NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1. Significant accounting policies

(a) Statement of compliance

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on the changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2006 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis except as otherwise stated in the accounting policies set out below.

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimate with a significant risk of material adjustment in the next year are discussed in note 33.

(c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity, so as to obtain benefits from its activities.

1. Significant accounting policies (Continued)

(c) Subsidiaries and minority interests (Continued)

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

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

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the shareholders of the Company.

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

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses.

(d) Associates

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

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the associate's net assets. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associates for the year.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

1. Significant accounting policies (Continued)

(e) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

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

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in the consolidated income statement.

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

(f) Other investments in debt and equity securities

The Group's accounting policies for investments in debt and equity securities, other than investments in subsidiaries and associates, are as follows:

Investments in debt and equity securities are initially stated at cost, which is their transaction price unless the fair value can be more reliably estimated using valuation techniques the variables of which include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

– Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in consolidated income statement as incurred. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in the consolidated income statement.

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

– Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity. When these investments are derecognised or impaired, the cumulative gain or loss previously recognised directly in equity is recognised in the consolidated income statement.

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

1. Significant accounting policies (Continued)

(g) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is charged immediately to the consolidated income statement, except where the derivative financial instruments are designated as a hedge of the variability in cash flows of a recognised liability which qualify for cash flow hedge accounting, in which case any gain or loss on remeasurement of the effective portion of the derivative financial instruments to fair value is recognised directly in equity. Any gain or loss of the ineffective portion is recognised immediately in the consolidated income statement.

The associated gain or loss is removed from equity and recognised in the consolidated income statement in the same period or periods during which the hedged forecast transaction affects the consolidated income statement.

(h) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold or freehold interest to earn rental income.

Investment properties are stated in the balance sheet at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in the consolidated income statement.

When the Group holds a property interest held under an operating lease to earn rental income, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease.

(i) Other property, plant and equipment

The following items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses:

– land held under operating leases and buildings thereon, where the fair values of the leasehold interest in the land and buildings cannot be measured separately at the inception of the lease and the building is not clearly held under an operating lease; and

– other items of plant and equipment.

The Group has taken advantage of the provisions set out in paragraph 80A of HKAS 16 “Property, plant and equipment” issued by the HKICPA, with the effect that the land and building which was revalued by the directors in 1981 has not been revalued to fair value at the balance sheet date.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in the consolidated income statement on the date of retirement or disposal. Upon disposal of the land and building which was revalued in 1981, the attributable revaluation surplus is transferred from the land and building revaluation reserve to retained earnings.

1. Significant accounting policies (Continued)

(i) Other property, plant and equipment (Continued)

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

– Leasehold land and buildings	22 –999 years
– Furniture and fixtures	10% –20% per annum
– Computer hardware and software	20% per annum
– Motor vehicles	25% per annum

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

(j) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases with the following exceptions:

- property held under operating leases that would otherwise meet the definition of an investment property may be classified as an investment property on a property-by-property basis and, if classified as an investment property, is accounted for as if held under a finance lease; and

- land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group or taken over from the previous lessee.

1. Significant accounting policies (Continued)

(j) Leased assets (Continued)

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the asset as set out in note 1(i). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(k).

Finance charges implicit in the lease payments are charged to the consolidated income statement over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to the consolidated income statement in the accounting period in which they are incurred.

(iii) Operating lease charges

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

(k) Impairment of assets

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

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

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

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

1. Significant accounting policies (Continued)

(k) Impairment of assets (Continued)

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

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

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

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

(ii) Impairment of other assets

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

– property, plant and equipment (other than investment properties carried at revalued amounts);

– investments in subsidiaries and associates; and

– goodwill.

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

1. **Significant accounting policies** (Continued)

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

(ii) Impairment of other assets (Continued)

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in the consolidated income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount except for the land and building which was revalued in 1981. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

When an impairment loss arises on the land and building which was revalued in 1981, it will first be charged against the attributable balance relating to that property included in the land and building revaluation reserve and any excess will be charged to the consolidated income statement.

– Reversals of impairment losses

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

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

1. Significant accounting policies (Continued)

(k) Impairment of assets (Continued)

(iii) Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34 "Interim Financial Reporting" in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition and reversal criteria as it would at the end of the financial year.

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(l) Inventories

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

Cost is determined on a weighted average basis and includes the direct costs of purchase. Net realisable value is determined by reference to the sales proceeds of items sold in the ordinary course of business subsequent to the balance sheet date or to management estimates based on prevailing market conditions.

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

(m) Trade and other receivables

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

(n) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in the consolidated income statement over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

1. Significant accounting policies (Continued)

(o) Trade and other payables

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

(p) Cash and cash equivalents

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

(q) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

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

(ii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(r) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Income tax is recognised in the consolidated income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

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

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

1. Significant accounting policies (Continued)

(r) Income tax (Continued)

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

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

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

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

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

– in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

    – the same taxable entity; or

1. Significant accounting policies (Continued)

(r) Income tax (Continued)

– different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(s) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specific payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's accounting policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in the consolidated income statement on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in the consolidated income statement over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

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

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

1. Significant accounting policies (Continued)

(t) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the consolidated income statement as follows:

(i) Sale of goods and net income from concession sales

Revenue arising from the sale of goods and net income from concession sales are recognised when the customer has accepted the goods and the related risks and rewards of ownership.

(ii) Rental income from operating leases

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

(iii) Dividends

Dividend income from listed securities is recognised when the share price of the securities goes ex-dividend. Dividend income from unlisted investments is recognised in the accounting period in which it is declared or proposed and approved by shareholders of the investee company.

(iv) Profit on sale of listed securities

Profit on sale of listed securities is recognised on the trade date basis.

(v) Interest income

Interest income is recognised as it accrues using the effective interest method.

(u) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in the consolidated income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

1. Significant accounting policies (Continued)

(u) Translation of foreign currencies (Continued)

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

(v) Borrowing costs

Borrowing costs are expensed in the consolidated income statement in the period in which they are incurred.

(w) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

1. Significant accounting policies (Continued)

(x) Segment reporting

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

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

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

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

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

2. Changes in accounting policies

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group.

Note 1 summaries the accounting policies of the Group after the adoption of these developments to the extent that they are relevant to the Group. Except for HK(IFRIC) Interpretation 10 "Interim Financial Reporting and Impairment" the adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies applied in these financial statements for the years presented. The effect of the adoption of HK(IFRIC) Interpretation 10 is set out below.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 34) except for HK(IFRIC) Interpretation 10, which is effective for accounting periods beginning on or after 1 November 2006.

Reversals of impairment losses on available-for-sale equity securities (HK(IFRIC) Interpretation 10 "Interim Financial Reporting and Impairment")

In prior years, impairment losses on available-for-sale equity securities recognised in the interim period were reversed through the consolidated income statement in a subsequent interim period of the same year if no loss, or a smaller loss, was recognised upon impairment assessment at the financial year end.

2. Changes in accounting policies (Continued)

Reversals of impairment losses on available-for-sale equity securities (HK(IFRIC) Interpretation 10 "Interim Financial Reporting and Impairment") (Continued)

In 2006, the Group has early adopted HK(IFRIC) Interpretation 10. With effect from 1 January 2006, in accordance with HK(IFRIC) Interpretation 10, the Group has changed its accounting policy relating to the reversal of impairment losses on available-for-sale equity securities recognised in an interim period. Under the new accounting policy, impairments reported in the consolidated income statement for the interim period will also be reported in the consolidated income statement for the full financial year which includes that interim period, irrespective of whether conditions have improved at the year end balance sheet date or not.

The new accounting policy has been applied prospectively from the date the Group first applied HKAS 39 (i.e. 1 January 2005). As a result of this new accounting policy, the Group's other net gain for the year ended 31 December 2005 has decreased by $2,769,000 and the investment revaluation reserve as at 31 December 2005 has increased by the same amount.

The change in this accounting policy had no current year impact on the financial statements for the year ended 31 December 2006.

3. Turnover and segment reporting

The principal activities of the Group during the year were the operation of department stores and property investment.

Group turnover for the year comprises the invoiced value of goods sold to customers less returns, net income from concession sales and income from property investment and is analysed by principal activities as follows:

	2006	**2005**
	$'000	$'000
Sale of goods	697,105	619,701
Net income from concession sales	195,757	187,403
Department stores	892,862	807,104
Property investment	255,739	262,759
	1,148,601	1,069,863

In prior years, revenue from concession sales and the related cost of sales were presented on a gross basis within turnover and costs of sales respectively. For the current year, the Group has changed the basis of presentation of income derived from concession sales from a gross basis to a net basis in order to be consistent with prevailing industry best practice. Accordingly, turnover of the Group includes the net income attributable to the Group from concession sales rather than gross revenue generated from concession sales. As a result of this change in presentation, the Group turnover and cost of sales have been both reduced by $473,411,000 (2005: $466,817,000). Comparative figures have been restated to conform to the new presentation. There has been no impact on the profit and net assets of the Group from the adoption of this new presentation for the years presented.

3. Turnover and segment reporting (Continued)

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

Business segments

The Group comprises the following main business segments:

Department stores: The operating of department stores to offer a wide range of consumer products.

Property investment: The leasing of commercial premises to generate rental income.

	Department stores		Property investment		Inter-segment elimination		Unallocated		Total	
	2006	2005 (restated)	2006	2005	2006	2005	2006	2005	2006	2005 (restated)
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Revenue from external customers (turnover)	892,862	807,104	255,739	262,759	–	–	–	–	1,148,601	1,069,863
Inter-segment revenue	–	–	80,349	72,273	(80,349)	(72,273)	–	–	–	–
Other revenue from external customers	–	–	1,789	33,337	–	–	4,418	3,610	6,207	36,947
Total	892,862	807,104	337,877	368,369	(80,349)	(72,273)	4,418	3,610	1,154,808	1,106,810
Segment result	82,265	84,388	223,935	257,288	–	–	–	–	306,200	341,676
Interest income from bank deposits									62,024	48,369
Unallocated operating income net of expenses									24,977	10,895
Profit from operations									393,201	400,940
Finance costs									(53,397)	(53,934)
									339,804	347,006
Net valuation gain on investment properties	–	–	257,227	729,717	–	–	–	–	257,227	729,717
Gain on disposal of investment properties	–	–	–	9,240	–	–	–	–	–	9,240
									597,031	1,085,963
Share of profits of associates	–	–	–	–	–	–	48,589	62,582	48,589	62,582
Profit before taxation									645,620	1,148,545
Income tax									(78,159)	(153,657)
Profit after taxation									567,461	994,888

3. Turnover and segment reporting (Continued)

Business segments (Continued)

	Department stores		Property investment		Inter-segment elimination		Unallocated		Total	
	2006	2005	2006	2005	2006	2005	2006	2005 (restated)	2006	2005 (restated)
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Depreciation and amortisation	(14,327)	(14,257)	(47,722)	(37,600)	–	–	(444)	(362)	(62,493)	(52,219)
Impairment losses written-back/(provided)										
– fixed assets	–	–	–	–	–	–	(68)	(18)	(68)	(18)
– trade receivables	1	(5)	–	–	–	–	–	–	1	(5)
– available-for-sale securities	–	–	–	–	–	–	–	(2,769)	–	(2,769)
Segment assets	131,462	134,017	5,689,269	5,313,345	(6,666)	(5,452)	–	–	5,814,065	5,441,910
Interest in associates									683,222	639,573
Unallocated assets									1,649,657	1,449,960
Total assets									8,146,944	7,531,443
Segment liabilities	241,941	197,863	38,177	32,262	(6,666)	(5,452)	–	–	273,452	224,673
Unallocated liabilities									1,526,685	1,403,400
Total liabilities									1,800,137	1,628,073
Capital expenditure incurred during the year	6,481	19,354	35,739	87,291	–	–	659	557	42,879	107,202

3. Turnover and segment reporting (Continued)

Geographical segments

Hong Kong is a major market for the Group's businesses. Australia and the United States are also the major markets for property investment.

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

	Hong Kong		Australia		United States		Others		Total	
	2006	2005 (restated)	2006	2005	2006	2005	2006	2005	2006	2005 (restated)
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Revenue from external customers (turnover)	1,021,784	922,984	105,777	123,468	21,040	23,411	–	–	1,148,601	1,069,863
Segment result	196,409	179,677	105,855	152,811	3,936	8,722	–	466	306,200	341,676
Interest income from bank deposits									62,024	48,369
Unallocated operating income net of expenses									24,977	10,895
Profit from operations									393,201	400,940
Finance costs									(53,397)	(53,934)
									339,804	347,006
Net valuation gain on investment properties	229,703	757,805	31,334	(30,456)	(3,810)	2,368	–	–	257,227	729,717
Gain on disposal of investment properties	–	2,278	–	–	–	6,962	–	–	–	9,240
									597,031	1,085,963
Share of profits of associates	–	–	–	–	48,589	62,582	–	–	48,589	62,582
Profit before taxation									645,620	1,148,545
Income tax									(78,159)	(153,657)
Profit after taxation									567,461	994,888
Segment assets	4,012,314	3,803,975	1,663,233	1,497,985	145,184	145,402	–	–	5,820,731	5,447,362
Inter-segment elimination	(6,666)	(5,452)	–	–	–	–	–	–	(6,666)	(5,452)
	4,005,648	3,798,523	1,663,233	1,497,985	145,184	145,402	–	–	5,814,065	5,441,910
Capital expenditure incurred during the year	18,269	32,800	21,883	72,582	2,727	1,820	–	–	42,879	107,202

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

4. Other revenue and other net gain

	2006	2005
		(restated)
	$'000	$'000
Other revenue		
Interest income from bank deposits	62,024	48,369
Interest income from listed securities	448	427
Dividend income from listed securities	4,876	4,717
Dividend income from unlisted securities	1,778	1,808
Compensation received on early termination of leases	1,789	33,337
Others	4,418	3,610
	75,333	92,268
Other net gain		
Net gain on remeasurement to fair value of trading securities	25,335	12,947
Net realised gain on disposal of trading securities	12,280	3,592
Net foreign exchange gain/(loss)	5,381	(4,377)
Net gain on disposal of fixed assets	8	506
Net gain on dissolution of a subsidiary	–	10,035
Impairment of available-for-sale securities	–	(2,769)
	43,004	19,934

5. Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

		2006	2005
			(restated)
		$'000	$'000
(a)	Finance costs:		
	Interest on bank loans repayable within five years	53,397	53,934
(b)	Staff costs (excluding directors' remuneration):		
	Contributions to defined contribution retirement plans	9,350	8,765
	Salaries, wages and other benefits	159,092	148,524
		168,442	157,289
(c)	Rentals received and receivable from investment properties:		
	Gross rentals	(255,739)	(262,759)
	Less: direct outgoings	68,691	65,082
		(187,048)	(197,677)
(d)	Other items:		
	Depreciation and amortisation		
	– owned assets	54,421	49,468
	– assets held for use under finance leases	31	370
	– lease incentives	8,041	2,381
	Impairment losses (written-back)/provided		
	– fixed assets	68	18
	– trade receivables	(1)	5
	– available-for-sale securities	–	2,769
	Auditors' remuneration		
	– current year	2,236	1,981
	– prior year	46	–
	Operating lease charges:		
	– minimum lease payments on hire of land and buildings	29,526	24,786
	– contingent rentals on hire of land and buildings	372	179
	Cost of inventories sold (note 19(b))	468,504	410,192

6. Income tax in the consolidated income statement

(a) Income tax in the consolidated income statement represents:

	2006	2005
	$'000	$'000
Current tax – Hong Kong Profits tax		
Provision for the year	23,502	18,270
(Over)/under-provision in respect of prior years	(5)	4
	23,497	18,274
Current tax – Overseas		
Provision for the year	7,848	17,018
Under/(over)-provision in respect of prior years	480	(4)
	8,328	17,014
Deferred tax		
Origination and reversal of temporary differences (note 26(b))		
– changes in fair value of investment properties	48,406	132,252
– other temporary differences	(2,072)	(13,883)
	46,334	118,369
Total income tax expense	78,159	153,657

The provision for Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

6. Income tax in the consolidated income statement (Continued)

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

	2006	2005 (restated)
	$'000	$'000
Profit before taxation	645,620	1,148,545
Notional Hong Kong Profits Tax calculated at 17.5%	112,984	200,995
Tax effect of non-deductible expenses	5,724	10,356
Tax effect of non-taxable revenue	(14,724)	(13,684)
Tax effect of temporary differences not recognised	(1,453)	(1,327)
Tax effect of unused tax losses not recognised	2,409	1,041
Tax effect of previously unrecognised tax losses utilised this year	(1,974)	(15,161)
Tax effect of previously unrecognised tax losses recognised this year	(25,024)	(24,471)
Effect of different tax rates of subsidiaries and associates operating in other jurisdictions	(238)	(4,330)
Effect of overseas withholding tax	(20)	238
Under-provision in respect of prior years	475	–
Actual tax expense	78,159	153,657

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

7. Directors' remuneration

(a) The remuneration of the directors is as follows:

	2006				
	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Discretionary bonuses $'000	Retirement scheme contributions $'000	Total $'000
Executive directors					
Mr Karl C. Kwok	70	2,433	681	12	3,196
Mr Lester Kwok	70	1,842	492	12	2,416
Mr Mark Kwok	70	1,553	379	133	2,135
	210	5,828	1,552	157	7,747
Non-executive directors					
Dr Bill Kwok	70	–	–	–	70
Dr Kwok Man Cho	70	–	–	–	70
Dr Philip Kwok	70	534	–	–	604
	210	534	–	–	744
Independent non-executive directors					
Miss Maria Tam Wai Chu	70	60	–	–	130
Mr Ignatius Wan Chiu Wong	70	50	–	–	120
Mr Iain F. Bruce	70	90	–	–	160
Mr Anthony Francis Martin Conway	70	80	–	–	150
	280	280	–	–	560
	700	6,642	1,552	157	9,051

7. Directors' remuneration (Continued)

(a) The remuneration of the directors is as follows (Continued):

	2005				
	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Discretionary bonuses $'000	Retirement scheme contributions $'000	Total $'000
Executive directors					
Mr Karl C. Kwok	30	2,514	–	1	2,545
Mr Lester Kwok	30	720	–	6	756
Mr Mark Kwok	30	1,600	65	130	1,825
	90	4,834	65	137	5,126
Non-executive directors					
Dr Bill Kwok	30	–	–	–	30
Dr Kwok Man Cho	30	–	–	–	30
Dr Philip Kwok	30	534	–	–	564
Miss Adriana Chan	15	217	–	–	232
	105	751	–	–	856
Independent non-executive directors					
Miss Maria Tam Wai Chu	70	60	–	–	130
Mr Ignatius Wan Chiu Wong	70	25	–	–	95
Mr Iain F. Bruce	70	90	–	–	160
Mr Anthony Francis Martin Conway	70	40	–	–	110
	280	215	–	–	495
	475	5,800	65	137	6,477

8. Individuals with highest emoluments

Of the five individuals with the highest emoluments in the Group, three (2005: two) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other two (2005: three) individuals are as follows:

	2006	2005
	$'000	$'000
Salaries, allowances and benefits in kind	5,311	6,570
Contributions to defined contribution retirement plans	332	408
Discretionary bonuses	753	239
	6,396	7,217

The emoluments of the two (2005: three) individuals with the highest emoluments are within the following brands:

	Number of individuals	
	2006	2005
$		
1,000,001 – 1,500,000	–	–
1,500,001 – 2,000,000	–	1
2,000,001 – 2,500,000	–	–
2,500,001 – 3,000,000	1	1
3,000,001 – 3,500,000	–	1
3,500,001 – 4,000,000	1	–
	2	3

9. Profit attributable to shareholders of the Company

The consolidated profit attributable to shareholders of the Company includes a loss of $4,836,000 (2005: a profit of $402,172,000) which has been dealt with in the financial statements of the Company.

10. Dividends

(a) Dividends payable to shareholders of the Company attributable to the year

	2006	2005
	$'000	$'000
Interim dividend declared and paid of 18 cents (2005: 19 cents) per share	53,159	56,112
Final dividend proposed after the balance sheet date of 45 cents (2005: 51 cents) per share	132,897	150,616
	186,056	206,728

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

10. Dividends (Continued)

(b) Dividends payable to shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2006	**2005**
	$'000	$'000
Final dividend in respect of the financial year ended 31 December 2005, approved and paid during the year, of 51 cents (31 December 2004: 41 cents) per share	150,616	121,084

11. Basic earnings per share

(a) The calculation of basic earnings per share is based on the consolidated profit attributable to shareholders of the Company for the year ended 31 December 2006 of $567,549,000 (2005 (restated): $994,482,000) divided by 295,326,000 shares (2005: 295,326,000 shares) in issue during the year.

There were no outstanding potential shares throughout the years presented.

(b) Adjusted basic earnings per share excluding the net valuation gain on investment properties and the related deferred tax thereon

For the purpose of assessing the underlying performance of the Group, the management is of the view that the profit for the year should be adjusted for the net valuation gain on investment properties and the related deferred tax thereon in arriving at the "underlying profit attributable to shareholders of the Company".

11. Basic earnings per share (Continued)

(b) Adjusted basic earnings per share excluding the net valuation gain on investment properties and the related deferred tax thereon (Continued)

The difference between the underlying profit attributable to shareholders of the Company and profit attributable to shareholders of the Company as shown in the consolidated income statement for the year is reconciled as follows:

	2006		2005 (restated)	
	$'000	Amount per share cents	$'000	Amount per share cents
Profit attributable to shareholders of the Company as shown in the consolidated income statement	567,549	192.2	994,482	336.7
Net valuation gain on investment properties	(257,227)	(87.1)	(729,717)	(247.1)
Increase in deferred tax liabilities in relation to the net valuation gain on investment properties	48,406	16.4	132,252	44.8
	358,728	121.5	397,017	134.4
Net valuation loss on investment properties net of related deferred tax attributable to minority interests	(308)	(0.1)	(438)	(0.2)
Underlying profit attributable to shareholders of the Company	358,420	121.4	396,579	134.2

12. Defined contribution retirement plans

The Group operates a Mandatory Provident Fund Scheme (the "MPF scheme") and a number of MPF exempted defined contribution schemes ("MPF exempted schemes") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. Both the MPF scheme and the MPF exempted schemes are defined contribution retirement schemes administered by independent trustees. The Group is required to make contributions to the MPF exempted schemes based on a percentage of the employees' basic monthly salaries which is dependent on their length of service within the Group. The Group's contributions to the MPF scheme vest immediately while the Group's contributions to the MPF exempted schemes vest according to the length of service within the Group. Forfeited contributions in the MPF exempted schemes are allocated to existing employees. The Group's total contribution for the year was $9,507,000 (2005: $8,902,000).

13. Fixed assets

(a) Group

	Land and buildings $'000	Other assets $'000	Sub-total $'000	Investment properties $'000	Total $'000
Cost or valuation:					
At 1 January 2006	835,710	465,320	1,301,030	4,525,257	5,826,287
Exchange adjustments	436	39	475	118,649	119,124
Additions	–	18,269	18,269	17,209	35,478
Disposals	–	(23,348)	(23,348)	–	(23,348)
Fair value adjustment	–	–	–	257,227	257,227
At 31 December 2006	836,146	460,280	1,296,426	4,918,342	6,214,768
Accumulated depreciation, amortisation and impairment:					
At 1 January 2006	163,788	371,901	535,689	–	535,689
Exchange adjustments	436	21	457	–	457
Charge for the year	25,289	29,163	54,452	–	54,452
Written back on disposals	–	(23,209)	(23,209)	–	(23,209)
Impairment loss	–	68	68	–	68
At 31 December 2006	189,513	377,944	567,457	–	567,457
Lease incentives:					
At 1 January 2006	–	–	–	50,466	50,466
Exchange adjustments	–	–	–	3,735	3,735
Additions	–	–	–	7,401	7,401
Amortisation for the year	–	–	–	(8,041)	(8,041)
At 31 December 2006	–	–	–	53,561	53,561
Net book value:					
At 31 December 2006	646,633	82,336	728,969	4,971,903	5,700,872

13. Fixed assets (Continued)

(a) Group (Continued)

	Land and buildings $'000	Other assets $'000	Sub-total $'000	Investment properties $'000	Total $'000
Cost or valuation:					
At 1 January 2005	607,506	433,545	1,041,051	4,135,195	5,176,246
Exchange adjustments	215	(35)	180	(105,165)	(104,985)
Additions	–	32,808	32,808	21,641	54,449
Disposals	(2,111)	(998)	(3,109)	(27,231)	(30,340)
Transfer	230,100	–	230,100	(230,100)	–
Fair value adjustment	–	–	–	730,917	730,917
At 31 December 2005	835,710	465,320	1,301,030	4,525,257	5,826,287
Accumulated depreciation, amortisation and impairment:					
At 1 January 2005	143,088	344,903	487,991	–	487,991
Exchange adjustments	215	(15)	200	–	200
Charge for the year	21,958	27,880	49,838	–	49,838
Written back on disposals	(1,473)	(885)	(2,358)	–	(2,358)
Impairment loss	–	18	18	–	18
At 31 December 2005	163,788	371,901	535,689	–	535,689
Lease incentives:					
At 1 January 2005	–	–	–	–	–
Exchange adjustments	–	–	–	94	94
Additions	–	–	–	52,753	52,753
Amortisation for the year	–	–	–	(2,381)	(2,381)
At 31 December 2005	–	–	–	50,466	50,466
Net book value:					
At 31 December 2005	671,922	93,419	765,341	4,575,723	5,341,064

13. Fixed assets (Continued)

(a) Group (Continued)

The analysis of cost or valuation of the fixed assets and carrying amount of lease incentives of the Group is as follows:

	At cost	At professional valuation in 2006	At directors' valuation in 1981	Total
	$'000	$'000	$'000 (note (b))	$'000
At 31 December 2006				
Land and buildings				
Leasehold land and buildings				
– held under long lease in Hong Kong	230,220	–	150,263	380,483
– held under medium term lease in Hong Kong	443,400	–	–	443,400
– held under medium term lease outside Hong Kong	12,263	–	–	12,263
Investment properties				
Long lease				
– in Hong Kong	–	2,602,900	–	2,602,900
– outside Hong Kong	–	89,775	–	89,775
Medium term lease in Hong Kong	–	564,525	–	564,525
Freehold outside Hong Kong	–	1,661,142	–	1,661,142
Other assets	460,280	–	–	460,280
	1,146,163	4,918,342	150,263	6,214,768
Lease incentives in respect of freehold investment properties outside Hong Kong	–	53,561	–	53,561
	1,146,163	4,971,903	150,263	6,268,329

13. Fixed assets (Continued)

(a) Group (Continued)

The analysis of cost or valuation of the fixed assets and carrying amount of lease incentives of the Group is as follows (Continued):

	At cost $'000	At professional valuation in 2005 $'000	At directors' valuation in 1981 $'000 (note (b))	Total $'000
At 31 December 2005				
Land and buildings				
Leasehold land and buildings				
– held under long lease in Hong Kong	230,220	–	150,263	380,483
– held under medium term lease in Hong Kong	443,400	–	–	443,400
– held under medium term lease outside Hong Kong	11,827	–	–	11,827
Investment properties				
Long lease				
– in Hong Kong	–	2,418,900	–	2,418,900
– outside Hong Kong	–	92,989	–	92,989
Medium term lease in Hong Kong	–	518,822	–	518,822
Freehold outside Hong Kong	–	1,494,546	–	1,494,546
Other assets	465,320	–	–	465,320
	1,150,767	4,525,257	150,263	5,826,287
Lease incentives in respect of freehold investment properties outside Hong Kong	–	50,466	–	50,466
	1,150,767	4,575,723	150,263	5,876,753

(b) In preparing these financial statements, advantage has been taken of the provisions set out in paragraph 80A of HKAS 16 "Property, plant and equipment" issued by the HKICPA, with the effect that the land and building which was revalued by the directors in 1981 has not been revalued to fair value at the balance sheet date. The carrying amount of the land and building of the Group as at 31 December 2006 is $104,216,000 (2005: $106,049,000).

The carrying amount of the land and building of the Group which was revalued in 1981 that would have been included in the financial statements had the asset been carried at cost less accumulated depreciation as at 31 December 2006 is $36,865,000 (2005: $37,575,000).

13. Fixed assets (Continued)

(c) Investment properties of the Group were revalued as at 31 December 2006 on a market value basis by independent firms of surveyors, who have among their staff with recent experience in the locations and category of properties being valued.

The valuations for investment properties of the Group situated in Hong Kong were revalued by DTZ Debenham Tie Leung Limited, who have among their staff Fellows of the Hong Kong Institute of Surveyors.

The valuations for investment properties of the Group situated outside Hong Kong were revalued either by Jones Lang LaSalle Advisory Services Pty Limited, Certified Practising Valuers, who have among their staff Members of Australian Property Institute, or Bolton & Baer, Ltd., General Real Estate Appraisers, who have among their staff Members of the Austin and Houston, Texas Chapters of the Appraisal Institute.

The net valuation gain of $257,227,000 (2005: $729,717,000), has been recognised in the consolidated income statement.

(d) **Fixed assets leased out under operating leases**

The Group leases out investment properties under operating leases. The leases typically run for an initial period of three months to ten years, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.

The carrying amount of investment properties of the Group held for use in operating leases was $4,971,903,000 (2005: $4,575,723,000).

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2006	**2005**
	$'000	$'000
Within one year	199,487	182,077
After one year but within five years	454,300	428,549
After five years	67,804	106,776
	721,591	717,402

(e) Other assets comprise plant, equipment, fixtures and fittings and motor vehicles.

(f) In September 2005, the Group disposed of an investment property located in the United States and certain portions of an investment property located in Hong Kong which gave rise to a gain before tax of $6,962,000 and $2,278,000 respectively.

(g) During the year, lease incentives totalling $7,401,000 (2005: $52,753,000) were given to tenants of an investment property in Australia. The lease incentives are amortised over the lease terms.

14. Goodwill

	Group
	$'000
At 1 January 2005, 31 December 2005, 1 January 2006 and 31 December 2006	1,178

Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to country of operation and business segment as follows:

	2006	2005
	$'000	$'000
Properties investment – the United States	1,178	1,178

The recoverable amount of the CGU is determined based on fair value less cost to sell. The fair values were assessed by a general real estate appraiser on a market value basis as at 31 December 2006. The management considered that no impairment was necessary.

15. Investments in subsidiaries

	Company	
	2006	2005
	$'000	$'000
Unlisted shares, at cost	2,801,990	2,801,990

Details of the principal subsidiaries are set out on pages 88 to 90.

16. Interest in associates

	Group	
	2006	2005
	$'000	$'000
Unlisted shares		
Share of net assets other than goodwill and intangible assets	221,342	439,059
Share of goodwill and intangible assets of an associate	461,880	200,514
	683,222	639,573

16. Interest in associates (Continued)

(a) Details of the principal associates are set out on page 91.

(b) Additional information in respect of the Group's material associate, WL Investments Limited, extracted from its audited financial statements, is given as follows:

	2006 $'000	2005 $'000
Operating results		
Turnover	14,454,053	13,642,311
Profit before taxation	159,341	174,564
Profit after taxation	96,303	124,848
Group's share of profit after taxation attributable to the material associate	48,152	62,424
Non-current assets	2,516,328	1,886,715
Current assets*	2,985,237	2,319,018
Total assets	5,501,565	4,205,733
Current liabilities	1,375,527	575,916
Non-current liabilities	2,760,955	2,351,153
Total liabilities	4,136,482	2,927,069
Net assets	1,365,083	1,278,664
Group's share of net assets attributable to the material associate	682,542	639,332

* Current assets comprise mainly inventories of motor vehicles.

16. Interest in associates (Continued)

(c) Summary financial information on associates

	Assets $'000	Liabilities $'000	Equity $'000	Revenues $'000	Profit $'000
2006					
100 per cent	5,512,256	4,146,007	1,366,249	14,457,906	97,142
Group's effective interest	2,756,127	2,073,003	683,124	7,228,953	48,571
2005					
100 per cent	4,215,810	2,936,823	1,278,987	13,644,824	125,130
Group's effective interest	2,107,905	1,468,412	639,493	6,822,412	62,565

The Group has not recognised its share of accumulated losses of an associate of $98,000 (2005: $80,000) at 31 December 2006.

17. Available-for-sale securities

	Group 2006 $'000	Group 2005 $'000
Equity securities		
Listed outside Hong Kong	7,987	19,455
Unlisted but quoted	7,034	5,565
Unlisted	15,772	11,568
	30,793	36,588

Included in the unlisted equity securities is an amount carried at cost of $11,568,000 (2005: $11,568,000) as at 31 December 2006. Management considers that the fair values of these securities cannot be measured reliably as there are no quoted prices available.

Details of the investments disclosed pursuant to section 129 of the Hong Kong Companies Ordinance are as follows:

Name of company	Place of incorporation	Class of share held	Percentage of shares held
North Bay Reinsurance Ltd., SPC	Cayman Islands	Class E ordinary share	50%
		Class J participating share	50%

18. Trading securities

	Group 2006 $'000	Group 2005 $'000
Debt securities		
– Listed outside Hong Kong	11,023	10,594
Equity securities		
Listed		
– in Hong Kong	97,103	109,137
– outside Hong Kong	62,303	51,255
	159,406	160,392
Investment funds		
– Listed outside Hong Kong	1,940	1,771
– Unlisted but quoted	35,956	31,962
	37,896	33,733
	208,325	204,719

19. Inventories

(a) Inventories in the balance sheet comprise:

	Group 2006 $'000	Group 2005 $'000
Merchandise held for sale	71,516	68,096
Merchandise held for sale in transit	361	498
	71,877	68,594

(b) The analysis of the amount of inventories recognised as an expense is as follows:

	Group 2006 $'000	Group 2005 (restated) $'000
Carrying amount of inventories sold	468,427	410,553
Write-down of inventories	77	–
Reversal of write-down of inventories	–	(361)
	468,504	410,192

In 2005, due to an increase in the estimated net realisable value of certain merchandise held for sale as a result of a change in consumer preference, the write-down of inventories made in prior year was reversed.

20. Debtors, deposits and prepayments

	Group		Company	
	2006	**2005**	**2006**	**2005**
	$'000	$'000	$'000	$'000
Trade and other debtors, net of impairment loss for bad and doubtful debts	19,618	21,481	423	322
Deposits and prepayments	38,759	21,674	203	204
	58,377	43,155	626	526

The ageing analysis of trade and other debtors, net of impairment loss for bad and doubtful debts, is as follows:

	Group	
	2006	**2005**
	$'000	$'000
Current or less than one month overdue	18,098	19,444
One to three months overdue	1,110	1,688
More than three months overdue	410	349
	19,618	21,481

Debts are normally due within 30 days from the date of billing.

All debtors, deposits and prepayments of the Group, apart from certain rental deposits totalling $8,390,000 (2005: $8,329,000), are expected to be recovered within one year.

21. Amounts due from/(to) subsidiaries, fellow subsidiaries and associates

The amounts due from/(to) subsidiaries, fellow subsidiaries and associates are unsecured, interest free and have no fixed repayment terms.

22. Cash and cash equivalents

	Group		Company	
	2006	**2005**	**2006**	**2005**
	$'000	$'000	$'000	$'000
Cash at bank and in hand	110,636	74,418	3,158	1,594
Bank deposits	1,239,533	1,086,297	264,638	244,668
	1,350,169	1,160,715	267,796	246,262

22. Cash and cash equivalents (Continued)

Included in cash and cash equivalents in the balance sheet are the following amounts denominated in a currency other than the functional currency of the operations to which they relate:

	Group	
	2006	**2005**
	’000	’000
United States Dollars	USD65,867	USD54,566
Australian Dollars	AUD 2,179	AUD 3,972
New Zealand Dollars	NZD 2	NZD 1,231
Canadian Dollars	CAD –	CAD 555
Japanese Yen	JPY 18,618	JPY 17,398

23. Creditors and accrued charges

	Group		Company	
	2006	**2005**	**2006**	**2005**
	$’000	$’000	$’000	$’000
Trade and other creditors	274,074	224,622	11,768	10,301
Accrued charges	27,634	27,330	1,286	1,623
	301,708	251,952	13,054	11,924

The ageing analysis of trade and other creditors is as follows:

	Group	
	2006	**2005**
	$’000	$’000
Amounts not yet due	191,840	223,951
On demand or overdue for less than one month	75,890	380
One to three months overdue	1,716	23
Three to twelve months overdue	4,628	268
	274,074	224,622

24. Secured bank loan

At 31 December 2006, the secured bank loan of the Group was repayable as follows:

	Group	
	2006	**2005**
	$'000	$'000
Within one year or on demand	–	724,518
After two years but within five years	783,206	–
	783,206	724,518

On 20 December 2006, the Group has entered into an agreement with its bank to extend the loan which is expired during the year. The bank loan is denominated in AUD and bears interest at market rate plus 1% per annum. The Group is required to commence repayment of the loan principal on a quarterly basis at AUD1,600,000 per quarter commencing 23 December 2009 until the maturity date on 23 December 2011.

At 31 December 2006, certain assets of the Group with the following net book values have been pledged to banks to secure banking facilities to the extent of $949,206,000 (2005: $1,071,648,000) granted to the Group:

	Group	
	2006	**2005**
	$'000	$'000
Land and buildings	104,216	106,049
Investment properties	4,216,030	3,864,904
	4,320,246	3,970,953

Under the banking facility arrangement, a subsidiary undertakes to provide further mortgages over other properties or repay part of the secured loan should 60% of the value of the pledged investment properties fall to less than the outstanding loan balance.

25. Obligations under finance leases

The title of the leased assets was transferred to the Group upon expiry of the related lease arrangements in 2006.

26. Income tax in the balance sheet

(a) Income tax in the consolidated balance sheet represents:

	Group 2006 $'000	Group 2005 $'000
Provision for Hong Kong Profits Tax for the year	23,502	18,270
Provisional Profits Tax paid	(13,768)	(14,014)
	9,734	4,256
Overseas tax (recoverable)/payable	(2,131)	734
	7,603	4,990
Represented by:		
Current tax recoverable	(2,142)	(8,349)
Current tax payable	9,745	13,339
	7,603	4,990

26. Income tax in the balance sheet (Continued)

(b) Deferred tax (assets) and liabilities recognised

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

	Depreciation allowances in excess of the related depreciation $'000	Revaluation of investment properties $'000	Revaluation of land and building $'000	Provisions $'000	Future benefit of tax losses $'000	Withholding tax on undistributed profits of a subsidiary $'000	Total $'000
Deferred tax arising from:							
At 1 January 2006	8,254	570,002	29,310	14,101	(24,483)	–	597,184
Charged/(credited) to the consolidated income statement (note 6(a))	7,313	48,406	–	342	(9,727)	–	46,334
Charged to exchange reserve	161	9,855	–	1,156	–	–	11,172
At 31 December 2006	15,728	628,263	29,310	15,599	(34,210)	–	654,690
At 1 January 2005	12,434	446,211	29,310	(834)	(10)	758	487,869
Charged/(credited) to the consolidated income statement (note 6(a))	(4,144)	132,252	–	15,492	(24,473)	(758)	118,369
Credited to exchange reserve	(36)	(8,461)	–	(557)	–	–	(9,054)
At 31 December 2005	8,254	570,002	29,310	14,101	(24,483)	–	597,184

	2006 $'000	2005 $'000
Net deferred tax assets recognised in the consolidated balance sheet	(35,201)	(25,766)
Net deferred tax liabilities recognised in the consolidated balance sheet	689,891	622,950
	654,690	597,184

26. Income tax in the balance sheet (Continued)

(c) Deferred tax assets not recognised

Deferred tax assets have not been recognised in respect of the following items:

	2006	**2005**
	$'000	$'000
Deductible temporary differences	9,966	11,419
Future benefit of tax losses	100,097	124,686
	110,063	136,105

The Group has not recognised deferred tax assets in respect of the above tax losses and deductible temporary differences of certain subsidiaries as management of the Group considers that it is not possible as at 31 December 2006 to estimate with, any degree of certainty, the future taxable profits which may be earned by these subsidiaries and against which the accumulated tax losses may be offset in the foreseeable future. The tax losses do not expire under current tax legislation.

(d) Deferred tax liabilities not recognised

At 31 December 2006, temporary differences relating to the undistributed profits of subsidiaries and associates amounted to $1,240,704,000 (2005: $1,124,327,000). Deferred tax liabilities of $372,211,000 (2005: $337,298,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained earnings as the Company controls the dividend policy of these subsidiaries and associates and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

27. Capital and reserves

(a) Group

Details of the movements in capital and reserves of the Group are set out on pages 32 and 33.

Retained earnings attributable to the shareholders of the Company at 31 December 2006 include net valuation gain on investment properties after deferred tax of $2,271,500,000 (2005: $2,062,371,000).

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

27. Capital and reserves (Continued)

(b) Company

	Share capital $'000 (note (c))	Contributed surplus $'000 (note (d)(vi))	Retained earnings $'000	Total $'000
At 1 January 2006	29,533	2,997,350	991,236	4,018,119
Dividends approved in respect of the previous year (note 10(b))	–	–	(150,616)	(150,616)
Loss for the year	–	–	(4,836)	(4,836)
Dividends declared and paid in respect of the current year (note 10(a))	–	–	(53,159)	(53,159)
At 31 December 2006	29,533	2,997,350	782,625	3,809,508
At 1 January 2005	29,533	2,997,350	766,260	3,793,143
Dividends approved in respect of the previous year (note 10(b))	–	–	(121,084)	(121,084)
Profit for the year	–	–	402,172	402,172
Dividends declared and paid in respect of the current year (note 10(a))	–	–	(56,112)	(56,112)
At 31 December 2005	29,533	2,997,350	991,236	4,018,119

(c) Share capital

	2006 $'000	2005 $'000
Authorised:		
400,000,000 shares of $0.1 each	40,000	40,000
Issued and fully paid:		
295,326,000 shares of $0.1 each	29,533	29,533

The holders of shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

27. Capital and reserves (Continued)

(d) Nature and purpose of reserves

(i) Land and building revaluation reserve

The revaluation reserve has been set up and are dealt with in accordance with the accounting policy adopted for land and buildings set out in note 1(i).

(ii) Investment revaluation reserve

The investment revaluation reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the balance sheet date and is dealt with in accordance with the accounting policies set out in note 1(f).

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 1(u).

(iv) Other capital reserves

Other capital reserves at 1 January 2005 represented various appropriations of retained earnings which arose over twenty years ago. Management reviewed the nature of the items comprising the balance and concluded that, based on prevailing accounting policies, the balance should be transferred to retained earnings as at 31 December 2005.

(v) Hedging reserve

The hedging reserve comprises the cumulative net change in the fair value of the effective portion of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedges set out in note 1(g).

(vi) Contributed surplus

Pursuant to the Scheme of Arrangement in 1991, the former holding company of the Group became a subsidiary of the Company. The excess value of the consolidated net assets of the subsidiaries acquired over the nominal value of the new shares of the Company issued under the Scheme of Arrangement was credited to the contributed surplus of the Company. The Group's contributed surplus represents the excess of the aggregate of the nominal value of the share capital and share premium of the former holding company over the nominal value of the new shares of the Company issued under the Scheme of Arrangement.

In addition to the retained earnings under the Companies Act of Bermuda, the Company's contributed surplus is available for distribution to shareholders. However, the directors have no current intention to distribute this surplus.

27. Capital and reserves (Continued)

(e) Distributability of reserves of the Company

At 31 December 2006, the aggregate amount of reserves available for distribution to shareholders of the Company was $3,779,975,000 (2005: $3,988,586,000). After balance sheet date the directors proposed a final dividend of 45 cents per share (2005: 51 cents per share), amounting to $132,897,000 (2005: $150,616,000). This dividend has not been recognised as a liability at the balance sheet date.

(f) The Group's share of the post-acquisition accumulated reserves of associates

The Group's share of the post-acquisition accumulated reserves of associates is as follows:

	2006 $'000	2005 $'000
Retained earnings	527,689	479,100
Exchange reserve	(1,177)	(3,173)
Hedging reserve	(8,220)	(1,284)
	518,292	474,643

28. Financial instruments

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

(a) Credit risk

The Group's credit risk is primarily attributable to bank deposits, cash at bank and investments. Management has a credit policy in place and the exposure to these risks are monitored on an ongoing basis.

Bank deposits and cash at bank are normally placed with licensed banks. Investments are normally only in liquid securities (except where entered into for long term strategic purposes) and with counterparties that have a credit rating equal to or better than the Group. Given their high credit ratings, management does not expect any investment counterparty to fail to meet its obligations.

At balance sheet date there were no significant concentrations of credit risk.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. Except for the financial guarantee given by the Company in respect of a banking facility granted to a wholly owned subsidiary as at 31 December 2005 and released during the year as disclosed in note 30, the Group does not provide any other guarantees which would expose the Group to credit risk.

28. Financial instruments (Continued)

(b) Liquidity risk

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

28. Financial instruments (Continued)

(c) Interest rate risk

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice or the maturity dates, if earlier.

Group

	2006						2005					
	Effective interest rate	Total	1 year or less	1 –2 years	2 –5 years	Over 5 years	Effective interest rate	Total	1 year or less	1 –2 years	2 –5 years	Over 5 years
	%	$'000	$'000	$'000	$'000	$'000	%	$'000	$'000	$'000	$'000	$'000
Repricing dates for assets/(liabilities) which reprice before maturity												
Cash and cash equivalents	5.19	1,350,169	1,350,169	–	–	–	4.57	1,160,715	1,160,715	–	–	–
Bank loan	7.45	(783,206)	(783,206)	–	–	–	6.91	(724,518)	(724,518)	–	–	–
		566,963	566,963	-	–	–		436,197	436,197	–	–	–
Maturity dates for assets which do not reprice before maturity												
Interest-bearing listed debt securities												
– Australia	7.50	6,152	6,152	–	–	–	7.50	5,841	–	5,841	–	–
– South Africa	12.84	4,871	–	–	–	4,871	12.84	4,753	–	–	–	4,753
		11,023	6,152	–	–	4,871		10,594	–	5,841	–	4,753

Company

	2006						2005					
	Effective interest rate	Total	1 year or less	1 –2 years	2 –5 years	Over 5 years	Effective interest rate	Total	1 year or less	1 –2 years	2 –5 years	Over 5 years
	%	$'000	$'000	$'000	$'000	$'000	%	$'000	$'000	$'000	$'000	$'000
Repricing dates for assets which reprice before maturity												
Cash and cash equivalents	4.77	267,796	267,796	–	–	–	4.12	246,262	246,262	–	–	–

28. Financial instruments (Continued)

(d) Currency risk

The Group is exposed to foreign currency risks through certain bank deposits that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk is primarily Australian Dollars. The Group ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

(e) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2006 and 2005 except for those available-for-sale securities the fair value of which cannot be reliably measured.

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

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

29. Commitments

(a) Capital commitments

Capital commitments outstanding as at 31 December 2006 not provided for in the financial statements were as follows:

	Group	
	2006	**2005**
	$'000	$'000
Authorised and contracted for	1,372	9,904
Authorised but not contracted for	–	110
	1,372	10,014

(b) Commitments under operating leases

At 31 December 2006, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Group	
	2006	**2005**
	$'000	$'000
Within one year	28,563	28,672
After one year but within five years	17,379	44,525
	45,942	73,197

29. Commitments (Continued)

(b) Commitments under operating leases (Continued)

The Group is the lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the leases upon expiry when all terms are renegotiated. Certain leases contain a contingent rental element. The amount of contingent rentals incurred in 2006 is stated in note 5(d).

30. Contingent liabilities

At 31 December 2005, the Company had issued a single guarantee to a bank in respect of a banking facility granted to a wholly-owned subsidiary. This financial guarantee had been released during the year.

At 31 December 2005, the directors did not consider it probable that a claim would be made against the Company under this guarantee. The maximum liability of the Company at the balance sheet date under the single guarantee issued was the facility drawn down by the subsidiary of $724,518,000.

31. Material related party transactions

(a) Key management personnel remuneration

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

	2006	**2005**
	$'000	$'000
Directors' fees	210	90
Salaries and other short-term employee benefits	14,527	10,733
Contributions to defined contribution retirement plans	560	494
	15,297	11,317

(b) Recurring transactions

Fellow subsidiaries represent subsidiaries of Wing On International Holdings Limited ("WOIH"), the Company's immediate holding company. Material related party transactions are as follows:

(i) A fellow subsidiary rents retail premises to a subsidiary. Rental and management fees payable to this fellow subsidiary amounted to $18,372,000 (2005: $14,407,000) during the year. The net amount due from the fellow subsidiary as at 31 December 2006 amounted to $1,519,000 (2005: $1,372,000).

(ii) A subsidiary rents office premises to a fellow subsidiary. Rental and management fees receivable from this fellow subsidiary amounted to $2,333,000 (2005: $2,199,000) during the year. The amount due to the fellow subsidiary as at 31 December 2006 amounted to $547,000 (2005: $547,000).

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

31. Material related party transactions (Continued)

(b) Recurring transactions (Continued)

(iii) Fellow subsidiaries, engaging in securities trading and futures broking, deal in securities and futures respectively for certain subsidiaries of the Group. Commission of $358,000 (2005: $185,000) was payable to these fellow subsidiaries during the year. The amounts due from these fellow subsidiaries as at 31 December 2006 amounted to $3,260,000 (2005: $370,000).

(iv) A subsidiary provides building and tenancy management services to a fellow subsidiary. Building and tenancy management fees receivable from this fellow subsidiary amounted to $848,000 (2005: $848,000) during the year. The amount due to the fellow subsidiary as at 31 December 2006 amounted to $661,000 (2005: $257,000).

The directors of the Group are of the opinion that the above transactions were payable at pre-determined amounts in accordance with terms mutually agreed by the Group and the respective companies.

32. Immediate and ultimate controlling parties

At 31 December 2006, the directors consider the Company's immediate parent to be WOIH, which is incorporated in Bermuda, and the ultimate controlling party to be Kee Wai Investment Company (BVI) Limited ("KW(BVI)"), which is incorporated in the British Virgin Islands. Messrs. Karl C. Kwok, Lester Kwok, Bill Kwok and Mark Kwok, directors of the Company, together control approximately 78.95% of the voting rights in KW(BVI). KW(BVI) does not produce financial statements available for public use while WOIH produces financial statements available for public use.

33. Critical accounting estimates

Notes 14 and 28 contain information about the assumptions and their risk factors relating to goodwill impairment and financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Recognition of deferred tax assets

As explained in note 26, the Group recognises deferred tax assets in respect of tax losses based on the management's estimation of future taxable profits against which the accumulated tax losses may be offset in the foreseeable future for each individual subsidiary. The Group has assumed that, based on current economic conditions, its operations may generate sufficient taxable profits to utilise certain accumulated tax losses in the foreseeable future. It is possible that certain assumptions adopted in the preparation of the profit forecasts for the Group's operations may not be indicative of future taxable profits. Any increase or decrease in the recognition of deferred tax assets would affect the Group's net asset value.

(b) Valuation of investment properties

As described in note 13(c), the investment properties were revalued by independent professional valuers on a market value basis as at 31 December 2006. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. Any increase or decrease in the valuations would affect the Group's results in future years.

33. Critical accounting estimates (Continued)

(c) Depreciation

Property, plant and equipment is depreciated on a straight-line basis over the estimated useful lives of the assets. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets. The depreciation expense for future periods is adjusted if there are material changes from previous estimates.

34. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2006

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2006 and which have not been adopted in these financial statements.

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

In addition, the following developments may result in new or amended disclosures in the financial statements:

		Effective for accounting periods beginning on or after
HKFRS 7	Financial Instruments: Disclosures	1 January 2007
Amendment to HKAS 1	Presentation of Financial Statements: Capital Disclosures	1 January 2007
HKFRS 8	Operating Segments	1 January 2009