1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

The HKICPA has issued 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 change in accounting policy 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 accounts.

(b) Basis of preparation of the accounts

The consolidated accounts include the accounts of the Company and all its subsidiaries (together referred to as the "Group") and the Group's interest in associates made up to 31 December each year. All material inter-company transactions and balances are eliminated on consolidation.

The measurement basis used in the preparation of the accounts is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

– investment properties (see note 1(f));

– financial instruments classified as available-for-sale equity securities (see note 1(h)); and

– derivative financial instruments (see note 1(k)).

The preparation of accounts 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation of the accounts *(Continued)*

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

(c) Subsidiaries

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. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated accounts 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 accounts. 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.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(i)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(d) Associates

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

Investment in an associate is accounted for in the consolidated accounts 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, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated profit and loss account includes the 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. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Associates *(Continued)*

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

In the Company's balance sheet, its investments in associates are stated at cost less impairment losses (see note 1(i)), unless it is classified as held for sale (or included in a disposal group that is classified as held for sale).

(e) 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 profit and loss account as follows:

(i) Sale of properties

Revenue arising from the sale of properties held for sale is recognised upon the signing of the sale and purchase agreement or the issue of an occupation permit by the relevant government authorities, whichever is the later. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the balance sheet under deposits received.

(ii) Rental income from operating leases

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

(iii) Sale of goods

Revenue is recognised when goods are delivered to customers. This is taken to be the point in time when the customers have accepted the goods and the related risks and rewards of ownership.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Revenue recognition *(Continued)*

(iv) Ferry operations and related services

Revenue relating to ferry operations is recognised when the relevant ferry services are provided.

(v) Travel business

Revenue arising from the travel business is recognised on the completion date of the tours or when the relevant services are provided.

(vi) Interest income

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

(vii) Dividends

– Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

– Dividend income from listed investments is recognised when the share price of the investments goes ex-dividend.

(f) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(o)) to earn rental income and/or for capital appreciation.

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 profit and loss account. Rental income from investment properties is accounted for as described in note 1(e)(ii).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, 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 (see note 1(o)) and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 1(o).

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Investment properties *(Continued)*

Property that is being constructed or developed for future use as investment property is classified as properties under development – held for investment and stated at cost until construction or development is completed, at which time it is reclassified as investment property at fair value. Any difference between the fair value of the property at that date and its previous carrying amount is recognised in the profit and loss account.

(g) Other property, plant and equipment

Other property, plant and equipment are stated in the balance sheet at cost less aggregate depreciation and impairment losses (see note 1(i)).

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

Gain 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 profit and loss account on the date of retirement or disposal.

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

Land	Over the unexpired terms of the leases
Buildings	40 years or over the unexpired terms of the leases, if shorter
Ferry vessels and other crafts	8 to 15 years
Machinery, furniture and other fixed assets	
– Dry dock and ship lift	30 to 40 years
– Others	4 to 10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Other investments in equity securities

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

Other investments in equity securities, being those held for non-trading purpose, are classified as available-for-sale securities. Available-for-sale equity securities are initially stated at cost, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below.

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

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 (see note 1(i)), the cumulative gain or loss previously recognised directly in equity is recognised in the profit and loss account.

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

(i) Impairment of assets

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

Investment 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Impairment of assets *(Continued)*

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

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

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the profit and loss account. A reversal of 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 equity securities, the cumulative loss that has been recognised directly in equity is removed from equity and is recognised in the profit and loss account. The amount of the cumulative loss that is recognised in the profit and loss account is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in the profit and loss account.

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Impairment of assets *(Continued)*

(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 an impairment loss previously recognised no longer exists or may have decreased:

– pre-paid interests in leasehold land classified as being held under an operating lease;

– investments in subsidiaries and associates;

– properties under development – held for investment; and

– other property, plant and equipment.

If any such indication exists, the asset's recoverable amount is estimated.

– 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 profit and loss account whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Impairment of assets *(Continued)*

(ii) Impairment of other assets (Continued)

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

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 profit and loss account in the year in which the reversals are recognised.

(j) Inventories

(i) Trading stocks

Trading stocks are stated at the lower of cost and net realisable value. Cost includes the cost of materials computed using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

(ii) Spare parts and consumables

Spare parts and consumables are stated at cost, computed using the weighted average method, less provision for obsolescence.

(iii) Work in progress

Work in progress are construction and repairing in progress at the balance sheet date and are recorded at the net amount of costs incurred plus recognised profits less recognised losses and progress billings.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) ***Inventories*** *(Continued)*

(iv) Property development

Inventories in respect of property development activities are carried at the lower of cost and net realisable value. Cost and net realisable values are determined as follows:

– Property under development – held for sale

The cost of properties under development – held for sale comprises specifically identified cost, including the acquisition cost of land, aggregate cost of development, materials and supplies, wages and other direct expenses and an appropriate proportion of overheads. Net realisable value represents the estimated selling price less estimated costs of completion and costs to be incurred in selling the property.

– Completed property held for sale

In the case of completed properties developed by the Group, cost is determined by apportionment of the total development costs for that development project, attributable to the unsold properties. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

The cost of completed properties held for sale comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

(k) 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 profit and loss account, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Employee benefits

(i) 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) The Group's net obligation in respect of defined benefit retirement plan is calculated by estimating the amount of future benefit that employees have earned in return for their services in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the profit and loss account on a straight-line basis over the average period until the benefits become vested. If the benefits vest immediately, the expense is recognised immediately in the profit and loss account.

In calculating the Group's obligation in respect of a plan, if any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in the profit and loss account over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

Where the calculation of the Group's net obligation results in a negative amount, the asset recognised is limited to the net total of any cumulative unrecognised net actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

(m) Translation of foreign currencies

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Income tax

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

(ii) 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.

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

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

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Income tax *(Continued)*

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.

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has 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 Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

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

  - the same taxable entity; or

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) 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 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 is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 1(f)); 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.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the profit and loss account 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 profit and loss account as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the profit and loss account in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see note 1(f)).

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) 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 specified 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 reliable 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 policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in the profit and loss account on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in the profit and loss account over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 1(p)(ii) 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)

(q) Deferred interest income

Where properties are sold under deferred terms with part of the sales proceeds being receivable after an interest-free period, the differences between the sale prices with and without such terms are treated as deferred income and is released to the profit and loss account on a straight-line basis over the interest-free period.

(r) Trade and other receivables

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

(s) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 1(p)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(t) Segmental 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.

Segmental revenue, 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, and 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 enterprises within a single segment.

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

Unallocated items mainly comprise financial and corporate assets, tax balances, corporate and financing expenses.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) 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.

(v) Related parties

For the purposes of these accounts, 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;

(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.

2 CHANGES IN ACCOUNTING POLICY

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 summarises the accounting policies of the Group after the adoption of these developments to the extent that they are relevant to the Group. The following sets out information on the significant changes in accounting policy for the current and prior accounting periods reflected in these accounts.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Defined benefit retirement plan obligations (Amendment to HKAS 19 Employee Benefits "Actuarial Gains and Losses, Group Plans and Disclosures")

In prior years, each participating employer's net obligation in respect of the Group defined benefit retirement plan is calculated by estimating the amount of future benefit that the respective employees of the participating employer have earned in return for their service in each period; that benefit is discounted to determine the present value and the fair value of any plan assets is deducted.

With effect from 1 January 2006, in order to comply with the Amendment to HKAS 19 Employee Benefits, the Group has changed its accounting policy for the defined benefit retirement plan obligations. Under the new policy, when there is neither contractual agreement nor stated policy for charging the net defined benefit cost of the plan, the net defined benefit cost shall be recognised in the individual accounts of the company that is legally the sponsoring employer for the plan. The other participating employers shall, in its individual accounts, recognise a cost equal to its contribution payable for the period. The adoption of this new policy does have impact on the individual accounts of the Company, which is the sponsoring employer for the plan, and other participating employers within the Group; but does not have significant impact on the consolidated accounts of the Group for the year ended 31 December 2005 and 2006.

The change in accounting policy has been applied retrospectively by increasing the opening balance of retained profits of the Company as of 1 January 2006 by HK$1,386,000 (1 January 2005: HK$1,663,000), and increasing the employee benefits assets of the Company by the same amount. As a result of this policy, the Company's profit for the year before tax has decreased by HK$299,000 (2005: HK$277,000).

3 SEGMENTAL INFORMATION

Segmental information is presented only in respect of the Group's business segments. No geographical analysis is shown as less than 10% of the Group's revenue and profit from operations were derived from activities outside Hong Kong.

Inter-segment pricing is based on similar terms as those available to other external parties.

The Group is currently organised into three main operating segments, namely "Property development and investment", "Ferry, shipyard and related operations" and "Travel and hotel operations".

The segmental information for the year about these business segments is presented below:

(a) Segmental revenue

	Total revenue		Elimination of inter-segment revenue		Revenue from external customers	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Property development and investment	**362,225**	459,938	**–**	134	**362,225**	459,804
Ferry, shipyard and related operations	**166,405**	147,698	**2,151**	2,175	**164,254**	145,523
Travel and hotel operations	**167,000**	158,342	**81**	76	**166,919**	158,266
Others	**83,976**	68,792	**37,859**	41,059	**46,117**	27,733
	779,606	834,770	**40,091**	43,444	**739,515**	791,326
Analysed by:						
Turnover					**707,964**	764,129
Other revenue					**31,551**	27,197
					739,515	791,326

Turnover represents gross income from the sale of properties, sales value of goods delivered to customers, income from services rendered, rental income, interest income and dividend income.

3 SEGMENTAL INFORMATION *(Continued)*

(b) Segmental result

	Segmental result		Elimination of inter-segment transactions		Consolidated result	
	2006	2005 (restated)	**2006**	2005	**2006**	2005 (restated)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Property development and investment *(note c)*	**204,327**	216,500	**–**	–	**204,327**	216,500
Ferry, shipyard and related operations	**(134,678)**	(12,394)	**–**	–	**(134,678)**	(12,394)
Travel and hotel operations	**(2,251)**	(2,541)	**–**	–	**(2,251)**	(2,541)
Others *(note d)*	**47,908**	27,883	**–**	–	**47,908**	27,883
	115,306	229,448	**–**	–	**115,306**	229,448
Share of results of associates					**260**	(14)
Profit before taxation					**115,566**	229,434
Taxation					**6,141**	13,757
Profit attributable to equity shareholders					**121,707**	243,191

(c) The segmental result of the property development and investment operations included revaluation gains on investment properties of HK$39,503,000 (2005: HK$22,539,000).

(d) The segmental result of "Others" mainly comprises financial income, investment income and corporate expenses.

3 SEGMENTAL INFORMATION *(Continued)*

(e) Segmental balance sheet

	Segmental assets		Inter-segment elimination		Total assets	
	2006	2005 (restated)	**2006**	2005	**2006**	2005 (restated)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Property development and investment	**2,028,012**	2,064,270	**–**	–	**2,028,012**	2,064,270
Ferry, shipyard and related operations	**206,369**	211,388	**–**	–	**206,369**	211,388
Travel and hotel operations	**50,430**	53,137	**–**	–	**50,430**	53,137
Others	**1,417,962**	1,257,267	**–**	–	**1,417,962**	1,257,267
Total assets	**3,702,773**	3,586,062	**–**	–	**3,702,773**	3,586,062

	Segmental liabilities		Inter-segment elimination		Total liabilities	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Property development and investment	**117,463**	141,624	**–**	–	**117,463**	141,624
Ferry, shipyard and related operations	**126,169**	17,398	**–**	–	**126,169**	17,398
Travel and hotel operations	**27,824**	25,167	**–**	–	**27,824**	25,167
Others	**45,494**	36,885	**–**	–	**45,494**	36,885
Total liabilities	**316,950**	221,074	**–**	–	**316,950**	221,074

The "Others" segment mainly comprises financial assets, tax recoverable and payable and deferred tax assets and liabilities.

3 SEGMENTAL INFORMATION *(Continued)*

(f) Other segmental information

	Depreciation and amortisation		Impairment loss		Capital expenditure incurred	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Property development and investment	**58**	46	**–**	–	**15,126**	32,690
Ferry, shipyard and related operations	**8,893**	7,596	**–**	–	**1,560**	7,841
Travel and hotel operations	**2,455**	2,331	**–**	–	**1,349**	946
Others	**156**	169	**–**	3,112	**164**	160
	11,562	10,142	**–**	3,112	**18,199**	41,637

4 OTHER REVENUE AND NET INCOME

	2006 HK$'000	2005 HK$'000
Other revenue		
Management fee income	**11,338**	6,429
Rental income	**3,377**	2,664
Other interest income	**16,836**	17,816
Dividend from unlisted investment	**–**	288
	31,551	27,197
Other net income		
Profit on disposal of listed investment	**–**	9
Profit on disposal of unlisted investment	**477**	–
Realised gains on derivative financial instruments	**3,848**	–
Unrealised gains on derivative financial instruments	**945**	6,254
Net (loss)/profit on disposal of fixed assets	**(48)**	376
Other ferry income	**264**	264
Commission and rebates	**408**	509
Deposits forfeited	**934**	308
Income from sale of spare parts	**1,812**	1,023
Sundry income	**1,833**	1,185
	10,473	9,928

5 PROFIT BEFORE TAXATION

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

(a) Staff costs:

	2006 HK$'000	2005 HK$'000
(Decrease)/increase in liability for defined benefit scheme *(note 17(a)(v))*	(469)	1,172
Contributions to Mandatory Provident Funds	2,061	2,023
Retirement costs	1,592	3,195
Salaries, wages and other benefits	69,183	68,512
	70,775	71,707

(b) Other items:

	2006 HK$'000	2005 HK$'000
Amortisation of leasehold land premium	1,760	1,760
Depreciation	9,802	8,382
Cost of inventories *(note 18(b))*	232,878	286,978
Auditors' remuneration		
– audit services	1,059	1,060
– other services	259	288
Operating lease charges in respect of		
– premises	3,326	3,103
– vessels	645	680
Impairment loss of available-for-sale equity securities	–	3,112
Rental receivable from investment properties net of outgoings of HK$15,213,000 (2005: HK$12,230,000)	(4,441)	(438)
Rental receivable from operating leases, other than those relating to investment properties, net of outgoings HK$824,000 (2005: HK$744,000)	(4,304)	(2,256)
Interest income	(56,987)	(43,538)
Dividend income from listed investments	(3,938)	(1,712)

6 DIRECTORS' REMUNERATION

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

	Directors' fee	
	2006	2005
	HK$'000	*HK$'000*
Executive directors		
Mr. Lam Ko Yin, Colin	**150**	146
Mr. Li Ning	**100**	96
Non-executive directors		
Mr. Au Siu Kee, Alexander	**50**	209
Mr. Lau Yum Chuen, Eddie	**50**	50
Dr. Lee Shau Kee	**50**	50
Mr. Leung Hay Man	**50**	50
Mr. Wong Man Kong, Peter	**50**	50
Independent non-executive directors		
Mr. Ho Hau Chong, Norman	**225**	200
Mr. Kan Yuet Loong, Michael	**250**	246
Mr. Wu King Cheong	**250**	239
Dr. Wu Shu Chih, Alex (deceased on 10 January 2005)	**–**	50
	1,225	1,386

7 INDIVIDUALS WITH THE HIGHEST EMOLUMENTS

None of the five individuals with the highest emoluments is a director of the Company. The emoluments of the five highest paid employees are as follows:

	2006	2005
	HK$'000	*HK$'000*
Salaries and other emoluments	**6,952**	7,497
Retirement scheme contributions	**164**	628
	7,116	8,125

7 INDIVIDUALS WITH THE HIGHEST EMOLUMENTS *(Continued)*

The emoluments of the five individuals with the highest emoluments are within the following bands:

HK$	**2006** ***Number of individuals***	2005 *Number of individuals*
1,000,000 or below	**1**	–
1,000,001-1,500,000	**2**	3
1,500,001-2,000,000	**1**	1
2,000,001-2,500,000	**1**	1

8 INCOME TAX IN THE CONSOLIDATED PROFIT AND LOSS ACCOUNT

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

	2006 ***HK$'000***	2005 *HK$'000*
Current tax – Hong Kong Profits Tax		
Provision for the year	**905**	1,310
(Over)/under-provision in respect of prior years	**(21)**	148
	884	1,458
Deferred tax		
Origination and reversal of temporary differences	**(7,025)**	(15,215)
	(6,141)	(13,757)

The provision for Hong Kong profits tax for 2006 is calculated at 17.5% (2005: 17.5%) of the estimated assessable profits for the year.

8 INCOME TAX IN THE CONSOLIDATED PROFIT AND LOSS ACCOUNT *(Continued)*

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

	2006	2005
	HK$'000	*HK$'000*
Profit before tax	**115,566**	229,434
Notional tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdictions concerned	**20,224**	40,011
Tax effect of non-deductible expenses	**23,906**	3,731
Tax effect of non-taxable revenue	**(14,327)**	(15,868)
Tax effect of current year's tax losses not recognised	**1,080**	3,564
Tax effect of prior year's unrecognised tax losses utilised this year	**(474)**	(20,340)
Tax effect of prior year's tax losses recognised this year	**(36,256)**	(24,137)
(Over)/under-provision in prior years	**(21)**	148
Deferred tax liabilities not recognised in prior years recognised in this year	**–**	(7)
Tax effect of excess of profit on disposal of fixed assets over balancing charge	**(54)**	(78)
Tax effect of temporary differences on fixed assets	**(219)**	(781)
Actual tax expense	**(6,141)**	(13,757)

9 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of HK$173,845,000 (2005 (restated): HK$134,800,000) which has been dealt with in the accounts of the Company.

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

	2006 **HK$'000**	2005 (restated) *HK$'000*
Amount of consolidated profit attributable to equity shareholders dealt with in the Company's accounts	**173,845**	134,800
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	**15,900**	19,750
Company's profit for the year *(note 25(b))*	**189,745**	154,550

10 DIVIDENDS

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

	2006 **HK$'000**	2005 *HK$'000*
Interim dividend declared and paid of 9 cents (2005: 9 cents) per share	**32,065**	32,065
Final dividend proposed after the balance sheet date of 24 cents (2005: 24 cents) per share	**85,506**	85,506
	117,571	117,571

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 equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2006	2005
	HK$'000	*HK$'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of 24 cents (2005: 24 cents) per share	**85,506**	85,506

11 BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on a profit of HK$121,707,000 (2005: HK$243,191,000) and 356,273,883 (2005: 356,273,883) ordinary shares in issue during the year.

There were no dilutive potential ordinary shares in existence during the years 2005 and 2006.

12 FIXED ASSETS

Group

	Other property, plant and equipment								
	Hotel properties	Buildings	Ferry vessels and other crafts	Machinery, furniture and others	Sub-total	Investment properties	Properties held for development	Interest in leasehold land	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation:									
At 1 January 2005	63,083	69,519	119,945	264,319	516,866	830,500	550,518	160,084	2,057,968
Additions	–	418	7,472	1,057	8,947	2,895	23,033	–	34,875
Transfer in	–	–	–	–	–	9,129	–	–	9,129
Transfer out	–	–	–	–	–	(169,000)	(573,551)	–	(742,551)
Disposals	–	(334)	(4,683)	(1,092)	(6,109)	(3,763)	–	–	(9,872)
Revaluation surplus	–	–	–	–	–	22,539	–	–	22,539
At 31 December 2005	63,083	69,603	122,734	264,284	519,704	692,300	–	160,084	1,372,088
Representing:									
Cost	63,083	69,603	122,734	264,284	519,704	–	–	160,084	679,788
Valuation	–	–	–	–	–	692,300	–	–	692,300
	63,083	69,603	122,734	264,284	519,704	692,300	–	160,084	1,372,088
Accumulated amortisation and depreciation:									
At 1 January 2005	25,933	49,443	114,222	178,643	368,241	–	–	85,288	453,529
Charge for the year	1,607	1,189	1,533	4,053	8,382	–	–	1,760	10,142
Written back on disposal	–	(177)	(4,683)	(1,069)	(5,929)	–	–	–	(5,929)
At 31 December 2005	27,540	50,455	111,072	181,627	370,694	–	–	87,048	457,742
Net book value:									
At 31 December 2005	35,543	19,148	11,662	82,657	149,010	692,300	–	73,036	914,346

12 FIXED ASSETS *(Continued)*

Group *(Continued)*

	Other property, plant and equipment							
	Hotel properties HK$'000	Buildings HK$'000	Ferry vessels and other crafts HK$'000	Machinery, furniture and others HK$'000	Sub-total HK$'000	Investment properties HK$'000	Interest in leasehold land HK$'000	Total HK$'000
Cost or valuation:								
At 1 January 2006	63,083	69,603	122,734	264,284	519,704	692,300	160,084	1,372,088
Additions	800	372	1,273	774	3,219	1,295	–	4,514
Transfer in	–	–	–	–	–	29,858	–	29,858
Cost adjustment *(Note)*	–	–	–	–	–	(6,056)	–	(6,056)
Disposals	–	(413)	–	(297)	(710)	–	–	(710)
Revaluation surplus	–	–	–	–	–	39,503	–	39,503
At 31 December 2006	63,883	69,562	124,007	264,761	522,213	756,900	160,084	1,439,197
Representing:								
Cost	63,883	69,562	124,007	264,761	522,213	–	160,084	682,297
Valuation	–	–	–	–	–	756,900	–	756,900
	63,883	69,562	124,007	264,761	522,213	756,900	160,084	1,439,197
Accumulated amortisation and depreciation:								
At 1 January 2006	27,540	50,455	111,072	181,627	370,694	–	87,048	457,742
Charge for the year	1,636	1,250	2,845	4,071	9,802	–	1,760	11,562
Written back on disposal	–	(376)	–	(286)	(662)	–	–	(662)
At 31 December 2006	29,176	51,329	113,917	185,412	379,834	–	88,808	468,642
Net book value:								
At 31 December 2006	34,707	18,233	10,090	79,349	142,379	756,900	71,276	970,555

Note: Cost adjustment represents the revision of the original construction cost of the properties completed in prior years, confirmed by the surveyor during the year.

12 FIXED ASSETS *(Continued)*

Company

	Buildings	Interest in leasehold land	Total
	HK$'000	*HK$'000*	*HK$'000*
Cost:			
At 1 January 2005	27	58	85
Transfer to subsidiary	(27)	(58)	(85)
At 31 December 2005 and 2006	–	–	–
Accumulated amortisation and depreciation:			
At 1 January 2005	27	10	37
Charge for the year	–	1	1
Transfer to subsidiary	(27)	(11)	(38)
At 31 December 2005 and 2006	–	–	–
Net book value:			
At 31 December 2005 and 2006	–	–	–

(a) Investment properties held by the Group were revalued by a firm of registered professional surveyors, DTZ Debenham Tie Leung Limited, at HK$756,900,000 as at 31 December 2006 (2005: HK$692,300,000) on an open market value basis calculated by reference to net rental income allowing for reversionary income potential.

12 FIXED ASSETS (Continued)

(b) The analysis of the net book value of all the properties, which are held in Hong Kong, is as follows:

Group

	2006		2005	
	Fixed assets	**Completed properties held for sale**	Fixed assets	Completed properties held for sale
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Medium term lease	**837,116**	**170,223**	820,027	208,013
Long term lease	**44,000**	**–**	–	–

(c) The Group leases out investment properties under operating leases. The leases typically run for an initial period of one month to three years. Certain of the leases include contingent rentals calculated with reference to the revenue of tenants.

All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment property.

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

	2006	2005
	HK$'000	*HK$'000*
Within 1 year	**21,594**	16,136
After 1 year but within 5 years	**19,967**	10,076
	41,561	26,212

13 PROPERTIES UNDER DEVELOPMENT

	Group	
	2006	2005
	HK$'000	*HK$'000*
At 1 January	**858,846**	85,259
Additions	**118,802**	40,165
Transfer from properties held for development	**–**	573,551
Transfer (to)/from investment properties	**(29,858)**	159,871
Transfer to completed properties held for sale	**(123,899)**	–
At 31 December	**823,891**	858,846
Analysis of properties under development:		
For sale *(note 18(a))*	**787,090**	805,872
For investment	**36,801**	52,974
	823,891	858,846

The above properties are situated in Hong Kong and held under medium-term to long-term leases.

All of the properties under development are not expected to be recovered within one year except for HK$96,704,000 in 2005.

14 INTEREST IN SUBSIDIARIES

	Company	
	2006	2005
	HK$'000	*HK$'000*
Unlisted shares, at cost	**166,888**	166,888
Amounts due from subsidiaries	**5,289,125**	5,124,370
Less: Impairment loss	**(1,270,506)**	(1,443,077)
	4,185,507	3,848,181

14 INTEREST IN SUBSIDIARIES *(Continued)*

Details of principal subsidiaries, which materially affect the results or assets of the Group, are as follows:

	Ordinary share capital			
	Issued *HK$*	% held by the Company	% held by subsidiaries	Principal activities
HYFCO Development Company Limited	12,000,030	100	–	Property investment
The Hong Kong Shipyard Limited	17,000,000	100	–	Shipbuilding and repairs
HYFCO Trading and Investments Company Limited	2	100	–	Trading
HYFCO Estate Management & Agency Limited	25,000,000	100	–	Property management
HYFCO Properties Limited	21,700,000	100	–	Hotel investment
HYFCO Travel Agency Limited	3,500,000	100	–	Travel business
The Hongkong and Yaumati Ferry Company Limited	100,000,000	100	–	Ferry operations
Fine Time Development Limited	2	100	–	Property investment
Galaxy Hotel Management Company Limited	1,350,000	–	100	Floating restaurant business
Genius Star Development Limited	2	100	–	Property investment
Pico International Limited	6,000,000	100	–	Investment holding

14 INTEREST IN SUBSIDIARIES *(Continued)*

	Ordinary share capital			
	Issued	% held by the Company	% held by subsidiaries	Principal activities
	HK$			
Hong Kong Ferry Finance Company Limited	2	100	–	Group financing
Thommen Limited	20	100	–	Investment holding
Lenfield Limited	2	100	–	Property development
HKF Property Investment Limited	2	100	–	Property investment
Join Galaxy Limited	2	–	100	Property investment
Merry World Assets Limited	390,000	100	–	Investment holding

All the subsidiaries listed above are incorporated in Hong Kong except for Merry World Assets Limited which is incorporated in the British Virgin Islands.

Except for HYFCO Travel Agency Limited which operates outbound tours in the Mainland China and Macau, all the other subsidiaries operate in Hong Kong.

15 INTEREST IN ASSOCIATES

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Unlisted shares, at cost	**–**	–	**–**	–
Share of net assets	**2,910**	2,650	**–**	–
Amounts due from associates	**176,765**	162,542	**9,372**	9,372
	179,675	165,192	**9,372**	9,372
Less: Impairment loss	**(6,470)**	(6,470)	**(6,470)**	(6,470)
	173,205	158,722	**2,902**	2,902

Except for the amount advanced to 2OK Company Limited is interest-bearing, as disclosed in note 29, all other amounts due from associates are unsecured, interest-free and have no fixed repayment terms.

All of the associates are incorporated and operate in Hong Kong.

Other particulars of the associates are as follows:

	Particulars of issued & paid up capital	% of ownership interest held by subsidiaries	Principal activities
2OK Company Limited	10 ordinary shares of HK$1 each	50	Property financing
Authian Estates Limited	5,000 A shares of HK$1 each 5,000 B shares of HK$1 each	50	Property investment

15 INTEREST IN ASSOCIATES *(Continued)*

Summary financial information on associates

	Assets	Liabilities	Equity	Revenues	Profit/(loss)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2006					
100 per cent	**341,007**	**(348,127)**	**(7,120)**	**20,400**	**520**
Group's effective interest	**170,504**	**(174,064)**	**(3,560)**	**10,200**	**260**
2005					
100 per cent	314,782	(322,422)	(7,640)	52,728	(157)
Group's effective interest	157,391	(161,211)	(3,820)	21,222	(14)

16 OTHER NON-CURRENT ASSETS

	Group		Company	
	2006	2005	**2006**	2005 (restated)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current financial assets	**159,618**	136,918	**45**	114
Employee benefits *(note 17(a))*	**6,610**	5,984	**6,610**	5,984
	166,228	142,902	**6,655**	6,098
Non-current financial assets comprises:				
Available-for-sale equity securities				
Unlisted shares	**45**	114	**45**	114
Listed shares				
– in Hong Kong	**158,934**	136,354	**–**	–
– outside Hong Kong	**639**	450	**–**	–
	159,573	136,804	**–**	–
	159,618	136,918	**45**	114
Market value of listed shares at 31 December	**159,573**	136,804	**–**	–

17 EMPLOYEE BENEFITS

(a) Defined benefit retirement plan

The Group makes contribution to a defined benefit retirement scheme which covers about 23.7% of the Group's employees. The scheme is administered by independent trustees with their assets held separately from those of the Group.

The scheme is funded by contributions from the Group in accordance with an independent actuary's recommendations based on annual actuarial valuations. The latest independent valuation of the scheme was at 31 December 2006 and was prepared by qualified staff of Watson Wyatt Hong Kong Limited, who are members of recognised actuarial bodies, using the projected unit credit method. The actuarial valuation indicates that the Group's obligations under the defined benefit retirement scheme were fully covered by the plan assets held by the trustees.

(i) The amounts recognised in the balance sheets are as follows:

	2006	2005
	HK$'000	*HK$'000*
Present value of wholly or partly funded obligations	**(37,730)**	(34,818)
Fair value of plan assets	**68,834**	56,575
Net unrecognised actuarial gains	**(24,494)**	(15,773)
	6,610	5,984

The plan assets do not include any share issued by the Company or any property occupied by the Group.

A portion of the above liability is expected to be settled after more than one year. However, it is not practicable to segregate this amount from the amounts payable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. The Group does not expect to pay contributions to defined benefit retirement plan in 2007.

17 EMPLOYEE BENEFITS *(Continued)*

(a) Defined benefit retirement plan *(Continued)*

(ii) Plan assets consist of the following:

	2006	2005
Equities	**29.7%**	50%
Bonds	**1.1%**	9%
Fixed deposits	**69.2%**	41%
Total	**100%**	100%

The Scheme target asset allocation is 30% in equities and 70% in deposits. The expected long-term annual return of equities and bonds are determined to be approximately 9.5% and 3.0%, respectively. The expected return is determined to be 5.0% per annum.

(iii) Movements in the present value of the defined benefit obligations:

	2006 *HK$'000*	2005 *HK$'000*
At 1 January	**34,818**	36,077
Current service cost	**1,671**	1,883
Interest cost	**1,537**	1,421
Actual benefits paid by the plan	**(1,528)**	(3,642)
Actuarial losses/(gains)	**1,232**	(921)
At 31 December	**37,730**	34,818

(iv) Movements in plan assets:

	2006 *HK$'000*	2005 *HK$'000*
At 1 January	**56,575**	41,070
Group's contributions paid to the plan	**157**	1,993
Actuarial expected return on plan assets	**2,796**	2,078
Actual benefits paid by the plan	**(1,528)**	(3,642)
Actuarial gains	**10,834**	15,076
At 31 December	**68,834**	56,575

17 EMPLOYEE BENEFITS *(Continued)*

(a) Defined benefit retirement plan *(Continued)*

(v) (Income)/expense recognised in the consolidated profit and loss account is as follows:

	2006	2005
	HK$'000	*HK$'000*
Current service cost	**1,671**	1,883
Interest cost	**1,537**	1,421
Actuarial expected return on plan assets	**(2,796)**	(2,078)
Net actuarial (gains)/losses recognised	**(881)**	70
Gains on curtailment and settlements	**–**	(124)
	(469)	1,172

The above (income)/expense is recognised in the following line items in the consolidated profit and loss account:

	2006	2005
	HK$'000	*HK$'000*
Administrative expenses	**(469)**	1,094
Other operating expenses	**–**	78
	(469)	1,172

The actual return on plan assets of the Group (taking into account all changes in the fair value of the plan assets excluding contributions paid and received) was net income of HK$13,630,000 (2005: HK$17,154,000).

17 EMPLOYEE BENEFITS (Continued)

(a) Defined benefit retirement plan (Continued)

(vi) The principal actuarial assumptions used as at 31 December 2006 (expressed as weighted averages) are as follows:

	2006	2005
Discount rate at 31 December	**3.75%**	4.5%
Expected rate of return on plan assets	**5%**	5%
Future salary increases		
– 2006	**–**	2%
– 2007	**2%**	3%
– 2008 and onwards	**3%**	3%

The expected long-term rate of return on plan assets is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

Historical information

	The Group and the Company	
	2006	2005
	HK$'000	*HK$'000*
Present value of defined benefit obligations	**37,730**	34,818
Less: Fair value of scheme assets	**(68,834)**	(56,575)
Surplus	**(31,104)**	(21,757)
Experience (gains)/ losses on scheme liabilities	**(614)**	544
Experience gains on scheme assets	**(10,834)**	(15,076)

17 EMPLOYEE BENEFITS *(Continued)*

(b) Defined contribution retirement plan

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

18 INVENTORIES

(a) Inventories in the balance sheet comprise:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Property development		
Properties under development – held for sale *(note 13)*	**787,090**	805,872
Completed properties held for sale *(note 12(b))*	**170,223**	208,013
	957,313	1,013,885
Other operations		
Trading stocks	**695**	1,046
Spare parts and consumables	**2,272**	2,203
Work in progress	**2,963**	3,254
	5,930	6,503
	963,243	1,020,388

The amount of spare parts and consumables carried at net realisable value is HK$1,665,000 (2005: HK$1,580,000).

18 INVENTORIES *(Continued)*

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

	2006 **HK$'000**	2005 *HK$'000*
Carrying amount of inventories sold	**232,863**	286,963
Write down of inventories	**15**	15
	232,878	286,978

19 TRADE AND OTHER RECEIVABLES

	Group		**Company**	
	2006 **HK$'000**	2005 *HK$'000*	**2006** **HK$'000**	2005 *HK$'000*
Trade receivables	**109,550**	122,502	**–**	–
Other receivables and prepayments	**27,141**	32,877	**1,736**	1,705
Derivative financial instruments	**31,972**	70,493	**–**	–
	168,663	225,872	**1,736**	1,705

All of the trade and other receivables are expected to be recovered within one year.

Included in trade and other receivables are trade receivables (excluding retention money recoverable of HK$9,734,000 (2005: HK$11,165,000) and net of specific provisions for bad and doubtful debts) with the following ageing analysis:

	Group	
	2006 **HK$'000**	2005 *HK$'000*
Current	**95,832**	106,445
1 to 3 months overdue	**3,221**	3,699
More than 3 months overdue but less than 12 months overdue	**349**	1,101
More than 12 months overdue	**414**	92
	99,816	111,337

19 TRADE AND OTHER RECEIVABLES *(Continued)*

The Group's credit policy is set out in note 30.

Included in trade and other receivables are the following amounts denominated in a currency other than Hong Kong dollars:

	Group	
	2006	2005
	'000	'000
United States dollars	**4,113**	6,655
Australian dollars	**–**	3,319

Derivative financial instruments

At 31 December 2006, the Group's derivative financial instruments comprised two (2005: three) equity-linked notes (the "Notes") with different maturity dates in year 2008. The Notes will be settled either by cash or by delivery of the underlying shares depending on the market prices of the underlying shares at maturity date.

The three equity-linked notes at 31 December 2005 were all early redeemed during the year.

20 CASH AND CASH EQUIVALENTS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Deposits with banks and other financial institutions	**1,163,657**	1,002,188	**51,978**	–
Cash at bank and in hand	**15,262**	39,044	**431**	754
Cash and cash equivalents in the balance sheet	**1,178,919**	1,041,232	**52,409**	754
Bank overdraft *(note 21)*	**(200)**	(309)		
Cash and cash equivalents in the cash flow statement	**1,178,719**	1,040,923		

20 CASH AND CASH EQUIVALENTS *(Continued)*

Included in cash and cash equivalents are the following amounts denominated in a currency other than Hong Kong dollars:

	Group		Company	
	2006	2005	**2006**	2005
	'000	*'000*	***'000***	*'000*
United States dollars	**6,689**	–	**6,689**	–

21 BANK OVERDRAFT

At 31 December 2006, unsecured bank overdraft is repayable as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within 1 year or on demand	**200**	309

22 TRADE AND OTHER PAYABLES

All of the trade and other payables except for HK$4,821,000 (2005: HK$2,797,000), being retention money payables, are expected to be settled within one year.

Included in trade and other payables are trade creditors with the following ageing analysis:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Due within 1 month or on demand	**93,585**	119,275
Due after 12 months	**4,821**	2,797
	98,406	122,072

23 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

(a) Tax recoverable in the consolidated balance sheet represents:

	2006	2005
	HK$'000	*HK$'000*
Provision for Hong Kong profits tax for the year	**–**	226
Provisional profits tax paid	**–**	(666)
	–	(440)
Balance of profits tax recoverable relating to prior years	**(1,693)**	(1,671)
	(1,693)	(2,111)

(b) Tax payable in the consolidated balance sheet represents:

	2006	2005
	HK$'000	*HK$'000*
Provision for Hong Kong profits tax for the year	**905**	1,084
Provisional profits tax paid	**(227)**	–
	678	1,084
Balance of profits tax provision relating to prior years	**11,581**	10,497
	12,259	11,581

23 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET *(Continued)*

(c) Deferred tax assets and liabilities recognised:

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

	Temporary differences arising from fixed assets *HK$'000*	Future benefit of tax losses *HK$'000*	Intra-group interest capitalised in properties under development *HK$'000*	Total *HK$'000*
Deferred tax arising from:				
At 1 January 2005	21,306	(10,497)	(6,326)	4,483
Charged/(credited) to the consolidated profit and loss account *(note 8(a))*	4,031	(22,194)	2,948	(15,215)
At 31 December 2005	25,337	(32,691)	(3,378)	(10,732)
At 1 January 2006	**25,337**	**(32,691)**	**(3,378)**	**(10,732)**
Charged/(credited) to the consolidated profit and loss account *(note 8(a))*	**9,216**	**(11,675)**	**(4,566)**	**(7,025)**
At 31 December 2006	**34,553**	**(44,366)**	**(7,944)**	**(17,757)**

	2006 ***HK$'000***	2005 *HK$'000*
Represented by:		
Net deferred tax assets recognised on the consolidated balance sheet	**(43,466)**	(27,515)
Net deferred tax liabilities recognised on the consolidated balance sheet	**25,709**	16,783
	(17,757)	(10,732)

23 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET *(Continued)*

(d) Deferred tax assets not recognised:

In accordance with the accounting policy set out in note 1(n), the Group has not recognised deferred tax assets in respect of deductible temporary differences and cumulative tax losses as the management are uncertain whether sufficient taxable profit will be available against which deductible temporary differences and the tax losses can be utilised. The deductible temporary differences and tax losses do not expire under current tax legislation.

		2006		2005	
		Deductible temporary difference/ tax loss	**Deferred tax asset**	Deductible temporary difference/ tax loss	Deferred tax asset
		HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
(i)	Excess of tax written down values over accounting carrying values of certain fixed assets	**246,771**	**43,185**	280,314	49,055
(ii)	Tax losses	**416,987**	**72,973**	624,489	109,286
		663,758	**116,158**	904,803	158,341

24 SHARE CAPITAL

	Number of shares		**Nominal value**	
	2006	2005	**2006**	2005
			HK$'000	*HK$'000*
Authorised:				
Ordinary shares of HK$1 each	**550,000,000**	550,000,000	**550,000**	550,000
Issued and fully paid:				
Ordinary shares of HK$1 each	**356,273,883**	356,273,883	**356,274**	356,274

There was no movement in share capital during the years 2005 and 2006.

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

25 RESERVES

(a) Group

	Note	Share premium HK$'000	Securities revaluation reserve HK$'000	Other capital reserves HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2005		1,398,527	17,233	1,013	1,434,153	2,850,926
Dividend approved in respect of the previous financial year	10	–	–	–	(85,506)	(85,506)
Available-for-sale securities:						
– changes in fair value		–	29,089	–	–	29,089
– transfer to the profit and loss account on disposal		–	(9)	–	–	(9)
– transfer to the profit and loss account on impairment		–	3,112	–	–	3,112
Realisation of inter-company profits		–	–	(24)	–	(24)
Profit for the year		–	–	–	243,191	243,191
Dividends declared in respect of the current year	10	–	–	–	(32,065)	(32,065)
At 31 December 2005		1,398,527	49,425	989	1,559,773	3,008,714
At 1 January 2006		**1,398,527**	**49,425**	**989**	**1,559,773**	**3,008,714**
Dividend approved in respect of the previous financial year	10	**–**	**–**	**–**	**(85,506)**	**(85,506)**
Available-for-sale securities:						
– changes in fair value		**–**	**16,723**	**–**	**–**	**16,723**
Realisation of inter-company profits		**–**	**–**	**(24)**	**–**	**(24)**
Profit for the year		**–**	**–**	**–**	**121,707**	**121,707**
Dividends declared in respect of the current year	10	**–**	**–**	**–**	**(32,065)**	**(32,065)**
At 31 December 2006		**1,398,527**	**66,148**	**965**	**1,563,909**	**3,029,549**

25 RESERVES *(Continued)*

(b) Company

	Note	**Share premium** *HK$'000*	**Retained profits** *HK$'000*	**Total** *HK$'000*
At 1 January 2005				
– as previously reported		1,398,527	2,022,578	3,421,105
– prior year adjustment in respect of Amendment to HKAS 19	*2*	–	1,663	1,663
– as restated		1,398,527	2,024,241	3,422,768
Dividends approved in respect of the previous financial year		–	(85,506)	(85,506)
Profit for the year				
– as previously reported		–	154,827	154,827
– prior year adjustment in respect of Amendment to HKAS 19	*2*	–	(277)	(277)
– as restated		–	154,550	154,550
Dividends declared in respect of the current year		–	(32,065)	(32,065)
At 31 December 2005		1,398,527	2,061,220	3,459,747
At 1 January 2006				
– as previously reported		**1,398,527**	**2,059,834**	**3,458,361**
– prior year adjustment in respect of Amendment to HKAS 19	*2*	**–**	**1,386**	**1,386**
– as restated		**1,398,527**	**2,061,220**	**3,459,747**
Dividends approved in respect of the previous financial year		**–**	**(85,506)**	**(85,506)**
Profit for the year		**–**	**189,745**	**189,745**
Dividends declared in respect of the current year		**–**	**(32,065)**	**(32,065)**
At 31 December 2006		**1,398,527**	**2,133,394**	**3,531,921**

25 RESERVES *(Continued)*

(c) Distributability of reserves

The distributable reserves of the Company at 31 December 2006 amounted to HK$1,253,286,000 (2005 (as restated): HK$1,119,539,000), representing part of its retained profits at that date. The Company's other reserves are not distributable. After the balance sheet date the directors proposed a final dividend of 24 cents (2005: 24 cents) per share , amounting to HK$85,506,000 (2005: HK$85,506,000). This dividend has not been recognised as a liability at the balance sheet date.

(d) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by section 48B of the Hong Kong Companies Ordinance.

(ii) Securities revaluation reserve

Securities revaluation reserve has been set up and dealt with in accordance with the accounting policies adopted for the revaluation of securities (see note 1).

Included in the retained profits of the Group is a loss of HK$3,565,000 (2005: HK$3,825,000), being the accumulated losses attributable to associates.

26 OPERATING LEASE COMMITMENTS

The Group leases a number of retail outlets and offices under operating leases. The leases typically run for an initial period of two years. Lease payments are usually fixed during the period of the leases. None of the leases includes contingent rentals.

The total future lease payments under non-cancellable operating leases are payable as follows:

	2006	2005
	HK$'000	*HK$'000*
Within 1 year	**3,915**	3,634
After 1 year but within 5 years	**3,115**	1,718
	7,030	5,352

27 CAPITAL AND OTHER COMMITMENTS

Capital and other commitments outstanding at 31 December 2006 not provided for in the Group's accounts are as follows:

	2006 HK$'000	2005 HK$'000
Contracted for	696,936	32,385
Authorised but not contracted for	–	440,717
	696,936	473,102

28 CONTINGENT LIABILITIES

(a) Litigation

A statement of claim was filed at the High Court of Hong Kong by the Secretary for Justice, representing the Hong Kong Government, against The Hongkong and Yaumati Ferry Company Limited ("HYF"), a wholly-owned subsidiary of the Company, and the Company in November 1999. The claim in the proceedings was for the sum of approximately HK$77 million and other amounts in respect of a dispute over the reimbursement of certain costs incurred by the Hong Kong Government on the implementation of certain piling design to cater for the proposed redevelopment of the re-provided ferry piers in Central into new commercial and residential premises, which proposed redevelopment was not pursued due to disagreement over the high premium requested by the Government Lands Department. Based on legal advice, the Group contested this claim.

HYF and the Company made a counterclaim against the Government for the sum of approximately HK$284 million, being costs relating to the redevelopment of the Central piers.

A liability hearing was held during the period October to December 2006 and in December 2006, the High Court gave judgement in favour of the Government and dismissed the counterclaim. The solicitors acting for the Company and HYF have estimated that the maximum potential liability of the Company and HYF for the claim and related costs plus interest may amount to HK$202 million but considered that there are strong grounds to appeal aspects of the judgements which, if successful, would reduce the amount of the liability. The Company and HYF filed a Notice of Appeal to the Court of Appeal in January 2007. The amount of the liability of the Company and HYF, if any, is to be determined at a later trail on quantum. Accordingly, in addition to the legal costs which were incurred and charged to the profit and loss account (included in the administrative expenses), a provision of HK$100 million for the settlement of the above court case has been made in the account for the year.

28 CONTINGENT LIABILITIES *(Continued)*

(b) Financial guarantees issued

As at 31 December 2006, the Company has issued guarantees to certain suppliers in respect of granting or giving credit facilities to its wholly-owned subsidiaries. Under the guarantees, the Company is liable to the amount due from the subsidiaries to these respective parties in the event of any default and its liability shall at no time exceed the sum stated on the letters of guarantee.

As at the balance sheet date, the directors do not consider it probable that a claim will be made against the Company under any of the guarantees. The maximum liability of the Company at the balance sheet date under the guarantees issued above is the outstanding amount due to the relevant suppliers by its wholly-owned subsidiaries, being HK$1,256,000 (2005: HK$594,000).

The Company has not recognised any deferred income in respect of the guarantees issued as its fair value cannot be reliably measured and its transaction price was HK$Nil.

29 MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS

(a) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to certain of the Company's directors and the highest paid employees as disclosed in note 6 and note 7 respectively, is as follows:

	2006	2005
	HK$'000	*HK$'000*
Short-term employee benefits	**7,202**	8,614
Post-employment benefits	**164**	684
	7,366	9,298

Total remuneration is included in "staff costs" (see note 5(a)).

29 MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS *(Continued)*

(b) Other material related party and connected transactions

(i) In 1998, the Group appointed a wholly-owned subsidiary of Henderson Land Development Company Limited ("HL") as the development and sales manager (the "Project Manager") for the redevelopment of the Kowloon Inland Lot No. 11127 (the "Property") in consideration for a fee equivalent to the aggregate of 1% of the construction cost and 0.5% of the gross proceeds of sale of the residential portion of the redevelopment. During the year, an amount of HK$750,000 (2005: HK$1,349,000) had been charged to the Group. At 31 December 2006, an amount of HK$18,000,000 (2005: HK$18,000,000) payable to the Project Manager was included in trade and other payables.

In 1999, the Group entered into a development agreement (the "Agreement") with HL and two wholly-owned subsidiaries of HL ("HL Sub"), whereby HL Sub acquired the right to 50% of any proceeds from the future sale of the residential portion of the redevelopment for a consideration of HK$1,500,000,000.

As part of the Agreement, HL Sub agreed to reimburse the Group 50% of its development expenditures relating to the residential portion of the Property. An amount of HK$18,106,000 was credited (2005: HK$2,926,000 charged) to HL Sub in this regard based on the latest project cost estimation. At 31 December 2006, an amount of HK$23,351,000 (2005: HK$38,800,000) remained unpaid and was included in trade and other receivables.

(ii) The Group engaged another wholly-owned subsidiary of HL as the main contractor for a fee of 5% on all works relating to the redevelopment of the Property. During the year, as a result of the change in the latest cost estimates, an amount of HK$42,267,000 and HK$2,013,000, representing a corresponding adjustment in fees, were credited to the Group in relation to the superstructure work of the development and the 5% fee on all works relating to the redevelopment of the Property respectively. An amount of HK$6,508,000, being cost of the superstructure work carried out by the main contractor and HK$310,000, being the 5% fee on all works for the redevelopment, was charged to the Group during the year ended 31 December 2005. At 31 December 2006, an amount of HK$22,930,000 (2005: HK$65,197,000), which included amounts payable to other subcontractors through this main contractor, remained unpaid and was included in trade and other payables.

29 MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS *(Continued)*

(b) Other material related party and connected transactions *(Continued)*

(iii) In December 2001, a wholly-owned subsidiary of the Company, acquired 50% equity interest in 2OK Company Limited ("2OK") which was set up to provide mortgage loans to the residential unit buyers of Metro Harbour View. HL through its subsidiaries beneficially owned the remaining 50% equity interest in 2OK as at 31 December 2006. During the year, the Group received management and administrative fees in the total of HK$495,000 (2005: HK$743,000) from 2OK. The Group and HL Sub have made advances to 2OK to finance the latter's mortgage operation and interest was charged on amounts advanced. During the year, the Group received interest amounting to HK$9,009,000 (2005: HK$9,901,000) from 2OK. At 31 December 2006, the amount advanced by the Group totalling HK$166,893,000 (2005: HK$152,670,000) is in proportion to the Group's equity interest in 2OK and is unsecured and has no fixed repayment terms.

(iv) In December 2002, the Group appointed the Project Manager as the leasing and promotion agent of the commercial arcade of the Property for an initial term of two years at the remuneration of 5% of the monthly rental income from the commercial arcade of the Property and such agreement shall thereafter be renewable on the same terms from year to year until terminated by either party by giving three months' prior notice in writing ("the Continuing Connected Transaction"). An amount of HK$761,000 (2005: HK$483,000) was charged to the Group for the year. At 31 December 2006, an amount of HK$426,000 (2005: HK$223,000) remained unpaid and was included in trade and other payables.

As the aforementioned agreement was renewable on the yearly basis until terminated by either party, the Company had monitored the receipt of the funds during the year and confirm that this Continuing Connected Transaction was on commercial terms where

1. each of the percentage ratios (other than the profits ratio) is on an annual basis less than 0.1%; or

2. each of the percentage ratios (other than the profits ratio) is on an annual basis equal to or more than 0.1% but less than 2.5% and the annual consideration is less than HK$1,000,000.

During the year, this Continuing Connected Transaction is exempted from the reporting, announcement and independent shareholders' approval requirements under Rule 14A.33 of the Listing Rules.

29 MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS *(Continued)*

(b) Other material related party and connected transactions *(Continued)*

(v) In September 2004, the Group appointed a wholly owned subsidiary of HL as the project and sales manager for the development of Nos. 43, 45, 47, 49, 51 and 51A Tong Mi Road, Kowloon, Hong Kong (the "TMR Property") in consideration for a fee equivalent to the aggregate of 1% of the construction cost, 0.5% of the gross proceeds of sale of the residential portion of the TMR Property (but excluding those sales effected by a third party sales agent) and other lump sum fees for supplementary services, subject to a total ceiling of HK$2,752,000. A total fee of HK$518,000 (2005: HK$664,000) was charged to the Group for the year. At 31 December 2006, an amount of HK$435,000 (2005: HK$621,000) remained unpaid and was included in trade and other payables.

(vi) In September 2004, the Group appointed another wholly-owned subsidiary of HL as the main contractor for a fee of 5% on all works relating to the development of the TMR Property. The aggregate of the cost of works carried out by the main contractor or any connected persons (as defined in the Listing Rules) of the Company together with the 5% fee shall be subject to a total ceiling of HK$14,100,000. In accordance with the contract entered into with the Group, an amount of HK$33,033,000 (2005: HK$32,311,000), of which HK$3,234,000 (2005: HK$5,107,000) being cost of work carried out by the main contractor or the connected persons (as defined in the Listing Rules) of the Company and HK$867,000 (2005: HK$1,539,000) being the 5% fee, was charged by the main contractor during the year for the superstructure work of the development of the TMR Property. At 31 December 2006, an amount of HK$16,844,000 (2005: HK$9,382,000), which included amounts payable to other subcontractors through this main contractor, remained unpaid and was included in trade and other payables.

(vii) In May 2006, the Group appointed a wholly-owned subsidiary of HL as the project manager for the development of Nos. 220-222 Tai Kok Tsui Road, Kowloon, Hong Kong (the "TKT Property") for a term of three years commencing from 1 April 2006 in consideration for a fee equivalent to the aggregate of 1% of the construction cost, and other lump sum fees for supplementary services, subject to a total annual ceiling of HK$3,033,000. A total fee of HK$2,200,000 was charged to the Group for year. At 31 December 2006, an amount of HK$2,200,000 remained unpaid and was included in trade and other payables.

29 MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS *(Continued)*

(b) Other material related party and connected transactions *(Continued)*

(viii) In May 2006, the Group also appointed another wholly-owned subsidiary of HL as the main contractor for a fee of 5% on all works relating to the development of the TKT Property. The aggregate of the cost of works carried out by the main contractor or any connected persons (as defined in the Listing Rules) of the Company together with the 5% fee shall be subject to a total annual ceiling of HK$16,000,000. In accordance with the contract entered into with the Group, an amount of HK$48,211,000, of which HK$5,658,000 being cost of work carried out by the main contractor or the connected persons (as defined in the Listing Rules) of the Company, was charged by the main contractor during the year for the superstructure work of the development of the TKT Property. At 31 December 2006, an amount of HK$13,761,000, which included amounts payable to other subcontractors through this main contractor, remained unpaid and was included in trade and other payables.

(ix) In September 2006, the Group as landlord entered into a Lease Agreement with a wholly-owned subsidiary of HL as tenant. Pursuant to the Lease Agreement, the tenant agreed to take the lease of certain shops and spaces of Metro Harbour Plaza, No. 8 Fuk Lee Street, Kowloon, Hong Kong ("Premises A") for a term of three years commencing from 1 July 2006 at a monthly rental of HK$357,000 and other ancillary expenses and a turnover rent of 7% (if any) of annual gross turnover of the tenant's business conducted at Premises A over HK$142,241,000 which shall be payable monthly in arrears.

Pursuant to the Lease Agreement, the Group also entered into (i) a Wall Signage Licence Agreement for six external wall signages at Metro Harbour Plaza; and (ii) an Entrance Signage Licence Agreement for four signages at the entrances of Metro Harbour Plaza. Total annual licence fee payable under the Wall Signage Agreement and the Entrance Signage Licence Agreement is HK$72,000 and HK$24,000 respectively. Payments under the Licence Agreements are to be made in the form of cash. Each of the Licence Agreements is for a fixed term of 3 years commencing from 1 July 2006 and ending on 30 June 2009.

29 MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS *(Continued)*

(b) Other material related party and connected transactions *(Continued)*

(x) In September 2006, the Group as landlord and a wholly-owned subsidiary of HL as tenant entered into a Sales Office Lease Agreement. Pursuant to the Sales Office Lease Agreement, the tenant agreed to take certain shops and spaces of Metro Harbour Plaza, No. 8 Fuk Lee Street, Kowloon, Hong Kong ("Premises B") for a term of two years commencing from 22 November 2006 at a monthly rental of HK$201,000 and other ancillary expenses.

The annual caps of the aggregate of the Lease Agreement, the Sales Office Lease Agreement, the Wall Signage Licence Agreement and the Entrance Signage Licence Agreement are based on the aggregate rentals, management fees, air-conditioning charges, promotional levy and other miscellaneous fees in relation to Premises A and Premises B.

From 1 July 2006 to 30 June 2007	HK$17,400,000
From 1 July 2007 to 30 June 2008	HK$19,000,000
From 1 July 2008 to 30 June 2009	HK$17,100,000

During the year ended 31 December 2006 an amount of HK$4,050,000, being aggregate rental and fees receivable under the aforementioned lease and licence, was credited to the Group.

(xi) Pursuant to the ordinary resolution passed at the extraordinary general meeting held on 20 December 2006, a conditional project management agreement ("PMA") and a conditional prime cost contract ("PCC") in relation to the development of No. 6 Cho Yuen Street, Yau Tong, Kowloon, Hong Kong (the "Yau Tong Property"), both executed in November 2006, were approved by the independent shareholders of the Company.

Pursuant to the PMA, the Group appointed a wholly-owned subsidiary of HL as the project manager and sales manager for the Yau Tong Property for a term of three years commencing from 1 January 2007 in consideration for a fee equivalent to the aggregate of 1% of the construction cost, 0.5% of the gross proceeds of sale of the residential portion of the Yau Tong Property (but excluding those sale effected by a third party sales agent) and other ancillary fees for supplementary services, subject to the total annual ceiling of the respective years.

29 MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS *(Continued)*

(b) Other material related party and connected transactions *(Continued)*

The maximum aggregate annual value (the "Annual Caps") of the PMA for the respective years are as follows:

Year ending 31 December 2007	HK$15,000,000
Year ending 31 December 2008	HK$16,000,000
Year ending 31 December 2009	HK$17,000,000

Pursuant to PCC, the Group also appointed another wholly-owned subsidiary of HL as the main contractor for a fee of 5% on all works relating to the development of the Yau Tong Property. The aggregate of the cost of works carried out by the main contractor or any connected persons (as defined in the Listing Rules) of the Company together with the 5% fee shall be subject to a total annual ceiling of the respective years.

The Annual Caps of the PCC for the respective years are as follows:

Year ending 31 December 2007	HK$25,000,000
Year ending 31 December 2008	HK$35,000,000
Year ending 31 December 2009	HK$10,000,000

As at 31 December 2006, HL through its subsidiaries beneficially owned 67.94% of the entire issued share capital of Henderson Investment Limited, a substantial shareholder (as defined in the Listing Rules) of the Company.

Dr. Lee Shau Kee, a director of the Company, is interested in the above transactions as a substantial shareholder of HL.

To the extent the above transactions constituted connected transactions as defined in the Listing Rules, the Group had complied with the relevant requirements under Chapter 14A of the Listing Rules.

30 FINANCIAL INSTRUMENTS

Exposure to credit, liquidity 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 trade and other receivables and derivative financial instruments. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, credit evaluations are performed on customers requiring credit over a certain amount. These receivables are due ranging from 7 to 45 days from the date of billing. Debtors with balances that are more than 60 days overdue are generally required to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

Transactions involving derivative financial instruments are dealing with counterparties with sound credit ratings. Given their high credit ratings, management does not expect any investment counterparties to fail to meet its obligations.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheets. The Group does not provide any guarantees to third parties which would expose the Group to credit risk.

(b) Liquidity risk

The treasury functions of the Group is centralised at the head office. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

(c) Currency risk

The Group has no significant exposure to foreign currency risk given its large asset base and operational cash flow primarily denominated in Hong Kong Dollars.

30 FINANCIAL INSTRUMENTS *(Continued)*

(d) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2005 and 2006 except as follows:

		2006		2005	
	Note	**Carrying amount** ***HK$'000***	**Fair value** ***HK$'000***	Carrying amount *HK$'000*	Fair value *HK$'000*
Group					
Amounts due from associates	*(1)*	**3,402**	**–**	3,402	–
Available-for-sale equity securities – unlisted	*(2)*	**45**	**–**	114	–
Company					
Amounts due from associates	*(1)*	**2,902**	**–**	2,902	–
Available-for-sale equity securities – unlisted	(2)	**45**	**–**	114	–

Notes:

(1) The amounts due from associates (except for HK$166,893,000 (2005: HK$152,670,000) due from 2OK Company Limited) are unsecured, interest-free and have no fixed repayment terms. Given these terms it is not meaningful to disclose fair values.

(2) These investments do not have a quoted market price in an active market and whose fair value cannot be realiably measured. They are recognised at cost less impairment losses.

30 FINANCIAL INSTRUMENTS *(Continued)*

(e) Estimation of fair values

The following summaries the major methods and assumptions used in estimating the fair values of financial instruments.

(i) Listed equity securities

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

(ii) Derivative financial instruments

Fair value is based on the pricing model using the market closing prices of the underlying stocks and/or index, the volatilities, correlations and interest rate at the balance sheet date.

31 COMPARATIVE FIGURES

Certain comparative figures have been adjusted as a result of the change in accounting policy. Further details are disclosed in note 2.

32 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 accounts, 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 accounts.

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 accounts:

	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