NOTES TO FINANCIAL STATEMENTS

31 December 2006

1 CORPORATE INFORMATION

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

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

(a) Property investment and trading;

(b) Provision of property management and related services; and

(c) Investment holding.

2.1 BASIS OF PREPARATION

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

Basis of consolidation

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

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 27 Amendment	Consolidated and Separate Financial Statements: Amendments as a consequence of the Companies (Amendment) Ordinance 2005
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The principal changes in accounting policies are as follows:

HKAS 39 Financial Instruments: Recognition and Measurement

(i) Amendment for financial guarantee contracts

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

(ii) Amendment for the fair value option

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on the financial statements.

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

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

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

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

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

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

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

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32.

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Subsidiaries

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

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

(b) Associates

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Goodwill

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Goodwill *(continued)*

Goodwill previously eliminated against consolidated retained profits

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

(d) Impairment of non-financial assets other than goodwill

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Related parties

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

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

(ii) the party is an associate;

(iii) the party is a jointly-controlled entity;

(iv) the party is a member of the key management personnel of the Group or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

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

(f) Property, plant and equipment and depreciation

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

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

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

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

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

(g) Investment properties

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Properties held for sale

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

(i) Operating leases

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

(j) Investments and other financial assets

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts. Gains or losses on financial assets at fair value through profit or loss are recognised in the income statement.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

Loans and receivables

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

Available-for-sale financial assets

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

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

Fair value

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

(k) Impairment of financial assets

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

Assets carried at amortised cost

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Impairment of financial assets *(continued)*

Assets carried at amortised cost (continued)

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

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

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

Assets carried at cost

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

Available-for-sale financial assets

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Derecognition of financial assets

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

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

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

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

(m) Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Convertible notes

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

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

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

(o) Derecognition of financial liabilities

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Hedging

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Cash and cash equivalents

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

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

(r) Provisions

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

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

(s) Income tax

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

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

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

Deferred tax liabilities are recognised for all taxable temporary differences.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Income tax *(continued)*

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

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

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

(t) Revenue recognition

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

(i) sale of properties and property interest, on the execution of legally binding contracts of sale;

(ii) rental income from properties, in the period in which the properties are let and on the straight-line basis over the lease terms;

(iii) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;

(iv) dividend income, when the shareholders' right to receive payment has been established; and

(v) property management revenue, when the services are rendered.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Employee benefits

Share-based payment transactions

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Employee benefits *(continued)*

Pension scheme

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

(v) Dividends

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

(w) Foreign currencies

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

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Financial instruments

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments. The carrying amount of the unlisted share option granted by an associate at 31 December 2005 was HK$92,132,000 and it was exercised in full in 2006.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2006 was HK$266,924,000 (2005: HK$227,172,000). More details are given in note 18.

Investment properties

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

4 SEGMENT INFORMATION

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

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

(a) Property investment;

(b) Property trading;

(c) Property management and related services; and

(d) Operation of driver training centres and tunnel operation and management.

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

4 SEGMENT INFORMATION *(continued)*

(a) Business segments

The following table presents revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2006 and 2005. There are no sales or other transactions between the business segments.

Group 2006	Property investment *HK$'000*	Property trading *HK$'000*	Property management and related services *HK$'000*	Operation of driver training centres and tunnel operation and management *HK$'000*	Consolidated *HK$'000*
Segment revenue	89,896	200	9,377	—	99,473
Segment results	253,469	(94)	7,748	—	261,123
Unallocated expenses					(2,402)
Finance costs					(34,313)
Fair value gain of an unlisted share option granted by an associate				39,485	39,485
Share of results of an associate				63,374	63,374
Profit before tax					327,267
Tax					(39,179)
Profit for the year					288,088
Assets and liabilities					
Segment assets	2,177,618	1,756	6,732	—	2,186,106
Interest in an associate	—	—	—	1,290,349	1,290,349
Unallocated assets					1,746
Total assets					3,478,201
Segment liabilities	555,453	2,843	16,371	157,500	732,167
Unallocated liabilities					111,883
Total liabilities					844,050
Other segment information:					
Capital expenditure	7,206	—	139	—	7,345
Depreciation	—	—	519	—	519
Changes in fair value of investment properties	190,004	—	—	—	190,004
Impairment loss on other investments	—	—	—	—	356

NOTES TO FINANCIAL STATEMENTS

31 December 2006

4 SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

Group 2005	Property investment *HK$'000*	Property trading *HK$'000*	Property management and related services *HK$'000*	Operation of driver training centres and tunnel operation and management *HK$'000*	Consolidated *HK$'000*
Segment revenue	82,902	—	11,040	—	93,942
Segment results	240,912	(3,083)	4,015	—	241,844
Unallocated expenses					(233)
Loss on deemed disposal of a partial interest in an associate				(436)	(436)
Finance costs					(25,498)
Gain on disposal of a partial interest in an associate				1,977	1,977
Fair value loss of an unlisted share option granted by an associate				(10,529)	(10,529)
Fair value gain of an unlisted convertible note granted by an associate				36,050	36,050
Share of results of an associate				47,068	47,068
Profit before tax					290,243
Tax					(39,555)
Profit for the year					250,688
Assets and liabilities					
Segment assets	2,026,969	7,015	982	—	2,034,966
Interest in an associate	—	—	—	860,382	860,382
Unlisted share option granted by an associate	—	—	—	92,132	92,132
Non-interest-bearing loan to an associate	—	—	—	20,000	20,000
Unallocated assets					2,509
Total assets					3,009,989
Segment liabilities	575,799	7,864	13,845	—	597,508
Unallocated liabilities					76,122
Total liabilities					673,630
Other segment information:					
Capital expenditure	821	—	1,457	—	2,278
Depreciation	—	—	493	—	493
Changes in fair value of investment properties	179,249	—	—	—	179,249
Reversal of write-down of properties held for sale	—	28	—	—	28
Impairment loss on other investments	—	—	—	—	233

4 SEGMENT INFORMATION *(continued)*

(b) Geographical segments

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 2006 and 2005. There are no sales between the geographical segments.

Group

2006

	Hong Kong	Mainland China	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
Segment revenue	99,473	—	99,473
Other segment information:			
Segment assets	3,473,140	5,061	3,478,201
Capital expenditure	7,345	—	7,345

2005

	Hong Kong	Mainland China	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
Segment revenue	93,942	—	93,942
Other segment information:			
Segment assets	3,004,937	5,052	3,009,989
Capital expenditure	2,278	—	2,278

5 REVENUE AND OTHER INCOME

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

An analysis of revenue and other income is as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Revenue		
Rental income from investment properties	89,896	82,902
Sale of a property	200	—
Income from property management and related services	9,377	11,040
	99,473	93,942
Other income		
Bank interest income	1,370	835
Interest income on a convertible note granted by an associate	—	1,138
Interest income on loan receivable from third parties	2,842	252
Reinstatement compensation	53	643
Others	374	1,280
	4,639	4,148

6 FINANCE COSTS

	Group	
	2006	2005
	HK$'000	*HK$'000*
Interest on bank loans and overdrafts:		
Wholly repayable within five years	10,831	7,554
Not wholly repayable within five years	21,603	16,822
Loan arrangement fees	1,879	1,122
	34,313	25,498

7 PROFIT BEFORE TAX

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

	2006 HK$'000	2005 HK$'000
Depreciation	519	493
Gain on disposal of an item of property, plant and equipment	—	(243)
Loss on deemed disposal of a partial interest in an associate	—	436
Impairment of trade receivables	—	3,111
Minimum lease payments under operating leases:		
Land and buildings	996	880
Auditors' remuneration	840	820
Staff costs (including executive directors' remuneration *(note 8)*):		
Wages and salaries	7,447	7,456
Discretionary bonuses	11,169	9,652
Pension scheme contributions *	320	291
	18,936	17,399
Gross rental income	(89,896)	(82,952)
Less: Outgoings	3,933	1,515
Net rental income	(85,963)	(81,437)
Foreign exchange differences, net	(10)	460

* At 31 December 2006, there were no forfeited contributions available to the Group to reduce its contributions to the pension scheme in future years (2005: Nil).

8 DIRECTORS' REMUNERATION

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
Fees	**1,200**	1,000
Other emoluments:		
Basic salaries, housing allowances, other allowances and benefits in kind	**2,200**	2,070
Discretionary bonuses	**9,800**	8,500
Pension scheme contributions	**105**	98
	13,305	11,668

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

(a) Independent non-executive directors

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

	2006	2005
	HK$'000	*HK$'000*
Mr. Wong Wai Kwong, David	**400**	400
Mr. Wong Yat Fai	**200**	100
Mr. Ng Kwok Fu	**200**	100
	800	600

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

8 DIRECTORS' REMUNERATION *(continued)*

(b) Executive directors and a non-executive director

	Fees *HK$'000*	Basic salaries, housing allowances, other allowances and benefits in kind *HK$'000*	Discretionary bonuses *HK$'000*	Pension scheme contributions *HK$'000*	Total remuneration *HK$'000*
Group					
2006					
Executive directors:					
Mr. Cheung Chung Kiu	**—**	**—**	**6,500**	**1**	**6,501**
Mr. Wong Chi Keung	**—**	**2,200**	**1,700**	**102**	**4,002**
Mr. Yuen Wing Shing	**—**	**—**	**800**	**1**	**801**
Ms. Tung Wai Lan, Iris	**—**	**—**	**800**	**1**	**801**
	—	**2,200**	**9,800**	**105**	**12,105**
Non-executive director:					
Mr. Lee Ka Sze, Carmelo	**400**	**—**	**—**	**—**	**400**
	400	**2,200**	**9,800**	**105**	**12,505**
2005					
Executive directors:					
Mr. Cheung Chung Kiu	—	—	6,500	1	6,501
Mr. Wong Chi Keung	—	2,070	1,400	96	3,566
Mr. Yuen Wing Shing	—	—	600	1	601
Ms. Tung Wai Lan, Iris	—	—	—	—	—
	—	2,070	8,500	98	10,668
Non-executive director:					
Mr. Lee Ka Sze, Carmelo	400	—	—	—	400
	400	2,070	8,500	98	11,068

9 FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2005: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2005: three) non-director, highest paid employees are as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Basic salaries, housing allowances, other allowances and benefits in kind	**908**	2,435
Discretionary bonuses	**230**	320
Pension scheme contributions	**42**	96
	1,180	2,851

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

	Number of employees	
	2006	2005
HK$500,001 to HK$1,000,000	**—**	2
HK$1,000,001 to HK$1,500,000	**1**	1
	1	3

10 TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the year.

	2006	2005
	HK$'000	*HK$'000*
Group:		
Current - Hong Kong	**2,996**	4,048
Under provision/(over provision) in prior years	**7**	(30)
	3,003	4,018
Deferred *(note 25)*	**36,176**	35,537
Total tax charge for the year	**39,179**	39,555

10 TAX *(continued)*

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

Group

	2006	2005
	HK$'000	*HK$'000*
Profit before tax	327,267	290,243
Tax at the statutory tax rate of 17.5% (2005: 17.5%)	57,272	50,793
Under provision/(over provision) of tax in prior years	7	(30)
Unrecognised temporary differences	8	(133)
Profits and losses attributable to an associate	(11,090)	(8,237)
Income not subject to tax	(7,151)	(6,763)
Expenses not deductible for tax	483	2,688
Tax losses utilised from previous periods	(403)	—
Tax losses not recognised	24	1,231
Others	29	6
Tax charge at the Group's effective rate	39,179	39,555

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

The consolidated profit attributable to equity holders of the Company for the year ended 31 December 2006 includes a profit of HK$113,221,000 (2005: HK$217,119,000) which has been dealt with in the financial statements of the Company (note 27).

12 PROPOSED FINAL DIVIDEND

	2006	2005
	HK$'000	*HK$'000*
Proposed final – HK3.0 cents (2005: HK2.5 cents) per ordinary share	23,987	19,989

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

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

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

The calculation of the diluted earnings per share amount for 2005 is based on the profit for the year attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during that year, as used in the basic earnings per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

A diluted earnings per share amount for the year ended 31 December 2006 has not been disclosed as no diluting events existed during the year.

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

	2006	2005
	HK$'000	*HK$'000*
Earnings		
Profit for the year attributable to ordinary equity holders of the Company	**288,088**	250,688

	Number of shares	
	2006	2005
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**799,557,415**	799,202,347
Effect of dilution – weighted average number of ordinary shares:		
Share options	**—**	148,944
	799,557,415	799,351,291

14 PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold improvements HK$'000	Office equipment, furniture and fixtures HK$'000	Computer software HK$'000	Motor vehicles HK$'000	Computer equipment HK$'000	Total HK$'000
31 December 2006						
At 31 December 2005 and at 1 January 2006:						
Cost	743	315	453	1,333	259	3,103
Accumulated depreciation	(471)	(125)	(449)	(22)	(166)	(1,233)
Net carrying amount	272	190	4	1,311	93	1,870
At 1 January 2006, net of accumulated depreciation	272	190	4	1,311	93	1,870
Additions	10	50	8	—	71	139
Write-off	—	—	—	—	(24)	(24)
Depreciation provided during the year	(149)	(48)	(3)	(267)	(52)	(519)
Write-back of depreciation	—	—	—	—	24	24
At 31 December 2006, net of accumulated depreciation	133	192	9	1,044	112	1,490
At 31 December 2006:						
Cost	753	365	461	1,333	306	3,218
Accumulated depreciation	(620)	(173)	(452)	(289)	(194)	(1,728)
Net carrying amount	133	192	9	1,044	112	1,490
31 December 2005						
At 31 December 2004 and at 1 January 2005:						
Cost	743	287	453	923	367	2,773
Accumulated depreciation	(323)	(82)	(358)	(676)	(351)	(1,790)
Net carrying amount	420	205	95	247	16	983
At 1 January 2005, net of accumulated depreciation	420	205	95	247	16	983
Additions	—	28	—	1,333	96	1,457
Disposal/write-off	—	—	—	(923)	(204)	(1,127)
Depreciation provided during the year	(148)	(43)	(91)	(192)	(19)	(493)
Write-back of depreciation	—	—	—	846	204	1,050
At 31 December 2005, net of accumulated depreciation	272	190	4	1,311	93	1,870
At 31 December 2005:						
Cost	743	315	453	1,333	259	3,103
Accumulated depreciation	(471)	(125)	(449)	(22)	(166)	(1,233)
Net carrying amount	272	190	4	1,311	93	1,870

NOTES TO FINANCIAL STATEMENTS

31 December 2006

15 INVESTMENT PROPERTIES

	Group	
	2006	2005
	HK$'000	*HK$'000*
Carrying amount at 1 January	**1,927,840**	1,747,770
Additions	**7,206**	821
Fair value adjustment	**190,004**	179,249
Carrying amount at 31 December	**2,125,050**	1,927,840

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

	Hong Kong	Mainland China	Total
	HK$'000	*HK$'000*	*HK$'000*
Long term leases	1,059,780	—	1,059,780
Medium term leases	1,060,270	5,000	1,065,270
	2,120,050	5,000	2,125,050

The revaluation of the above investment properties was carried out by Savills Valuation and Professional Services Limited, an independent firm of professional qualified valuers, on an open market, existing use basis at 31 December 2006.

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

Further particulars of the Group's investment properties are included on page 85.

16 INTERESTS IN SUBSIDIARIES

	Company	
	2006	2005
	HK$'000	*HK$'000*
Unlisted shares, at cost	**1,465,569**	1,465,569
Loans to subsidiaries	**1,288,084**	1,194,601
	2,753,653	2,660,170
Impairment	**(912,599)**	(912,599)
	1,841,054	1,747,571

The amounts advanced to the subsidiaries included in the interests in subsidiaries above are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the Company's directors, these advances are considered as quasi-equity loans to the subsidiaries.

Details of the principal subsidiaries of the Company are set out in note 34.

17 INTEREST IN AN ASSOCIATE

	Group	
	2006	2005
	HK$'000	*HK$'000*
Share of net assets	**1,023,425**	633,210
Goodwill on acquisition *(note 18)*	**266,924**	227,172
	1,290,349	860,382
Market value of listed equity securities	**987,375**	517,629

NOTES TO FINANCIAL STATEMENTS

31 December 2006

17 INTEREST IN AN ASSOCIATE *(continued)*

Particulars of the associate are as follows:

Name	Particulars of issued shares held	Place of incorporation and operations	Percentage of ownership interest attributable to the Group 2006	2005
The Cross-Harbour (Holdings) Limited	Ordinary shares of HK$1 each	Hong Kong	**41.94%**	29.92%

The above associate was not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

The Cross-Harbour (Holdings) Limited ("Cross-Harbour") is an investment holding company, incorporated and listed in Hong Kong, with its subsidiaries engaged in the operation of driver training centres and the business of tunnel operation and management in Hong Kong. This associate has been accounted for using the equity method in these financial statements.

Extracts of the consolidated operating results and consolidated financial position of the associate, Cross-Harbour, are as follows:

	2006 *HK$'000*	2005 *HK$'000*
Operating results for the year:		
Turnover	**274,339**	249,672
Profit attributable to shareholders	**172,796**	161,992
Financial position at 31 December:		
Non-current assets	**2,080,109**	1,819,768
Current assets	**613,762**	500,219
Current liabilities	**(148,712)**	(144,768)
Non-current liabilities	**(1,350)**	(2,390)
Minority interests	**(60,506)**	(55,351)
Net asset value	**2,483,303**	2,117,478

18 GOODWILL

The movement of goodwill capitalised in the interest in an associate is shown as follows:

Group

	HK$'000
Cost and carrying amount at 1 January 2005	198,968
Acquisition of additional interest in an associate	28,204
Cost and carrying amount at 31 December 2005 and at 1 January 2006	**227,172**
Acquisition of additional interest in an associate *(note 22)*	**39,752**
Cost and carrying amount at 31 December 2006	**266,924**

Impairment testing of goodwill

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

19 OTHER INVESTMENTS

	Group	
	2006	2005
	HK$'000	*HK$'000*
Unlisted investments	**879**	1,235

20 PROPERTIES HELD FOR SALE

	Group	
	2006	2005
	HK$'000	*HK$'000*
Hong Kong, at cost	**1,704**	1,988

21 TRADE RECEIVABLES

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

	Group	
	2006	2005
	HK\$'000	*HK\$'000*
0 - 30 days	**6,066**	412
31 - 60 days	**665**	934
Over 60 days	**204**	70
	6,935	1,416

The trade receivables primarily include rental receivables and property management and related services receivables which are normally due on the first day of each month and due within a 30-day period, respectively. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk.

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

On 9 May 2003, Honway Holdings Limited ("Honway"), a wholly-owned subsidiary of the Company, entered into a Share Option Agreement (the "Agreement") with Cross-Harbour, an associate of the Company, pursuant to which Honway is entitled to subscribe for 60 million new shares of Cross-Harbour. In consideration for Honway's payment to Cross-Harbour the sum of HK\$50.0 million (HK\$5.0 million being the amount for purchasing the option, HK\$25.0 million being the non-refundable deposit and HK\$20.0 million being a three-year non-interest-bearing loan advanced by Honway to Cross-Harbour), Cross-Harbour has agreed to grant the option to Honway to subscribe for new shares in Cross-Harbour. The option is exercisable from 24 June 2003 for a period of three years, at an option price of HK\$3.4 per share in the first year, HK\$3.7 per share in the second year and HK\$4.0 per share in the third year, subject to adjustment.

On 18 June 2004, the HK\$25.0 million non-refundable deposit was applied to subscribe for 7,352,941 ordinary shares of Cross-Harbour. As at 31 December 2005, there remained a total of 52,647,059 new shares exercisable under the Agreement, which represents 17.5% of Cross-Harbour's shares before the dilution effect of the shares issuable under the share option.

On 18 May 2006, the Group exercised the remaining balance of the share option. On 22 May 2006, 52,647,059 ordinary shares of Cross-Harbour were issued and allotted to the Group with HK\$190.6 million paid in cash and the three-year non-interest-bearing loan of HK\$20.0 million advanced by Honway as consideration.

22 UNLISTED SHARE OPTION GRANTED BY AN ASSOCIATE AND NON-INTEREST- BEARING LOAN TO AN ASSOCIATE *(continued)*

In addition to the above exercise of an unlisted share option granted by Cross-Harbour, the Group acquired 1.58% interest in Cross-Harbour with purchase consideration paid in cash in 2006. The goodwill arising on the transaction amounting to HK$14,317,000 was included in the carrying amount of interest in an associate rather than as a separately identified asset on the consolidated balance sheet.

The exercise of the share option and the acquisition in 2006 as set out above increased the Group's shareholding in Cross-Harbour from approximately 29.92% to 41.94%. The goodwill arising on the transactions amounting to HK$39,752,000 was included in the carrying amount of interest in an associate rather than as a separately identified asset on the consolidated balance sheet.

As the share option of Cross-Harbour is not listed and there is no active market for the share option, the fair value is determined using valuation model techniques. The movements in the fair value of the share option are shown as follows:

	Group	
	Share option	Three-year non-interest-bearing loan
	HK$'000	*HK$'000*
Fair value at 1 January 2005	102,661	20,000
Fair value loss of an unlisted share option granted by an associate during the year	(10,529)	—
Fair value at 31 December 2005 and at 1 January 2006	**92,132**	**20,000**
Fair value gain of an unlisted share option granted by an associate during the year	**39,485**	**—**
Exercise of an unlisted share option granted by an associate during the year	**(131,617)**	**(20,000)**
Fair value at 31 December 2006	**—**	**—**

NOTES TO FINANCIAL STATEMENTS

31 December 2006

23 TRADE PAYABLES

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
0 - 30 days	**6,141**	978
31 - 60 days	**454**	298
	6,595	1,276

The trade payables are normally non-interest-bearing within the 30-day period.

24 BANK LOANS, SECURED

	Group	
	2006	2005
	HK$'000	*HK$'000*
Analysed into:		
Bank loans repayable:		
Within one year	**249,000**	172,000
In the second year	**53,100**	39,000
In the third to fifth years, inclusive	**363,900**	149,500
After the fifth year	**—**	180,000
	666,000	540,500
Amount classified under current liabilities	**(249,000)**	(172,000)
Amount classified under non-current liabilities	**417,000**	368,500

The bank loans are variable interest rate loans with interest rates based on the HIBOR plus the predetermined spread percentage. The effective interest rates for 2006 and 2005 were 5.25% and 4.09%, respectively.

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

(a) Mortgages on certain investment properties with an aggregate carrying value of HK$2,117,000,000 (2005: HK$1,920,000,000) and the assignment of rental income from certain properties. In addition, the Company has pledged all the issued shares of certain subsidiaries and subordinated its loans to certain subsidiaries in favour of the lenders of the above bank loans; and

(b) corporate guarantees issued by the Company.

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

25 DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

Group

	Depreciation allowance in excess of related depreciation *HK$'000*	Revaluation of investment properties *HK$'000*	Losses available for offset against future taxable profit *HK$'000*	Total *HK$'000*
At 1 January 2005	8,584	55,292	—	63,876
Deferred tax charged/(credited) to the income statement during the year *(note 10)*	15,611	(3,365)	—	12,246
At 31 December 2005 and at 1 January 2006	**24,195**	**51,927**	**—**	**76,122**
Deferred tax charged/(credited) to the income statement during the year *(note 10)*	**23,301**	**14,009**	**(1,549)**	**35,761**
At 31 December 2006	**47,496**	**65,936**	**(1,549)**	**111,883**

25 DEFERRED TAX *(continued)*

Deferred tax assets

Group

	Depreciation allowance in excess of related depreciation *HK$'000*	Revaluation of investment properties *HK$'000*	Losses available for offset against future taxable profit *HK$'000*	Total *HK$'000*
At 1 January 2005	30,308	(53,927)	(87)	(23,706)
Deferred tax charged/(credited) to the income statement during the year *(note 10)*	(11,518)	34,722	87	23,291
At 31 December 2005 and at 1 January 2006	**18,790**	**(19,205)**	**—**	**(415)**
Deferred tax charged/(credited) to the income statement during the year *(note 10)*	**(18,790)**	**19,205**	**—**	**415**
At 31 December 2006	**—**	**—**	**—**	**—**

The Group has tax losses arising in Hong Kong of HK$25,050,000 (2005: HK$25,692,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these tax losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

26 SHARE CAPITAL

Shares

	2006	2005
	HK$'000	*HK$'000*
Authorised:		
1,500,000,000 ordinary shares of HK$0.1 each	**150,000**	150,000
Issued and fully paid:		
799,557,415 (2005: 799,557,415) ordinary shares of HK$0.1 each	**79,956**	79,956

Share options

At a special general meeting held on 29 April 2005, the Company adopted a share option scheme (the "Scheme"). Employees (including directors) of the Group are eligible participants under the Scheme. A total of 79,955,741 shares will be available for issue under the Scheme, which represents 10% of the Company's issued shares. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. The shares must be taken up under an option not later than 10 years from the date of grant of options. The Scheme will remain effective until 28 April 2015. No share option has been granted under the Scheme during the current and prior years and no option was outstanding at 31 December 2006 and 2005.

27 RESERVES

Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 30 and 31 of the financial statements.

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

Company

	Notes	Share premium account *HK$'000*	Contributed surplus *HK$'000*	Capital redemption reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
At 1 January 2005		94,535	1,317,168	1,350	36,156	1,449,209
Issue of shares		1,203	—	—	—	1,203
Profit for the year		—	—	—	217,119	217,119
Proposed 2005 final dividend	*12*	—	—	—	(19,989)	(19,989)
At 31 December 2005 and at 1 January 2006		95,738	1,317,168	1,350	233,286	1,647,542
Profit for the year		—	—	—	113,221	113,221
Proposed 2006 final dividend	*12*	—	—	—	(23,987)	(23,987)
At 31 December 2006		95,738	1,317,168	1,350	322,520	1,736,776

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

28 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

The reconciliation of profit before tax to net cash generated from operations is as follows:

		Group	
	Notes	**2006**	2005
		HK$'000	*HK$'000*
Profit before tax		**327,267**	290,243
Adjustments for:			
Share of results of an associate		**(63,374)**	(47,068)
Interest income	5	**(4,212)**	(2,225)
Changes in fair value of investment properties		**(190,004)**	(179,249)
Impairment loss on other investments		**356**	233
Gain on disposal of a partial interest in an associate		**—**	(1,977)
Fair value (gain)/loss of an unlisted share option granted by an associate		**(39,485)**	10,529
Fair value gain of an unlisted convertible note granted by an associate		**—**	(36,050)
Loss on deemed disposal of a partial interest in an associate	7	**—**	436
Depreciation	7	**519**	493
Gain on disposal of an item of property, plant and equipment	7	**—**	(243)
Interest on bank loans and overdrafts	6	**32,434**	24,376
		63,501	59,498
Decrease/(increase) in trade receivables, other receivables, deposits and prepayments		**39,011**	(40,185)
Increase in trade payables, other payables and accrued expenses		**8,795**	2,102
Decrease/(increase) in properties held for sale		**284**	(28)
Net cash generated from operations		**111,591**	21,387

29 OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within one year	**99,309**	70,031
In the second to fifth years, inclusive	**124,835**	111,030
	224,144	181,061

(b) As lessee

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

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within one year	**996**	996
In the second to fifth years, inclusive	**581**	1,577
	1,577	2,573

30 COMMITMENTS

In addition to the operating lease commitments detailed in note 29(b) above, the Group had the following capital commitments in respect of investment properties as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Contracted, but not provided for	**714**	167
Authorised, but not contracted for	**12,638**	16,606
	13,352	16,773

31 CONTINGENT LIABILITIES

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

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Guarantees given to banks in connection with facilities granted to subsidiaries	**—**	—	**1,268,900**	1,300,900

The Company has executed guarantees totaling HK$1,268,900,000 (2005: HK$1,300,900,000), with respect to banking facilities made available to its subsidiaries, of which HK$666,000,000 were utilised as at 31 December 2006 (2005: HK$540,500,000).

NOTES TO FINANCIAL STATEMENTS

31 December 2006

32 RELATED PARTY TRANSACTIONS

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

	Notes	2006 HK$'000	2005 HK$'000
Rental charges paid to a related company	*(i)*	**996**	981
Administrative staff costs paid to a shareholder	*(ii)*	**732**	611
Interest income on a convertible note issued by an associate	*(iii)*	**—**	1,138

Notes:

(i) A subsidiary of the Company, Y. T. Group Management Limited ("YTGML"), entered into a sub-lease agreement with Chongqing Industrial Limited, a controlling shareholder of Yugang International Limited ("Yugang"), a substantial shareholder of the Company, to lease office space. The rental charges were based on the floor area occupied by the Group and the market rental rates. The current sub-lease agreement commenced on 1 August 2005 and will expire on 31 July 2008.

(ii) YTGML entered into an agreement with Yugang to share the cost of common administrative staff at a monthly charge which is determined based on the actual cost of the staff.

(iii) On 11 June 2002, Honway invested HK$117.0 million to purchase a convertible note (the "Note") issued by an associate, Cross-Harbour, which bears interest at a rate of 3.5% per annum with a maturity date of 11 June 2005. The Note carries a right of conversion into new ordinary shares of the associate at exercise prices of HK$3.5, HK$3.7 and HK$3.9 per share during the years ending 11 June 2003, 11 June 2004 and 11 June 2005, respectively. The Note was fully converted prior to 11 June 2005.

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

	2006 HK$'000	2005 HK$'000
Short term employee benefits	**13,138**	12,620
Post-employment benefits	**147**	166
Total compensation paid to key management personnel	**13,285**	12,786

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

33 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments mainly comprise of bank loans, cash and short term deposits. The main purpose of these financial instruments is to provide funding for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

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

Interest rate risk

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

Credit risk

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

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

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

Liquidity risk

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

34 PRINCIPAL SUBSIDIARIES

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

Name of company	Place of incorporation	Nominal value of issued and fully paid share capital	Percentage of equity attributable to the Company 2006	2005	Principal activities and place of operations
Apex Rich Group Limited	British Virgin Islands	1 ordinary share of US$1	**100%**	100%	Investment holding in Hong Kong
Best View Limited	British Virgin Islands	1 ordinary share of US$1	**100%**	100%	Property holding in Hong Kong
Benefit Plus Company Limited	Hong Kong	2 ordinary shares of HK$1 each	**100%**	100%	Property investment in Hong Kong
E-Tech Services Limited	Hong Kong	2 ordinary shares of HK$1 each	**100%**	100%	Property technical consultant services in Hong Kong
Harson Investment Limited	Hong Kong	2 ordinary shares of HK$1 each	**100%**	100%	Property investment in Hong Kong
Honway Holdings Limited	British Virgin Islands	1 ordinary share of US$1	**100%**	100%	Investment holding in Hong Kong
Mainland Sun Ltd.	British Virgin Islands	1 ordinary share of US$1	**100%**	100%	Property investment in Mainland China
New Island Development Limited	British Virgin Islands	1 ordinary share of US$1	**100%**	N/A	Investment holding in Hong Kong

34 PRINCIPAL SUBSIDIARIES *(continued)*

Name of company	Place of incorporation	Nominal value of issued and fully paid share capital	Percentage of equity attributable to the Company 2006	2005	Principal activities and place of operations
Score Goal Investment Limited	Hong Kong	2 ordinary shares of HK$1 each	**100%**	100%	Property investment in Hong Kong
Winwide Excel Limited	British Virgin Islands	1 ordinary share of US$1	**100%**	100%	Investment holding in Hong Kong
Y. T. (China) Limited	Hong Kong	2 ordinary shares of HK$1 each	**100%**	100%	Investment holding in Mainland China
Y. T. Finance Limited	Hong Kong	6,000 ordinary shares of HK$500 each	**100%**	100%	Finance vehicle in Hong Kong
Y. T. Group Management Limited	Hong Kong	2 ordinary shares of HK$1 each	**100%**	100%	Provision of business management services in Hong Kong
Y. T. Investment Holdings Limited	British Virgin Islands	50,100 ordinary shares of US$1 each	**100%**	100%	Investment holding in Asia
Y. T. Investment Management Limited	British Virgin Islands	1 ordinary share of US$1	**100%**	100%	Securities investment in Mainland China
Y. T. Properties International Limited	British Virgin Islands	201 ordinary shares of US$1 each	**100%**	100%	Investment holding in Hong Kong
Y. T. Property Services Limited	Hong Kong	100 ordinary shares of HK$1 each	**100%**	100%	Property management in Hong Kong

NOTES TO FINANCIAL STATEMENTS

31 December 2006

34 PRINCIPAL SUBSIDIARIES *(continued)*

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

35 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 March 2007.