(iv))</i>	—	15,608,427 <i>(Notes g(ii)&amp;(iii))</i>	215,608,427
				Total (i) & (ii):	4,979,430,063 (46.93%)	
		Preference (issued)	—	—	3,440 <i>(Note g(iii))</i>	3,440 (20.54%)
	Mr. Donald Fan Tung	Ordinary (unissued)	20,000,000 <i>(Note h)</i>	—	—	20,000,000 (0.19%)
	Mr. Jimmy Lo Chun To	Ordinary (unissued)	15,000,000 <i>(Note i)</i>	—	—	15,000,000 (0.14%)
	Miss Lo Po Man	Ordinary (i) issued	3,000,000	2,691,690	—	5,691,690
		(ii) unissued	30,000,000 <i>(Note j)</i>	—	—	30,000,000
				Total (i) & (ii):	35,691,690 (0.34%)	
	Mr. Kenneth Ng Kwai Kai	Ordinary (unissued)	20,000,000 <i>(Note h)</i>	—	—	20,000,000 (0.19%)
Mr. Kenneth Wong Po Man	Ordinary (issued)	2,000	—	—	2,000 (0.000%)	
4. 8D International (BVI) Limited	Mr. Lo	Ordinary (issued)	—	—	1,000 <i>(Note k)</i>	1,000 (100%)

*Notes:*

- (a) (i) The interests in 914,822,186 issued ordinary shares of Century City were held through companies wholly owned by Mr. Lo and a company, namely Master City Limited, 99.9% owned by Mr. Lo.

The interests in 10,750,000,000 issued ordinary shares of Century City were held through corporations controlled by Mr. Lo as detailed below:

(a) Name of corporation	Controlled by	% of control
Century City	Mr. Lo	55.68
Century City BVI Holdings Limited	Century City	100.00
8D International (BVI) Limited	Century City BVI Holdings Limited	40.00
Task Master Technology Limited	8D International (BVI) Limited	100.00
Net Community Limited	Task Master Technology Limited	33.33
Century Digital Holdings Limited	Net Community Limited	100.00
Grand Modern Investments Limited ("Grand Modern")	Century Digital Holdings Limited	100.00

  

(b) Name of corporation	Controlled by	% of control
Manyways Technology Limited	Mr. Lo	100.00
Secure Way Technology Limited	Mr. Lo	92.50
8D International (BVI) Limited	Manyways Technology Limited	60.00
Task Master Technology Limited	8D International (BVI) Limited	100.00
Net Community Limited	Secure Way Technology Limited	66.67
Net Community Limited	Task Master Technology Limited	33.33
Century Digital Holdings Limited	Net Community Limited	100.00
Grand Modern	Century Digital Holdings Limited	100.00

- (ii) The interests in 350,000,000 unissued ordinary shares of Century City were held through the interests in the options granted under the share option scheme of Century City named as "The Century City International Holdings Limited Share Option Scheme", entitling the holder thereof to subscribe for a total of 350,000,000 new ordinary shares of Century City at an exercise price of HK\$0.12 per ordinary share (subject to adjustment). The options have, and will, become vested in stages, commencing with 40% of options granted from two years after the offer date of 12 May 2005 and thereafter a further 20% of options granted for each subsequent year, and are, and will be, exercisable as follows:

Exercise period	Number of ordinary shares of Century City under vested options
12 May 2007 to 11 May 2011	140,000,000
12 May 2008 to 11 May 2011	70,000,000
12 May 2009 to 11 May 2011	70,000,000
12 May 2010 to 11 May 2011	70,000,000

- (iii) The interests in 58,903,380 unissued ordinary shares of Century City related to the interests in the warrants of Century City (the "2011 Warrants") carrying subscription rights in an aggregate amount of HK\$5,890,338.00, which are exercisable during the period from 18 April 2006 to 11 January 2011 to subscribe for a total of 58,903,380 new ordinary shares of Century City at an initial subscription price of HK\$0.10 per ordinary share (subject to adjustment).

- (iv) The interests in 502,000 unissued ordinary shares of Century City related to the interests in the 2011 Warrants carrying subscription rights in an aggregate amount of HK\$50,200.00, which are exercisable to subscribe for a total of 502,000 new ordinary shares of Century City upon the terms as set out in note (a)(iii) above.
- (v) The interests in 2,332,964,436 unissued ordinary shares of Century City related to the interests in the 2011 Warrants carrying subscription rights in an aggregate amount of HK\$233,296,443.60, which are exercisable to subscribe for a total of 2,332,964,436 new ordinary shares of Century City upon the terms as set out in note (a)(iii) above.
- (b) (i) The interests in 331,960 unissued ordinary shares of Century City related to the interests in the 2011 Warrants carrying subscription rights in an aggregate amount of HK\$33,196.00, which are exercisable to subscribe for a total of 331,960 new ordinary shares of Century City upon the terms as set out in note (a)(iii) above.
- (ii) The interests in 148,087 unissued ordinary shares of Century City related to the interests in the 2011 Warrants carrying subscription rights in an aggregate amount of HK\$14,808.70, which are exercisable to subscribe for a total of 148,087 new ordinary shares of Century City upon the terms as set out in note (a)(iii) above.
- (iii) The interests in 4,644,360 unissued ordinary shares of Century City related to the interests in the 2011 Warrants carrying subscription rights in an aggregate amount of HK\$464,436.00, which are exercisable to subscribe for a total of 4,644,360 new ordinary shares of Century City upon the terms as set out in note (a)(iii) above.
- (iv) The interests in 400 unissued ordinary shares of Century City related to the interests in the 2011 Warrants carrying subscription rights in an aggregate amount of HK\$40.00, which are exercisable to subscribe for a total of 400 new ordinary shares of Century City upon the terms as set out in note (a)(iii) above.
- (c) (i) The interests in 3,820,218,001 issued Shares were held through companies wholly owned by Century City, in which Mr. Lo held 55.68% shareholding interests.

The interests in 106,756,000 issued Shares were held through corporations controlled by Mr. Lo as detailed below:

<b>Name of corporation</b>	<b>Controlled by</b>	<b>% of control</b>
Wealth Master International Limited	Mr. Lo	90.00
Select Wise Holdings Limited	Wealth Master International Limited	100.00

The interests in 200,000,000 issued Shares were held through corporations controlled by Mr. Lo as detailed below:

<b>Name of corporation</b>	<b>Controlled by</b>	<b>% of control</b>
Wealth Master International Limited	Mr. Lo	90.00
Select Wise Holdings Limited	Wealth Master International Limited	100.00
Splendid All Holdings Limited	Select Wise Holdings Limited	100.00

- (ii) The interests in 180,000,000 unissued Shares were held through the interests in the options granted under the share option scheme of the Company named as “The Paliburg Holdings Limited Share Option Scheme” (the “Paliburg Share Option Scheme”), entitling the holder thereof to subscribe for a total of 180,000,000 new Shares at an exercise price of HK\$0.22 per ordinary share (subject to adjustment). The options have, and will, become vested in stages, commencing with 40% of options granted from two years after the offer date of 12 May 2005 and thereafter a further 20% of options granted for each subsequent year, and are, and will be, exercisable as follows:

<b>Exercise period</b>	<b>Number of Shares under vested options</b>
12 May 2007 to 11 May 2011	72,000,000
12 May 2008 to 11 May 2011	36,000,000
12 May 2009 to 11 May 2011	36,000,000
12 May 2010 to 11 May 2011	36,000,000

- (d) The interests in 20,000,000 unissued Shares were held through the interests in the options granted under the Paliburg Share Option Scheme, entitling the holder thereof to subscribe for a total of 20,000,000 new Shares at an exercise price of HK\$0.22 per ordinary share (subject to adjustment). The options have, and will, become vested in stages, commencing with 40% of options granted from two years after the offer date of 25 July 2005 and thereafter a further 20% of options granted for each subsequent year, and are, and will be, exercisable as follows:

<b>Exercise period</b>	<b>Number of Shares under vested options</b>
25 July 2007 to 24 July 2011	8,000,000
25 July 2008 to 24 July 2011	4,000,000
25 July 2009 to 24 July 2011	4,000,000
25 July 2010 to 24 July 2011	4,000,000

- (e) The interests in 10,000,000 unissued Shares were held through the interests in the options granted under the Paliburg Share Option Scheme, entitling the holder thereof to subscribe for a total of 10,000,000 new Shares at an exercise price of HK\$0.22 per Share (subject to adjustment). The options have, and will, become vested in stages, commencing with 40% of options granted from two years after the offer date of 25 July 2005 and thereafter a further 20% of options granted for each subsequent year, and are, and will be, exercisable as follows:

<b>Exercise period</b>	<b>Number of Shares under vested options</b>
25 July 2007 to 24 July 2011	4,000,000
25 July 2008 to 24 July 2011	2,000,000
25 July 2009 to 24 July 2011	2,000,000
25 July 2010 to 24 July 2011	2,000,000

- (f) The interests in 19,500,000 unissued Shares were held through the interests in the options granted under the Paliburg Share Option Scheme, entitling the holder thereof to subscribe for a total of 19,500,000 new Shares at an exercise price of HK\$0.22 per Share (subject to adjustment). The options have, and will, become vested in stages, commencing with 40% of options granted from two years after the offer date of 25 July 2005 and thereafter a further 20% of options granted for each subsequent year, and are, and will be, exercisable as follows:

<b>Exercise period</b>	<b>Number of Shares under vested options</b>
25 July 2007 to 24 July 2011	7,500,000
25 July 2008 to 24 July 2011	4,000,000
25 July 2009 to 24 July 2011	4,000,000
25 July 2010 to 24 July 2011	4,000,000

- (g) (i) The 4,214,000 issued ordinary shares of Regal were held through companies wholly owned by Century City, in which Mr. Lo held 55.68% shareholding interests, and the other 4,756,758,636 issued ordinary shares of Regal were held through companies wholly owned by the Company, in which Century City held 50.63% shareholding interests.
- (ii) The interests in 15,608,427 unissued ordinary shares of Regal were held through companies wholly owned by the Company, in which Century City held 50.63% shareholding interests.
- (iii) The interests in 15,608,427 unissued ordinary shares of Regal related to the interests in 3,440 convertible cumulative preference shares of Regal carrying rights to convert into 15,608,427 new ordinary shares of Regal, based on the conversion price of HK\$1.7037 per ordinary share and on a reference amount of US\$1,000 per preference share at the fixed exchange rate of HK\$7.730255 to US\$1.00, during the period from 5 December 1993 to 5 December 2008.
- (iv) The interests in 200,000,000 unissued ordinary shares of Regal were held through the interests in the options granted under the share option scheme of Regal named as “The Regal Hotels International Holdings Limited Share Option Scheme” (the “Regal Share Option Scheme”), entitling the holder thereof to subscribe for a total of 200,000,000 new ordinary shares of Regal at an exercise price of HK\$0.75 per ordinary share (subject to adjustment). The options have, and will, become vested in stages, commencing with 40% of options granted from two years after the offer date of 12 May 2005 and thereafter a further 20% of options granted for each subsequent year, and are, and will be, exercisable as follows:

<b>Exercise period</b>	<b>Number of ordinary shares of Regal under vested options</b>
12 May 2007 to 11 May 2011	80,000,000
12 May 2008 to 11 May 2011	40,000,000
12 May 2009 to 11 May 2011	40,000,000
12 May 2010 to 11 May 2011	40,000,000

- (h) The interests in 20,000,000 unissued ordinary shares of Regal were held through the interests in the options granted under the Regal Share Option Scheme, entitling the holder thereof to subscribe for a total of 20,000,000 new ordinary shares of Regal at an exercise price of HK\$0.75 per ordinary share (subject to adjustment). The options have, and will, become vested in stages, commencing with 40% of options granted from two years after the offer date of 25 July 2005 and thereafter a further 20% of options granted for each subsequent year, and be exercisable as follows:

<b>Exercise period</b>	<b>Number of ordinary shares of Regal under vested options</b>
25 July 2007 to 24 July 2011	8,000,000
25 July 2008 to 24 July 2011	4,000,000
25 July 2009 to 24 July 2011	4,000,000
25 July 2010 to 24 July 2011	4,000,000

- (i) The interests in 15,000,000 unissued ordinary shares of Regal were held through the interests in the options granted under the Regal Share Option Scheme, entitling the holder thereof to subscribe for a total of 15,000,000 new ordinary shares of Regal at an exercise price of HK\$0.75 per ordinary share (subject to adjustment). The options have, and will, become vested in stages, commencing with 40% of options granted from two years after the offer date of 25 July 2005 and thereafter a further 20% of options granted for each subsequent year, and are, and will be, exercisable as follows:

<b>Exercise period</b>	<b>Number of ordinary shares of Regal under vested options</b>
25 July 2007 to 24 July 2011	6,000,000
25 July 2008 to 24 July 2011	3,000,000
25 July 2009 to 24 July 2011	3,000,000
25 July 2010 to 24 July 2011	3,000,000

- (j) The interests in 30,000,000 unissued ordinary shares of Regal were held through the interests in the options granted under the Regal Share Option Scheme, entitling the holder thereof to subscribe for a total of 30,000,000 new ordinary shares of Regal at an exercise price of HK\$0.75 per ordinary share (subject to adjustment). The options have, and will, become vested in stages, commencing with 40% of options granted from two years after the offer date of 25 July 2005 and thereafter a further 20% of options granted for each subsequent year, and are, and will be, exercisable as follows:

<b>Exercise period</b>	<b>Number of ordinary shares of Regal under vested options</b>
25 July 2007 to 24 July 2011	12,000,000
25 July 2008 to 24 July 2011	6,000,000
25 July 2009 to 24 July 2011	6,000,000
25 July 2010 to 24 July 2011	6,000,000



- (k) 400 shares were held through companies controlled by Century City, in which Mr. Lo held 55.68% shareholding interests, and 600 shares were held through a company controlled by Mr. Lo.

Save as disclosed above, none of the Directors or the chief executive of the Company had, as at the Latest Practicable Date, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

#### 4. DISCLOSURE OF SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at the Latest Practicable Date, so far as is known to the Directors and the chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had an interest or short position in the Shares and underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, directly or indirectly interested in 10 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at a general meeting of any member of the Group.

Name of substantial shareholder	Number of issued Shares held	Approximate percentage of issued Shares as at the Latest Practicable Date
Century City ( <i>Notes i and ii</i> )	3,820,218,001	50.63%
Century City BVI Holdings Limited (“CCBVI”) ( <i>Note ii</i> )	3,820,218,001	50.63%
Almighty International Limited (“Almighty”) ( <i>Note ii</i> )	1,909,853,045	25.31%
Cleerview Investments Limited (“Cleerview”) ( <i>Note ii</i> )	1,185,026,955	15.71%

*Notes:*

- (i) Mr. Lo directly and indirectly held 68.44% shareholding interests in Century City and the interests in these Shares held by Century City through its wholly owned subsidiary companies were included in the corporate interests of Mr. Lo in the Shares as disclosed under the section headed “Disclosure of Directors’ Interests” above.
- (ii) These companies are wholly owned by Century City and their interests in the Shares were included in the interests held by Century City.

Save as disclosed above, the Directors and the chief executive of the Company are not aware that there is any person (other than a Director or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at a general meeting of any other member of the Group.

Details of directorships of the Directors in each of those companies which has an interest in the Shares and underlying Shares as disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO are set out as follows:

- (1) Mr. Lo Yuk Sui, Mr. Donald Fan Tung, Mr. Jimmy Lo Chun To, Miss Lo Po Man, Mr. Kenneth Ng Kwai Kai and Mr. Ng Siu Chan are directors of Century City.
- (2) Messrs. Lo Yuk Sui, Donald Fan Tung and Kenneth Ng Kwai Kai are directors of CCBVI, Almighty and Cleverview.

## **5. SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had entered into any service agreement with any member of the Group which would not expire or would not be determinable by the Company within one year without payment of compensation (other than statutory compensation).

## **6. LITIGATION**

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation, arbitration of material importance and there was no litigation or claim known to the Directors to be pending or threatened against the Company or any of its subsidiaries which in the opinion of the Directors would be or is likely to be of material importance.

## **7. PROCEDURES FOR DEMANDING A POLL**

- (1) According to Bye-law 70, at any general meeting, a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:
  - (a) by the chairman of the meeting; or
  - (b) by at least three Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or

- (c) by any Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all the Shareholders having the right to vote at the meeting; or
  - (d) by any Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting, being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.
- (2) According to Bye-law 71, if a poll is demanded as aforesaid under Bye-law 70, it shall be taken in such manner (including the use of ballot or voting papers or tickets) and at such time and place, not being more than thirty days from the date of the meeting or adjourned meeting at which the poll was demanded, as the chairman directs. No notice need to be given of a poll not taken immediately. The result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded. The demand for a poll may be withdrawn, with the consent of the chairman, at any time before the close of the meeting or the taking of the poll, whichever is the earlier.

## **8. COMPETING INTERESTS**

As at the Latest Practicable Date, none of the Directors and his/her respective associates was considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group other than those businesses to which the Directors and his/her associates were appointed to represent the interests of the Company and/or the Group.

## **9. INTERESTS IN CONTRACT OR ARRANGEMENT**

Century City, a company which is approximately 55.68% owned by Mr. Lo and his associates, has irrevocably undertaken to the Company that the Century City Group will subscribe in full for approximately 1,337.1 million Open Offer Shares to which they are entitled under the Open Offer based on the number of Shares held by the Century City Group as at the Latest Practicable Date. In addition, Mr. Lo has separately and irrevocably undertaken to the Company that he and his associates (other than the Century City Group) will subscribe in full for approximately 150.9 million Open Offer Shares to which they are entitled under the Open Offer based on the number of Shares held by them as at the Latest Practicable Date.

Save as disclosed above, none of the Directors is materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which is significant in relation to the business of the Group.

## 10. INTERESTS IN ASSETS OF THE GROUP

As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which have been acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by or leased to, the Company or any of its subsidiaries since 31 December 2006, being the date to which the latest published audited consolidated financial statements of the Company were made up.

## 11. EXPERT AND CONSENT

The following is the qualification of the expert who has given opinion in this Prospectus:

<b>Name</b>	<b>Qualification</b>
Ernst & Young	Certified Public Accountants

Ernst & Young has given and has not withdrawn its written consent to the issue of this Prospectus with the inclusion herein of its letter and references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, Ernst & Young did not have any shareholding in any member of the Group nor the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any members of the Group.

Ernst & Young did not have any interest, either directly or indirectly, in any assets which have been, since 31 December 2006, being the date to which the latest published audited consolidated financial statements of the Company were made up, acquired or disposed of by or leased to any members of the Group, or are proposed to be acquired or disposed of by or leased to any members of the Group.

## 12. MATERIAL CONTRACTS

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Group within the two years immediately preceding the date of this Prospectus:

- i. On 24 April 2007, Guo Yui Investments entered into sale and purchase agreements with Leader Advance Limited and Delight Rich International Limited respectively, both of which are independent third parties not connected with the Company or any of its subsidiaries, pursuant to which Guo Yui Investments has acquired certain convertible bonds with an aggregate principal amount of HK\$125 million which carried rights to convert into ordinary shares in Regal. The total consideration for the acquisition was HK\$360 million which has been settled by the payment of HK\$60 million in cash by the Group to Leader Advance Limited and Delight Rich International Limited and the issue of the Promissory Notes to Leader Advance Limited and Delight Rich International Limited. Shareholders may refer to an announcement jointly made by the Company and Century City dated 26 April 2007 and a circular of the Company dated 18 May 2007 for further details of the transaction; and

- ii. On 12 July 2007, the Company entered into a share swap agreement with Mr Wan Chuen Chung, Joseph (“Mr Wan”), an independent third party not connected with the Company or any of its subsidiaries, pursuant to which the Company has acquired 180,000,000 shares in Cosmopolitan International Holdings Limited, the shares of which are listed on the Stock Exchange, for a total consideration of HK\$126 million which have been settled by the issue of 336 million new Shares by the Company to Mr Wan. Shareholders may refer to an announcement jointly made by the Company and Century City dated 16 July 2007 for further details of the transaction.

### 13. CORPORATE INFORMATION AND PARTIES INVOLVED IN THE OPEN OFFER

<b>Registered office</b>	Rosebank Centre, 11 Bermudiana Road Pembroke Bermuda
<b>Head office and principal place of business in Hong Kong</b>	11th Floor, 68 Yee Wo Street Causeway Bay Hong Kong
<b>Authorised representatives</b>	Kenneth Ng Kwai Kai Lam Sau Fun, Eliza  The business address of the authorised representatives of the Company is at 11 Floor, 68 Yee Wo Street, Causeway Bay, Hong Kong
<b>Company secretary</b>	Lam Sau Fun, Eliza, an associate of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Company Secretaries
<b>Qualified accountant</b>	Allen Wan Tze Wai, an associate of the Hong Kong Institute of Certified Public Accountants
<b>Financial adviser</b>	OSK Asia Capital Limited 11/F., Hip Shing Hong Centre 55 Des Voeux Road Central Hong Kong
<b>Legal advisers to the Company</b>	<i>As to Hong Kong law:</i> Mallesons Stephen Jaques 37th Floor, Two International Finance Centre 8 Finance Street, Central Hong Kong

	<i>As to Bermuda law:</i> Conyers Dill & Pearman 2901, One Exchange Square 8 Connaught Place Central Hong Kong
<b>Auditors and reporting accountants</b>	Ernst & Young 18th Floor Two International Finance Centre 8 Finance Street, Central Hong Kong
<b>Principal share registrar in Bermuda</b>	Butterfield Fund Services (Bermuda) Limited Rosebank Centre, 11 Bermudiana Road Pembroke, Bermuda
<b>Branch share registrar in Hong Kong and the transfer agent for the Warrants</b>	Tricor Tengis Limited 26th Floor, Tesbury Centre 28 Queen's Road East, Wanchai Hong Kong
<b>Principal bankers</b>	The Hongkong and Shanghai Banking Corporation Limited HSBC Main Building 1 Queen's Road Central Hong Kong  Hang Seng Bank Limited 83 Des Voeux Road Central Hong Kong  The Bank of East Asia Limited 10 Des Voeux Road Central Hong Kong  Standard Bank Asia Limited 36/F., Two Pacific Place 88 Queensway Hong Kong

**14. EXPENSES**

The expenses in connection with the Open Offer, including financial advisory fees, printing, registration, translation, legal and accountancy charges are estimated to amount to approximately HK\$1.8 million and are payable by the Company.

**15. PARTICULARS OF DIRECTORS***Executive Directors*

*Mr. Lo Yuk Sui, aged 63; Chairman and Chief Executive Officer* — Chairman and Managing Director since 1993 and designated as Chief Executive Officer in January 2007. Mr. Lo has been the Managing Director and the Chairman of the predecessor listed companies of the Group since 1984 and 1986 respectively. He is also the chairman and chief executive officer of Century City, the ultimate listed holding company of the Company, and Regal, the listed associate of the Company. Mr. Lo is a qualified architect. In his capacity as the Chief Executive Officer, Mr. Lo oversees the overall policy and decision making of the Group. Mr. Lo is the father of Miss Lo Po Man and Mr. Jimmy Lo Chun To.

*Mr. Donald Fan Tung aged 50; Executive Director and Chief Operating Officer* — Appointed to the Board as Executive Director in 1993 and designated as Chief Operating Officer in January 2007. Mr. Fan has been with the Group since 1987 and is principally involved in the Group's property development, architectural design and project management functions as well as overseeing the building construction business of the Group. Mr. Fan is a qualified architect. He is also an executive director of Century City and Regal.

*Mr. Jimmy Lo Chun To, aged 33; Executive Director* — Appointed to the Board in 1999. He is also an executive director of Century City and Regal. Mr. Jimmy Lo graduated from Cornell University, New York, U.S.A. with a degree in architecture. Apart from his involvement in the design of the Group's property projects and the hotel projects of the Regal Group, he undertakes responsibilities in the business development function of the Century City Group and the Group. He is the son of Mr. Lo and the brother of Miss Lo Po Man.

*Miss Lo Po Man, aged 28; Executive Director* — Appointed to the Board in January 2007. Miss Lo graduated from Duke University, North Carolina, U.S.A. with a bachelor degree in psychology. She is also an executive director of Century City and Regal. She joined the Regal Group in 2000 and has been involved in the marketing and sales functions of the Regal Group. Miss Lo is an executive director of the estate agency business of the Regal Group and has undertaken an active role in directing the marketing campaign of the Regalia Bay luxury residential development in Stanley, Hong Kong. Besides, she also undertakes responsibilities in the business development function of the Regal Group. Miss Lo is the daughter of Mr. Lo Yuk Sui and the sister of Mr. Jimmy Lo Chun To.

*Mr. Kenneth Ng Kwai Kai, aged 53; Executive Director* — Appointed to the Board in 1995. Mr. Ng has been with the Group since 1985 and is in charge of the company secretarial and corporate finance functions of the Group. Mr. Ng is a Chartered Secretary. He is also the chief operating officer of Century City and an executive director of Regal.

*Mr. Kenneth Wong Po Man, aged 41, Executive Director* — Appointed to the Board in January 2007. Mr. Wong is a qualified architect. He graduated from the University of Hong Kong with a Bachelor of Arts Degree in Architectural Studies and a Bachelor Degree in Architecture. He also holds a Master of Science Degree in Real Estates from the University of Hong Kong. Mr. Wong has been with the Group for about 15 years. He has been involved in architectural design and project management in respect of various property development projects of the Group and its associated companies and is also the Technical Director of Chatwin Engineering Limited, the construction arm of the Group, registered under the Buildings Ordinance.

*Independent non-executive Directors*

*Mr. Ng Siu Chan, aged 77; Independent Non-Executive Director* — Invited to the Board as Independent Non-Executive Director in 1995. Mr. Ng is also an independent non-executive director of Century City and Regal. He is a director of Transport International Holdings Limited, which is publicly listed on the Stock Exchange.

*Hon Abraham Shek Lai Him, SBS, JP, aged 62; Independent Non-Executive Director* — Invited to the Board as Independent Non-Executive Director in 2002. Mr. Shek holds a bachelor degree of Arts. He is currently a member of the Legislative Council for the Hong Kong Special Administrative Region. He is also a Member of the Managing Board of Kowloon Canton Railway Corporation, Member of the Council of The Hong Kong University of Science & Technology, Member of the Court of the University of Hong Kong and Director of The Hong Kong Mortgage Corporation Limited. Mr. Shek is an independent non-executive director and a member of the audit committee of Chuang's Consortium International Limited, Country Garden Holdings Company Limited, ITC Corporation Limited, Lifestyle International Holdings Limited, Midas International Holdings Limited, NWS Holdings Limited, See Corporation Limited and Titan Petrochemicals Group Limited and an independent non-executive director of Hop Hing Holdings Limited, all of which companies are listed on the Stock Exchange. He is also an independent non-executive director and a member of the audit committee of Eagle Asset Management (CP) Limited, which is the manager of Champion Real Estate Investment Trust ("Champion REIT"), and Regal Portfolio Management Limited, which is the manager of Regal Real Estate Investment Trust ("Regal REIT"). Both Champion REIT and Regal REIT are listed on the Stock Exchange.

*Mr. Wong Chi Keung, aged 52; Independent Non-Executive Director* — Invited to the Board as Independent Non-Executive Director in 2004. Mr. Wong is also an independent non-executive director of Century City and Regal. He holds a master's degree in business administration from the University of Adelaide in Australia. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, The Association of Chartered Certified Accountants and CPA Australia and an associate member of The Institute of Chartered Secretaries and Administrators and The Chartered Institute of Management Accountants. Mr. Wong is also a responsible officer for asset management, advising on securities and corporate finance for Legend Capital Partners, Inc. under the SFO. Mr. Wong was an executive director, the deputy general manager, group financial controller and company secretary of Guangzhou Investment Company Limited, which is a company listed on the Stock Exchange, for over ten years. He is also an independent non-executive director and a member of the audit committee of Asia Orient Holdings Limited, Asia Standard International Group Limited, China Nickel



Resources Holdings Company Limited, China Ting Group Holdings Limited, FU JI Food and Catering Services Holdings Limited, Golden Eagle Retail Group Limited, Great Wall Motor Company Limited, International Entertainment Corporation, PacMOS Technologies Holdings Limited and TPV Technology Limited, all of which companies are listed on the Stock Exchange. Mr. Wong has over 30 years of experience in finance, accounting and management.

The residential addresses of the Directors are as follows:

<b>Name</b>	<b>Residential Address</b>
<b><i>Executive Directors</i></b>	
LO Yuk Sui <i>(Chairman and Chief Executive Officer)</i>	House No. D50 Regalia Bay 88 Wong Ma Kok Road Stanley Hong Kong
Donald FAN Tung <i>(Chief Operating Officer)</i>	Flat B, 9/F, Block 2 Cavendish Heights Nos. 27-37 Perkins Road Jardine's Lookout Hong Kong
Jimmy LO Chun To	House No. D50 Regalia Bay 88 Wong Ma Kok Road Stanley Hong Kong
LO Po Man	House No. D50 Regalia Bay 88 Wong Ma Kok Road Stanley Hong Kong
Kenneth NG Kwai Kai	Flat B, 21/F Albron Court 99 Caine Road Hong Kong
Kenneth WONG Po Man	Flat E, 20/F, Block 11 Laguna City Kwun Tong Kowloon Hong Kong

Name	Residential Address
<i>Independent non-executive Directors</i>	
NG Siu Chan	Flat 3B 10 Marigold Road Yau Yat Chuen Kowloon Hong Kong
Abraham SHEK Lai Him, SBS, JP	39 MacDonnell Road Flat 13C Hong Kong
WONG Chi Keung	20A Melody Court 2C-D Kam Hong Street North Point Hong Kong

#### **16. DOCUMENTS DELIVERED TO THE REGISTRARS OF COMPANIES IN HONG KONG AND BERMUDA**

A copy of each of the Open Offer Documents and the consent letter referred to in the paragraph headed “Expert and Consent” in this appendix have been registered with the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies Ordinance. A copy of each of the Open Offer Documents will be filed with the Registrar of Companies in Bermuda in accordance with the Companies Act.

#### **17. MISCELLANEOUS**

The English texts of this Prospectus, the Assured Allotment Application Form and the Excess Application Form shall prevail over their respective Chinese texts.

#### **18. BINDING EFFECT**

This Prospectus shall have the effect, if an application is made pursuant thereto, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies Ordinance so far as applicable.

#### **19. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours (public holidays excepted) at the office of Mallesons Stephen Jaques in Hong Kong at 37th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong from the date of this Prospectus up to and including 5 November 2007:

- i. the memorandum of association and bye-laws of the Company;

- ii. the annual reports of the Company for each of the two years ended 31 December 2006;
- iii. the material contracts referred to under the paragraph headed “Material Contracts” in this appendix;
- iv. the report on the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group from Ernst & Young, the text of which is set out on pages 108 to 109 of this Prospectus;
- v. the consent letter from Ernst & Young referred to under the paragraph headed “Expert and Consent” in this appendix;
- vi. the circular of the Company dated 18 May 2007 in respect of an acquisition of certain convertible bonds convertible into ordinary shares of Regal by the Group at a total consideration of HK\$360 million;
- vii. the instrument containing the terms and conditions of the Warrants to be executed by the Company; and
- viii. this Prospectus.

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## NOTICE OF SGM

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**NOTICE IS HEREBY GIVEN** that a special general meeting of Paliburg Holdings Limited (“Company”) will be held at the Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong on Wednesday, 7 November 2007, at 11:00 a.m. (“SGM”) for the purpose of considering and, if thought fit, passing (with or without modifications) the following resolution:

### **ORDINARY RESOLUTION**

1. **“THAT:**

- (A) in connection with the proposed non-underwritten open offer of approximately 2,640.7 million ordinary shares of HK\$0.01 each (“Open Offer Shares”) in the share capital of the Company, with bonus warrants (“Warrants”) in the proportion of three (3) Warrants for every seven (7) Open Offer Shares taken up (“Open Offer”) as referred to in the prospectus of the Company dated 22 October 2007 (a copy of which has been produced to this meeting marked “A” and initialed by the Chairman of this meeting for identification purpose), the issue of the Warrants pursuant to the Open Offer and upon the terms and conditions set out in the instrument constituting the Warrants (a final draft of which has been produced to this meeting marked “B” and initialed by the Chairman of this meeting for identification purpose) to be executed by way of deed poll by the Company, and the issue of any new ordinary shares of HK\$0.01 each in the share capital of the Company which may fall to be issued upon exercise of the subscription rights attaching to the Warrants (“Subscription Shares”) be and are hereby approved and the board of directors of the Company (“Board”) be and is hereby authorised to exercise all the powers of the Company to issue the Warrants pursuant to the Open Offer on such terms as the Board considers appropriate and to allot and issue the Subscription Shares upon exercise of the subscription rights attaching to the Warrants (“Proposed Issue”); and

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## NOTICE OF SGM

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(B) an unconditional and general authorisation be and is hereby given to the Board to, in its absolute discretion, determine, finalise and/or amend the details, terms and conditions of, and all relevant matters in connection with, the Proposed Issue by the Company, and to sign all such documents, make all required or appropriate information disclosures and/or to do all such things and acts as are considered necessary, desirable or expedient for the purpose of effecting or otherwise in connection with the Proposed Issue or any matter incidental thereto.”

By Order of the Board  
**Paliburg Holdings Limited**  
**Eliza Lam Sau Fun**  
*Secretary*

Hong Kong, 22 October 2007

**Notes:**

1. A shareholder of the Company entitled to attend and vote at the SGM is entitled to appoint one or more proxies to attend and vote on his or her behalf. A proxy need not be a shareholder of the Company, but must be present in person at the SGM to represent the shareholder.
2. The proxy form must be deposited with the Company’s branch registrar in Hong Kong, Tricor Tengis Limited at 26th Floor, Tesbury Center, 28 Queen’s Road East, Wanchai, Hong Kong, not less than 48 hours before the time appointed for the SGM. If the proxy form is signed by a shareholder of the Company under a power of attorney or other authority, a notarially certified copy of that power of attorney or authority shall be deposited at the same time as mentioned in the proxy form.
3. A prospectus of the Company containing further details relating to the Proposed Issue and this notice of SGM is being sent to the shareholders of the Company.